

R. STAHL Technology Group  
Interim report to our Share-  
holders as of March 31, 2004

Strong start in 2004.



## Good start into 2004 – First profitable Q1 in five years

After R. STAHL Technologies concluded its restructuring with positive earnings at the end of 2003, the company had a good start into fiscal 2004. With stabilising order intake and tailwind from a lower cost base thanks to our restructuring, we finished Q1 with earnings of € 1.0m after € -0.8m the year before. That means we closed fiscal Q1 with a profit for the first time in five years. To raise sales growth and profitability, we initiated our Continuous Improvement Process for Competitiveness. The programme's core elements are strategic reorientation of our two main divisions, Material Handling and Explosion Protection, growth from our existing and revamped product lines as well as venturing into related business areas and new regions.

## Significant order intake improvement

Order intake in Q1 2004 came to € 61.1m after € 55.6m last year. All divisions contributed to this 9.9% total increase.

Explosion Protection achieved order intake growth of 3.8% or € 1.1m y-o-y to € 30.0m (from € 28.9m). This shows a core business stabilisation with all major client groups like the chemical, petrochemical and pharmaceutical sectors.

However, so far expansion and maintenance spending have been the principal demand drivers. Although some plant construction and large-scale projects have come up for bidding, contracts have not yet been awarded. Explosion Protection's positive order intake development was mainly export driven, where new business growth was the strongest. Domestic business slowed since Q1 2003 mostly due to cyclical capital spending restraint. However, this development also seems to have a structural dimension. It appears that domestic big chemicals restrict themselves to maintenance spending in Germany and favour low-cost locations abroad for expansion. This again illustrates the necessity of international presence even for a mid-cap like R. STAHL Technologies.

### Order intake by division

	1-3/2004 €000	1-3/2003 €000
Explosion Protection	30,040	28,940
Material Handling	28,796	25,123
Others	2,309	1,497
Group order intake	61,145	55,560

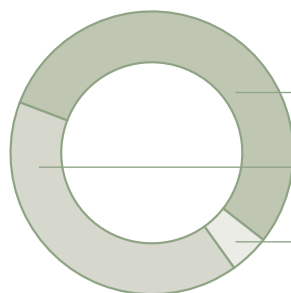
Material Handling raised order intake y-o-y by 14.7% to € 3.7m to € 28.8m (PY: € 25.1m). One should note that in the first half of 2003, Material Handling's order intake suffered greatly from the Iraq war and the SARS outbreak in Asia. As such, part of the strong growth is due to the very weak first half of 2003. Still, demand for high-quality components and systems in overhead conveyance appear to be recovering particularly on an international scale. Thanks to our high-quality products, our order intake benefited from this development. Moreover, the strategic reorientation to sophisticated custom solutions is showing positive results. We now see a higher proportion of sophisticated custom solutions in our order intake confirming our strategic decision on the market end. This partly offsets cyclically still weak demand for standard cranes and components especially in Germany.

Overall, both divisions are under heavy price pressure although Material Handling somewhat more so and we expect that this is not going to improve this year as the economy appears to remain slow in Europe and Germany alike. Only in a sustained economic upswing will customers be willing again to fully accept cost-based price increases.

## Sales evolution clearly ahead of 2003

Q1 sales at € 56.1m were € 5.4m (+10.7%) ahead of last year's figure (€ 50.7m).

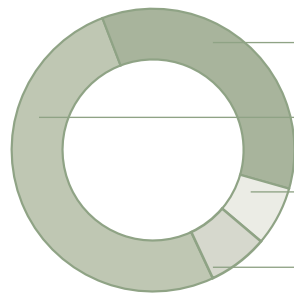
Explosion Protection's sales grew € 5.1m y-o-y and thus clearly outpaced order intake. Delivery bottlenecks at our Waldenburg headquarters made Explosion Protection accumulate significant order backlogs in Q1 2003 that only



### Sales by division

	1-3/2004 €000	1-3/2003 €000
Explosion Protection	30,696	25,636
Material Handling	22,824	23,567
Others	2,554	1,507
Group sales	56,074	50,710

## Sales by region



		1-3/2004 €000	1-3/2003 €000
	35.2%	19,751	19,851
Germany			
	51.1%	28,663	22,989
Central ex Germany			
	6.8%	3,803	4,367
Americas			
	6.9%	3,857	3,503
Asia/Pacific			
Foreign		36,323	30,859

translated into sales in the second half of the year. That order overhang explains the considerable sales increase in Q1 2004 over the same period last year and the disproportionately low order intake development.

The new full consolidation of our Cologne subsidiary SAE-STAHL is another contributing factor to the disproportionate sales surge. The sales surge was a gratifying development and confirms that our decision to fully take over the company was right. We are also pleased by the fact that our lighting activities were going strong and made a healthy sales contribution.

Material Handling's Q1 sales at € 22.8m dropped € 800,000 y-o-y (PY: € 23.6m). A stronger focus on custom solutions with markedly longer throughput times caused an order backlog of € 4.5m to accumulate in Q1 that will be worked off in subsequent quarters. Material Handling's Q1 sales are typically subject to a seasonal lull in plant construction. January billings were very low since projects and orders had to come in first as mentioned above.

## Consolidated profit & loss account

	1-3/2004 €000	1-3/2003 €000
1. Sales revenues	56,074	50,710
2. Inventory changes in finished and half-finished goods	3,294	1,736
3. Other own work capitalised	0	-22
<b>4. Total operating performance</b>	<b>59,368</b>	<b>52,424</b>
5. Other operating income	582	800
6. Cost of materials	-20,682	-17,424
7. Personnel expense	-26,096	-24,713
8. Depreciation on intangible and tangible fixed assets	-2,002	-2,054
9. Other operating expenses	-9,792	-9,511
10. Investment income	0	0
11. Interest income/expense	-330	-277
<b>12. Earnings from ordinary business activity</b>	<b>1,048</b>	<b>-755</b>
13. Extraordinary income	0	0
14. Other taxes	-17	-57
<b>15. Earnings before taxes on income</b>	<b>1,031</b>	<b>-812</b>
16. Taxes on income	-149	-83
<b>17. Period earnings</b>	<b>882</b>	<b>-895</b>
18. Minority interests in period earnings	-92	-31
<b>19. Group share in period earnings</b>	<b>790</b>	<b>-926</b>

	1-3/2004	1-3/2003
DVFA/SG earnings per share (in €)	<b>0.07</b>	<b>-0.21</b>
Number of shares (weighted average in thousands)	<b>6,086</b>	<b>6,110</b>

## Positive earnings evolution

After € -800,000 last year, Q1 2004 pre-tax earnings amounted to € 1.0m making it the first profitable Q1 in five years. This was not just due to our two years of restructuring but also to a much-improved total operating performance of € 59.4m. Explosion Protection and IT both made positive earnings contributions while Material Handling has yet to pass the profit threshold. However, one may take favourable note of the fact that Material Handling has accumulated € 4.5m in new order backlogs.

Our restructuring of 2002 and 2003 greatly improved Material Handling's throughput times and production efficiency. The weak earnings at the end of 2003 and in Q1 2004 are mainly due to a steep drop in market prices for standard components and cranes. While the order backlog in custom solutions is rising significantly owing to Material Handling's reorientation, the order share of not very lucrative standard component and crane business is declining. We thus expect that Material Handling's earnings level will begin to stabilise somewhat in 2004. However, this stabilisation will not be sufficient to turn the division around and we are thus working on further cost measures to aid the process.

Explosion Protection's earnings are now stable thanks to consistent cost cutting implemented in our restructuring and substantially improved production efficiency.

Last year's investment in a new IT consulting enterprise already translated into a positive IT earnings contribution.

### EBITDA before group contribution

	1-3/2004 €000	1-3/2003 €000
Explosion Protection	4,447	2,307
Material Handling	1,059	626
Others	-2,143	-1,414
Group	3,363	1,519

### Staff

	03/31/2004	03/31/2003
Incl. Trainees		
Explosion Protection	885	845
Material Handling	714	760
Others	224	208
Group	1,823	1,813

## Cash flow account

Cash flow from current operations at € -0,1m improved considerably y-o-y by € 1.2m (€ -1.3m). This was mostly thanks to positive period earnings after taxes of € 0.9m (PY: € -0.9m).

Q1 capital borrowing was primarily due to stockpiling especially as a result of higher backlogs in ongoing projects and our volume-based Kanban stock as well as a growth-related rise in receivables from customers. Trade receivables declined € 2.6m.

We mostly financed through higher accruals of € 2.9m (PY: € 0.6m) that principally resulted from accruing for outstanding supplier invoices in Q1. The 2003 annual statement of accounts was prepared later than in years past. For this reason, accruals for outstanding supplier invoices did not have to be made to the usual extent but were already expensed. The q-o-q change alone came to € 1.6m. The effect from lower restructuring accrual write-backs contributed another € 0.3m. The remainder of the change stemmed from various minor accrual changes mostly for personnel owing to higher claims.

At € 1.4m capex was down € 1.2m y-o-y improving our free cash flow after taxes and interest by € 2.2m to € -1.4m (PY: € -3.6m).

Financing cash flow at € 1.0m after € 4.9m the year before reflects greatly diminished outside financing. We cut the increase in short-term bank debt from € 5.2m to € 3.7m and repaid long-term loans to the order of € 2.5m (PY: € 0.0m).

Liquidity at the end of Q1 came to € 6.6m about in line with the year-end level 2003 (€ 6.7m).

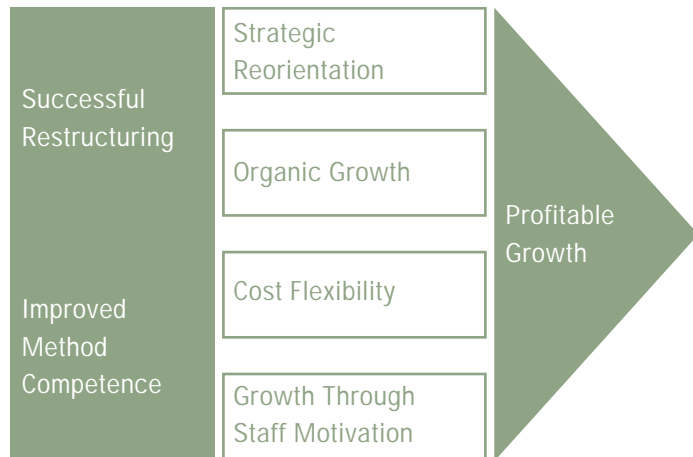
## Consolidated cash flow account

	1-3/2004 €000	1-3/2003 €000
1. Period earnings	882	-895
2. Depreciation & amortisation on fixed assets	2,002	2,054
3. Changes in accruals and in special items	2,870	645
4. Profit / loss from fixed asset disposals	-11	-14
5. Changes in inventories, trade receivables, and other assets	-2,724	-1,326
6. Changes in inventories, trade payables and other liabilities	-3,074	-1,718
<b>7. Operating cash flow</b>	<b>-55</b>	<b>-1,254</b>
8. Expenses for tangibles fixed asset additions	-1,366	-2,599
9. Proceeds from tangibles asset divestments	0	273
<b>10. Capex cash flow</b>	<b>-1,366</b>	<b>-2,326</b>
<b>11. Free cash flow</b>	<b>-1,421</b>	<b>-3,580</b>
12. Shareholder's distributions (dividends)	0	0
13. Minority interest distributions	0	0
14. Increase (+)/Decrease (-) of short-term liabilities to banks	3,708	5,232
15. Payments received from taking cut long-term loans	0	98
16. Payments made by repaying long-term loans	-2,482	0
17. Changes in long-term liabilities	-209	-420
<b>18. Financing cash flow</b>	<b>1,017</b>	<b>4,910</b>
19. Payment-effective changes in financing funds	-404	1,330
20. Exchange rates, consolidation, and valuation related changes in financing funds	216	-458
21. Financing funds at the beginning of the period	6,738	9,556
<b>22. Financing fund at the end of the period</b>	<b>6,550</b>	<b>10,428</b>

# Continuous Improvement Process for Competitiveness

Consistently implementing our 9-point restructuring of R. STAHL Technologies brought us back into the black despite market declines. The programme was strictly designed to last two years. After its successful conclusion at the end of 2003, we started our Continuous Improvement Process for Competitiveness at the beginning of this year. Cost increases, changes in the competitive landscape and technological evolution never stop and neither shall we rest on our laurels but rather remain always on guard. Evolution has to become an integral element of our corporate culture. The CIP Competitiveness starts from the base of our restructuring success and represents a forward strategy for profitable growth. The table below illustrates its four core components.

## Continuous Improvement Process for Competitiveness



## Strategic reorientation of both main divisions

The strategic reorientation is to promote and expand our existing corporate competence. Material Handling will increasingly offer custom solutions based on standard components for client applications involving high complexity, heavy loads and extreme environments. The latter includes extreme heat as in desert summers and the bitter cold of arctic winters as in the oil-rich regions of Alaska and Siberia. Moreover, expanding the available load range to 80 t in the standard segment and to 160 t in the heavy-duty segment will open up new business opportunities.

Explosion Protection is positioned as full assortment provider. Here the division will focus more on speciality and system products in its development and value addition. Regulatory changes in dust explosion protection that our products are already certified for are opening up new market opportunities for us. Also having our products certified for use in ship construction and here especially for tankers as well as oil and gas platforms should open up new markets to us. We already adjusted our strategy to the recent harmonisation of international standards in conventional explosion protection that, too, will aid our worldwide sales prospects.

## Generating organic growth

Competitiveness in technology-driven markets requires high innovation power. Thanks to our development activities of the last few years, both of our main divisions have new products ready to launch. Targeted marketing and reinforced development activity are core elements of profitable growth.

Another key component in our strategy is tapping growth potential by venturing into new markets and cultivating previously neglected sales regions. Our market shares in the United States, Asia, Russia and the Near East are still marginal. In the last few years, we abstained from capital investment in these regions for cost reasons. Stepping up market cultivation there is to raise growth potential.

Material Handling has a good base in Central European service business for crane and hoist maintenance. Our staff there is well qualified and will receive advance training in select specialist seminars. Better order handling and combining service activities with marketing simple crane-related operating devices will further increase sales potential.

### Making costs more flexible

Parallel to these growth measures, further optimising cost structures and making them more flexible is paramount.

Our overhead structures are still far from optimal notwithstanding the considerable progress made. Redundant paperwork and convoluted settlement cause avoidable costs. We are trying to remedy this by defining sensible interdivisional standards.

While our restructuring focused on optimising domestic business processes, we are now turning our attention to improving subsidiaries. With the introduction of our new IT system for larger foreign subsidiaries, we are installing simpler and more standardised processes.

R. STAHL Technologies realises a substantial part of value addition with a high vertical depth of domestic production. We intend to use our impending period of growth to establish additional capacity at low-cost locations abroad. Our goal is

to manufacture simple products with correspondingly high wage-shares there while making complex core products in Germany. This should overall reduce the costs of value addition. It furthermore allows a mixed calculation for large-scale project pricing thus securing our German business presence for the more sophisticated products.

### Growth through staff motivation

Our 9-point restructuring established a substantial competence in handling change processes. We went through numerous CIP and MTM workshops, started a Kaizen news bulletin for daily updates, set up process chain analyses, learned all about Kanban and C-parts management, installed a qualification matrix and implemented an in-house management college to prepare our leadership for difficult tasks.

## Outlook

Our CIP Competitiveness is geared to increase sales and cut costs. We will implement new change measures just as consistently as we did in the last two years and are convinced that our company has great potential for profitability gains. However, we still have to consider that another economic downturn, a drop in the external value of the U.S. dollar or steeply rising steel prices can pose problems again. Moreover, Material Handling's strategic reorientation can not only clearly raise sales and earnings prospects but also temporarily burden earnings through implementation costs.

After the relatively positive start into fiscal 2004 with rising order intake and an emerging stabilisation of international business, we assume that we may see more order intake and sales growth y-o-y for 2004 as a whole.

We also intend to considerably improve our company's profitability this year by having both of our main divisions evolve the restructuring measures of the past in our CIP Competitiveness.

Waldenburg, May 2004

The management

### Consolidated balance sheet

Assets	03/31/2004 €000	12/31/2003 €000
<b>A. Assets</b>		
Intangible assets	3,593	3,630
Tangible assets	26,387	27,118
Financial assets	2,369	2,226
	<b>32,349</b>	<b>32,974</b>
<b>B. Current assets</b>		
Inventories	38,900	35,101
Receivables and other assets	50,271	51,232
Liquidity and securities	8,652	8,909
	<b>97,823</b>	<b>95,242</b>
<b>C. Deferred items</b>	<b>558</b>	<b>746</b>
<b>D. Deferred taxes</b>	<b>5,609</b>	<b>5,466</b>
	<b>136,339</b>	<b>134,428</b>

Equity & Liabilities	03/31/2004 €000	12/31/2003 €000
<b>A. Equity</b>	<b>37,183</b>	<b>36,085</b>
<b>B. Accruals</b>		
Accruals for pensions and similar obligations	34,414	34,078
Tax accruals	610	1,475
Other accruals	17,395	13,996
	<b>52,419</b>	<b>49,549</b>
<b>C. Liabilities</b>		
Liabilities to banks	16,674	15,448
Trade liabilities	10,122	12,738
Other liabilities	19,615	20,545
	<b>46,411</b>	<b>48,731</b>
<b>D. Deferred items</b>	<b>326</b>	<b>63</b>
	<b>136,339</b>	<b>134,428</b>

## Consolidated equity evolution

€000	Subscribed capital	Capital reserve	Earned consolidated equity	Cumulated other consolidated equity	Equity according to consolidated balance sheet	Treasury shares	Total	Minority interests	Consolidated equity
<b>01/01/2003</b>	<b>16,500</b>	<b>8,219</b>	<b>8,274</b>	<b>1,340</b>	<b>34,333</b>	<b>-3,638</b>	<b>30,695</b>	<b>1,045</b>	<b>31,740</b>
Distribution					0		0		0
Other changes <sup>1</sup>			316		316	-144	172		172
Period earnings			-926		-926		-926	31	-895
Currency translation				-218	-218		-218	-80	-298
<b>03/31/2003</b>	<b>16,500</b>	<b>8,219</b>	<b>7,664</b>	<b>1,122</b>	<b>33,505</b>	<b>-3,782</b>	<b>29,723</b>	<b>996</b>	<b>30,719</b>
<b>01/01/2004</b>	<b>16,500</b>	<b>0</b>	<b>18,764</b>	<b>184</b>	<b>35,448</b>	<b>-3,782</b>	<b>31,666</b>	<b>637</b>	<b>32,303</b>
Distribution					0		0		0
Other changes <sup>1</sup>					0		0		0
Period earnings			790		790		790	92	882
Currency translation				213	213		213	3	216
<b>03/31/2004</b>	<b>16,500</b>	<b>0</b>	<b>19,554</b>	<b>397</b>	<b>36,451</b>	<b>-3,782</b>	<b>32,669</b>	<b>732</b>	<b>33,401</b>

<sup>1</sup>Other changes comprise treasury share acquisition, changes in the scope of consolidation, and other valuation-related changes in equity positions.

R. STAHL AG prepares its consolidated statements of account according to German Commercial Code and German Joint Stock Corporations Act rules and prepares its interim reports in accordance with German Accounting Standards No. 6 (DRS 6) of February 13, 2001 and the Statutes of the Frankfurt Stock Exchange (BörsO).

R. STAHL AG applies the same accounting and valuation principles to the preparation of its interim reports as to its annual financial statements. The notes to our annual financial statements of December 31, 2003 list the principles applied in detail.



**Investor  
Relations**

Judith Schäuble

Tel. +49 79 42 943-12 17

Fax +49 79 42 943-13 64

[investornews@stahl.de](mailto:investornews@stahl.de)



**Address**

R. STAHL Aktiengesellschaft

Am Bahnhof 30

D-74638 Waldenburg

[www.stahl.de](http://www.stahl.de)