Financial Statements 2017

elringklinger

FINANCIAL STATEMENTS OF ELRINGKLINGER AG FOR FISCAL 2017

Contents

Combined Management Report

The management report of the ElringKlinger AG has been combined with the management report of the ElringKlinger Group in accordance with Sections 315 (5) and 298 (2) of the German Commercial Code (HGB). Aside from the section „Financial Performance, Net Assets and Cash flows of ElringKlinger AG" and unless otherwise specified, the combined management report is applicable to both the ElringKlinger AG and the ElringKlinger Group.

»Our expertise in lightweighting and our know-how in the field of e-mobility will play a pivotal role when it comes to the future performance of the Group.«

Dr. Stefan Wolf,
Chief Executive Officer of ElringKlinger AG

ElringKlinger AG, Dettingen/Erms

Balance sheet as of December 31, 2017 in EUR k

Assets	Dec. 31, 2017	Dec. 31, 2016
A. Fixed assets		
I. Intangible fixed assets		
1. Purchased industrial rights and licenses	8,358	6,780
2. Goodwill	161	180
3. Advance payments	815	1,151
	9,334	**8,111**
II. Tangible fixed assets		
1. Property and buildings	164,629	147,718
2. Technical equipment and machines	118,706	107,295
3. Other equipment, operating and office equipment	37,725	30,176
4. Advance payments and fixed assets under construction	22,163	40,422
	343,223	**325,611**
III. Fixed financial assets		
1. Shares in affiliated companies	428,554	415,827
2. Loans to affiliated companies	28,698	31,698
3. Equity investments	29,025	8
4. Securities classified as fixed financial assets	453	440
	486,730	**447,973**
	839,287	**781,695**
B. Current assets		
I. Inventories		
1. Raw materials, consumables and supplies	30,290	27,320
2. Work in progress	40,873	36,538
3. Finished goods and merchandise	69,708	55,423
4. Advance payments	3,635	6,524
	144,506	**125,805**
II. Receivables and other assets		
1. Trade receivables	93,641	82,214
2. Receivables from affiliated companies	227,286	118,542
3. Other assets	9,222	6,613
	330,149	**207,369**
III. Cash in hand, bank deposits and checks	**70**	**84**
	474,725	**333,258**
C. Prepaid expenses	2,186	1,818
	1,316,198	**1,116,771**

Liabilities and shareholder's equity	Dec. 31, 2017	Dec. 31, 2016
A. Equity		
I. Share capital	**63,360**	**63,360**
II. Capital reserves	**120,827**	**120,827**
III. Revenue reserves		
1. Statutory reserve	3,013	3,013
2. Other revenue reserves	365,726	337,187
	368,739	**340,200**
IV. Net retained earnings	**31,680**	**31,680**
	584,606	**556,067**
B. Provisions		
1. Provisions for pensions and similar obligations	68,936	65,908
2. Provisions for taxes	421	6,594
3. Other provisions	38,443	37,369
	107,800	**109,871**
C. Liabilities		
1. Liabilities due to banks	541,332	383,612
2. Payments received on account of orders	3,788	1,418
3. Trade payables	34,411	20,729
4. Liabilities to affiliated companies	21,450	18,250
5. Other liabilities	22,503	23,178
of which from taxes EUR 2,801 k (EUR 2,563 k)		
of which relating to social security EUR 73 k (EUR 91 k)		
	623,484	**447,187**
D. Deferred income	308	365
E. Deferred tax liabilities	**0**	**3,281**
	1,316,198	**1,116,771**

ElringKlinger AG, Dettingen/Erms

Income statement
for the period from January 1 to December 31, 2017

in EUR k	2017	2016
1. Sales revenue	674,393	622,173
2. Increase in finished goods and work in process	5,802	862
3. Other own work capitalized	1,519	1,268
4. Other operating income	16,575	18,487
5. Cost of materials		
a) Expenses for raw materials, supplies and merchandise	-269,889	-238,869
b) Expenses for purchased services	-31,725	-33,734
6. Personnel expenses		
a) Wages and salaries	-163,756	-152,074
Social security charges and expenses for pensions	-34,011	-28,481
of which for retirement pensions EUR -5,692 k (EUR -2,422 k)		
7. Amortization and depreciation on intangible fixed and tangible fixed assets	-33,124	-31,234
8. Other operating expenses	-98,764	-83,606
9. Income from equity investments of which from affiliated companies EUR 20,311 k (EUR 18,878 k)	20,311	18,878
10. Income from other securities and loans classified as fixed financial assets of which from affiliated companies EUR 786 k (EUR 1,012 k)	804	1,030
11. Interest and similar income of which from affiliated companies EUR 2,999 k (EUR 1.161 k)	3,088	1,196
12. Write-downs on fixed financial assets	-5,000	-6,011
13. Interest and similar expenses of which from affiliated companies EUR -349 k (EUR -317 k)	-10,701	-9,481
thereof expenses from discounting: EUR -2,887 k (EUR -2,853 k)		
14. Taxes on income	-15,045	-21,429
15. Earnings after taxes	**60,477**	**58,975**
16. Other taxes	-258	-163
17. Net income	**60,219**	**58,812**
18. Transfer to other revenue reserves	-28,539	-27,132
19. Net retained earnings	**31,680**	**31,680**

ElringKlinger AG, Dettingen/Erms

Notes to the Financial Statements for the Financial Year 2017

General information

The financial statements of ElringKlinger AG, Dettingen/Erms, are prepared in accordance with the provisions of the German Stock Corporation Act (Aktiengesetz, “AktG”) and the German Commercial Code (Handelsgesetzbuch, “HGB”) that apply for large-sized corporations. The Articles of Association contain regulations on profit appropriation. ElringKlinger AG has its registered office in Dettingen/Erms. The Company is entered in the commercial register of the Stuttgart local court under HRB no. 361242.

The income statement was prepared in accordance with the nature of expense method.

In order to provide clarity and transparency of the presentation, the financial statements were prepared with figures shown in thousand euros (EUR k). In addition, supplementary explanations have been provided for some annotations and details on the composition of line items included in the notes.

The financial year is the calendar year.

Accounting and valuation principles

The following accounting and valuation methods, which essentially remained unchanged in comparison to the previous year, were used to prepare the financial statements.

Fixed assets

Additions to purchased intangible fixed assets, as well as tangible fixed assets and fixed financial assets are recognized at acquisition or manufacturing cost. In addition to the direct cost of materials and production, manufacturing cost also includes production overheads and indirect material cost, as well as the appropriate amortization and depreciation.

The Company has not exercised the capitalization option, pursuant to § 248 (2) HGB, for internally generated intangible assets. Therefore, research and development cost was expensed in full in the period incurred.

Assets with finite useful lives are depreciated using the straight-line method applied over their expected useful lives.

In accordance with § 253 (3) HGB, goodwill attributable to Maier Formenbau GmbH, which was acquired in 2016, will be amortized over a period of 10 years.

Some movable property acquired or manufactured through December 31, 2009, was initially depreciated using the declining balance method and then later using the straight-line method. Additions subsequent to January 1, 2010, are depreciated on a straight-line basis over the expected useful lives.

Acquisition or manufacturing costs of movable fixed assets with a limited useful life that can be used independently are expensed in full in the financial year they are acquired, manufactured or contributed - if the acquisition or manufacturing cost of the individual asset less any input tax included does not exceed EUR 150. Each year, a collective item is recorded for low-value assets with acquisition or manufacturing costs exceeding EUR 150 but less than EUR 1,000, less any input tax. Each annual collective item is depreciated over a period of five years. The collective item is not reduced if a low-value asset is disposed of prematurely.

Shares in affiliated companies and equity investments classified as fixed financial assets are recognized at the lower of cost or market value. Loans are recognized at their nominal value. Impairments losses are recognized as required. For shares in affiliated companies and equity investments classified as fixed financial assets, annual impairment tests determine the appropriate amount of impairment to be recognized. These impairment tests reflect the capitalized earning value calculated on the basis of the mid-term budgets of each respective shareholding and under the assumption of a perpetual annuity subsequent to the last mid-term planning period. An impairment is recognized if the carrying amount exceeds the resulting capitalized earnings value.

If the reasons for impairments charged in previous periods no longer apply, these charges are reversed to a maximum amount of historical cost less accumulated depreciation.

Securities classified as fixed financial assets are recognized at the lower of cost or market value.

Current assets

Inventories are recognized at acquisition or manufacturing cost under application of simplified valuation options in accordance with the principle of lower of cost or market value. Raw materials, consumables, supplies and merchandise are measured at their average acquisition cost. In certain cases, agreed values are used.

Work in progress and finished goods are measured based on manufacturing cost. Manufacturing costs include elements from § 255 (2) HGB which must be capitalized. Borrowing costs are not considered. These are recognized in the event of declining sales prices. Valuation allowances are made to account for impairment from obsolescence and poor quality and to account for lower net realizable values.

In the majority of cases, customers acquire legal and economic ownership of tools. The tools are recognized under inventories until the transfer of beneficial ownership.

Receivables and other assets are recognized at nominal value. Valuation allowances are recognized for individual risks identified for receivables and other assets. The general credit risk is taken into account through a lump sum valuation allowance.

Cash on hand and bank balances are measured at nominal value.

Payments made before the balance sheet date are recognized as prepaid expenses if they represent an expense for a certain time after the balance sheet date.

Equity

Share capital is recognized at its par value.

Provisions and liabilities

Pension obligations are measured as of December 31, 2017, in accordance with actuarial principles using the projected unit credit method. The 2005 G Heubeck mortality tables are used as the biometrical basis for calculation. The average market interest rate of the past 10 years is applied as the actuarial interest rate assuming a remaining term of 15 years. In addition to this, salary and pension trends are applied, as are age and gender-specific staff turnover probabilities.

Provisions for partial retirement are measured on the basis of an annual actuarial interest rate of 1.29% (p.y. 1.61%), an income trend of 3.00% (p.y. 3.00%), and the 2005 G mortality tables established upon actuarial principles by Dr. Klaus Heubeck. Provisions for obligations arising from partial retirement schemes are recognized according to the block model. Provisions for partial retirement were recognized for partial retirement contracts agreed as of the balance sheet date, as well as potential future contracts. They include benefit increases and the Company's settlement obligations which have been accrued as of the balance sheet date.

Provisions for long-service awards are measured on the basis of an interest rate of 2.84% (p.y. 3.28%) and based on the projected unit credit method and the 2005 G mortality tables by Dr. Klaus Heubeck in accordance with actuarial principles. In addition, the calculation assumes a 3.00% income trend (p.y. 3.00%), a 1.00% career trend (p.y. 0.75%), an inflation rate of 1.50% (p.y. 1.50%), an average staff turnover of 2.00% (p.y. 1.75%) as well as an increase in the income ceiling for the assessment of contributions to the statutory pension and health insurance schemes of 2.00% (p.y. 1.50%).

Tax and other provisions are established for all recognizable risks for expected losses from pending transactions and uncertain liabilities and are measured at the settlement value according to prudent business judgment and taking into account price and cost increases.

Provisions due in more than one year are discounted using the average market interest rate of the past seven years corresponding to their remaining term. Pension provisions are discounted using the average market rate of the past 10 years.

Existing plan assets that are exempt from attachment by all other creditors and that serve exclusively to settle liabilities from post-employment benefit obligations or similar long-term liabilities (“plan assets”) are offset against the related liabilities. Accordingly, related expenses and income are offset. Existing plan assets are recognized at fair value.

Liabilities are recognized at their settlement amount.

Receipts prior to the balance sheet date are recognized as deferred income if they represent earnings for a certain time after the balance sheet date.

Foreign currency items and currency translation

Receivables and payables in foreign currency are measured at the mean spot rate at the balance sheet date. For receivables and payables due in more than one year, foreign currency is valued in accordance with the historical cost convention or the imparity principle.

Deferred taxes

Deferred taxes are recognized at a tax rate of 28.6% (p.y. 28.6%) for the temporary and quasi-permanent differences arising between the carrying amounts of assets, liabilities, prepaid expenses and deferred income compared with their respective tax bases. If necessary, tax loss carryforwards are also taken into account. Deferred tax assets and liabilities are offset against each other. In accordance with the option under § 274 (1) sentence 2 HGB, any resulting net deferred tax asset is not recognized.

Deferred taxes are calculated using an effective tax rate of 28.6% (p.y. 28.6%). This rate takes into account the rates that are expected when the differences are reversed and are the sum of 15.8% for corporate income tax including the solidarity surcharge (p.y. 15.8%) and trade tax of 12.8% (p.y. 12.8%). The tax rate for municipal trade tax is determined on the basis of the average trade tax multiplier of 366% (p.y. 365%).

Balance sheet disclosures

Fixed assets

The statement of changes in fixed assets of ElringKlinger AG and the schedule of shareholdings are shown on the following pages.

In addition to shares in affiliated companies and equity investments classified as fixed financial assets, fixed financial assets include loans and securities.

The change in shares in affiliated companies is mainly due to a number of capital increases. There were extraordinary write-downs of the carrying amount of affiliated companies totaling EUR 5,000 k due to impairments that are expected to be permanent. Write-downs on shares in affiliated companies were reversed by a total amount of EUR 0 k.

Receivables and other assets

EUR 183,594 k of receivables from affiliated companies relate to financial transactions (p.y. EUR 78,020 k), the remainder are trade receivables. As in the previous year, there were no receivables from equity investments classified as fixed financial assets as of December 31, 2017.

Of the other assets, an amount of EUR 556 k (p.y. EUR 542 k) has a remaining term of more than one year. As in the previous year, all other receivables and other assets are due in less than one year.

Changes in fixed assets in the fiscal year 2017

	Acquisition or manufacturing cost				
	Jan. 1, 2017	Additions	Reclassifi- cations	Disposals	Dec. 31, 2017
	EUR k	EUR k	EUR k	EUR k	EUR k
I. Intangible fixed assets					
1. Purchased industrial rights and licenses	34,050	4,597	1,151	14,158	25,640
2. Goodwill	1,990	0	0	0	1,990
3. Advance payments	1,151	815	-1,151	0	815
	37,191	5,412	0	14,158	28,445
II. Tangible fixed assets					
1. Property and buildings	213,402	10,666	12,692	1,973	234,787
2. Technical equipment and machines	409,988	10,786	17,736	5,114	433,396
3. Other equipment, operating and office equipment	118,209	8,799	5,353	2,922	129,439
4. Advance payments and fixed assets under construc	40,422	17,522	-35,781	0	22,163
	782,021	47,773	0	10,009	819,785
III. Fixed financial assets					
1. Shares in affiliated companies	425,404	18,065	0	338	443,131
2. Loans to affiliated companies	31,698	0	0	3,000	28,698
3. Equity investments	8	29,017	0	0	29,025
4. Securities classified as fixed financial assets	451	206	0	204	453
	457,561	47,288	0	3,542	501,307
	1,276,773	100,473	0	27,709	1,349,537

Accumulated amortization and depreciation						Carrying amount	
Jan. 1, 2017	Depreciation, amortization and write-downs of the year	Reversal of write-downs	Reclassifi-cations	Disposals	Dec. 31, 2017	Dec. 31, 2017	Dec. 31, 2016
EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
27,270	4,170	0	0	14,158	17,282	8,358	6,780
1,810	19	0	0	0	1,829	161	180
0	0	0	0	0	0	815	1,151
29,080	4,189	0	0	14,158	19,111	9,334	8,111
65,684	5,440	0	0	966	70,158	164,629	147,718
302,693	16,913	0	0	4,916	314,690	118,706	107,295
88,033	6,582	0	0	2,901	91,714	37,725	30,176
0	0	0	0	0	0	22,163	40,422
456,410	28,935	0	0	8,783	476,562	343,223	325,611
9,577	5,000	0	0	0	14,577	428,554	415,827
0	0	0	0	0	0	28,698	31,698
0	0	0	0	0	0	29,025	8
11	0	8	0	3	0	453	440
9,588	5,000	8	0	3	14,577	486,730	447,973
495,078	38,124	8	0	22,944	510,250	839,287	781,695

Schedule of shareholdings and scope of consolidation
as of December 31, 2017

Name of company	Domicile	Capital share in %
Parent		
ElringKlinger AG	Dettingen/Erms	
Shares in affiliated companies (fully consolidated in the consolidated financial statements)		
Domestic		
Gedächtnisstiftung KARL MÜLLER BELEGSCHAFTSHILFE GmbH	Dettingen/Erms	100.00
Elring Klinger Motortechnik GmbH	Idstein	92.86
ElringKlinger Logistic Service GmbH	Rottenburg /Neckar	96.00
ElringKlinger Kunststofftechnik GmbH	Bietigheim-Bissingen	77.50
Polytetra GmbH /DE[6]	Mönchengladbach	77.50
Hug Engineering GmbH[5]	Magdeburg	93.67
new enerday GmbH /DE	Neubrandenburg	80.00
hofer powertrain products GmbH	Nürtingen	53.00
KOCHWERK Catering GmbH	Dettingen/Erms	100.00
Foreign		
ElringKlinger Abschirmtechnik (Switzerland) AG	Sevelen (Switzerland)	100.00
Hug Engineering AG	Elsau (Switzerland)	93.67
Elring Klinger (Great Britain) Ltd.	Redcar (UK)	100.00
hofer powertain products UK limited	Warwick (Großbritannien)	53.00
ElringKlinger Italia Srl	Settimo Torinese (Italy)	100.00
Hug Engineering Italia S.r.l.[5]	Milan (Italy)	93.67
Technik-Park Heliport Kft.	Kecskemét-Kádafalva (Hungary)	100.00
ElringKlinger Hungary Kft.	Kecskemét-Kádafalva (Hungary)	100.00
Elring Parts Ltd.	Gateshead (UK)	100.00
Elring Klinger, S.A.U.	Reus (Spain)	100.00
ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş.	Bursa (Turkey)	100.00
ElringKlinger Meillor SAS	Nantiat (France)	100.00
ElringKlinger Silicon Valley, Inc.	Fremont (USA)	100.00
HURO Supermold S.R.L.	Timisoara (Romania)	100.00
ElringKlinger Canada, Inc.	Leamington (Canada)	100.00
ElringKlinger USA, Inc.	Buford (USA)	100.00
ElringKlinger Automotive Manufacturing, Inc.	Southfield (USA)	100.00
Hug Engineering Inc.[5]	Austin (USA)	93.67
Elring Klinger México, S.A. de C.V.	Toluca (Mexico)	100.00
EKASER, S.A. de C.V.	Toluca (Mexico)	100.00
Elring Klinger do Brasil Ltda.	Piracicaba (Brazil)	100.00
ElringKlinger South Africa (Pty) Ltd.	Johannesburg (South Africa)	100.00
ElringKlinger Automotive Components (India) Pvt. Ltd.	Ranjangaon (India)	100.00
Changchun ElringKlinger Ltd.	Changchun (China)	88.00
ElringKlinger Korea Co., Ltd.	Changwon (South Korea)	100.00
ElringKlinger China, Ltd.	Suzhou (China)	100.00
ElringKlinger Chongqing Ltd.	Chongqing (China)	100.00
ElringKlinger Engineered Plastics North America, Inc.[6]	Buford (USA)	77.50
ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd.[6]	Qingdao (China)	77.50
ElringKlinger Marusan Corporation	Tokyo (Japan)	50.00
Taiyo Jushi Kakoh Co., Ltd.[7]	Tokyo (Japan)	50.00
Marusan Kogyo Co., Ltd.[8]	Tokyo (Japan)	23.45
PT. ElringKlinger Indonesia[7]	Karawang (Indonesia)	50.00
ElringKlinger (Thailand) Co., Ltd[7]	Bangkok (Thailand)	50.00
Hug Engineering B.V.[9]	Enschede (Netherlands)	84.30
Equity investments (accounted for in the consolidated financial statements using the equity method)		
Domestic		
hofer AG	Nürtingen	28.89

1) 100 units local currency (LC) as of balance sheet date
2) 100 units local currency (LC) as of balance sheet date
3) valued at the closing rate
4) valued at the average rate for the period
5) Wholly owned subsidiary of Hug Engineering AG
6) Wholly owned subsidiary of ElringKlinger Kunststofftechnik GmbH

Statutory accounts equity in LC k	Statutory accounts profit/loss in LC k	Local currency	Closing exchange rate[1]	Median exchange rate for the period[2]	Statutory accounts in EUR k[3]	Statutory accounts in EUR k[4]	Most recent financial statements
22	-3	EUR	1.0000	1.0000	22	-3	Dec 31, 2017
4,424	713	EUR	1.0000	1.0000	4,424	713	Dec 31, 2017
4,593	436	EUR	1.0000	1.0000	4,593	436	Dec 31, 2017
74,173	11,125	EUR	1.0000	1.0000	74,173	11,125	Dec 31, 2017
2,418	550	EUR	1.0000	1.0000	2,418	550	Dec 31, 2017
3,167	259	EUR	1.0000	1.0000	3,167	259	Dec 31, 2017
2,654	1,250	EUR	1.0000	1.0000	2,654	1,250	Dec 31, 2017
2,287	358	EUR	1.0000	1.0000	2,287	358	Dec 31, 2017
-283	-91	EUR	1.0000	1.0000	-283	-91	Dec 31, 2017
14,536.6990	8,024.4395	CHF	85.4555	89.5833	12,422	7,189	Dec 31, 2017
38,152	653	CHF	85.4555	89.5833	32,603	585	Dec 31, 2017
16,776	2,989	GBP	112.7103	114.1918	18,909	3,413	Dec 31, 2017
0	-442	GBP	112.7103	114.1918	0	-505	Dec 31, 2017
13,998	1,491	EUR	1.0000	1.0000	13,998	1,491	Dec 31, 2017
700	268	EUR	1.0000	1.0000	700	268	Dec 31, 2017
2,809,999	147,020	HUF	0.3222	0.3233	9,055	475	Dec 31, 2017
9,020	-626,500	HUF	0.3222	0.3233	29	-2,025	Dec 31, 2017
4,553	830	GBP	112.7103	114.1918	5,132	948	Dec 31, 2017
19,598	4,460	EUR	1.0000	1.0000	19,598	4,460	Dec 31, 2017
93,771	28,170	TRY	21.9954	24.1377	20,625	6,800	Dec 31, 2017
8,850	784	EUR	1.0000	1.0000	8,850	784	Dec 31, 2017
107	-1,430	USD	83.3820	87.9484	90	-1,257	Dec 31, 2017
8,853	3,223	RON	21.4661	21.8637	1,900	705	Dec 31, 2017
42,669	9,941	CAD	66.4938	67.9103	28,372	6,751	Dec 31, 2017
7,649	-8,784	USD	83.3820	87.9484	6,378	-7,725	Dec 31, 2017
7,122	10,280	USD	83.3820	87.9484	5,939	9,041	Dec 31, 2017
2,510	63	USD	83.3820	87.9484	2,093	56	Dec 31, 2017
656,067	-38,055	MXN	4.2263	4.6667	27,728	-1,776	Dec 31, 2017
81,666	16,375	MXN	4.2263	4.6667	3,451	764	Dec 31, 2017
103,171	7,167	BRL	25.1705	27.4466	25,969	1,967	Dec 31, 2017
25,836	9,385	ZAR	6.7543	6.6386	1,745	623	Dec 31, 2017
1,980,495	67,065	INR	1.3054	1.3552	25,853	909	Dec 31, 2017
766,083	74,634	CNY	12.8133	13.0622	98,160	9,749	Dec 31, 2017
4,461,243	-478,218	KRW	0.0781	0.0784	3,486	-375	Dec 31, 2017
569,801	77,350	CNY	12.8133	13.0622	73,010	10,104	Dec 31, 2017
49,987	-3,987	CNY	12.8133	13.0622	6,405	-521	Dec 31, 2017
647	119	USD	83.3820	87.9484	540	104	Dec 31, 2017
26,824	3,403	CNY	12.8133	13.0622	3,437	444	Dec 31, 2017
5,774,376	131,943	JPY	0.7407	0.7855	42,770	1,036	Dec 31, 2017
386,189	807	JPY	0.7407	0.7855	2,860	6	Dec 31, 2017
674,697	4,158	JPY	0.7407	0.7855	4,997	33	Dec 31, 2017
112,749,631	8,372,053	IDR	0.0062	0.0066	6,943	550	Dec 31, 2017
5,935	-8,695	THB	2.5562	2.6071	152	-227	Dec 31, 2017
1,053	1,202	EUR	1.0000	1.0000	1,053	1,202	Dec 31, 2017
34,911	896	EUR	1.0000	1.0000	34,911	896	Dec 31, 2017

[7] Wholly owned subsidiary of ElringKlinger Marusan Corporation
[8] 46.9% subsidiary of ElringKlinger Marusan Corporation
[9] 90% subsidiary of Hug Engineering AG

Equity

During the financial year 2017, equity developed as follows:

EUR k	Dec. 31, 2016	Dividend	Revenue reserves	Net income	Dec 31, 2017
Share capital	63,360	0	0	0	63,360
Capital reserves	120,827	0	0	0	120,827
Revenue reserves	340,200	0	28,539	0	368,739
Net retained earnings	31,680	-31,680	0	31,680	31,680
	556,067	**-31,680**	**28,539**	**31,680**	**584,606**

The share capital of ElringKlinger AG amounted to EUR 63,359,990 as of December 31, 2017 and is divided into 63,359,990 registered shares, each entitled to a single vote. The share capital is fully paid in. Each registered share represents a theoretical interest of EUR 1.00 of the share capital. Profit is distributed in accordance with § 60 AktG in conjunction with § 23 no. 1 of the Articles of Association.

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the Company's share capital by issuing new shares for cash and/or in-kind contributions on one or several occasions, however by no more than EUR 31,679,995, by May 17, 2022 (Authorized Capital 2017). As a rule, the shareholders are entitled to subscription rights. The shares may also be acquired by one or more banks subject to the proviso that they offer them to the shareholders for subscription. However, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude shareholder subscription rights

- in order to eliminate fractional amounts;
- if the capital increase against in-kind contributions is implemented specifically for the purpose of acquiring companies, parts of companies, equity investments classified as fixed financial assets or other assets in connection with an intended acquisition or within the framework of business combinations and the shares issued excluding the subscription rights do not exceed 10% of the capital stock. This applies to the share capital existing either on the date on which this authorization takes effect or on the date on which it is exercised.
- if the new shares are issued against cash contributions and if the issue price per new share does not fall significantly below the quoted price of shares already listed, and the shares issued without subscription rights pursuant to § 186 (3) sentence 4 AktG, do not represent more than 10% of the share capital, either on the date on which this authorization takes effect or on the date on which it is exercised. The upper limit of 10% of share capital includes any shares issued or sold during the term of this authorization excluding shareholders' subscription rights in direct or indirect application of § 186 (3) sentence 4 AktG.

The Management Board has not exercised the authorization to date.

As of December 31, 2017, revenue reserves consist of a statutory reserve amounting to EUR 3,013 k (p.y. EUR 3,013 k) and other revenue reserves of EUR 365,726 k (p.y. EUR 337,187 k).

Net retained earnings developed as follows:

	EUR k
Net retained earnings as of December 31, 2016	31,680
Profit distribution for 2016	- 31,680
Profit brought forward	0
Net income for 2017	60,219
Appropriation to other revenue reserves	-28,539
Net retained earnings as of December 31, 2017	**31,680**

Provisions

Provisions for pensions

As of the balance sheet date, there are pension obligations of EUR 68,936 k (p.y. EUR 65,908 k) which must be covered by provisions. Pension provisions are measured by applying an interest rate of 3.68% (p.y. 4.03%). In addition, the calculation assumes a 3.00% income trend (p.y. 3.00%), a 1.00% career trend (p.y. 0.75%), a pension trend of 1.50% (p.y. 1.50%) for benefit entitlements and 1.50% (p.y. 1.50%) for current pensions and an average staff turnover of 2.00% (p.y. 1.75%).

The difference between the carrying amount of the provisions for pensions when measured using the seven and ten-year average interest rates is EUR 10,305 k (p.y. EUR 8,169 k). This amount is restricted from distribution in accordance with § 253 (6) HGB. The dividend restriction is currently not in place because there are sufficient distributable reserves.

The pension obligations of active management board members totaling EUR 6,555 k (p.y. EUR 5,225 k) were offset against the fair value of plan assets of EUR 3,685 k (p.y. EUR 1,639 k) pursuant to § 246 (2) HGB. Specific and pledged employer's pension liability insurance that is protected from insolvency serves as plan assets. The fair value of the employer's pension liability insurance claim comprises the insurer's unearned premium reserve plus any credit balance from premium refunds (participation feature). The acquisition costs of the employer's pension liability insurance come to EUR 2,205 k (p.y. EUR 1,654 k). Expenses from the adjustment of covering assets to the lower fair value total EUR 11 k (p.y. EUR 24 k) and were recorded in interest expenses.

Applying Article 28 Introductory Law of the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch, "EGHGB"), provisions for pensions and similar obligations of EUR 1,099 k (p.y. EUR 606 k) are not reported in the balance sheet.

Other provisions relate to:

EUR k	Dec 31, 2017	Dec 31, 2016
Personnel-related obligations	21,901	22,763
Outstanding supplier invoices	5,915	3,937
Bonus credits not yet settled	3,202	3,787
Expected losses from customer transactions	2,469	2,245
Warranty obligations	2,005	1,668
Remuneration of the Supervisory Board	331	365
Commercial agents' compensation claims	350	350
Litigation costs	10	110
Outstanding payments for tools	140	83
Expected losses from gas procurement transactions	79	75
Derivative risks	11	0
Other risks	2,030	1,986
Total	**38,443**	**37,369**

Personnel-related obligations include partial retirement obligations which must be covered by provisions in the amount of EUR 2,823 k (p.y. EUR 3,650 k). Deferred performance for partial retirement obligations amounting to EUR 1,858 k (p.y. EUR 1,490 k) was offset against plan assets in the amount of EUR 2,161 k (p.y. EUR 1,695 k) in accordance with § 246 (2) HGB. Plan assets were identified as the specific and pledged trust agreement which is protected from insolvency covering asset transfer, reimbursement and agency between ElringKlinger AG and ElringKlinger Vermögenstreuhänder e.V., Dettingen/Erms, and ElringKlinger Mitarbeitertreuhänder e.V., Dettingen/Erms, dated March 7, 2005. The acquisition costs of the covering assets come to EUR 2,199 k (p.y. EUR 1,722 k). Fair value of the plan assets is based on the valuation of the investment at its price at the balance sheet date. Income from plan assets in 2017 came to EUR 7 k (p.y. EUR 12 k) and was reported net of expenses from the adjustment of plan assets at the lower fair value of EUR 11 k (p.y. EUR 8 k) under interest expenses. Unwinding the discount on the partial retirement obligations is recorded in interest expenses and amounts to EUR 31 k (p.y. EUR 47 k).

Liabilities

EUR k	Total amount As of Dec 31, 2017	thereof with a remaining term of up to one year	to one to five years	more than five years	thereof secured	Total amount As of Dec 31, 2016
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Liabilities due to banks	541,332	165,067	248,810	127,455	9,356	383,612
Payments received on account of orders	3,788	3,788	0	0	0	1,418
Trade payables	34,411	34,411	0	0	0	20,729
Liabilities to affiliated companies	21,450	12,191	9,259	0	0	18,250
Other liabilities	22,503	5,448	17,055	0	0	23,178
	623,484	**220,905**	**275,124**	**127,455**	**9,356**	**447,187**

EUR k	Total amount As of Dec 31, 2016	thereof with a remaining term of up to one year	to one to five years	more than five years	thereof secured	Total amount As of Dec 31, 2015
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Liabilities due to banks	383,612	156,889	222,002	4,721	13,844	342,107
Payments received on account of orders	1,418	1,418	0	0	0	4,409
Trade payables	20,729	20,729	0	0	0	20,416
Liabilities to affiliated companies	18,250	9,259	8,991	0	0	24,168
Other liabilities	23,178	6,105	17,073	0	0	19,102
	447,187	**194,400**	**248,066**	**4,721**	**13,844**	**410,202**

EUR 9,356 k (p.y. EUR 13,844 k) of liabilities to banks are secured by land charges on operating property. With the exception of the customary reservation of title for trade payables, other liabilities are unsecured.

Liabilities to affiliated companies relate to financial transactions of EUR 22,631 k (p.y. EUR 19,709 k) and trade receivables net of trade payables of EUR 3,993 k (p.y. EUR 3,106 k). Trade payables of EUR 2,812 k are due to affiliated companies (p.y. EUR 1,645 k).

Deferred tax liabilities

Offsetting the deferred tax assets against the deferred tax liabilities results in a net asset. Differences that result in deferred tax assets are mainly due to receivables and other assets, pension provisions and other provisions.

Deferred tax assets in the amount of EUR 79 k (p.y. EUR 3,281 k tax liability) result from the total differences arising between the carrying amounts and tax bases of fixed and current assets, including prepaid expenses and deferred income. Deferred taxes are measured using a tax rate of 28.6% (p.y. 28.6%).

The Company has no tax loss carryforwards.

Differences between the carrying amounts and the tax bases resulting in a deferred taxes are due to the following issues:

Deferred tax liabilities on differences in carrying amounts for:

EUR k	Dec 31, 2017	Dec 31, 2016
Intangible fixed assets	88	117
Property, plant and equipment	11,924	12,947
Fixed financial assets	938	936
Trade payables	6	1
Liabilities to affiliated companies	111	1
Liabilities due to banks	366	0
Total	**13,433**	**14,002**

Deferred tax assets on differences in carrying amounts for:

EUR k	Dec 31, 2017	Dec 31, 2016
Inventories	226	656
Receivables and other assets	2,434	275
Prepaid expenses	95	0
Provisions for pensions	7,728	6,773
Other provisions	3,027	2,842
Liabilities due to banks	0	172
Other liabilities	2	3
Total	**13,512**	**10,721**

Deferred tax assets (p.y. tax liabilities), net	**79**	**3,281**

Deferred taxes developed as follows:

EUR k	Deferred tax assets	Deferred tax liabilities	Balance
	EUR k	EUR k	EUR k
Dec. 31, 2016	10,721	-14,002	-3,281
Dec 31, 2017	13,512	-13,433	79
Change	**2,791**	**569**	**3,360**

Income statement disclosures

Sales revenue

Breakdown by geographical market

EUR k	2017	2016
Germany	248,749	223,385
Rest of Europe	290,646	276,751
NAFTA	52,892	50,564
Asia - Pacific	58,602	51,452
Rest of the world	23,504	20,021
Total sales revenue	**674,393**	**622,173**

Broken down by division, sales revenue of EUR 530,623 k (p.y. EUR 484,750 k) relates to Original Equipment, EUR 143,486 k (p.y. EUR 137,046 k) to Aftermarket and EUR 284 k (p.y. EUR 377 k) to Industrial Parks.

Other operating income

Other operating income does not include reversals of write-downs previously recognized on fixed financial assets.

Other operating income includes out-of-period income of EUR 1,103 k (p.y. EUR 2,547 k). This contains income from disposals of fixed assets of EUR 71 k (p.y. EUR 203 k), income from the release of provisions of EUR 835 k (p.y. EUR 2,342 k) and income from the reduction of valuation allowances of EUR 197 k (p.y. EUR 2 k).

In addition, the item includes government grants of EUR 6,390 k (p.y. EUR 5,818 k), income from insurance claims of EUR 53 k (p.y. EUR 842 k) and currency translation gains from unrealized currency translation differences of EUR 7,820 k (p.y. EUR 2,333 k).

Other operating expenses

Other operating expenses include out-of-period items of EUR 283 k (p.y. EUR 127 k), thereof from the disposal of fixed assets of EUR 283 k (p.y. EUR 87 k) and defaults on receivables (EUR 0 k; p.y. EUR 40 k). Currency translation losses from realized and unrealized currency translation differences comes to EUR 9,231 k (p.y. EUR 2,741 k).

Taxes on income

Taxes on income includes out-of-period income of EUR 2,734 k (offset against out-of-period expenses). In the previous year, taxes on income included out-of-period tax expenses of EUR 2,955 k (offset against out-of-period tax income). Taxes on income include deferred tax assets of EUR 3,281 k (p.y. deferred tax expenses of EUR 3,343 k).

Other taxes

Other taxes contain out-of-period tax expenses of EUR 12 k (p.y. tax income of EUR 24 k).

Contingent liabilities

As in the previous year, there were no contingent liabilities arising from the issue or transfer of bills of exchange; there were contingent liabilities in connection with guarantees issued and performance bonds (EUR 111,544 k; p.y. EUR 96,922 k), of which EUR 111,544 k related to affiliated companies (p.y. EUR 92,259 k). ElringKlinger AG has undertaken to furnish three affiliated companies with funds such that they will at all times be able to meet their payment obligations from a contract for work and services.

Furthermore, ElringKlinger AG has undertaken to guarantee fulfillment of the obligations entered into by three subsidiaries (EKT, EKM and EKLS) before the balance sheet date.

ElringKlinger AG has undertaken to furnish another subsidiary (EKAB) with sufficient funds such that it will be able to maintain its operations and meet its obligations.

A letter of indemnity was issued in favor of ElringKlinger (Great Britain) Ltd. in order to take advantage of the exemption from audit duties under the UK Companies Act 2006.

Given the present business development of the beneficiary companies, it is not currently considered likely that these guarantees will be drawn.

Other financial commitments

2017 EUR k	Total	Remaining term < 1 year	Remaining term 1 to 5 years	Remaining term > 5 years
Contracts for the supply of gas and electricity	26,415	9,507	16,908	0
Rental and lease agreements	5,992	1,770	4,222	0
	32,407	**11,277**	**21,130**	**0**

2016 EUR k	Total	Remaining term < 1 year	Remaining term 1 to 5 years	Remaining term > 5 years
Contracts for the supply of gas and electricity	24,892	8,175	16,717	0
Rental and lease agreements	2,986	1,489	1,497	0
	27,878	**9,664**	**18,214**	**0**

In addition, there are financial commitments to subsidiaries in the amount of EUR 861 k (p.y. EUR 861 k) in connection with loan agreements.

As of the balance sheet date, there are contractual obligations to acquire property, plant and equipment and intangible assets amounting to EUR 21,799 k (p.y. EUR 21,339 k).

A co-shareholder has a put option on all remaining shares in the joint venture entities.

Other disclosures

Number of employees

The average number of **employees** during the year (excluding management board members) was as follows:

	2017	2016
Wage earners	1,543	1,495
Salaried employees	1,138	1,012
	2,681	2,507
Trainees	129	121
	2,810	**2,628**

Related-party disclosures

Pursuant to § 285 no. 21 HGB, transactions with related parties must be disclosed in the notes, unless they represent transactions between companies that are direct or indirect 100% shareholdings and which are included in the Company's consolidated financial statements.

The following transactions were entered into with companies which are not wholly owned subsidiaries of the ElringKlinger Group in the financial year 2017:

EUR k	2017	2016
Sales revenue from the sale of manufactured goods and other revenue	15,923	22,432
License fees	3,076	2,478
Services performed	5,773	2,848
Sales of tools	593	1,971
Services received and other expenses	62,412	13,264
Interest income	111	72
Interest expenses	330	315
Loans granted as of the balance sheet date	7,065	5,774
Other receivables as of the balance sheet date	6,616	5,795
Loans received as of the balance sheet date	20,846	19,526
Other liabilities as of the balance sheet date	1,589	1,475

Furthermore:

- Cooperation agreement between ElringKlinger AG and Lechler GmbH, Metzingen, concerning traineeships. Mr. Walter Herwarth Lechler is the Honorary Chairman of the Supervisory Board of ElringKlinger AG and holds a significant interest in Lechler GmbH. ElringKlinger AG earned EUR 56 k during the reporting year (p.y. EUR 47 k). There were no receivables as of the balance sheet date (p.y. EUR 25 k).

- Loan agreement between Lechler GmbH and ElringKlinger AG. Lechler GmbH granted ElringKlinger AG loans totaling EUR 17,000 k (p.y. EUR 17,000 k). A loan for EUR 7,000 k carries an interest rate of 1.08% p.a. and has a term until August 17, 2018. An additional loan for EUR 5,000 k carries an interest rate of 0.69% p.a. and has a term until August 15, 2019. A further loan for EUR 5,000 k carries an interest rate of 0.90% p.a. and has a term until June 19, 2020.

Derivative financial instruments

The market values were determined using generally accepted mathematical methods and the market data available as of the balance sheet date (mark-to-market method).

Financial derivatives are used to reduce the risks stemming from nickel prices. As of the balance sheet date, there were two nickel hedging contracts for a total of 150 metric tons of nickel for the period from April 2017 to December 2018. The contracts were marked to market as of the balance sheet date resulting in a positive fair value of EUR 176 k (p.y. EUR 0 k) as well as a negative market value of EUR 11 k (p.y. EUR 0 k). A provision for expected losses was recognized in the amount of the negative market value. The market values were determined using recognized mathematical methods and the market data available as of the balance sheet date (mark-to-market method).

Corporate bodies

Supervisory board

Klaus Eberhardt Lindau, Chairman (since May 16, 2017)	Former CEO of Rheinmetall AG Düsseldorf Governance roles: a) MTU Aero Engines AG, Munich Dürr AG, Bietigheim-Bissingen Chairman until December 31, 2017 b) n/a
Walter Herwarth Lechler Stuttgart, Chairman (until May 16, 2017)	Managing partner of Lechler GmbH, Metzingen Governance roles: a) n/a b) Lechler Ltd., Sheffield, UK
Markus Siegers* Nürtingen, Deputy chair	Chairman of the Works Council of ElringKlinger AG
Ernst Blinzinger* Reutlingen (until May 16, 2017)	Former Principal Authorized Representative of IG Metall trade union, Reutlingen-Tübingen branch
Nadine Boguslawski* Stuttgart	Secretary for the metal and electrical industry of the IG Metall trade union, Baden-Württemberg district administration Governance roles: a) Robert Bosch Automotive Steering GmbH, Schwäbisch Gmünd Robert Bosch GmbH, Gerlingen-Schillerhöhe b) n/a
Armin Diez* Lenningen	Divisional Director of New Business Areas and Director of the Battery Technology/E-Mobility Division at ElringKlinger AG Governance roles: a) n/a b) Member of the Advisory Board of e-mobil BW GmbH, Stuttgart

Pasquale Formisano* Vaihingen an der Enz	Chairman of the Works Council of ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen
Rita Forst Dörsdorf	Former member of the management board of Adam Opel AG Rüsselsheim Governance roles: a) n/a b) Joh. Winklhofer Beteiligungs GmbH & Co.KG, Munich Metalsa, S.A. de C.V., Monterrey, Mexico Westport Fuel Systems, Vancouver, Canada
Andreas Wilhelm Kraut Rottenburg (since May 16, 2017)	Chairman and CEO of Bizerba SE & Co. KG, Balingen
Gerald Müller* Reutlingen (since August 3, 2017)	Trade union secretary of IG Metall Reutlingen-Tübingen
Paula Monteiro-Munz* Grabenstetten	Deputy chairwoman of the Works Council of ElringKlinger AG
Prof. Hans-Ulrich Sachs Bremen	Managing Partner of betec Umformtechnik GmbH, Adelmannsfelden
Gabriele Sons Ratingen	Former member of the management board of ThyssenKrupp Elevator AG, Essen
Manfred Strauß Stuttgart	Managing Partner of M&S Messebau und Service GmbH, Neuhausen a.d.F. Governance roles: a) n/a b) Pro Stuttgart Verwaltungs GmbH, Stuttgart Pro Stuttgart Verkehrsverein, Stuttgart Eroca AG, Basel

* Employee representative
a) Membership in statutory supervisory boards as defined by § 125 AktG
b) Membership in comparable domestic and foreign control bodies as defined by § 125 AktG

Remuneration of the Supervisory Board

Total remuneration of the Supervisory Board of ElringKlinger AG amounted to EUR 702 k (p.y. EUR 741 k) in the reporting period. In addition, travel expenses in the amount of EUR 1 k (p.y. EUR 2 k) were reimbursed.

Total remuneration of the supervisory board is distributed among the individual supervisory board members as follows:

EUR k	Fixed remuneration		Variable remuneration		Total remuneration	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Klaus Eberhardt	55	32	41	27	96	59
Walter Herwarth Lechler	24	68	19	54	43	122
Markus Siegers	44	44	37	41	81	85
Ernst Blinzinger	9	24	8	27	17	51
Nadine Boguslawski	24	24	25	27	49	51
Armin Diez	28	28	25	27	53	55
Pasquale Formisano	24	24	25	27	49	51
Rita Forst	24	24	25	27	49	51
Andreas Wilhelm Kraut	16	0	16	0	32	0
Gerald Müller	10	0	10	0	20	0
Paula Monteiro-Munz	28	28	25	27	53	55
Prof. Hans-Ulrich Sachs	24	24	25	27	49	51
Gabriele Sons	32	32	25	27	57	59
Manfred Strauß	29	24	25	27	54	51
Total amount	**371**	**376**	**331**	**365**	**702**	**741**

The variable remuneration shown reflects the expense for which provisions have been recognized, based on the average IFRS consolidated income before taxes in the last three financial years.

Management Board

Dr. Stefan Wolf, Sindelfingen, Chairman	responsible for Group companies, Legal Affairs, Human Resources, Investor Relations, Corporate Communications, Original Equipment Sales and the Aftermarket division.
Theo Becker, Metzingen	responsible for the corporate functions Cylinder-head Gaskets, Special Gaskets, Plastic Housing Modules/Elastomer Technology/Lightweighting, Shielding Technology, Exhaust Gas Purification Technology, E-Mobility, New Business Areas, Tooling Technology divisions as well as the corporate functions Quality and Environment, Materials Management, Logistics and ElringKlinger AG plants.
Thomas Jessulat, Stuttgart	responsible for the corporate functions Finance, Controlling, IT, Business Area Development and the Industrial Parks division

Governance roles in supervisory boards and other supervisory bodies

Dr. Stefan Wolf, Sindelfingen Chairman	Chairman of the supervisory board of NORMA Group AG, Maintal, member of the supervisory board of ALLGAIER Werke GmbH, Uhingen
Theo Becker, Metzingen	Member of the supervisory board of E.G.O. Blanc und Fischer & Co. GmbH, Oberderdingen
Thomas Jessulat, Stuttgart	Member of the supervisory board of hofer AG, Nürtingen (since January 28, 2017)

Remuneration of the Management Board

Total remuneration of the Management Board came to EUR 3,940 k (p.y. EUR 4,565 k).

As part of the long-term variable remuneration, the members of the Management Board were granted stock appreciation rights until the financial year 2013. The previous model was terminated with the introduction of the new remuneration system for members of the Management Board. Tranches that are not yet exercisable remain unchanged. Stock appreciation rights refer to a right to a cash settlement, not, however, for shares of ElringKlinger AG. It was planned that 30,000 stock appreciation rights would be granted to each member of the Management Board on February 1 of each year beginning in 2013. The strike price was calculated using the arithmetic mean of the market price of ElringKlinger's - shares on the last 60 trading days prior to the grant date. The grant of the stock appreciation rights is subject to an investment by the management board members of one-tenth of the number of granted stock appreciation rights in shares of ElringKlinger AG. The holding period for the stock appreciation rights was four years. Within a period of two additional years after the holding period expires, a management board member may demand redemption of the stock appreciation rights. The redemption price is calculated using the average market price of ElringKlinger's shares of the last 60 trading days prior to redemption. Redemption of the stock appreciation rights may be demanded only if the redemption price exceeds the strike price by 25%. The total redemption price per tranche is limited to two fixed annual salaries at the time of redemption. There are still 90,000 stock appreciation rights remaining from the last tranches issued in 2013, which are valid until February 1, 2019 and have an average strike price of EUR 24.54.

Pension provisions for members of the Management Board break down as follows:

2017 **EUR k**	**Dec 31, 2016**	**Change**	**Dec 31, 2017**
Dr. Stefan Wolf	2,927	684	3,611
Theo Becker	2,224	492	2,716
Thomas Jessulat	74	155	229
Total	5,225	1,331	6,556

2016 **EUR k**	**Dec. 31, 2015**	**Change**	**Dec. 31, 2016**
Dr. Stefan Wolf	2,757	170	2,927
Theo Becker	2,123	101	2,224
Thomas Jessulat	0	74	74
Karl Schmauder	2,810	-2,810	0
Total	7,690	-2,465	5,225

Provisions for pensions and remuneration for former members of the Management Board

Provisions of EUR 13,230 k (p.y. EUR 13,074 k) were recognized for pension obligations to former members of the Management Board, the management of merged companies, and their surviving dependents. The total remuneration of former members of the Management Board – including remuneration of former members of corporate bodies of merged companies – came to EUR 861 k (p.y. EUR 3,601 k) in the financial year 2017. Remuneration of former members of the Management Board from the previous year contain severance payments of EUR 2,743 k, of which EUR 1,434 k was paid out in the year under review.

Auditor’s fees

	2017
Audit of the annual financial statements	565
Other assurance services	33
Tax advisory	40
Other services	0
	638

Audit services include the fees for the mandatory audit of the separate financial statements and consolidated financial statements and also include the fees for support services for an enforcement case.

In addition to the agreed-upon procedures, the other audit-related services comprise fees for audit services in connection with the non-financial report.

Information pursuant to § 160 (1) no. 8 AktG

As of the balance sheet date 2017, the following equity investments classified as fixed financial assets existed and were notified pursuant to § 21 (1) German Securities Trading Act (Wertpapierhandelsgesetz, “WpHG”).

1. Notification of Major Holdings

1. Details of issuer

ElringKlinger AG

Max-Eyth-Strasse 2

72581 Dettingen/Erms

Germany

2. Reason for notification

X	Acquisition/disposal of shares with voting rights
	Acquisition/disposal of instruments
	Change of breakdown of voting rights
	Other reason:

3. Details of person subject to the notification obligation

Name: Internationale Kapitalgesellschaft mit beschränkter Haftung

City and country of registered office: Düsseldorf, Germany

4. Names of shareholder(s)

holding directly 3% or more voting rights, if different from 3.

5. Date on which threshold was crossed or reached:

December 5, 2017

6. Total positions

	% of voting rights attached to shares (total of 7.a.)	% of voting rights through instruments (total of 7.b.1. + 7.b.2.)	Total of both in % (7.a. + 7.b.)	Total number of voting rights of issuer
Resulting situation	3.01%	1.38%	4.39%	63359990
Previous notification	n/a %	n/a %	n/a %	/

7. Notified details of the resulting situation

a. Voting rights attached to shares (§§ 21, 22 WpHG)

ISIN	absolute		in %	
	direct (§ 21 WpHG)	indirect (§ 22 WpHG)	direct (§ 21 WpHG)	indirect (§ 22 WpHG)
DE0007856023	0	1904111	0.00%	3.01%
Total	1904111		3.01%	

b.1. Instruments according to § 25 (1) no. 1 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Voting rights absolute	Voting rights in %
				%
		Total		%

b.2. Instruments according to § 25 (1) no. 2 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Cash or physical settlement	Voting rights absolute	Voting rights in %
Share-backed bond DE000TD7SN47	Dec. 22, 2017		Both	165518	0.26%
Share-backed bond DE000TR0J7K3	Apr. 27, 2018		Both	78572	0.12%
Discounted certificate DE000DM06YK0	Mar. 20, 2018		Both	40000	0.06%
Discounted certificate DE000HU67U03	Dec. 22, 2017		Both	40000	0.06%
Discounted certificate DE000HU85J55	Mar. 23, 2018		Both	76000	0.12%
Discounted certificate DE000HU85J63	Mar. 23, 2018		Both	183000	0.29%
Share-backed bond DE000CE5YWW8	Dec. 21, 2017		Both	73260	0.12%
Share-backed bond DE000CV1ZJB4	Mar. 23, 2018		Both	50951	0.08%
Share-backed bond DE000CV0WM21	Apr. 27, 2018		Both	114986	0.18%
Discounted certificate DE000TD8LCM4	Dec. 22, 2017		Both	50000	0.08%
Discounted certificate DE000PR3KE71	Dec. 21, 2017		Both	5000	0.01%
			Total	877287	1.38%

8. Information in relation to the person subject to the notification obligation

X	Person subject to the notification obligation named in 3. is not controlled and does itself not control any other undertaking(s) holding directly or indirectly an interest in the (underlying) issuer (1.).
	Full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity:

Name	% of voting rights (if at least held 3% or more)	% of voting rights through instruments (if at least held 5% or more)	Total of both (if at least held 5% or more)

9. In case of proxy voting according to § 22 (3) WpHG

(only in case of attribution of voting rights pursuant to § 22 (1) sentence 1 no. 6 WpHG)

Date of annual general meeting:	
Holding position after annual general meeting:	% (equals voting rights)

2. Notification of Major Holdings

1. Details of issuer

ElringKlinger AG

Max-Eyth-Strasse 2

72581 Dettingen/Erms

Germany

2. Reason for notification

X	Acquisition/disposal of shares with voting rights
	Acquisition/disposal of instruments
	Change of breakdown of voting rights
	Other reason:

3. Details of person subject to the notification obligation

Name: The Capital Group Companies, Inc.

City and country of registered office: Los Angeles, California, USA

4. Names of shareholder(s)

holding directly 3% or more voting rights, if different from 3.

SMALLCAP World Fund, Inc.

5. Date on which threshold was crossed or reached:

November 3, 2017

6. Total positions

	% of voting rights attached to shares (total of 7.a.)	% of voting rights through instruments (total of 7.b.1. + 7.b.2.)	Total of both in % (7.a. + 7.b.)	Total number of voting rights of issuer
Resulting situation	4.99%	0%	4.99%	63359990
Previous notification	5.38%	0%	5.38%	/

7. Notified details of the resulting situation

a. Voting rights attached to shares (§§ 21, 22 WpHG)

ISIN	absolute		in %	
	direct (§ 21 WpHG)	indirect (§ 22 WpHG)	direct (§ 21 WpHG)	indirect (§ 22 WpHG)
DE0007856023	0	3163657	0%	4.99%
Total	3163657		4.99%	

b.1. Instruments according to § 25 (1) no. 1 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Voting rights absolute	Voting rights in %
				%
		Total		%

b.2. Instruments according to § 25 (1) no. 2 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Cash or physical settlement	Voting rights absolute	Voting rights in %
					%
			Total		%

8. Information in relation to the person subject to the notification obligation

	Person subject to the notification obligation named in 3. is not controlled and does itself not control any other undertaking(s) holding directly or indirectly an interest in the (underlying) issuer (1.).
X	Full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity:

Name	% of voting rights (if at least held 3% or more)	% of voting rights through instruments (if at least held 5% or more)	Total of both (if at least held 5% or more)
The Capital Group Companies, Inc.	%	%	%
Capital Research and Management Company	4.51%	%	%
Capital Group International, Inc.	%	%	%
Capital Guardian Trust Company	%	%	%

9. In case of proxy voting according to § 22 (3) WpHG

(only in case of attribution of voting rights pursuant to § 22 (1) sentence 1 no. 6 WpHG)

Date of annual general meeting:	
Holding position after annual general meeting:	% (equals voting rights)

3. Notification of Major Holdings

1. Details of issuer

ElringKlinger AG

Max-Eyth-Strasse 2

72581 Dettingen/Erms

Germany

2. Reason for notification

X	Acquisition/disposal of shares with voting rights
	Acquisition/disposal of instruments
	Change of breakdown of voting rights
	Other reason:

3. Details of person subject to the notification obligation

Name: The Capital Group Companies, Inc.

City and country of registered office: Los Angeles, California, USA

4. Names of shareholder(s)

holding directly 3% or more voting rights, if different from 3.

SMALLCAP World Fund, Inc.

5. Date on which threshold was crossed or reached:

June 26, 2017

6. Total positions

	% of voting rights attached to shares (total of 7.a.)	% of voting rights through instruments (total of 7.b.1. + 7.b.2.)	Total of both in % (7.a. + 7.b.)	Total number of voting rights of issuer
Resulting situation	5.38%	0%	5.38%	63359990
Previous notification	4.79%	0%	4.79%	/

7. Notified details of the resulting situation

a. Voting rights attached to shares (§§ 21, 22 WpHG)

ISIN	absolute		in %	
	direct (§ 21 WpHG)	indirect (§ 22 WpHG)	direct (§ 21 WpHG)	indirect (§ 22 WpHG)
DE0007856023	0	3408400	0%	5.38%
Total	3408400		5.38%	

b.1. Instruments according to § 25 (1) no. 1 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Voting rights absolute	Voting rights in %
				%
		Total		%

b.2. Instruments according to § 25 (1) no. 2 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Cash or physical settlement	Voting rights absolute	Voting rights in %
					%
			Total		%

8. Information in relation to the person subject to the notification obligation

	Person subject to the notification obligation named in 3. is not controlled and does itself not control any other undertaking(s) holding directly or indirectly an interest in the (underlying) issuer (1.).
X	Full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity:

Name	% of voting rights (if at least held 3% or more)	% of voting rights through instruments (if at least held 5% or more)	Total of both (if at least held 5% or more)
The Capital Group Companies, Inc.	%	%	%
Capital Research and Management Company	4.08%	%	%
Capital Group International, Inc.	%	%	%
Capital Guardian Trust Company	%	%	%

9. In case of proxy voting according to § 22 (3) WpHG

(only in case of attribution of voting rights pursuant to § 22 (1) sentence 1 no. 6 WpHG)

Date of annual general meeting:	
Holding position after annual general meeting:	% (equals voting rights)

4. Notification of Major Holdings

1. Details of issuer

ElringKlinger AG

Max-Eyth-Strasse 2

72581 Dettingen/Erms

Germany

X	Acquisition/disposal of shares with voting rights
	Acquisition/disposal of instruments
	Change of breakdown of voting rights
	Other reason:

3. Details of person subject to the notification obligation

Name: SMALLCAP World Fund, Inc.

City and country of registered office: Baltimore, Maryland, USA

4. Names of shareholder(s)

holding directly 3% or more voting rights, if different from 3.

5. Date on which threshold was crossed or reached

March 20, 2017

6. Total positions

	% of voting rights attached to shares (total of 7.a.)	% of voting rights through instruments (total of 7.b.1. + 7.b.2.)	Total of both in % (7.a. + 7.b.)	Total number of voting rights of issuer
Resulting situation	3.07%	0%	3.07%	63359990
Previous notification	n/a %	n/a %	n/a %	/

7. Notified details of the resulting situation

a. Voting rights attached to shares (§§ 21, 22 WpHG)

ISIN	absolute		in %	
	direct (§ 21 WpHG)	indirect (§ 22 WpHG)	direct (§ 21 WpHG)	indirect (§ 22 WpHG)
DE0007856023	1942700	0	3.07%	0%
Total	1942700		3.07%	

b.1. Instruments according to § 25 (1) no. 1 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Voting rights absolute	Voting rights in %
				%
		Total		%

b.2. Instruments according to § 25 (1) no. 2 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Cash or physical settlement	Voting rights absolute	Voting rights in %
					%
			Total		%

8. Information in relation to the person subject to the notification obligation

X	Person subject to the notification obligation named in 3. is not controlled and does itself not control any other undertaking(s) holding directly or indirectly an interest in the (underlying) issuer (1.).
	Full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity:

Name	% of voting rights (if at least held 3% or more)	% of voting rights through instruments (if at least held 5% or more)	Total of both (if at least held 5% or more)

9. In case of proxy voting according to § 22 (3) WpHG

(only in case of attribution of voting rights pursuant to § 22 (1) sentence 1 no. 6 WpHG)

Date of annual general meeting:	
Holding position after annual general meeting:	% (equals voting rights)

5. Voting rights notification

On October 22, 2015, H.K.L. Holding Stiftung, Vaduz, Liechtenstein, informed us pursuant to § 21 (1) WpHG that its share in the voting rights of ElringKlinger AG, Dettingen/Erms, Germany, exceeded the 3% threshold of the voting rights on October 6, 2015 and amounted to 4.941% on that day (this corresponds to 3,132,940 voting rights).

6. Voting rights notification

Voting rights notifications pursuant to § 21 (1) WpHG

Notifying parties:

1. PAUL LECHLER STIFTUNG gGmbH with registered offices in Ludwigsburg, Germany

2. Lechler Stiftung with registered offices in Ludwigsburg, Germany

We, KWL Beteiligungs-GmbH, hereby notify you pursuant to § 21 (1) WpHG for and on behalf of PAUL LECHLER STIFTUNG gGmbH and Lechler Stiftung as follows:

1. PAUL LECHLER STIFTUNG gGmbH

The share in the voting rights of PAUL LECHLER STIFTUNG gGmbH in ElringKlinger AG fell below the thresholds of 25%, 20%, 15%, 10%, 5% and 3% on December 10, 2014 and amounted to 0.00% (0 voting rights) on this day.

2. Lechler Stiftung

The share in the voting rights of Lechler Stiftung in ElringKlinger AG exceeded the thresholds of 3%, 5%, 10%, 15%, 20% and 25% on December 10, 2014 and amounted to 29.981% (18,996,168 voting rights) on this day.

Of these voting rights, 28.99% (18,368,788 voting rights) are attributed to Lechler Stiftung in accordance with § 22 (2) sentence 1 no. 1 WpHG and an additional 9.21% (5,835,136 voting rights) are attributed in accordance with § 22 (1) sentence 1 WpHG.

The voting rights attributed to Lechler Stiftung in accordance with § 22 (1) sentence 1 no. 1 WpHG are held by the following companies that are controlled by it and each hold 3% or more of the voting rights in ElringKlinger AG:

- Eroca AG
- Klaus Lechler Beteiligungs-GmbH
- KWL Beteiligungs-GmbH

The voting rights attributable to Lechler Stiftung are held by the following shareholders that holds 3% or more of the voting rights in ElringKlinger AG in accordance with § 22 (2) sentence 1 WpHG:

- Eroca AG
- Elrena GmbH
- Lechler Beteiligungs-GmbH

7. Voting rights notification

Voting rights notifications pursuant to § 21 (1) WpHG

Notifying parties:

1. Ingeborg Guggolz, Germany
2. Klaus Lothar Lechler, Germany
3. Volker Lechler, Germany
4. Marianne Lechler-Strauß, Germany
5. Klaus Lechler Familienstiftung, Germany

We, INLOVO GmbH, hereby notify you pursuant to § 21 (1) WpHG in our own name and for and on behalf of Ms. Ingeborg Guggolz, Mr. Klaus Lothar Lechler, Mr. Volker Lechler, Ms. Marianne Lechler-Strauß and Klaus Lechler Familienstiftung as follows:

1. Ingeborg Guggolz

The share of Ms. Ingeborg Guggolz's voting rights in ElringKlinger AG fell below the thresholds of 25%, 20%, 15%, 10%, 5% and 3% on September 9, 2014 and amounted to 0.00% (0 voting rights) on this day.

2. Klaus Lothar Lechler

The share of Mr. Klaus Lothar Lechler's voting rights in ElringKlinger AG fell below the thresholds of 25%, 20%, 15%, 10%, 5% and 3% on September 9, 2014 and amounted to 0.00% (0 voting rights) on this day.

3. Volker Lechler

The share of Mr. Volker Lechler's voting rights in ElringKlinger AG fell below the thresholds of 25%, 20%, 15%, 10%, 5% and 3% on September 9, 2014 and amounted to 0.00% (0 voting rights) on this day.

4. Marianne Lechler-Strauß

The share of Ms. Marianne Strauß-Lechler's voting rights in ElringKlinger AG fell below the thresholds of 25%, 20%, 15%, 10%, 5% and 3% on September 9, 2014 and amounted to 0.04% (23,800 voting rights) on this day.

5. Klaus Lechler Familienstiftung

The share of voting rights of Klaus Lechler Familienstiftung in ElringKlinger AG exceeded the thresholds of 3%, 5%, 10%, 15%, 20% and 25% on September 9, 2014 and amounted to 29.01% (18,378,788 voting rights) on this day.

Of these voting rights, 9.45% (5,990,178 voting rights) are attributed to Klaus Lechler Familienstiftung in accordance with § 22 (1) sentence 1 no. 1 WpHG and an additional 19.55% (12,388,610 voting rights) are attributed in accordance with § 22 (2) sentence 1 WpHG.

The voting rights attributed to Klaus Lechler Familienstiftung in accordance with § 22 (1) sentence 1 no. 1 WpHG are held by the following companies that are controlled by it and hold 3% or more of the voting rights in ElringKlinger AG:

- INLOVO GmbH
- Lechler Beteiligungs-GmbH

The voting rights attributed to Klaus Lechler Familienstiftung are held by the following shareholders that hold 3% or more of the voting rights in ElringKlinger AG in accordance with § 22 (2) sentence 1 WpHG:

- Eroca AG
- Elrena GmbH

8. Voting rights notification

On August 11, 2014, Klinger B.V., Rotterdam, Netherlands, informed us pursuant to § 21 (1) WpHG that its share in the voting rights of ElringKlinger AG, Dettingen/Erms, Germany, exceeded the 3% threshold of the voting rights on December 22, 2006 and amounted to 4.9998958% on that day (this corresponds to 959,980 voting rights).

9. Voting rights notification

Voting rights notifications pursuant to § 21 (1) WpHG

Notifying parties:

1. Eroca AG, Basel, Switzerland
2. Klaus Lechler Beteiligungs-GmbH, Ludwigsburg, Germany
3. KWL Beteiligungs-GmbH, Ludwigsburg, Germany
4. PAUL LECHLER STIFTUNG gGmbH, Ludwigsburg, Germany

We, KWL Beteiligungs-GmbH, hereby notify you pursuant to § 21 (1) WpHG in our own name and for and on behalf of Eroca AG, Klaus Lechler Beteiligungs-GmbH and PAUL LECHLER STIFTUNG gGmbH as follows:

1. Eroca AG

The share in the voting rights of Eroca AG in ElringKlinger AG exceeded the thresholds of 10%, 15%, 20% and 25% on June 13, 2014 and amounted to 29.01% (18,378,788 voting rights) on this day.

Of these voting rights, 19.80% (12,546,652 voting rights) are attributed to Eroca AG in accordance with § 22 (2) sentence 1 WpHG.

The voting rights attributed to Eroca AG are held by the following shareholders that hold 3% or more of the voting rights in ElringKlinger AG in accordance with § 22 (2) sentence 1 WpHG:

- Elrena GmbH
- Lechler Beteiligungs-GmbH

2. Klaus Lechler Beteiligungs-GmbH

The share in the voting rights of Klaus Lechler Beteiligungs-GmbH in ElringKlinger AG exceeded the thresholds of 10%, 15%, 20% and 25% on June 13, 2014 and amounted to 29.01% (18,378,788 voting rights) on this day.

Of these voting rights, 9.20% (5,832,136 voting rights) are attributed to Klaus Lechler Beteiligungs-GmbH in accordance with § 22 (1) sentence 1 no. 1 WpHG and an additional 19.23% (12,181,215 voting rights) are attributed in accordance with § 22 (2) sentence 1 WpHG.

The voting rights attributed to Klaus Lechler Beteiligungs-GmbH in accordance with § 22 (1) sentence 1 no. 1 WpHG are held by the following company that is controlled by it and holds 3% or more of the voting rights in ElringKlinger AG:

- Eroca AG

The voting rights attributed to Klaus Lechler Beteiligungs-GmbH are held by the following shareholders that hold 3% or more of the voting rights in ElringKlinger AG in accordance with § 22 (2) sentence 1 WpHG:

- Elrena GmbH
- Lechler Beteiligungs-GmbH

3. KWL Beteiligungs-GmbH

The share in the voting rights of KWL Beteiligungs-GmbH in ElringKlinger AG exceeded the thresholds of 20% and 25% on June 13, 2014 and amounted to 29.01% (18,378,788 voting rights) on this day.

Of these voting rights, 9.78% (6,197,573 voting rights) are attributed to KWL Beteiligungs-GmbH in accordance with § 22 (1) sentence 1 no. 1 WpHG and 28.43% (18,010,351 voting rights) are attributed in accordance with § 22 (2) sentence 1 WpHG.

Of the 28.43%, 9.20% (5,832,136 voting rights) are attributed to KWL Beteiligungs-GmbH in accordance with both § 22 (2) sentence 1 no. 1 WpHG and § 22 sentence 1 no. 1 WpHG.

The voting rights attributed to KWL Beteiligungs-GmbH in accordance with § 22 (1) sentence 1 no. 1 WpHG are held by the following companies that are controlled by it and each hold 3% or more of the voting rights in ElringKlinger AG:

- Eroca AG
- Klaus Lechler Beteiligungs-GmbH

The voting rights attributed to KWL Beteiligungs-GmbH are held by the following shareholders that hold 3% or more of the voting rights in ElringKlinger AG in accordance with § 22 (2) sentence 1 WpHG:

- Eroca AG
- Elrena GmbH
- Lechler Beteiligungs-GmbH

4. PAUL LECHLER STIFTUNG gGmbH

The share in the voting rights of PAUL LECHLER STIFTUNG gGmbH in ElringKlinger AG exceeded the threshold of 25% on June 13, 2014 and amounted to 29.997% (19,006,168 voting rights) on this day.

Of these voting rights, 29.01% (18,378,788 voting rights) are attributed to PAUL LECHLER STIFTUNG gGmbH in accordance with § 22 (2) sentence 1 no. 1 WpHG and an additional 9.79% (6,200,573 voting rights) are attributed in accordance with § 22 (1) sentence 1 WpHG.

The voting rights attributed to PAUL LECHLER STIFTUNG gGmbH in accordance with § 22 (1) sentence 1 no. 1 WpHG are held by the following companies that are controlled by it and each hold 3% or more of the voting rights in ElringKlinger AG:

- Eroca AG
- Klaus Lechler Beteiligungs-GmbH
- KWL Beteiligungs-GmbH

The voting rights attributed to PAUL LECHLER STIFTUNG gGmbH are held by the following shareholders that hold 3% or more of the voting rights in ElringKlinger AG in accordance with § 22 (2) sentence 1 WpHG:

- Eroca AG
- Elrena GmbH
- Lechler Beteiligungs-GmbH

10. Voting rights notification

Voting rights notifications pursuant to § 21 (1) WpHG

Notifying parties:

1. Lechler Beteiligungs-GmbH, Stuttgart, Germany
2. INLOVO GmbH, Ludwigsburg, Germany

We, Lechler Beteiligungs-GmbH, hereby notify you pursuant to § 21 (1) WpHG in our own name and for and on behalf of INLOVO GmbH as follows:

1. Lechler Beteiligungs-GmbH

The share in the voting rights of Lechler Beteiligungs-GmbH in ElringKlinger AG exceeded the thresholds of 10%, 15%, 20% and 25% on June 13, 2014 and amounted to 29.01% (18,378,788 voting rights) on this day.

Of these voting rights, 19.55% (12,388,610 voting rights) are attributed to Lechler Beteiligungs-GmbH in accordance with § 22 (2) sentence 1 WpHG.

The voting rights attributed to Lechler Beteiligungs-GmbH were held by the following shareholders that hold 3% or more of the voting rights in ElringKlinger AG in accordance with § 22 (2) sentence 1 WpHG:

- Eroca AG
- Elrena GmbH

2. INLOVO GmbH

The share in the voting rights of INLOVO GmbH in ElringKlinger AG exceeded the thresholds of 10%, 15%, 20% and 25% on June 13, 2014 and amounted to 29.01% (18,378,788 voting rights) on this day.

Of these voting rights, 9.45% (5,990,178 voting rights) are attributed to INLOVO GmbH in accordance with § 22 (1) sentence 1 no. 1 WpHG and an additional 19.55% (12,388,610 voting rights) are attributed in accordance with § 22 (2) sentence 1 WpHG.

The voting rights attributed to INLOVO GmbH in accordance with § 22 (1) sentence 1 no. 1 WpHG are held by the following company that is controlled by it and holds 3% or more of voting rights in ElringKlinger AG:

- Lechler Beteiligungs-GmbH

The voting rights attributable to INLOVO GmbH are held by the following shareholders that holds 3% or more of the voting rights in ElringKlinger AG in accordance with § 22 (2) sentence 1 WpHG:

- Eroca AG
- Elrena GmbH

11. Voting rights notification

Voting rights notification pursuant to § 21 (1) WpHG

Notifying parties:

1. Elrena GmbH, Basel, Switzerland
2. Stiftung Klaus Lechler, Basel, Switzerland

We, Elrena GmbH, hereby notify you pursuant to § 21 (1) WpHG in our own name and for and on behalf of Stiftung Klaus Lechler as follows:

1. Elrena GmbH

The share in the voting rights of Elrena GmbH in ElringKlinger AG exceeded the thresholds of 20% and 25% on June 13, 2014 and amounted to 29.01% (18,378,788 voting rights) on this day.

Of these voting rights, 0.02% (14,000 voting rights) are attributed to Elrena GmbH in accordance with § 22 (1) sentence 1 no. 1 WpHG and an additional 19.24% (12,190,751 voting rights) are attributed in accordance with § 22 (2) sentence 1 WpHG. The voting rights attributed to Elrena GmbH are held by the following shareholders that hold 3% or more of the voting rights in ElringKlinger AG in accordance with § 22 (2) sentence 1 WpHG:

- Eroca AG
- Lechler Beteiligungs-GmbH

2. Stiftung Klaus Lechler

The share in the voting rights of Stiftung Klaus Lechler in ElringKlinger AG exceeded the thresholds of 20% and 25% on June 13, 2014 and amounted to 29.01% (18,378,788 voting rights) on this day.

Of these voting rights, 9.76% (6,188,037 voting rights) are attributed to Stiftung Klaus Lechler in accordance with § 22 (1) sentence 1 no. 1 WpHG and an additional 19.24% (12,190,751 voting rights) are attributed in accordance with § 22 (2) sentence 1 WpHG. The voting rights attributed to Stiftung Klaus Lechler in accordance with § 22 (1) sentence 1 no. 1 WpHG are held by the following company that is controlled by it and holds 3% or more of the voting rights in ElringKlinger AG:

- Elrena GmbH

The voting rights attributed to Stiftung Klaus Lechler are held by the following shareholders that hold 3% or more of the voting rights in ElringKlinger AG in accordance with § 22 (2) sentence 1 WpHG:

- Eroca AG
- Lechler Beteiligungs-GmbH

12. Voting rights notification

Lechler GmbH, Metzingen, Germany, notified us pursuant to § 21 (1) WpHG that the share in the voting rights in our company exceeded the threshold of 10% on December 28, 2012 and amounted to 10.0127% (6,344,046 voting rights) on that day.

13. Voting rights notification

ElringKlinger received the following notification from Walter Herwarth Lechler on May 14, 2010:

“I am writing to notify you in accordance with § 21 (1) WpHG that the share of my voting rights in ElringKlinger AG fell below the threshold of 25% on May 11, 2010 and amounted to 23.697% (or 13,649,420 voting rights) on this day.

Of these voting rights, 10.394% (5,987,000 voting rights) are attributed to me pursuant to § 22 (1) sentence 1 no. 1 WpHG.

The voting rights attributed to me are held by the following company that is controlled by me and holds 3% or more of voting rights in ElringKlinger AG: Lechler GmbH, Metzingen.”

Scope of consolidation

In its function as ultimate parent, ElringKlinger AG prepares consolidated financial statements for the largest and the smallest group of companies to be included in the consolidation.

Declaration of compliance with the German Corporate Governance Code

The Management Board and Supervisory Board issued a declaration of compliance pursuant to § 161 AktG on the German Corporate Governance Code in the version dated February 7, 2017 and published it on the ElringKlinger AG website on December 4, 2017. This declaration of compliance will be available on the ElringKlinger AG website and therewith made permanently available to shareholders.

Subsequent events

On December 21, 2017, the agreement to sell the HUG Group to a French automotive supplier was signed. The transaction was closed on February 28, 2018. The Group primarily focuses its strategic direction on areas of the future; lightweighting, electromobility and electric drives. In this context, the Group aimed to reach an agreement with a French automotive supplier in December 2017 on the sale of the Hug Group with registered offices in Elsau, Switzerland. The 93.67% share that ElringKlinger held in Hug Engineering AG were transferred in full to the counterparty.

Proposal for appropriation of profits

The Management Board and the Supervisory Board will propose to the Annual General Meeting held to ratify the 2017 financial statements on May 16, 2018, a distribution from distributable dividend amounting to EUR 31,680 k, a dividend of EUR 0.50 per share carrying dividend rights.

Dettingen/Erms, March 22, 2018

The Management Board

Dr. Stefan Wolf Theo Becker Thomas Jessulat

Chairman

Overview of ElringKlinger's Activities and Structure

The automotive industry is facing considerable challenges in many areas. ElringKlinger was quick to position itself suitably within this evolving market. Alongside well-established components for vehicles powered by combustion engines, for example, its portfolio already includes series-ready products tailored to the requirements of next-generation vehicles.

Profile

ElringKlinger is an independent, globally positioned development partner and original equipment manufacturer operating within the automotive industry. The Group can look back on a rich history spanning 138 years. Whether optimized combustion engines, high-performance hybrids, high-tech drivetrains, or environmentally friendly battery and fuel cell technology, ElringKlinger provides innovative solutions for all types of drive system. Additionally, the Group's portfolio includes products made of the high-performance plastic PTFE, which is marketed to industries beyond the automotive sector.

These efforts are supported by a dedicated workforce of almost 10,000 people at 49 ElringKlinger Group locations.

Business model and core competencies

Mobility is one of the fundamental needs of humankind. As a result, the automotive market is a growth market. At the same time, megatrends such as technological progress, climate change, and globalization have triggered a process of transformation that is now permeating the entire vehicle industry. Car makers and suppliers alike are working on solutions to deliver greater driver comfort combined with the lowest possible emissions – with the help of autonomous driving, connectivity, and efficient powertrains.

This transformation is being accelerated by the introduction of strict emission standards around the globe. At the end of 2017, the EU Commission submitted a recommendation for CO_2 emission limits to be applied to newly registered vehicles in 2025 and 2030. The average fleet limit for CO_2 in the year 2021 already stands at 95 g/km. In 2025, CO_2 emissions are to be reduced by a further 15% compared to 2021 and by 30% in the period up to 2030. On this basis, Europe continues to have the strictest CO_2 standards worldwide. Additionally, a number of countries, such as France and the United Kingdom, have announced that conventional combustion engines are to be banned completely in specific areas as from 2040. In this context, debate was prompted mainly by the significant levels of particulate pollution in major cities, which are attributed largely to traffic. Last year, China – as the world's largest vehicle market – decided to introduce a quota for electric cars as from 2019 and has also been openly pondering whether to prohibit the use of combustion engines.

Against this backdrop, automobile manufacturers are pressing ahead with efforts to come up with alternative types of powertrain and have set themselves ambitious targets for the introduction of hybrid and electric vehicle designs. Current projections suggest that the number of vehicles equipped with conventional combustion engines will rise slightly in the period up to 2021. Subsequently, growth is expected to be driven to a larger extent by hybrid and all-electric vehicles.

This is where ElringKlinger's product portfolio comes to the fore. State-of-the-art concepts for lightweighting, right- or downsized combustion engines, and alternative drive technologies all help to reduce emissions such as carbon dioxide, nitrogen oxides, hydrocarbons, and soot particulates. Thanks to hofer powertrain products GmbH, Nürtingen, Germany, a company acquired in 2017, ElringKlinger is also able to supply electric drivetrain units for high-end vehicles produced in small numbers.

When it comes to e-mobility, ElringKlinger has established three pillars in support of market transformation toward emission-free mobility: battery technology, fuel cell technology, and the production of electric powertrains as well as their components. Therefore, ElringKlinger is in a position to manufacture end-to-end drive systems, including electric drivetrains, transmissions, and energy storage systems, not only for all-electric vehicles but also for those powered by fuel cells.

Drawing on its abilities as an innovator, its extensive knowledge of materials and processes, its exceptional expertise in tooling, and its financial strength, the Group has cemented its commercial success and created significant barriers to market entry.

Economic and legal factors

The effects of statutory provisions are a key influencing factor on ElringKlinger's business. Owing to stricter regulatory standards adopted by many countries, demand for products aimed at reducing emissions is more pronounced. Due to the comparatively large market share held within the segment covered by ElringKlinger's long-standing product portfolio, e.g., in the Cylinder-head Gaskets division, the Group is – as experience has shown – dependent on market developments relating to global vehicle production. Additionally, other factors, such as changes in fuel prices, consumer behavior, or interest rates, can have adverse effects on demand within the automobile market.

To a large extent, the Group is able to counteract cyclical fluctuations by drawing on its global reach and broad customer base. However, the disruptive process of transformation has created significant momentum with regard to systems and components used in the new generation of powertrain. The hitherto unknown dynamics driving this change are cutting through existing structures – making medium- and long-term planning much more challenging for suppliers.

Group structure and organization

Headquartered in Dettingen/Erms, Germany, ElringKlinger AG as the parent company handles all the management tasks within the ElringKlinger Group and assumes responsibility for Group-wide functions, e.g., in the areas of purchasing, IT, communications, legal affairs, and human resources. Additionally, it oversees the strategic management of business activities.

As a result of the formation of companies in 2017 and due to the acquisitions transacted in the same period, the Group structure changed as outlined below:

- Effective from March 1, 2017, ElringKlinger AG acquired 27.0% of the ownership interests in hofer AG, with its registered office in Nürtingen, Germany. Effective from February 6, 2017, ElringKlinger AG acquired 53.0% of the ownership interests in the subsidiary hofer powertrain products GmbH, with its registered office in Nürtingen, Germany. Additionally, on March 23, 2017, ElringKlinger acquired 53.0% of the interests in the newly established entity hofer powertrain products UK Ltd., Warwick, United Kingdom.
- ElringKlinger Chongqing Ltd., with its registered office in Chongqing, China, was established on April 10, 2017. ElringKlinger AG holds 100.0% of the ownership interests.

In total, the ElringKlinger Group comprised 45 fully consolidated companies as of December 31, 2017.

Sales markets and company sites

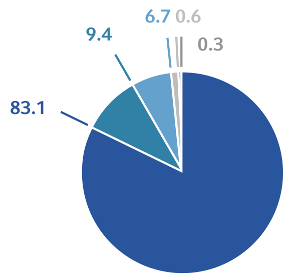
In recent years, ElringKlinger AG has made a point of establishing and expanding production and sales locations in regions of strategic importance. From there, first and foremost, the Group supplies the three largest economic areas – Europe, NAFTA, and Asia-Pacific – with innovative products. As of December 31, 2017, the Group had 38 production facilities, ten sales and service sites, and one company operating solely within the area of aftermarket sales. In the majority of cases, ElringKlinger holds a so-called Tier 1 position within the value chain. This means that ElringKlinger maintains a direct line of contact with the majority of key vehicle and engine manufacturers around the globe.

Segments and divisions

The ElringKlinger Group has divided its operational business into five segments, which also constitute the reportable segments under IFRS.

The **Original Equipment** segment develops, manufactures, and sells products and assemblies destined for the automotive industry. These include cylinder-head and specialty gaskets, lightweight components, and thermal and acoustic parts for the engine, transmission, and exhaust tract. Tailored to future mobility needs, ElringKlinger's portfolio includes market-ready battery and fuel cell systems. The company's product range now also features electric drive systems thanks to the majority interest held in hofer powertrain products GmbH.

Group sales by segment 2017
(previous year) in %



Original Equipment Car, truck, and engine manufacturers, automotive suppliers	**83.1**	(83.1)
Aftermarket Independent aftermarket business	**9.4**	(9.5)
Engineered Plastics Vehicle industry, mechanical engineering, medical devices engineering	**6.7**	(6.5)
Services Vehicle manufacturers and suppliers	**0.6**	(0.6)
Industrial Parks Unspecified industries	**0.3**	(0.3)

In the **Aftermarket** segment, ElringKlinger offers an extensive range of gaskets, gasket sets, and service parts for passenger cars and commercial vehicles. They are marketed under the "Elring – Das Original" brand. These parts are used primarily in the professional repair of engines, gearboxes, exhaust systems, and auxiliary units. Business within the Aftermarket segment is transacted through a global network of wholesalers and major group purchasing organizations. Alongside Western and Eastern Europe, the key markets for this area of the business in terms of revenue include the Middle East and North Africa.

The **Engineered Plastics** segment develops, manufactures, and markets customized products made of various high-performance plastics. Close to 60% of total revenue generated in 2017 was attributable primarily to sales within the mechanical engineering sector and the medical, chemical, and energy industries. The vehicle industry accounts for around 40% of revenue in this segment. Efforts to internationalize business in this segment, which until recently has been focused on Europe, are being stepped up by establishing and steadily expanding relevant structures in the United States and China.

The **Services** segment provides extensive development and assessment services for engines, transmissions, and the exhaust tract using state-of-the-art testing and measurement facilities. The segment's customer base includes both vehicle manufacturers and automotive suppliers. In addition, this segment includes the areas of logistics services and catering.

The **Industrial Parks** segment encompasses the Group's industrial parks in Idstein, Germany, and in Kecskemét, Hungary. The purpose of the business is to lease and administer land and buildings.

The segments are further divided into eleven business divisions. Seven of these business divisions are assigned to the Original Equipment segment. Each of the four remaining segments (Aftermarket, Engineered Plastics, Services, and Industrial Parks) also constitutes a separate division.

Customized metallic **Cylinder-head Gaskets** represent one of the traditional fields of business for ElringKlinger. Over the course of many years, the Group has perfected the metal stamping, embossing, and forming processes that are essential to this line of business; it can also draw on extensive knowledge in the field of coating technology. Operating within an oligopolistic market, the Group has thus held the position of market leader for many years now. Among its global competitors are, in particular, two major corporations based in the United States.

The **Specialty Gaskets** division focuses mainly on metal flat gaskets for various high-temperature applications relating to engines, turbochargers, transmissions, and exhaust systems. ElringKlinger ranks as one of the three leading suppliers worldwide. Competition within this field is extensive due to the extremely high level of product diversity.

The **Shielding Technology** division encompasses thermal, acoustic, and aerodynamic shielding systems. They handle a wide range of tasks relating to temperature and acoustic management in modern motor vehicles, in addition to assisting with aerodynamics along the vehicle underbody. The product design and associated material composition are dependent on the specific requirements of the field of application within the vehicle. ElringKlinger develops and produces customized components for this purpose. In doing so, the company is able to ensure the best possible management of energy flows, e.g., heat and air flow. ElringKlinger is one of the few suppliers in the world to offer complete shielding packages for both the engine as well as the underbody and the exhaust tract. In this division, too, the Group ranks as one of the top three suppliers at an international level.

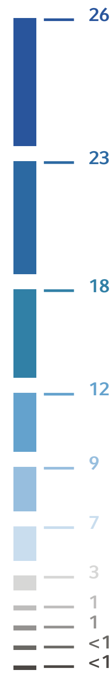
The **Lightweighting/Elastomer Technology** division develops and manufactures lightweight components made of polyamide plastics and fiber-reinforced organo sheets for powertrain and vehicle body applications. The vehicle industry can achieve significant weight savings by replacing metal with lightweight components. In contrast to the other divisions, the market within the area of high-performance plastics is much more fragmented.

The core product range within ElringKlinger's **E-Mobility** division, which was established as early as 2010, includes high-current-capable cell contact systems for lithium-ion batteries. These components, manufactured in a series production environment, are used in pure electric vehicles and hybrids. Having signed a framework cooperation agreement for the establishment of a joint venture with Sichuan Chengfei Integration Technology Co., Ltd., Chengdu, China, ElringKlinger now boasts a powerful business partner with know-how relating to the electrochemical constituents of the cell. The aim of this joint venture is to drive forward business activities in the field of battery technology. Since 2017, the division has also included the first revenue flows from hofer powertrain products GmbH, Nürtingen, Germany.

The **Exhaust Gas Purification** division develops and produces exhaust gas purification systems for the catalytic aftertreatment of mobile and stationary combustion engines as well as for various off-road applications, including the commercial vehicle, shipping, and rail sector. At the end of 2017, ElringKlinger signed an agreement covering the sale of the Hug Group, Elsau, Switzerland (cf. Significant Events, page 32). The transaction was closed effective from March 1, 2018. The strategic decision to dispose of the largest company operating within this division is to be seen against the backdrop of increasing globalization in this line of business, which would have necessitated substantial investment. Instead, ElringKlinger will mainly be channeling its resources into the particularly promising areas of lightweighting and e-mobility.

The division referred to as **Others** brings together the Group's activities relating to New Business Areas; it currently encompasses all projects associated with fuel cell technology. This area also includes Tooling, which constitutes an important core competence of ElringKlinger. The high-precision quality of tools is an essential prerequisite for the Group's efficient series production of items that are particularly advanced in technological terms.

Group revenue by division 2017
(previous year) in %



Shielding Technology	**26**	(26)
Lightweighting/ Elastomer Technology	**23**	(22)
Specialty Gaskets	**18**	(18)
Cylinder-head Gaskets	**12**	(13)
Aftermarket	**9**	(9)
Engineered Plastics	**7**	(7)
Exhaust Gas Purification	**3**	(3)
E-Mobility	**1**	(1)
Services	**1**	(1)
Industrial Parks	**<1**	(<1)
Other[1]	**<1**	(<1)

[1] Tooling Technology and New Business Areas

Internal Control Criteria

The ElringKlinger Group mainly uses financial indicators in the area of management control and for the purpose of assessing Group performance. Additionally, leading indicators that are specific to the company and non-financial performance indicators form an important basis for key decision-making.

Financial control criteria

The most important financial control criteria applied within the ElringKlinger Group are sales and earnings performance as well as the Group's return on capital. The key financial indicators used are sales revenue and earnings before interest and taxes (EBIT), which are budgeted, calculated, and continually monitored for the Group, for the individual Group companies, including the parent, and for the five reportable segments and the respective divisions.

Additionally, return on capital employed (ROCE) is considered one of the most important management control indicators within the Group. As its name suggests, ROCE measures a company's profitability and the efficiency with which its capital is employed. To calculate it, EBIT is divided by capital employed. In this context, ElringKlinger uses average capital employed during the period in question as a basis of calculation. This includes shareholders' equity, financial liabilities, provisions for pensions, and non-current, interest-bearing provisions such as anniversary and partial-retirement provisions. The target defined by the Group is to achieve an increase of the ROCE based on projected improvements in earnings and working capital. Variable remuneration for the managerial level directly below the Management Board is generally linked to the level of ROCE achieved.

Calculation of ROCE

in EUR million	2017	2016
EBIT	**137.3**	**135.6**
Equity	889.7	886.4
Financial liabilities	700.7	578.2
Provisions for pensions	126.0	136.6
Interest-bearing non-current provisions	10.2	10.4
	1,726.6	**1,611.6**
Average capital employed	**1,669.1**	
ROCE = EBIT / average capital employed	**8.2%**	

In addition, ElringKlinger takes into account other, less significant financial control criteria such as those listed below:

- Operating free cash flow
- Equity ratio
- Potential market price risks from foreign exchange movements, interest rate changes, and increases in material costs

Operating free cash flow encompasses cash flow from operating activities less cash flow from investing activities, adjusted for payments in respect of acquisitions and for payments in respect of investments in financial assets.

The following table presents the key financial control criteria and several other control criteria used within the ElringKlinger Group. In line with capital market communications, EBIT is presented before purchase price allocation.

Non-financial control criteria

Non-financial control criteria also provide management with important insights with regard to the Group's situation and can be used as a basis of decision-making. Compared to the key financial control criteria outlined above, the non-financial control criteria are of less significance. They include personnel, quality, and environmental indicators, for example:

- Change in number of employees and average number of staff on sick leave
- Quality indicators and assessments such as work-related accidents and reject rates
- CO_2 emissions and energy consumption

Selected financial control criteria of the ElringKlinger Group

		Guidance 2017[1]	Actual 2017	2016	2015	2014	2013	2012	2011
Revenue	(in EUR million)	2–4 percentage points above global market growth[2]	1,664.0[3]	1,557.4	1,507.3	1,325.8	1,150.1	1,127.2	1,032.8
EBIT before PPA[4]	(in EUR million)	Margin of around 9 to 10%	141.8 Margin: 8.5%	140.4	140.4	162.3[5]	149.8[5]	140.9	130.6[6]
ROCE		Slightly down year on year	8.2%	8.7%	9.5%	12.4%	14.4%	13.3%	14.2%[6]
Operating free cash flow	(in EUR million)	Probably slightly down on previous year	-66.6	-3.8	-65.2	-12.4	-4.2	8.2	-10.5
Equity ratio		40 to 50%	44.0%	47.2%	48.5%	49.7%	50.4%	50.6%	50.1%

[1] Based on last quarterly financial statements of November 7, 2017; original guidance for 2017: ROCE: "slight year-on-year improvement"; operating free cash flow: "in slightly positive territory"; other target figures unchanged
[2] Adjusted for the effects of currencies and acquisitions (organic)
[3] Revenue reported; revenue adjusted for effects of currencies and acquisitions (organic): EUR 1,683.4 million (+8.1%)
[4] PPA (write-downs from purchase price allocation) EUR 4.5 (4.8) million (accounted for in various functional categories of the income statement); calculation method applies similarly to FY 2011 to 2015
[5] Financial years adjusted for non-recurring exceptional items: 2013 by EUR -15.7 million, 2014 by EUR 4.9 million
[6] Adjusted for one-time gain from sale of Ludwigsburg industrial park (EUR 22.7 million)

Further details can be found in the non-financial statement prepared by the ElringKlinger Group. The non-financial statement relating to the 2017 financial year will be made available at www.elringklinger.de/2017-nfe-en and will be published on ElringKlinger's company website by April 30 at the latest. In addition, the company will provide detailed information on key indicators and activities (including details relating to human resources, social commitment, environment, and quality) in a separate sustainability report for the 2017 financial year. It is scheduled for publication in the 2018 reporting year and will be available online at www.elringklinger.de/en/sustainability.

Company-specific leading indicators

Order intake and backlog are calculated on a regular basis and provide reliable indications of likely capacity utilization and revenue performance for the months ahead. As a leading (i.e., early) indicator that is specific to the company, this data is also seen as an important control parameter for management.

The Group's budgeting and forecasting are based on planned quantities requested by customers as part of their scheduling less a safety margin and respective agreed product prices. Additionally, the Management Board continuously tracks statistics and forecasts relating to global vehicle demand and production as well as the general economic situation. These leading indicators can provide important pointers as to the plausibility of planning. In this way, any necessity for adjustments can be identified at an early stage and suitable measures can be implemented in good time.

ElringKlinger also performs benchmark analyses on a regular basis for the purpose of assessing its own business performance in comparison with that of the industry as a whole. In this context, key indicators are compared to other, mostly listed, companies in the automotive supply sector and subsequently evaluated.

Research and Development

The automotive industry is undergoing radical transformation. The development and refinement of innovative vehicle technologies are being driven by a desire to increase safety, efficiency, and convenience on the road. ElringKlinger is playing an active role in helping to shape the mobility of the future and has been focusing its research and development work on improving efficiency and cutting emissions for many years now. During the last financial year, therefore, activities concentrated once again on lightweighting and alternative drive technologies. At the same time, ElringKlinger is also further honing its skills in optimizing the conventional combustion engine in order to defend its position as market leader.

ElringKlinger well equipped for e-mobility

With its wide-ranging expertise in solutions that boost efficiency or are used for new drive technologies, ElringKlinger is already today a sought-after partner for car makers. The company was quick out of the starting blocks with its transformation from a supplier serving the conventional combustion engine into a specialist in components and systems for electric vehicles, setting up its E-Mobility division nearly ten years ago. The 2011 market launch of cell contact systems for lithium-ion batteries, its first product for hybrids and pure electric vehicles, was a key milestone for ElringKlinger. As a result of sustained, intensive research and development work, its traditional portfolio of gaskets and shielding parts is now complemented by products based on battery and fuel cell technology as well as innovative lightweight components such as cockpit cross-car beams and door modules. These areas of business, considered particularly promising for the future in strategic terms, accounted for more than 3% of total revenue in 2017, largely mirroring the ratio of new vs. conventional types of powertrain within the global vehicle market.

High research and development ratio

Among other things, ElringKlinger's corporate philosophy is all about being close to the customer, spotting trends early, and helping to actively shape innovation. The Group has invested around 5% of its revenue in research and development in recent years, a relatively large amount compared to the industry as a whole. Deployed in a targeted manner, these funds underpin the strong competitive position enjoyed by the ElringKlinger Group.

Research and development expenses (R&D, including capitalized development costs) amounted to EUR 75.9 (74.8) million in the 2017 financial year. This corresponds to an R&D ratio of 4.6% (4.8%), which was slightly below the 5–6% target range set for 2017. As well as investments in the Group's traditional business involving cylinder-head and specialty gaskets, expenditure was directed in particular toward the Lightweighting/Elastomer Technology and Shielding Technology divisions as well as New Business Areas and Battery Technology. The Group is thus pursuing its strategy of prioritizing its highly promising areas of business when it comes to allotting significant resources. The amortization of capitalized R&D expenses recognized in cost of sales amounted to EUR 7.9 (8.4) million in the reporting period.

The strong culture of innovation at ElringKlinger is embraced and kept alive by creative minds. The company employed 597 (570) R&D staff in 2017. ElringKlinger has largely centralized its R&D operations to prevent technology transfer and a "brain drain." Its development activities are focused mainly at the German sites forming part of the Original Equipment and Engineered Plastics segments and the US sites near Detroit, Michigan. The other locations are responsible mainly for minor development steps and modifications.

Key figures R&D

		2017	2016	2015	2014	2013
R&D costs (incl. capitalized development costs)	(in EUR million)	75.9	74.8	71.2	66.5	65.7
R&D ratio (incl. capitalized development costs)		4.6%	4.8%	4.7%	5.0%	5.7%
Capitalization ratio[1]		5.9%	9.9%	13.8%	13.8%	13.7%

[1] Capitalized development costs in relation to R&D costs, including capitalized development costs

ElringKlinger always seeks legal protection for new developments at both a product and a process level. Its central patent unit deals with the protection of technological knowledge and intellectual property, in addition to applying for patents in Germany and abroad. At 69 (68), the number of patents newly applied for in 2017 was up slightly on the previous year.

Cylinder-head gaskets: standardization at the highest level

The Cylinder-head Gaskets division accounts for the largest number of patents granted to ElringKlinger. This is where the Group's roots lie – it was from here that ElringKlinger carved out a leading global market position for itself over several decades with its innovative ideas. It will now be a question of continuing to benefit from this strength even if the number of vehicles built with a combustion engine decreases year over year. According to market estimates, this process will begin in 2021. Rather than being a sudden change, however, it is set to happen gradually as the transformation will take effect at different speeds, given the variety of potential applications and because some regions have more highly developed infrastructures than others.

As far as ElringKlinger is concerned, this means that the Group will continue to win many orders for cylinder-head gaskets thanks to its excellent position within the market. Against this backdrop, funds will continue to be provided for research and development work on these components, albeit in a lower amount than previously. A larger data pool will be required in order to keep the standardization process efficient. Additionally, the finite element methods relating to non-stationary operating modes are to be fine-tuned. In other words, detailed analyses will be conducted of how the gasket bodies deform under mechanical and thermal stress during the transition from a cold to a hot engine.

Specialty gaskets: efficiency gains and transformation

Market transformation will have a similar impact on R&D activities in the Specialty Gaskets division insofar as traditional products are involved. Here, too, more extensive standardization can bring efficiency gains, while technical breakthroughs can also be achieved in some areas, e.g., for transmission control plates. Following successful development work and long-term testing, for instance, a new generation of beads known as the "nano-bead," which promises improved functionality, was introduced at an industrial level.

However, this division's main focus is on proactively helping to shape market transformation by creating new products for hybrid and all-electric drives. For example, sophisticated molded parts have already been developed for a fully electric premium sports car and will soon enter series production. In addition, the Group's in-house materials development team is successfully contributing to the development of new materials for Metaloseal solutions, specifically for hybrid and fully electric powertrains, which boast top-rate electrical and/or thermal conductivity with constant micro-sealing and resistance to specific media. These innovative materials are being used in development projects involving electric machinery and battery cooling systems.

Shielding technology: expanding the product range by integrating additional features

In the Shielding Technology division, ElringKlinger is now ideally placed to hone materials and technologies and launch them onto the market, enabling customers to benefit from the additional features incorporated into their conventional shielding systems. For instance, acoustic effectiveness can be added to the principal "thermal shielding" function, thus giving the people inside a vehicle a more comfortable ride. Developing a method for calculating the acoustic behavior of a shielding system in advance marked a major step forward during the reporting year. Electromagnetic compatibility is also becoming increasingly significant in the wake of greater hybridization and electrification. ElringKlinger offers solutions in this area that enable sensitive components to be shielded effectively from both heat and electromagnetic fields.

ElringKlinger also unveiled a prototype ElroTherm™ Active shielding system at the International Motor Show (IAA) in Frankfurt in 2017. This involves an electric heating system integrated into the shielding system itself, allowing the optimum operating temperature to be reached more quickly for exhaust gas purification or for the conditioning of battery systems. Ideas like these demonstrate how ElringKlinger has prepared itself with great foresight for the arrival of partially or fully electric drives, including in its traditional areas of business.

Lightweighting: cutting emissions by reducing weight

A vehicle's weight and its emissions are intertwined. Whilst a lighter weight always translates into lower fuel consumption and thus reduced emissions in a combustion-engine vehicle, for electric vehicles it means the possibility of an increased range. This is why every ounce counts when car makers are developing new components.

ElringKlinger picked up on the lightweighting trend more than 15 years ago, starting to replace conventional metal components such as valve covers and oil pans with high-performance plastics. New lightweight components have been added continuously over the years to the portfolio, which now numbers nearly 20 product ranges.

Another milestone was reached recently with the industrialization of an innovative polymer/metal hybrid part in partnership with a premium German manufacturer. This involves combining hydroforming with plastic injection-molding and permits weight reductions of up to 40% depending on the applications being integrated. This technology is currently being used for cockpit cross-car beams, front-end carriers, and front-end adapters. Following the successful commencement of series production for the first major order to use this technology, ElringKlinger then followed suit for another customer from the US market in 2017. The company is currently working on several development projects with a range of manufacturers, including new car makers, who are so far no part of its customer base. Other potential ways of applying hydroforming technology to a vehicle are being examined, while some highly promising avenues for using it outside the automotive sector are also opening up.

2017 saw the start of series production for door modules made from organo sheets, which are much stiffer and more resilient than conventional plastics. Numerous other potential applications in addition to door modules are currently being considered, including seat pans, battery mountings, and trunk recesses.

ElringKlinger will continue to focus on the issue of lightweighting in the future. With the number of development projects in this field seeing an above-average increase over the past few years, the proportion of R&D staff working on lightweighting projects also rose accordingly during the course of 2017.

Battery technology: ElringKlinger delivers electrifying solutions

Although electric cars still make up a small percentage of the vehicles on our roads, compliance with increasingly strict global emissions standards will only be achievable using alternative drive technologies. Many car makers have set themselves ambitious targets for developing and launching new electric vehicles, as reflected not least in the larger number of inquiries being fielded at ElringKlinger.

The company is already engaged in the series production of components for lithium-ion batteries that are used in electric or hybrid vehicles. These include cell contact systems and module connectors. Here, too, there is significant potential for ElringKlinger to add new providers and manufacturers to its existing clientele. In 2017, for instance, the company won a number of new customers for battery components.

The ElringKlinger portfolio also includes cell housings. Within this field, the Group is focusing on manufacturing prism-shaped "hardcase" housings, and the first prototypes are currently being produced.

Once again, one of the focal points for battery R&D in the past financial year was expanding the product range. A major step in this direction was taken by joining forces with a Chinese company. The Group's Chinese partner will provide battery cells, while ElringKlinger will supply all the other components of the battery module and will be responsible for the design and production of the complete modules. Working together, the plan is to continue pressing ahead with the battery technology business in order to achieve better market penetration over the long term.

Another way in which ElringKlinger has significantly expanded its e-mobility product and service portfolio (in this case e-axles) has been through its strategic partnership with engineering specialist hofer. The Nürtingen-based company is an expert in electric drives, and its portfolio includes e-machines, power electronics, control software, transmissions, thermal management/cooling, and safety/security concepts. Combining this with ElringKlinger's expertise in battery technology and in production methods and processes means that customers can now be offered tailor-made complete solutions or individual components.

Fuel cells: an energy converter with a promising future

ElringKlinger has been working on fuel cell technology since as far back as the late 1990s. The company can see advantages in both models – batteries and fuel cells, with their respective characteristics – as far as the future of the automotive industry is concerned. They can also be combined together and each plays to its strengths.

R&D activities are focusing on both the PEMFC low-temperature fuel cell and its high-temperature counterpart, the SOFC. SOFC systems are deployed in low power ranges (less than 1 kW) and boast relatively high efficiency rates of 33%. They are ideal for fields of application in which no conventional power supply exists, such as on boats or in caravans, but also when setting up wind turbines or mobile communications systems. In addition, they offer particular benefits where there is natural gas available. However, the PEM fuel cell is also finding more and more uses in stationary applications.

The trend toward fuel cells in the automotive sector strengthened significantly once again in 2017. Asia is proving a key driver in this regard thanks to substantial government subsidies. The main advantages of the fuel cell drive are its long ranges and quick refueling. PEM systems can also be employed as range extenders for all-electric cars.

ElringKlinger's range of PEMFC products includes metallic bipolar plates, plastic media modules, and complete fuel cell stacks. The R&D team worked on second-generation fuel cell stacks during 2017. The latest version increases the power from its previous level of 80 kW to between 100 and 150 kW, and trials of the new stacks are now getting under way.

The Group also unveiled a PEMFC stack (NM5) last year, which has been optimized specifically to deal with a low pressure drop of the reaction gases, while ensuring a long service life. This makes it ideally suited to use in commercial vehicles.

ElringKlinger is currently focusing in particular on building up system expertise in fuel cell technology. As with batteries, the company wants to be in a position to offer its customers complete solutions.

Engineered plastics: a wide range of potential applications

In the Engineered Plastics segment, PTFE and PTFE composites fulfill the fundamental requirements as basic materials, meaning that customers from various sectors can be targeted. This is because PTFE meets high standards in terms of material properties and precision. The products from this segment can withstand high temperatures, pressures, friction, aggressive media, chemicals, and many other stresses. They also exhibit extremely low tolerances during the manufacturing process. In 2017, for instance, the segment developed innovative uses for cryogenic applications, while significant progress was also made with modules for controlling fluid circuits.

As regards its R&D activities, the Engineered Plastics segment will continue to cover the main trends in the individual sectors in 2018. In medical technology, for example, the company is turning miniaturization to its advantage, while the trend toward robotics and sensor systems is driving business in the field of mechanical engineering. Last but not least, the electromobility revolution is making its presence felt here too: dynamic gaskets have been developed specifically for e-mobility applications for medium rotational and circumferential speeds. Series production has already been completed successfully for the first new projects involving this dynamic gasket functionality.

Macroeconomic Conditions and Sector Environment

The world economy continued to gain momentum in 2017. According to data published by the International Monetary Fund (IMF), global economic output expanded by 3.7% compared to the previous year. This was driven by the recovery seen within the eurozone as a whole and by sustained buoyancy in the world's two largest economies, the United States and China. The pace of growth in the global car market diminished slightly in 2017 but essentially remained intact. Based on estimates by Germany's automotive industry association, the VDA, worldwide purchases of new vehicles rose by 2% to around 85 million units.

Broad-based economic upturn

Europe saw its economic growth accelerate over the course of 2017. With the European Central Bank continuing to pursue its expansive monetary policy, banks stepped up their lending at low interest rates. This translated into higher domestic demand and more jobs. Uncertainty surrounding the United Kingdom's planned withdrawal from the European Union in the wake of its Brexit referendum in 2016 and political volatility in connection with the burgeoning crisis in Catalonia during the third quarter of the year appeared to have hardly any impact on economic performance. The continued surge in Germany's economy was fueled mainly by private consumption and, increasingly, by construction investment. At the same time, exports rose despite the appreciation of the euro from May onward.

As an economic heavyweight, the United States upheld its forward momentum, thus maintaining a trend that has lasted for a good eight years. The economy as a whole benefited from substantial consumer spending, coupled with a labor market operating at close to full employment and more pronounced corporate investment.

Asia's key economies also remained on track for growth. Japan saw a slight acceleration in economic expansion, while China's solid economic performance – supported in

GDP growth rates

Year-on-year change (in %)	2017	2016[1]
World	**3.7**	**3.2**
Industrialized countries	2.3	1.7
Emerging and developing countries	4.7	4.4
Germany	2.5	1.9
Eurozone	2.4	1.8
USA	2.3	1.5
Brazil	1.1	-3.5
China	6.8	6.7
India	6.7	7.1
Japan	1.8	0.9

Source: International Monetary Fund (January 2018)
[1] Prior-year figure changed in accordance with data applicable as of publication date of January 22, 2018

part by state-led measures – was comparable to that seen in the previous year. Crisis-plagued Brazil managed to emerge from its recession.

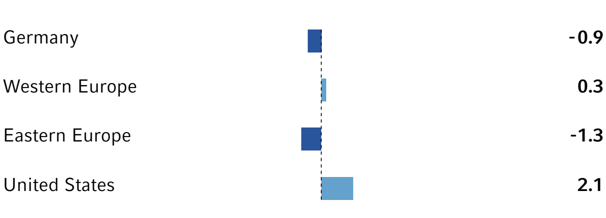
Sustained growth in global car market

Although the pace of growth recorded by global car markets as a whole decelerated slightly in 2017 when compared with the previous year, fundamentally the upward trend remained intact. According to data published by Germany's automotive industry association, the VDA, around 85 million new vehicles were sold worldwide – a new record. This corresponds to growth of around 2% compared to 2016. Global vehicle production also expanded by around 2%.

The European car market (EU and EFTA) saw its overall volume rise to 15.6 million with regard to new car registrations, which was close to the pre-crisis level recorded in 2007 (16.0 million vehicles). Among the five single biggest markets, only the United Kingdom was in negative territory (-5.7%), whereas Italy and Spain boasted the largest gains at 7.9% and 7.7% respectively. In Germany, new car registrations rose by 2.7% to 3.4 million units, which was the highest level this decade. High levels of employment proved beneficial in this context, although purchase decisions were also influenced by current trade-in incentives for older diesel-powered vehicles and uncertainty surrounding potential driving restrictions. While car exports from Germany fell by 1% and domestic production by 2%, German manufacturers expanded their non-domestic production output by 7% to 10.8 million units. This highlights a trend that has seen car makers step up production at a global level or locally within specific markets.

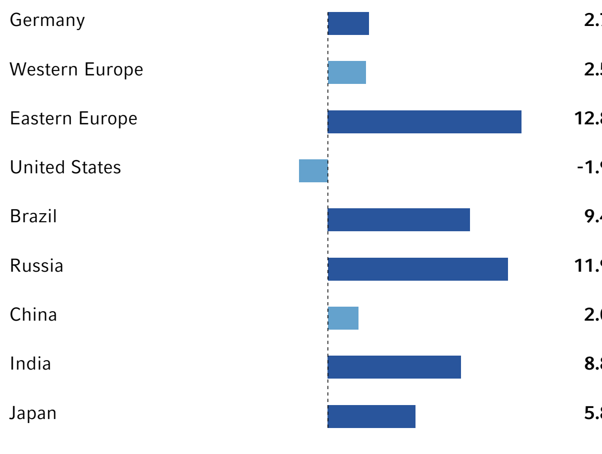
The US market for passenger cars and light trucks cooled slightly, as expected. With 17.1 million new vehicles having left the forecourts, however, sales remained high overall. SUVs and pickups continued to be very popular among buyers.

New registrations of mid-sized and heavy trucks in 2017
Year-on-year change (in %)



Sources: ACEA, Automotive News Data Center (January 2018)

New car registrations 2017
Year-on-year change (in %)



Source: VDA (January 2018)

The world's largest car market, China, saw new vehicle registrations expand to 24.2 million. Here, too, the SUV segment was one of the key growth drivers. Japan and India, as the second- and third-placed high-volume markets in Asia, also gained ground. Car markets in Brazil and Russia put in an encouraging performance. After a double-digit percentage dip in 2016, they managed to gain momentum over the course of 2017.

E-mobility: demand rises from a low base

Consumer awareness regarding electric vehicles became stronger in 2017. In part, this produced a sudden boost to demand, albeit from a very low base. In Germany, the number of new electric cars on the road more than doubled to around 48,300 units. Overall, however, the market share of all-electric and plug-in hybrid vehicles remains insubstantial. According to a recent market study, electric cars accounted for 1.3% of the global vehicle market in 2017.

Bifurcated commercial vehicle markets

On the back of two strong years, the European commercial vehicle market was less buoyant in 2017, growing by a mere 1%. Around 380,000 mid-sized and heavy trucks (>3.5 tons) were sold during this period. In this context, the respective countries developed along different lines. While France (6.5%), Italy (4.5%), and Poland (3.9%) were all well within positive territory, Germany fell just short of last year's figure with around 92,000 new truck registrations and the United Kingdom saw new commercial vehicle sales decline by 7.1%.

After a slump in the previous year, the US truck market gathered pace again in 2017. During the second half of the year, in particular, transport companies were more willing to invest. Against this backdrop, the number of Class 4 to 8 trucks grew slightly in the annual period as a whole. Viewed in isolation, the segment covering heavy trucks (Class 8) almost matched the prior-year level at 192.4 (192.8) thousand vehicles sold.

Significant Events

Among the significant events for the ElringKlinger Group during the 2017 financial year were the placement of a Schuldscheindarlehen for the first time in the company's history, the appointment of Klaus Eberhardt as Chairman of the Supervisory Board, and the early extension of contracts with Management Board members Dr. Stefan Wolf and Theo Becker. Other significant events in 2017 included a joint venture framework agreement covering the area of battery technology and an agreement on the sale of the Hug Group, based in Elsau, Switzerland. Fiscal 2017 also saw the establishment of ElringKlinger Chongqing Ltd., Chongqing, China, the acquisition of an interest in Nürtingen-based engineering company hofer, and the amalgamation of two US subsidiaries.

Amalgamation of two subsidiaries

Effective from January 1, 2017, the sales company ElringKlinger North America, Inc., with its registered office in Plymouth, USA, was merged into ElringKlinger Automotive Manufacturing, Inc., with its registered office in Southfield, USA. The two companies were brought together at a single site for the purpose of streamlining administrative processes and creating more efficient, cost-effective operational structures.

Strategic investment in hofer

Effective from March 1, 2017, ElringKlinger AG acquired 27.0% of the ownership interests in hofer AG, with its registered office in Nürtingen, Germany. Effective from February 6, 2017, ElringKlinger AG acquired 53.0% of the ownership interests in the aforementioned entity's subsidiary hofer powertrain products GmbH, also with its registered office in Nürtingen, Germany. Effective from March 23, 2017, ElringKlinger AG acquired 53.0% of the interests in newly established hofer powertrain products UK Ltd., with its registered office in Warwick, United Kingdom.

The hofer Group is a skilled automotive developer of systems used within the powertrain. In acquiring the ownership interest, ElringKlinger will benefit from the aforementioned innovatory abilities, particularly in the development and production of alternative drive technologies.

Extension of Management Board contracts brought forward

At its meeting on March 24, 2017, the Supervisory Board agreed to extend by five years, i.e., up to January 31, 2023, the contracts with Management Board members Dr. Stefan Wolf and Theo Becker, which were scheduled to end at the beginning of 2018. In taking this approach, it has ensured that the company will benefit at an early stage from managerial continuity at the most senior level. Dr. Wolf has held a seat on the Management Board since February 2005 and was appointed its Chairman/CEO in March 2006. Becker joined the Management Board in January 2006 and is responsible for operations.

Establishment of a new subsidiary

ElringKlinger Chongqing Ltd., with its registered office in Chongqing, China, was established effective from April 10, 2017. ElringKlinger AG holds 100.0% of the interests in this new subsidiary.

Klaus Eberhardt becomes new Chairman of the Supervisory Board

As announced at the Supervisory Board meeting on March 24, 2017, Prof. Walter H. Lechler stepped down from his post as Chairman of the Supervisory Board of ElringKlinger AG for reasons of age at the end of the Annual General Meeting on May 16, 2017, and resigned from the Supervisory Board. Subsequent to the Annual General Meeting the members of the Supervisory Board elected Klaus Eberhardt, who has been a member of the Supervisory Board of ElringKlinger AG since May 2013, as the new Chairman of the Supervisory Board. Prof. Walter H. Lechler was appointed Honorary Chairman of the Supervisory Board. The Annual General Meeting appointed Andreas Wilhelm Kraut as a replacement member to fill the vacant seat on the Supervisory Board. He is Chief Executive Officer of weighing technology specialist Bizerba SE & Co. KG, with its registered office in Balingen, Germany.

There was also a change to the company's staff representation on the Supervisory Board: as a replacement for Ernst Blinzinger, who vacated his seat on the Supervisory Board at the end of the Annual General Meeting in May 2017, Gerald Müller of IG Metall Reutlingen-Tübingen was appointed to the Supervisory Board of ElringKlinger AG on the basis of a resolution passed on August 3, 2017.

Successful placement of Schuldscheindarlehen

In July 2017, ElringKlinger issued a Schuldscheindarlehen (loan granted to the company against a form of promissory note) for the first time in its corporate history. The overall volume of EUR 200 million is divided into tranches with maturities of five, seven, and ten years. The average rate of interest is 1.23%. The funds from the loan are to be used for the purpose of general corporate financing, in particular to refinance existing Group liabilities.

Joint venture framework agreement signed

In November 2017, ElringKlinger came to an understanding with Sichuan Chengfei Integration Technology Co., Ltd. (CITC), China, about the companies' collaboration within the area of battery technology. A framework agreement covering the terms of the joint venture was signed by the partner companies in November 2017. The framework agreement stipulates the establishment of a joint venture entity for the development, production, and distribution of lithium-ion battery modules for the global automotive market. The focus is on international e-mobility projects in Asia, Europe, and the United States.

The joint venture brings together various operations of the two parties to the contract: while CITC is responsible for the electrochemical constituents of the cell via its subsidiary China Aviation Lithium Battery Co., Ltd. (CALB), ElringKlinger will contribute the other components of the module and oversee the design and production of the battery modules. In addition to gaining mutual access to resources, the two joint venture partners will benefit from each other's expertise and the many years of experience amassed by both companies in various sub-disciplines of battery technology.

Agreement reached on the sale of the Hug Group

In December 2017, ElringKlinger concluded an agreement with a French automotive supplier for the sale of the Hug Group, Elsau, Switzerland. The contract of sale was signed on December 21, 2017. The 93.67% interest held by ElringKlinger in Hug Engineering AG passed entirely to the contracting party upon closing of the transaction. The parties to the contract have agreed not to disclose details relating to the purchase consideration. The transaction was closed on March 1, 2018.

The sale of the Hug Group is to be seen against the background of increasing globalization within the exhaust gas purification business, which would have necessitated further substantial investments by ElringKlinger in order to remain competitive in this market in the long term. ElringKlinger's strategic focus is mainly centered on the promising fields of lightweighting and e-mobility with the three supportive pillars of battery technology, fuel cell technology, and electric drive systems.

Sales and Earnings Performance

The ElringKlinger Group increased revenue by 6.8% to EUR 1,664.0 (1,557.4) million in 2017, thereby outpacing growth generated by the global vehicle market as a whole. Operational improvements at the Swiss production site in Sevelen progressed as planned in the financial year under review. At the same time, however, a hike in commodity prices and substantial volumes ordered by NAFTA-based customers as part of their production scheduling had a dampening effect on operating profit.

Revenue target met in 2017

The ElringKlinger Group saw revenue grow by EUR 106.6 million to EUR 1,664.0 (1,557.4) million in the 2017 financial year, which represents a year-on-year increase of 6.8%. In organic terms, i.e., excluding the effects of currencies and acquisitions, revenue grew by as much as 8.1%. Exchange rate movements exerted some downward pressure on Group revenue in the period under review. If foreign exchange rates had remained stable, Group revenue would have been EUR 28.7 million higher. The direction taken by the Chinese yuan, Turkish lira, and US dollar, in particular, together with exchange rate changes relating to the Swiss franc, had a dilutive effect. The first-time inclusion of hofer powertrain products GmbH, Nürtingen, Germany, which was acquired in 2017, contributed revenue of EUR 5.6 million in the period under review.

After a buoyant start to the year and solid growth in the third quarter, the final quarter (+3.0% revenue growth) of the financial year, in particular, was impacted by strong foreign currency effects. In organic terms, however, the fourth quarter saw revenue expand by a good 6.7%. As a result, ElringKlinger met its revenue guidance for the 2017 financial year, as outlined in its annual report of 2016, which had projected that organic revenue growth would exceed the rate of expansion in global vehicle production (around 2%) by two to four percentage points.

As regards earnings before interest and taxes (EBIT), the Group had targeted an EBIT margin of around 9 to 10% before purchase price allocation. The projected increase in earnings had been based on anticipated revenue growth as well as the prospect of operational improvements at a Swiss subsidiary faced with capacity constraints, which in fact were implemented as planned. However, at 8.5% (9.0%), ElringKlinger's EBIT margin, before purchase price allocation, was ultimately only positioned at the lower end of the target range. This was attributable primarily to higher commodity prices and consistently large orders placed by customers in the NAFTA region in the context of forecast delivery schedules.

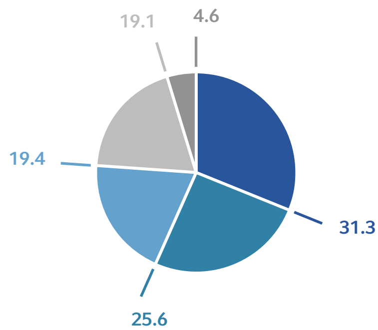
Group revenue up in all regions

ElringKlinger managed to increase revenue in all sales regions during the 2017 financial year, having benefited from the expansion of vehicle markets around the globe. The Rest of Europe and NAFTA are prime examples: these regions exceeded the Group's impressive prior-year figures by a good EUR 30 million in each case. The pace of growth within the Group began to ebb in some regions during the final quarter of the year. In particular, Asia-Pacific as well as South America and the Rest of the World fell short of the strong performance seen in the previous year.

In the region encompassing the Rest of Europe ElringKlinger benefited from a number of new product rollouts, which ensured stable revenue growth across all four quarters of 2017. At the same time, solid growth with regard to European car registrations was reflected in the performance of the region covering the Rest of Europe, with revenue increasing by EUR 32.4 million, or 6.6%, to EUR 521.5 (489.1) million. On this basis, ElringKlinger's principal sales region accounted for 31.3% (31.4%) of total revenue.

Despite uncertainty surrounding the future of diesel-powered vehicles, the German car market also expanded in 2017, edging up by almost 3%. ElringKlinger succeeded in

Group sales by region 2017
(previous year) in %



Rest of Europe	**31.3**	(31.4)
Germany	**25.6**	(26.5)
NAFTA	**19.4**	(18.7)
Asia-Pacific	**19.1**	(19.2)
South America and Rest of World	**4.6**	(4.2)

outpacing the market as a whole. Within its domestic market, the Group saw revenue grow by 3.4% to EUR 426.2 (412.3) million. For the first time, this figure includes hofer powertrain products GmbH, an entity that has been fully consolidated since 2017. As regards the domestic market, it should be noted that some of the ElringKlinger components supplied to German customers are fitted to vehicles or engines destined for foreign markets. The percentage share of domestic sales in relation to Group revenue declined to 25.6% (26.5%).

On the back of last year's slightly weaker revenue from sales in the NAFTA region, business picked up markedly in the annual period under review – despite an actual dip in the US vehicle market in 2017. With sales revenue standing at EUR 323.3 (292.0) million, the NAFTA region recorded growth of 10.7% or EUR 31.3 million in the 2017 financial year. Adjusted for currencies, business in the region grew by 13.6%. The NAFTA region accounted for 19.4% (18.7%) of the Group's total sales revenue. On this basis, ElringKlinger actually generated more revenue in the sales region of North America than in the markets of Asia.

ElringKlinger recorded significant revenue growth of 6.1% or EUR 18.3 million in the sales region encompassing Asia-Pacific, taking the figure here to EUR 317.3 (299.0) million. After a dynamic first half, forward momentum slowed markedly over the remainder of the year. The final quarter, in particular, failed to match the strong performance seen a year earlier. Business in the previous year, however, had been buoyed by the visible effect of pre-emptive purchases in China in anticipation of an imminent tax hike. The Asia-Pacific region accounted for 19.1% (19.2 %) of the Group's total revenue.

Positive market developments in the region encompassing South America and the Rest of the World were also reflected in revenues generated by the local ElringKlinger companies. In total, revenue increased by 16.4% to EUR 75.8 (65.1) million in the 2017 financial year. This region's share of total Group revenue rose to 4.6% (4.2%).

Overall, business within the international markets continued to gain in importance in 2017, with the percentage share of foreign sales in relation to Group revenue growing to 74.4% (73.5%).

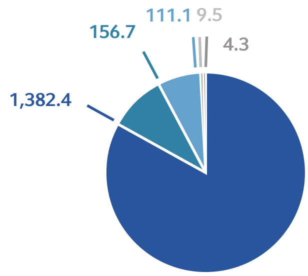
Original Equipment segment sees revenue expand in all divisions

Original Equipment was again by far the strongest segment within the Group in terms of revenue. Revenue increased by 6.8% to EUR 1,382.4 (1,294.3) million, with ElringKlinger benefiting primarily from growing customer demand for lightweight components made of high-performance plastics. This is illustrated clearly by the sales performance of the Lightweighting/Elastomer Technology division, which exceeded the prior-year figure by 12.3%. The Specialty Gaskets division also produced growth that was above the Group average. This is due to the trend toward downsizing for current generations of engine. As a result of this, vehicles tend to be equipped with a larger number of specialty gaskets. The Cylinder-head Gaskets division saw slight year-on-year growth.

Shielding Technology shows first signs of improvement

On the back of a strong sales performance in the previous year, the Shielding Technology division generated further revenue growth in 2017. As a result of capacity constraints first experienced back in 2015, the Swiss production site in

Group sales by segment 2017
(prior year) in EUR million



Original Equipment	**1,382.4**	(1,294.3)
– Cylinder-head Gaskets		
– Specialty Gaskets		
– Lightweighting/Elastomer Technology		
– Shielding Technology		
– Exhaust Gas Purification		
Aftermarket	**156.7**	(147.3)
Engineered Plastics	**111.1**	(101.7)
Services	**9.5**	(9.7)
Industrial Parks	**4.3**	(4.5)

question was again faced with substantial fixed costs in the 2017 financial year. Reflecting the progress made in relocating machinery from Switzerland to other sites within the Group, some of the processes involved were optimized at pace over the course of the year. ElringKlinger achieved a key milestone with the integration of its Swiss production plant into the ERP system that now spans almost the entire Group. For this purpose, all business processes at the affected plant were restructured during the period under review and were incorporated in the ERP system. In this context, the focus was on production planning and management as well as logistical processes. This system alignment caused temporary process-related delays that had an impact on earnings. The system will allow ElringKlinger to analyze, plan, and monitor processes at the Swiss plant more effectively. Despite these expenses, the Group saw the net result of its Swiss production site improve by around EUR 6 million in 2017 thanks to the measures implemented for the purpose of raising efficiency levels.

E-Mobility remains on track for growth

Operating with an extensive range of products that includes not only battery components, e.g., cell contact systems and pressure equalization elements, but also complete battery modules and aggregate energy storage units, ElringKlinger managed to increase revenue in the E-Mobility division by EUR 5.6 million year on year to EUR 18.0 (12.4) million. Growth was driven by revenues from hofer powertrain products GmbH, which has been fully consolidated since February 2017. Measures implemented during the reporting period for the purpose of raising efficiency levels helped to pare back the loss to EUR 2.2 (4.1) million, i.e., by almost half.

Project-driven business in Exhaust Gas Purification division

The Exhaust Gas Purification division produces exhaust gas abatement systems for industrial applications and ships. In contrast to ElringKlinger's traditional series production business, revenues and earnings generated within the Exhaust Gas Purification division are more prone to fluctuation, as this area relies almost entirely on project business. Thanks to a strong fourth quarter, the Exhaust Gas Purification division recorded solid revenue growth in the financial year under review. Its bottom-line result, however, fell short of the prior-year figure.

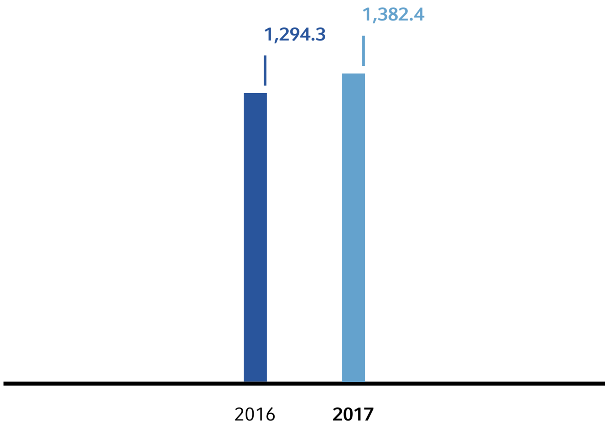
In summary, earnings before interest and taxes (EBIT) in the Original Equipment segment declined by 2.9% to EUR 86.3 (88.9) million.

Aftermarket business continues to produce strong margins

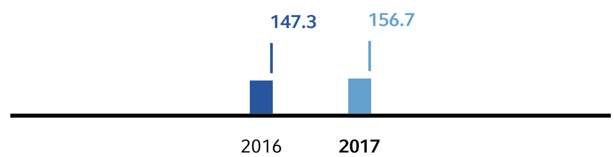
The Aftermarket segment covers ElringKlinger's range of spare parts, consisting primarily of cylinder-head gaskets and gasket sets. The Group saw segment revenue expand by EUR 9.4 million, or 6.4%, to EUR 156.7 (147.3) million in the 2017 financial year. As was the case last year, Germany and Eastern/Western Europe, together with the Middle East, were among the regions generating the highest sales revenue.

In Eastern Europe and Africa, the Group again benefited from an ageing vehicle stock and, thus, growing demand for replacement parts. Western Europe also recorded significant growth rates. In this context, the expansion in revenue was attributable mainly to ElringKlinger's strong market presence across the entire region. By contrast, ongoing geopolitical tensions in the Middle East exerted downward pressure on revenues in this region.

Sales in the Original Equipment segment
in EUR million



Sales in the Aftermarket segment
in EUR million



The Group increased revenue by 24.0% in Asia-Pacific within the Aftermarket segment, a promising market for the future. ElringKlinger is steadily expanding its distribution network and investing in essential storage facilities at key locations in order to be able to meet, in the medium term, the potentially high levels of demand for spare parts within the world's largest vehicle market.

In Germany, meanwhile, the Group came close to matching last year's impressive performance in terms of sales revenue, thereby cementing its strong market position.

Earnings before interest and taxes in the Aftermarket segment improved by 4.3% in 2017, taking the figure to EUR 31.8 (30.5) million. The segment's EBIT market remained high at 20.3% (20.7%).

Engineered Plastics segment lifts margin to almost 17%

The Group's core competency within the Engineered Plastics segment is centered around processing high-performance plastics (e.g., PTFE, PFA, PVDF), which also includes the associated applications. This segment supplies products to the automotive industry as well as to customers operating in the field of medical technology, mechanical engineering, and chemical and plant engineering.

In fiscal 2017, the Engineered Plastics segment recorded revenue growth of 9.2%, taking the figure to EUR 111.1 (101.7) million. This was driven not only by products destined for the automotive and mechanical engineering industries but also, to a significant extent, by those used in the energy sector and by power stations. From a strategic perspective, ElringKlinger is steadily widening the scope of its sales activities, which had previously been focused heavily on the Central European region. Asia proved particularly successful, with the sales company in Qingdao, China, making a major contribution to dynamic revenue growth. The Group managed to emulate its prior-year performance in the NAFTA region, where revenue from domestic sales continued to expand in the period under review.

Having completed major relocation measures, such as the introduction of cleanroom production at a newly built facility, the Engineered Plastics segment was able to generate strong earnings in the financial year under review. Segment earnings before interest and taxes increased faster in relation to segment revenue, rising by 24.2% to EUR 18.5 (14.9) million. Correspondingly, the EBIT margin rose to 16.7% (14.7%).

Industrial Parks largely unchanged year on year

In the 2017 financial year, revenue from rentals and leases at the industrial parks in Idstein, Germany, and Kecskemét-Kadafalva, Hungary, amounted to EUR 4.3 (4.5) million. As was the case a year ago, the segment reported a slight loss of EUR 0.5 (0.3) million, which was attributable mainly to refurbishment work at the industrial park in Idstein.

Revenue growth in Services segment

Elring Klinger Motortechnik GmbH, Idstein, Germany, KOCHWERK Catering GmbH, Dettingen/Erms, Germany, and ElringKlinger Logistic Service GmbH, Rottenburg-Ergenzingen, Germany, together generated EUR 9.5 (9.7) million in the 2017 financial year. Although ElringKlinger Logistic Service GmbH managed to increase revenue and earnings significantly in the period under review, the decline in earnings recorded at Elring Klinger Motortechnik GmbH was only partially offset within the segment as a whole.

Gross profit margin slightly down on previous year

The cost of sales rose by 8.1%, or EUR 94.1 million, to EUR 1,255.6 (1,161.5) million in the 2017 financial year. A sizeable proportion of this increase in costs is due to current developments within the area of commodity prices. This applies in particular to steel, which became increasingly expensive following anti-dumping measures introduced by the EU with regard to steel imports and the thus associated reduction in supply. Additionally, the market was faced with an increase in alloy surcharges for high-grade steels. Against this background, the Group's material-related expenses, which are accounted for entirely in the cost of sales, rose by 8.1% to EUR 680.9 (630.1) million. The cost-of-materials ratio (cost of materials as a proportion of Group revenue) remained stable to a large extent at 40.9% (40.5%). The surge in the cost of sales in the fourth quarter of 2017, up by 10.9% to EUR 332.8 (300.0) million, was attributable to an increase in commodity prices as well as higher expenses relating to warranties. The latter expense items, however, were counterbalanced by corresponding income.

In total, gross profit rose by EUR 12.5 million, or 3.2%, to EUR 408.4 (395.9) million in the 2017 financial year. The gross profit margin fell to 24.5% (25.4%).

Staff costs rose by 9.0% in the 2017 financial year and amounted to EUR 486.3 (446.0) million. The rise in staff costs was fueled by an increase in wages and salaries by 2.0% under a collective agreement, which has applied since April 2017 to all domestic companies covered by union regulations. Additionally, the headcount was up by 11.9%, i.e., in excess of revenue growth. Contrasting with the above-mentioned increase in costs, the staff profit-sharing bonus paid out for employees at ElringKlinger AG, ElringKlinger Kunststofftechnik GmbH, and Elring Klinger Motortechnik GmbH in respect of fiscal 2016 was lower than a year ago at EUR 5.3 (5.7) million. Under the cost-of-sales (also referred to as function-of-expense) method, staff costs were distributed across all operational expense items within the income statement. Staff costs in relation to revenue increased to 29.2% (28.6%).

Selling expenses rose by 17.9%, or EUR 21.5 million, to EUR 141.9 (120.4) million in 2017. This was due to substantial volumes requested by customers as part of their production scheduling throughout the North American markets. Business expanded substantially as a result of this situation, leading to a temporary increase in staff and freight costs.

General and administrative expenses rose at a slower rate, up by 3.6% year on year in fiscal 2017. They amounted to EUR 76.9 (74.2) million.

R&D efforts stepped up

The expansion of the Research & Development (R&D) department is reflected in higher R&D expense. It totaled EUR 71.4 (67.4) million in 2017, a year-on-year increase of 5.9%. Including capitalized development costs, ElringKlinger spent a total of EUR 75.9 (74.8) million on development projects, which corresponds to an R&D ratio of 4.6% (4.8%). This is a clear reflection of ElringKlinger's committed efforts when it comes to actively shaping the process of change within the automotive industry by pursuing technological advancement.

In the 2017 financial year, capitalized development costs totaled EUR 4.5 (7.4) million. This contrasted with depreciation and amortization of EUR 7.9 (8.4) million. The resulting negative effect on earnings was equivalent to EUR -3.4 (-1.0) million. Government grants of EUR 7.6 (6.8) million were used primarily for research projects in the field of battery and fuel cell technology. In parallel, the company incurred project-related expenses at a comparable level for development work and prototyping.

Other operating income rose by EUR 11.2 million to EUR 31.2 (20.0) million. This included more substantial income relating to insurance claims and compensation for damages, counterbalanced by corresponding expenses accounted for in the cost of sales. Other operating expenses fell by EUR 6.2 million to EUR 12.2 (18.4) million. The net balance is a positive difference of EUR 19.0 million (EUR 1.6 million).

EBITDA rises by a good 3%

As was the case a year ago, revenue growth in 2017 was sufficiently strong to cover total costs (cost of sales, selling expenses, general and administrative expenses, and R&D costs as well as other operating expenses less depreciation, amortization, and write-downs) in their entirety. They rose by EUR 110.7 million – from EUR 1,346.2 million to EUR 1,456.9 million. Earnings before interest, taxes, depreciation, and amortization (EBITDA) rose by 3.1% to EUR 238.4 (231.2) million.

Due to extensive replacement investments as well as capital expenditure on infrastructure measures in previous years, depreciation and amortization rose by 5.6% to EUR 101.1 (95.7) million. Depreciation/amortization and write-downs of property, plant, and equipment increased by EUR 5.8 million to EUR 82.4 (76.6) million.

Group EBIT before purchase price allocation stood at EUR 141.8 (140.4) million, an increase of 1.0%. The percentage share of EBIT in Group revenue (profit margin) before purchase price allocation was 8.5% (9.0%). The year-on-year decline was mainly due to the substantial cost of sales and selling costs, which in turn were attributable to rising commodity prices and sizeable orders from NAFTA-based customers as part of their production scheduling.

Net finance result falls by around EUR 16 million

As became evident during the year, the Group was faced with a steady increase in foreign exchange losses over the course of the annual period. Compared to the previous year, they rose by EUR 17.3 million to EUR 31.5 (14.2) million. Foreign exchange gains were up by EUR 5.7 million on the prior-year figure. After offsetting gains and losses, the net result of currency translation was EUR -11.1 (+0.5) million, down by EUR 11.5 million year on year. The net interest result improved slightly to EUR -13.1 (-13.9) million. Net finance costs, which mainly encompass the net result of currency translation and the net interest result, amounted to EUR 27.3 (11.5) million.

Compared to the previous year, these strong currency effects resulted in lower earnings before taxes of EUR 110.1 (124.1) million in 2017.

Tax rate falls to 33%

The 2017 financial year saw income tax expenses decrease by EUR 5.2 million, or 12.5%, to EUR 36.3 (41.5) million. Correspondingly, the effective tax rate fell slightly to 33.0% (33.4%).

After the deduction of taxes, net income for the ElringKlinger Group was down year on year at EUR 73.8 (82.6) million in fiscal 2017. At EUR 3.9 (4.1) million, net income attributable to non-controlling interests was lower in the period under review, which was due in part to the decline in earnings seen within the Exhaust Gas Purification division. Without these interests, net income totaled EUR 69.9 (78.6) million. On this basis, earnings per share for the 2017 financial year stood at EUR 1.10 (1.24). As of December 31, 2017, the number of shares outstanding that were entitled to a dividend remained unchanged at 63,359,990.

Dividend proposal of EUR 0.50 per share

The Management Board and the Supervisory Board of the ElringKlinger Group will jointly propose to the Annual General Meeting on May 16, 2018, a dividend of EUR 0.50 (0.50) per share for the 2017 financial year. This corresponds to a dividend distribution of EUR 31.7 (31.7) million in total. The dividend ratio stands at 45.3%, compared to 40.3% in the previous year. This dividend ratio is above the range specified in the Group's dividend policy, as part of which between 30 and 40% of Group net income after non-controlling interests shall be distributed to shareholders, depending on the company's operating performance.

Financial Position

The ElringKlinger Group's financial position was once again very solid at the end of the 2017 reporting period. Equity accounted for a 44% share of total assets. In the 2017 financial year, ElringKlinger diversified its financial instruments by way of the first-time placement of a Schuldscheindarlehen[1]. The acquisition of interests in the hofer Group, with its registered office in Nürtingen, Germany, during the first quarter, saw the ElringKlinger Group expand through the inclusion of one associate and two subsidiaries. The initiated sale of the Hug Group, which is domiciled in Elsau, Switzerland, led to some reclassifications in the statement of financial position at the end of the year.

Total assets increase due to organic growth and business acquisition

Compared with the end of last year's reporting period, total assets increased by EUR 144.2 million to EUR 2,022.4 (1,878.2) million as of December 31, 2017. Under non-current assets, the most significant impact came from the increase in property, plant, and equipment, as well as the first-time recognition of investments in associates as a result of the hofer acquisition; under current assets, the increase in inventories had the greatest impact. The fluctuation of the exchange rates that were used as a basis for translating the separate statements of financial position into the Group currency of euros had a dilutive effect on most assets as of the end of the reporting period.

Planned sale of Hug subgroup

When considering the changes in the individual items in the statement of financial position, it should be noted that, as a result of the initiated sale of the Hug Group, domiciled in Elsau, Switzerland, the relevant assets and liabilities have been reclassified and are recognized separately as assets or liabilities held for sale as of December 31, 2017. As of the end of the reporting period, ElringKlinger held 93.67% of the interests in the Hug Group, which is fully consolidated as a subgroup (cf. "Significant Events"). Under assets held for sale (EUR 61.8 million), a total of EUR 30.1 million was attributable to non-current assets and EUR 31.6 million to current assets. On the liabilities side, an amount of EUR 23.7 million was reclassified, consisting mainly of provisions for pensions, current financial liabilities, and other current liabilities.

Increase in assets attributable to several factors

Contrary to most asset items in the consolidated statement of financial position, intangible assets were down as of December 31, 2017, compared with the end of the previous year's reporting period. Their carrying amount decreased by EUR 21.9 million to EUR 190.5 (212.4) million. Goodwill was the largest item, amounting to EUR 156.4 (166.8) million. The impairment test carried out for goodwill at the end of the reporting period did not reveal a need for impairments. The downward trend for intangible assets is attributable to both the reclassification due to the initiated sale of the Hug Group (EUR -10.3 million) and to currency effects (EUR -6.3 million). A further reduction resulted from systematic depreciation/amortization, which exceeded the new additions from investments in intangible assets by EUR 7.4 million.

Property, plant, and equipment increased by EUR 12.3 million as a result of the Group's heightened investment activities, taking the figure to EUR 929.6 (917.3) million. Adjusted for reclassified assets relating to disposal, this item increased by EUR 31.0 million.

The acquisition of interests in the hofer Group, Nürtingen, Germany, which was formally completed in the first quarter of the financial year 2017, led to a significant addition to the item "Shares in associates" in the consolidated statement of financial position. This item includes the 28.9% interest held by ElringKlinger in hofer AG as of December 31, 2017, which is accounted for using the equity method. At the end of the year, these interests had an adjusted investment carrying amount – i.e., taking the pro rata earnings contribution into account – of EUR 28.6 million. The interests in hofer powertrain products GmbH, which were also acquired within the scope of the hofer transaction, in the amount of 53.0%, were fully consolidated in the Group statement of financial position. The inclusion of these interests expanded the balance sheet total at the acquisition date by an aggregate of EUR 6.4 million. Detailed information on this can be found in the notes accompanying the consolidated financial statements in the section entitled "Business combinations in 2017."

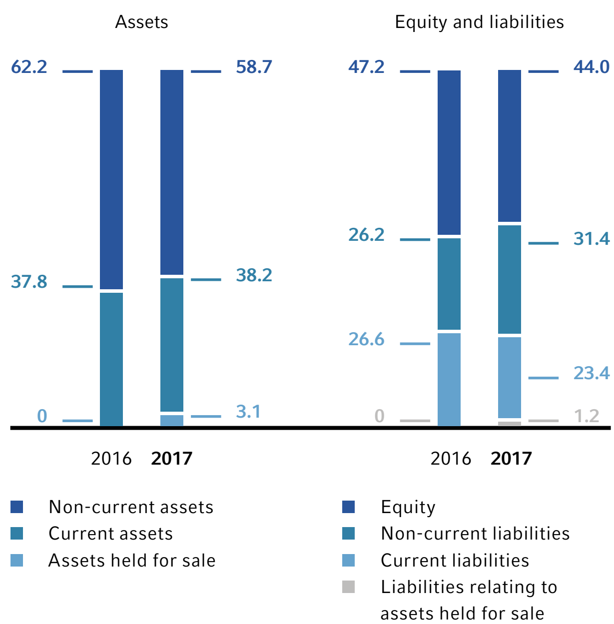
Working capital (inventories and trade receivables) was up by EUR 44.3 million year on year and amounted to EUR 672.2 (627.9) million as of the end of the reporting period. Adjusted for currency effects and the effect of the Hug reclassification, working capital increased by EUR 101.6 million. Around seven-tenths thereof were attributable to inventories and around three-tenths to trade receivables. Inventories increased as a result of strong revenue growth. At the same time, solid order intake prompted an increase in tool-related inventories. Product specific tools are accounted for in inventories until they are invoiced to the customer. The rise in prices for many raw materials also tended to effect an increase in inventories. In addition, stock levels increased in the Aftermarket segment. Targeted measures were implemented here in order to be able to ensure short-term delivery capability for the very broad product range in spare parts distribution.

Net working capital (inventories and trade receivables less trade payables) increased slightly to EUR 553.3 (524.6) million, corresponding to a ratio of 33.3% (33.7%) of consolidated revenue. Adjusted for the Hug reclassification, net working capital accounted for a 34.6% share of consolidated revenue. The factors outlined above had an impact on the direction taken by working capital in the period under review. The Group had originally set itself a target of improving the ratio year on year, which it was unable to achieve for this reason.

Other current assets amounted to EUR 48.1 (39.2) million at the end of the financial year. These include receivables from third parties, which arose from reimbursement claims against insurance companies in connection with warranty incidents, and which were higher than the prior-year figure.

At the end of the reporting period, the other asset-side items in the statement of financial position did not give rise to any material changes compared with the end of the previous year's reporting period.

Structure of the ElringKlinger Group's statement of financial position
in %



Equity of EUR 890 million

As of the end of the reporting period, consolidated equity had increased slightly to EUR 889.7 (886.4) million. Foreign currency translation differences, which are recognized directly in other comprehensive income, had a material effect on the development of equity. These differences reduced equity by a total of EUR 42.7 million year on year and were recognized for the most part (EUR 41.5 million) under other reserves.

Net income for the 2017 financial year increased equity by EUR 73.8 million. Equity was reduced by the dividend distribution for the previous financial year, totaling EUR 34.2 million. In addition, the part of pension provisions remeasurement recognized outside profit or loss resulted in a further increase of EUR 4.1 million.

As of the end of the reporting period, the equity ratio was 44.0%, compared with 47.2% at the end of the previous year, and was therefore within the Group's target range of 40 to 50% for 2017.

Slight decrease in pension provisions

Provisions for pensions, which were remeasured at the end of the year based on current actuarial interest rates and other factors, declined slightly to EUR 126.0 (136.6) million.

[1] Loan granted to the company against a form of promissory note

Slightly higher discount rates resulted in a lower actuarial present value of future Group obligations. The reclassification of pension provisions relating to the Hug Group, which is up for sale, also reduced the carrying amount at the end of the year.

The other non-current and current provisions totaled EUR 35.3 (30.9) million at the end of the year. The increase was in particular attributable to higher warranty obligations arising from a number of business transactions. Further changes in provisions resulted from personnel-related obligations and other risks.

Financial instruments expanded to include Schuldscheindarlehen

The Group covered its financing requirement over and above its cash flows from operating activities with borrowings. In the 2017 financial year, ElringKlinger met this requirement by issuing a so-called Schuldscheindarlehen (loan granted to the company against a form of promissory note) for the first time, which has a volume of EUR 200 million. This enabled Group financing to be diversified at attractive terms. The Schuldscheindarlehen is divided into three separate tranches with maturities of five, seven, and ten years, respectively, and bears interest at an average rate of 1.23%. Non-current financial liabilities increased accordingly, amounting to EUR 478.8 (320.8) million at the end of the 2017 financial year. Due to refinancing measures following the issue of the Schuldscheindarlehen, current financial liabilities were reduced to EUR 221.9 (257.4) million.

Trade payables increased to EUR 118.8 (103.2) million, due to the expansion of business.

As a result of growth, the Group's net debt (non-current and current financial liabilities less cash) was up at EUR 655.3 (538.8) million as of the end of 2017 financial year.

There were no notable changes in other current liabilities, which totaled EUR 95.5 (96.5) million as of December 31, 2017. As in the previous year, this figure includes a put option (EUR 34.8 million) for non-controlling interests in the ElringKlinger Marusan Corporation, Tokyo, Japan.

As of the end of the reporting period, the ElringKlinger Group's liabilities corresponded to a 54.8% (52.8 %) share of the balance sheet total – excluding liabilities from the assets held for sale (EUR 23.7 million).

Cash Flows

The ElringKlinger Group's financial situation in terms of cash flow was very robust at the end of the 2017 financial year. The Group generated EUR 95.5 million in net cash from operating activities, which was used for the purpose of financing investments and acquisitions. Furthermore, the Group had sufficient cash funds and financial scope to maneuver in the form of undrawn credit lines. Despite far-reaching investments aimed at expanding operations in response to projected business growth, capital expenditure was down in the year under review. Regardless of this, however, the overall investment volume exceeded net cash from operating activities, as a result of which operating free cash flow was in negative territory.

Cash flow from operating activities at EUR 96 million

The ElringKlinger Group generated net cash from operating activities of EUR 95.5 (175.7) million, derived from positive earnings before taxes of EUR 110.1 (124.1) million. The year-on-year decline in operating cash flow is mainly attributable to the higher absorption of funds in net working capital (inventories and trade receivables less trade payables).

Within the statement of cash flows, cash absorbed or released in respect of net working capital is reflected in the items presented as "Change in inventories, trade receivables, and other assets not attributable to investing or financing activities" and "Change in trade payables and other liabilities not attributable to investing or financing activities." In total, this resulted in a cash outflow of EUR 87.8 million, compared to EUR 3.7 million in the previous year. This contrasts with the accretive effect of currency translation, equivalent to EUR 11.4 (1.7) million, which has been accounted for in other non-cash expenses and income.

Depreciation and amortization (less write-ups) of non-current assets increased by EUR 5.4 million year on year, thus augmenting cash flow derived from earnings. Changes in provisions had the same effect; they were up by EUR 6.8 million year on year and are discussed in further detail in the section covering the Group's financial position as well as in the notes to the consolidated financial statements.

Income taxes paid in the 2017 financial year amounted to EUR 50.6 (43.6) million, which resulted in a corresponding outflow of cash.

Investments scaled back to around 9% of Group revenue

After particularly substantial investments in the two preceding financial years, capital expenditure on property, plant, and equipment was scaled back to a lower level in 2017, as planned. Capital expenditure on property, plant, and equipment and investment property totaled EUR 155.5 million in 2017, compared to EUR 171.3 million a year ago. The investment ratio, i.e., capital expenditure in relation to Group revenue, thus stood at 9.3% (11.0%).

To a comparatively large extent, investment spending was attributable to expansion measures prompted by a number of factors. They included capacity utilization levels that were very high at several plants due to buoyant demand as well as preparations for new product ramp-ups. The Group's strategic focus on new products tailored to the requirements of next-generation drive units and technologies, such as innovative lightweight components used in battery and fuel cell systems, also necessitated investment. As a result, more than 90% of capital expenditure was directed at the Original Equipment segment.

From a regional perspective, the emphasis was on Germany and the Rest of Europe, closely followed by NAFTA and the growth region of Asia-Pacific.

There were a number of specific projects of importance to the Group implemented at various sites around the globe. After around twelve months of construction work, a highly automated logistics building used by the Lightweighting/Elastomer Technology division commenced operations at ElringKlinger's headquarters in Dettingen/Erms, Germany, during the third quarter of 2017. Alongside the benefits of optimized logistical processes, this has also freed up space for production purposes.

After an equally brief construction period, ElringKlinger opened a plant in Kecskemét, Hungary, for the ramp-up of production for lightweight door module carriers. In addition, the plant will provide space for the manufacture of shielding parts in future. Capital expenditure on production technology was also directed at plants located in the NAFTA region. In Fremont, USA, ElringKlinger Silicon Valley, Inc., launched the production of cockpit cross-car beams as from mid-2017. The Canadian site in Leamington invested in new production lines for the manufacture of plastic housing modules. The Chinese plants also made expansion and replacement investments in the year under review. For Changchun, the main emphasis was on new manufacturing equipment for products made within the Specialty Gaskets and Cylinder-head Gaskets divisions, while the site in Suzhou focused on machinery required for the ramp-up of lightweight components. Established in 2017, the plant in Chongqing began preparations for production lines to be used in the manufacture of door module carriers.

At EUR 10.7 (11.8) million, expenditure on intangible assets was slightly lower in fiscal 2017 compared to the previous year.

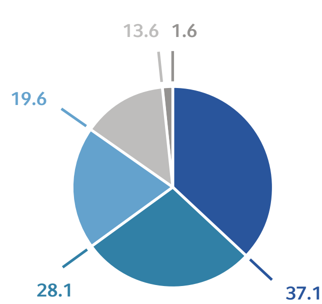
In January, the Group recorded a net outflow of EUR 27.7 million for the acquisition of hofer AG (associate) and its subsidiary hofer powertrain products GmbH (fully consolidated), both based in Nürtingen, Germany, in a deal closed during the first quarter of 2017.

In total, net cash used in investing activities amounted to EUR 193.2 (189.7) million in 2017.

Operating free cash flow in negative territory

Owing to the developments outlined above, funding required for investments in property, plant, and equipment could not be covered entirely by cash generated from operating activities. This resulted in negative operating free cash flow (cash flow from operating activities less cash flow from investing activities, adjusted for payments in respect of acquisitions and investments in financial assets) of EUR -66.6 (-3.8) million; as expected, this operating free cash flow was down on last year's figure. The Group's original target of operating free cash flow just within positive territory was adjusted in November 2017.

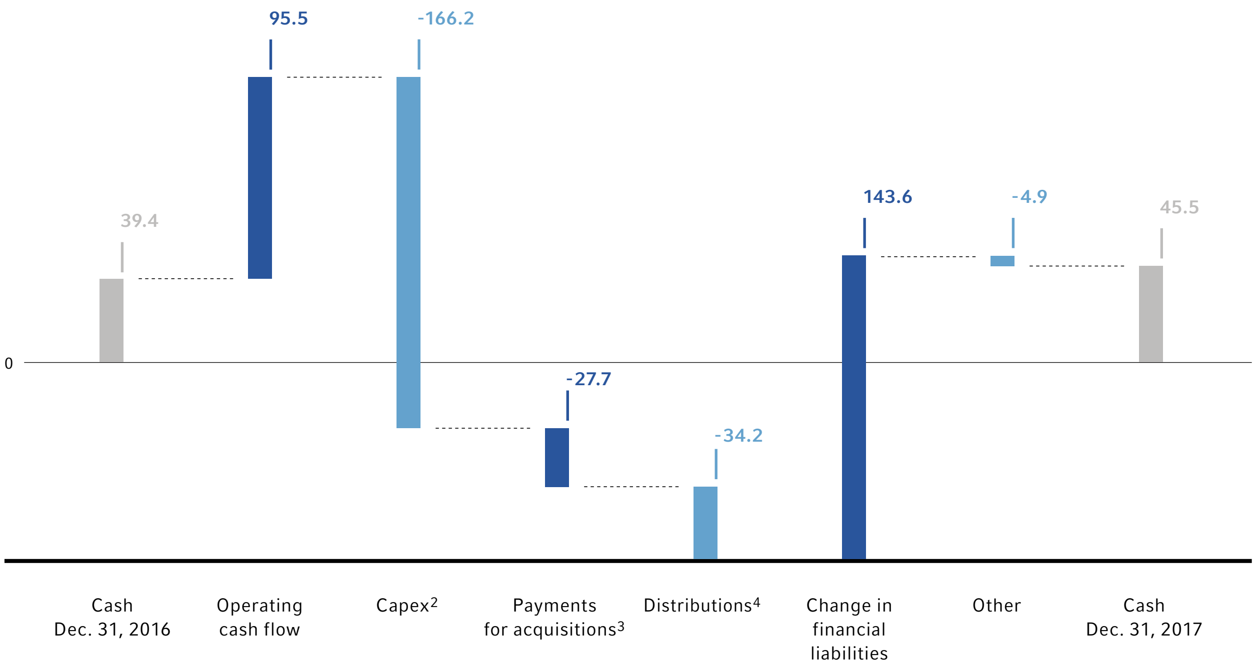
Investment[1] spending by region
(previous year) in %



Germany	**37.1**	(39.5)
Rest of Europe	**28.1**	(20.2)
NAFTA	**19.6**	(24.1)
Asia-Pacific	**13.6**	(14.6)
South America and Rest of the World	**1.6**	(1.6)

[1] Investments in property, plant, and equipment, investment property, and intangible assets

Changes in cash 2017[1]
in EUR million



[1] Does not correspond to IAS 7 presentation
[2] Investments in property, plant, and equipment, investment property, and intangible assets
[3] Including payments for the acquisition of an associated company
[4] Distributions to shareholders and non-controlling interests

Expansion of financing activities

Cash flow from financing activities was dominated by the Schuldschein issuance covering a volume of EUR 200 million, as described in the chapter outlining the Group's financial position, and the associated refinancing of Group liabilities. Alongside a net inflow of EUR 143.6 (42.3) million due to changes to short- and long-term loans, the Group also benefited from an improved maturity structure. Dividend payments for the preceding financial year resulted in a cash outflow of EUR 34.2 (37.7) million in 2017.

In 2017, net cash from financing activities amounted to EUR 109.3 (4.5) million. As of December 31, 2017, the Group also had at its disposal approved yet undrawn lines of credit totaling EUR 136.1 million.

Overall assessment by the Management Board of the financial position, financial performance, and cash flows of the Group

ElringKlinger was again able to expand Group revenue substantially and beyond global market growth in the 2017 financial year, propelling the figure to a new all-time high. Group earnings before interest, taxes, and purchase price allocation (EBIT before ppa) improved slightly. This was attributable partly to progress made at the site in Switzerland, which had recorded significant exceptional charges in the previous year due to high levels of capacity utilization. In the financial year under review, substantial volumes requested by customers at the North American sites as part of their production scheduling, together with higher raw material prices, exerted downward pressure on earnings. At 8.5%, the EBIT margin before purchase price allocation was satisfactory. Compared with the industry as a whole, this figure remains high.

Operating free cash flow, which is of relevance to internal financing, took a direction that deviated from that projected at the beginning of the year. This was attributable to the additional costs outlined above as well as an increase in funds tied up in inventories, which were higher in response to the Group's more expansive business. Nevertheless, with a Group equity ratio of 44.0% and sufficient cash and cash equivalents, the Group's financial and asset structure remains very solid. Furthermore, ElringKlinger extended its financial scope in 2017 through a Schuldschein issuance covering EUR 200 million. This has created a solid foundation when it comes to financing future growth.

The Group is well placed to tackle the transition facing the automotive industry. During the 2017 financial year, ElringKlinger further enhanced its strategic positioning within the promising fields of lightweighting and e-mobility. The Group also benefits from a broad customer base and an attractive product range that has established a strong vantage point within the competitive arena – a good basis for sustained business development in the future.

Thus, the ElringKlinger Group has the necessary financial and operational foundations to pursue its pioneering technological route and realize its growth targets for revenue and earnings – and to maintain this momentum in the long term.

Financial Performance, Net Assets, and Cash Flows of ElringKlinger AG

As in previous years, the management report of ElringKlinger AG and the Group management report have been brought together in a combined format. The business performance for ElringKlinger AG, as outlined below, is based on its annual financial statements, which have been prepared in accordance with the provisions set out in the Commercial Code (Handelsgesetzbuch – HGB) and the additional requirements of the Stock Corporation Act (Aktiengesetz – AktG).

ElringKlinger AG generated growth in all regions during 2017 and succeeded in emulating last year's performance in terms of net income. The company remained solid with regard to its net assets and cash flows, recording an equity ratio of around 44% together with positive operating cash flow as of December 31, 2017.

Sales and Earnings Performance of ElringKlinger AG

Substantial expansion in revenue

ElringKlinger AG benefited from its broad customer base and the strong performance of specific sales markets in the period under review. Revenue, for example, was expanded by EUR 52.2 million, or 8.4%, to EUR 674.4 (622.2) million in the 2017 financial year. As a result, the company exceeded the projected target presented in the 2016 annual report: to increase revenue by three to five percentage points above global market growth.

Revenue from domestic sales developed particularly well, up by 11.3% or EUR 25.3 million on the prior-year figure. ElringKlinger AG generated EUR 248.7 (223.4) million in total. Essentially, this figure also includes revenues from the supply of components for vehicles and engines that are exported directly subsequent to production.

Revenue from foreign sales rose by 6.7% to EUR 425.7 (398.8) million in 2017, with all regions exceeding their prior-year figures. In absolute terms, the Rest of Europe developed particularly well, accounting for revenue growth of EUR 13.8 million, although the Asia-Pacific sales region also put in a very impressive performance and exceeded last year's figure by 13.9%. Due to strong growth at a domestic level, the percentage share of foreign sales fell to 63.1% (64.1%).

Sustained growth for Original Equipment

Having gained 4.8% in sales revenue last year, the Original Equipment segment grew by a further 9.4%, or EUR 45.8 million, to EUR 530.6 (484.8) million in 2017. The share of segment sales in total revenue generated by ElringKlinger AG rose to 78.7% (77.9%). Within the individual divisions, the largest revenue gains in absolute terms were recorded by Lightweighting/Elastomer Technology and Specialty Gaskets.

Further expansion of Aftermarket business

Despite a number of geopolitical tensions, the Aftermarket segment put in another strong performance in many of the markets served by the company. The segment grew by 4.7% – from EUR 137.0 million in 2016 to EUR 143.5 million in the period under review. The share of total revenue attributable to this segment fell to 21.3% (22.0%). The three largest sales markets – Eastern Europe, the Middle East, and Germany – developed along different lines in the period under review. While Eastern Europe maintained its forward momentum, the Middle East failed to match its strong prior-year performance.

Year-on-year increase in total operating revenue

Inventory changes in finished goods and work in progress increased by EUR 4.9 million to EUR 5.8 (0.9) million in the financial year under review. This was attributable primarily to the significant expansion in business as well as a year-on-year increase in tool-related inventories. Work performed by the enterprise and capitalized was up only slightly at EUR 1.5 (1.3) million. Total operating revenue, i.e., revenue +/- inventory changes +/- work performed by the enterprise and capitalized, increased by EUR 57.4 million, or 9.2%, year on year, taking the figure to EUR 681.7 (EUR 624.3) million in 2017.

Other operating income fell by EUR 1.9 million to EUR 16.6 (18.5) million. Among the principal factors were write-ups relating to financial assets, which were down from EUR 6.5 million to EUR 0.0 million. By contrast, foreign exchange gains rose by EUR 5.5 million to EUR 7.8 (2.3) million.

Cost of materials impacted by rising commodity prices

At ElringKlinger AG, the adverse effects of material price rises on operating profit were significant in 2017. This applied in particular to high-grade steels, aluminum, and C-steel, which are required by ElringKlinger AG in relatively large quantities for production purposes. As a result of these price trends, the cost of materials rose by 10.6%, i.e., faster than revenue growth, taking the total to EUR 301.6 (272.6) million. The cost-of-materials ratio (cost of materials in relation to total operating revenue) thus rose to 44.2% (43.7%).

Further rise in headcount

Personnel expenses increased by 9.5% to EUR 197.8 (180.6) million in the 2017 financial year. This was attributable to several factors. First, ElringKlinger AG expanded its workforce by 9.2% to 2,930 (2,682) people in response to strong growth. 98.0% of HR upsizing was attributable to divisions within the Original Equipment segment. The Aftermarket segment only saw a marginal rise in its headcount to 112 (107). Secondly, personnel expenses were also fueled by the increase in wages and salaries by 2.0% under collective agreements, which have applied since April 2017 to all domestic companies covered by union regulations. The actuarial interest rate, which is based on the interest rate spectrum of federal bonds, fell to 3.7% (4.0%). As a result, among other things, expenses recognized in the income statement as "social security and other benefit costs" rose by EUR 5.5 million in total to EUR 34.0 (28.5) million. Contrasting with the above-mentioned increase in costs, the staff profit-sharing bonus agreed for employees at ElringKlinger AG in respect of fiscal 2016 was lower than a year ago at EUR 4.2 (4.5) million.

Calculated in relation to total operating revenue, the personnel expense ratio for 2017 remained largely unchanged year on year at 29.0% (28.9%).

Other operating expenses amounted to EUR 98.8 (83.6) million. This includes several items that were up slightly year on year. In this context, the most pronounced increase was attributable to expenses from currency translation, which rose by EUR 6.5 million to EUR 9.2 (2.7) million. Having offset this figure against foreign exchange gains recognized in other operating income, the net result of currency translation was EUR -1.4 (-0.4) million in 2017.

Depreciation/amortization up by almost EUR 2 million

Depreciation and amortization of intangible fixed assets and tangible fixed assets rose to EUR 33.1 (31.2) million in the 2017 financial year due to the completion of further infrastructure and automation projects.

Earnings before interest, taxes, and equity investments impacted by higher costs

In line with the projections presented in the 2016 annual report, the 2017 financial year was influenced by key factors such as higher material and personnel expenses. Additionally, the prior-year period had included higher write-ups in other operating income. In total, ElringKlinger AG recorded earnings before interest, taxes, and equity investments of EUR 67.0 (74.8) million. At 9.9% (12.0%), the EBIT margin fell short of the previous year's figure.

Higher income from affiliated companies

Income from equity investments rose by EUR 1.4 million, or 7.4%, to EUR 20.3 (18.9) million in the 2017 financial year. This was attributable mainly to distributions by ElringKlinger Canada, Inc., Leamington, Canada, and Changchun ElringKlinger Ltd., Changchun, China, which were higher than in the previous year. On balance, write-downs and write-ups produced a negative (previous year: positive) earnings effect of EUR 5.0 (+0.5) million. As a result, income from equity investments was down by EUR 4.1 million year on year to EUR 15.3 (19.4) million.

Interest result slightly improved

Due to the consistently favorable level of interest rates, net interest costs were again lower in 2017 at EUR 6.8 (7.3) million despite higher net debt.

Net income up after lower tax expense

Income taxes amounted to EUR 15.0 (21.4) million in the period under review. The tax rate (income taxes in relation to earnings before taxes) fell to 19.9% (26.6%). The year-on-year reduction is attributable to aperiodic tax income as well as non-taxable investment income. Following a substantial increase in post-tax profit a year ago, the company achieved further growth in this area as a result of lower tax expenses. Post-tax profit rose by 2.5% to EUR 60.5 (59.0) million. Having deducted other taxes, ElringKlinger AG posted net income of EUR 60.2 (58.8) million for the 2017 financial year.

Proposed dividend of EUR 0.50

After allocating EUR 28.5 (27.1) million to other revenue reserves, the net retained earnings (i.e. distributable profit) of ElringKlinger AG, from which dividend payments are distributed, amounted to EUR 31.7 (31.7) million. In view of this, the Management Board and Supervisory Board will propose to the Annual General Meeting resolving on the 2017 financial year a dividend of EUR 0.50 (0.50) per share. Thus, the dividend ratio is 52.7% (53.9%).

Net Assets of ElringKlinger AG

ElringKlinger AG's asset structure is influenced by the fact that it acts as a holding company, while at the same time being engaged in operating activities. As a result, financial assets account for slightly more than half of its fixed assets. They mainly consist of interests in affiliated companies and equity investments.

Total assets increased by EUR 199.4 million to EUR 1,316.2 (1,116.8) million as of December 31, 2017, which was attributable primarily to loan extensions to subsidiaries and additional acquisitions with regard to affiliated companies and equity investments.

In the context of operating activities, ElringKlinger AG made investments in production machinery for various divisions and at several sites in Germany. They were required not only for ramp-ups but also for capacity expansion and streamlining. The largest investment project was the construction of a new logistics center for the Lightweighting/Elastomer Technology division in Dettingen/Erms. Tangible fixed assets rose by EUR 17.6 million to EUR 343.2 (325.6) million as of December 31, 2017.

Financial assets totaled EUR 486.7 (448.0) million at the end of the reporting period. They include, in particular, interests in affiliated companies, which rose by EUR 12.8 million to EUR 428.6 (415.8) million as of December 31, 2017. Write-downs as part of annual impairment testing as well as capital increases at subsidiaries in Hungary and China were accounted for in this item. In addition, interests were acquired in hofer powertrain products GmbH, Nürtingen, Germany, as part of a capital increase. The acquisition of a 27.0% interest in hofer AG, Nürtingen, Germany, resulted in an addition in the sub-line item "Equity investments" of EUR 29.0 million in the first quarter of 2017.

Loans to affiliated companies fell to EUR 28.7 (31.7) million as of December 31, 2017. By contrast, ElringKlinger AG expanded its current loans to subsidiaries by a substantial margin for the purpose of covering their funding requirements for sustained growth. These loans are accounted for in receivables from affiliated companies and presented under current assets. They amounted to EUR 227.3 (118.5) million at the end of the reporting period.

Against the backdrop of more expansive business, inventories rose by 14.9%, or EUR 18.7 million, to EUR 144.5 (125.8) million, while trade receivables increased to EUR 93.6 (82.2) million. Part of the increase in inventories was due to the Aftermarket business, the purpose being to safeguard its short-term delivery capabilities for a broad product range. Among other items, the receivables were attributable to tools sold to customers within the series production business.

Fixed assets and current assets accounted for 63.8% (70.0%) and 36.1% (29.8%) of total assets respectively at the end of the reporting period. Additionally, there was a small amount of prepaid expenses.

Equity ratio of ElringKlinger AG at 44%

Net income generated by ElringKlinger AG in 2017, amounting to EUR 60.2 million, exceeded the dividend payout in respect of the previous financial year (EUR 31.7 million) by EUR 28.5 million. Correspondingly, shareholders' equity rose to EUR 584.6 (556.1) million in total. Despite this, the equity ratio fell to 44.4% (49.8%), as the balance sheet total expanded at a much faster rate. This was due mainly to a rise in liabilities to banks, up at EUR 541.3 (383.6) million. This figure includes the Schuldscheindarlehen of EUR 200 million placed in July 2017, which was used for the purpose of general corporate financing, in particular to refinance existing liabilities. Overall, liabilities attributable to ElringKlinger AG stood at EUR 623.5 (447.2) million. They accounted for 47.4% (40.0%) of the balance sheet total as of December 31, 2017.

Provisions fell slightly to EUR 107.8 (109.9) million due to the reversal of a tax provision item. Pension provisions increased to EUR 68.9 (65.9) million, primarily due to the annual remeasurement of existing obligations.

Cash Flows of ElringKlinger AG

Cash flow from operating activities at EUR 76 million

ElringKlinger AG generated net cash from operating activities of EUR 75.7 (105.4) million. The decline in operating cash flow compared to the previous year was attributable primarily to a higher additional absorption of funds in inventories as well as trade receivables. The year-on-year change in both of these items diluted cash flow by EUR 30.6 million in the financial year under review (previous year: up by EUR 8.7 million). Additionally, at EUR 25.5 (18.9) million, income tax payments were slightly higher than in the previous financial year.

Net cash used in investing activities amounted to EUR 95.9 (65.4) million in 2017. Almost half of this figure was attributable to cash outflows for investments in tangible fixed assets totaling EUR 47.8 (54.5) million. Outflows for investments in financial assets accounted for almost the same volume. They totaled EUR 47.3 (13.7) million and include the purchase consideration for the above-mentioned acquisition of interests in entities of the hofer Group as well as the increase in capital at two subsidiaries, as discussed earlier.

Net cash from financing activities was EUR 20.2 (-40.1) million. As of December 31, 2017, undrawn lines of credit available to ElringKlinger AG totaled EUR 98.3 million.

The statement of cash flows was again prepared according to the provisions set out in GAS 2.

The full annual financial statements of ElringKlinger AG (in accordance with HGB) have been published online at www.elringklinger.de/investor/2017-gbag-en.pdf.

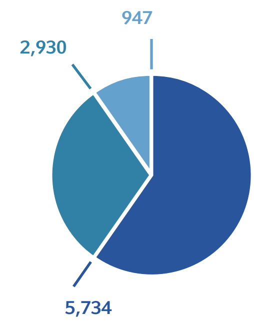
People

As a technology group, ElringKlinger depends on the expertise, dedication, and innovative powers of its people. They form the basis for the company's success. In return, ElringKlinger endeavors to create an attractive and motivating workplace environment that allows staff to think and act independently.

Further expansion of workforce

As the volume of business rose in 2017, ElringKlinger expanded its personnel capacity. In the reporting year, an average of 9,001 (8,322) employees worked for the Group. As of December 31, 2017, ElringKlinger had 9,611 (8,591) staff members worldwide, equivalent to an increase of 11.9% or 1,020 people. Overall, the proportion of female employees rose to 28.4% (27.9%) as the proportion of male employees fell to 71.6% (72.1%). At 3,877 (3,556), the number of employees at the German sites of the ElringKlinger Group was up by 9.0% as of December 31, 2017. The change to the scope of consolidation (hofer) added 24 employees to the total headcount as of December 31, 2017. As of the end of the reporting period, 2,930 (2,682) people were working at the sites of parent company ElringKlinger AG in Dettingen/Erms, Gelting, Runkel, Langenzenn, Lenningen, and Thale. The percentage share of employees working for the German companies of the ElringKlinger Group fell over the course of the year and stood at 40.3% (41.4%) at the end of the reporting period.

ElringKlinger Group employees worldwide
as of Dec. 31, 2017 (previous year)



Foreign subsidiaries	**5,734**	(5,035)
ElringKlinger AG	**2,930**	(2,682)
Domestic subsidiaries	**947**	(874)

The Group has been increasing its staffing levels outside of Germany significantly, with the North American region accounting for the largest absolute increases in personnel.

Headcount data for the ElringKlinger Group

	2017	2016
Absolute number of employees	9,611	8,591
Of which men	71.6%	72.1%
Of which women	28.4%	27.9%
Absolute number of employees	9,611	8,591
Of which domestic	40.3%	41.4%
Of which abroad	59.7%	58.6%
Average number of employees	9,001	8,322

At the production sites in Mexico and the USA, in particular, new jobs were created thanks to high capacity utilization in 2017. Moreover, the Group adjusted its headcount at both sites in line with progress made with production relocations from Switzerland to Hungary. The factory in Brazil also performed well, with increases in demand reported for the first time after a long period of economic malaise; staffing levels were expanded accordingly. As of December 31, 2017, the proportion of Group employees abroad was up at 59.7% (58.6%). The staffing level abroad thus rose by 13.9%, or 699 people, to 5,734 (5,035) employees.

Procurement and Supplier Management

As a manufacturing business, ElringKlinger procures raw materials, goods, and services around the world. Active purchasing and goods control plays a major part in the success of the Group, ensuring all purchased parts are cost-effective and available on time and in the right quantities.

Strategic refinements to procurement activities

In the 2017 financial year, ElringKlinger transformed the purchasing structure, which had previously been focused to a large extent on regional needs, into a matrix organization. From now on, vertical lines are responsible for processes, systems, and structures; horizontal lines are overseen by specialist commodity managers, taking on technical responsibility for certain material and commodity groups across the organization. In this way, the Group is able to pool the purchase volumes of its factories in the best possible manner, analyze markets in detail, and select strategic suppliers for future purchase volumes around the world according to need.

Aside from organizational enhancements, the focus for the procurement team was on further strategic projects in the year under review. They included the establishment of procurement controlling for the optimized planning, monitoring, and control of purchasing activities. Moreover, a new software package was chosen for the tendering and award process; it will be introduced in 2018. In 2017, ElringKlinger started integrating price escalation clauses into customer contracts in order to reduce dependence on material price rises over the long term.

Supplier management

Even though ElringKlinger aims to avoid dependence on individual suppliers wherever possible, requirements are increasingly pooled to produce savings through economies of scale. In 2017, the 30 biggest suppliers accounted for 23% (19%) of the total purchase volume.

ElringKlinger undertakes supplier audits at random intervals to verify compliance with VDA 6.3 standards at supplier production plants. On the basis of audit findings, improvement measures for implementation within defined periods are agreed with a view to developing supplier capabilities over time. During the financial year under review, the department carried out supplier audits in Europe, the Americas, and Asia. Supplier evaluations are also carried out regularly to assess delivery reliability, supply quality, and service levels, among other things. In particular, the widespread globalization of purchasing processes necessitated further internationalization of the supplier audit team in 2017.

High utilization of production capacity raises material costs and purchase volumes

Thanks to continual development of the Group's purchasing organization, raw materials and services can be procured at competitive rates. Materials constitute one of the biggest expense items for the ElringKlinger Group. In 2017, materials accounted for 54.2% (54.2%) of the cost of sales for the Group; the cost-of-materials ratio was 40.9% (40.5%). The overall purchase volume includes raw materials, consumables, and supplies as well as merchandise for the independent Aftermarket segment and investments in land, real estate, and property, plant, and equipment. In response to the significant increase in business activity in 2017, the purchase volume rose to EUR 1,067.8 (1,030.3) million in the period under review.

The most important raw materials used by ElringKlinger include alloyed high-grade steels (and especially chromium-nickel alloys), carbon steel, aluminum, polyamide-based polymer granules, and elastomers as well as polytetrafluoroethylene (PTFE) in the Engineered Plastics segment. The purchase of components required for the production of battery and fuel cell systems is also becoming increasingly important.

ElringKlinger concludes framework agreements with suppliers for the main material groups. The Group also guards against volatile price trends over the term of the contract, while guaranteeing the availability of materials and limiting exchange rate risk. In the 2017 financial year, ElringKlinger tended to sign framework agreements with shorter terms, as the prices of many raw materials remained high during the year under review.

Raw material prices continue to rise in 2017

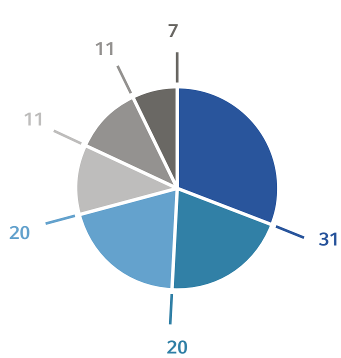
In 2017, high global demand for raw materials in the face of more severe shortages often led to steep price rises. In the case of carbon steel, for instance, significant price increases came about owing to a combination of robust demand and shortage of supply resulting from EU anti-dumping measures applied to steel imports from China. These two factors resulted in lengthening supply times during the 2017 financial year; in the short term, peaks in demand had to be covered through approved suppliers at high prices.

The ElringKlinger Group uses precision high-grade steel to produce cylinder-head and specialty gaskets. Over the course of 2017, the level of the associated alloy surcharge (which is exclusively traded on the stock exchange and cannot be fixed in framework agreements) initially fell, before reaching new highs by the end of the reporting year. Strong demand for aluminum on the global market also led to price rises, which were pronounced in some cases. ElringKlinger uses aluminum to produce shielding products. The premium payable for reworking the material was reduced somewhat over the same period. In the second half of 2017 especially, the price of the engineering plastic polyamide, which ElringKlinger increasingly requires to produce lightweight components, rose significantly. The increase was driven by high global demand for lightweight products, which are manufactured from high-performance plastics.

Proceeds from scrap rise amid high raw material prices

Using a centralized waste metal management system, ElringKlinger recovers and sells off metal residues that are the by-product of its various production processes. Given the rise in raw material prices throughout 2017, allied with

Breakdown of raw materials used in 2017
(previous year) in %



Other/components	**31**	(32)
Aluminium	**20**	(20)
High-grade steel	**20**	(19)
C-steel, coated and uncoated	**11**	(12)
Polyamides	**11**	(12)
Elastomers	**7**	(5)

high utilization of production capacity, revenue from scrap metal exceeded the previous year's level at EUR 38.1 (27.7) million.

Energy needs secured through long-term supply contracts

ElringKlinger meets the greater part of its electricity and gas requirement through long-term supply agreements. The long-range contracts agreed with existing suppliers in 2017 had terms up to and including 2021. The Group is able to address its energy requirement in flexible tranches, independently of energy prices specified by the market.

For example, the Group covers part of its energy needs through its own combined heat and power (CHP) units; waste heat produced at sites in Dettingen/Erms and Bietigheim-Bissingen, for example, is used for process cooling and air-conditioning systems.

Report on Opportunities and Risks

Risk management system

ElringKlinger has established an extensive risk management system for the purpose of identifying risk at an early stage. By monitoring markets, customers, and suppliers on a continual basis and maintaining detailed internal reporting and controlling processes, the company is able to gauge risk in a timely manner and seize market opportunities. The effectiveness and suitability of the risk management system itself is continually adapted and optimized in accordance with new requirements as they arise.

The risk management system is made up of various tools and control systems. Among the key components are strategic corporate planning and internal reporting. Planning enables potential risks to be identified and taken into account when making critical and far-reaching decisions. All key areas within the company are involved in strategic Group planning. Within this context, information is retrieved, collated, and evaluated in a standardized process. The Management Board bears overall responsibility. Internal reporting is used to monitor and control business performance. A key component of the risk management system is regular reporting by the management of the respective domestic and foreign Group companies as well as the divisions, which is performed on a half-yearly basis. It covers developments in all fields relevant to the company that can affect business activity and, in particular, the continuation of the ElringKlinger Group as a going concern. The focus is primarily on changes to the economic or political situation, new regulatory requirements, technological developments, commodities markets, and internal risks. This reporting system involves identifying and evaluating all risks and subsequently drafting recommendations on how to prepare for and protect against them. The Chief Financial Officer is responsible for coordinating these activities. This approach is designed to ensure that risks are identified at an even earlier stage and measures aimed at avoiding or mitigating such risks can be implemented rapidly.

The Management Board assesses the aggregate risk and submits regular and comprehensive reports on its findings to the Supervisory Board and the Audit Committee. Another important aspect of the centralized risk and quality management system deployed at the ElringKlinger Group is that of tracking the implementation of defined measures. The company considers risk management to be an all-embracing activity that encompasses not only the identification and assessment of risk, as outlined above, but also a system of preventive measures and contingency planning that has proven to be very effective.

Alongside regular reporting, internal audits are an important control mechanism and thus an essential element of the risk management system. Audits are carried out in the business and service divisions of ElringKlinger AG as well as at the Group companies. They are conducted by the Audit department in collaboration with external accountancy firms commissioned by ElringKlinger AG. The rationale behind the use of internal and external specialists is to ensure that risks are identified, statutory requirements are met, internal processes are reviewed, and potential for improvement is recognized. The findings of such audits are compiled in reports, which are directed in particular at the Management Board and the Chairperson of the Audit Committee within the Supervisory Board. The reports are evaluated, whereupon necessary measures are initiated. The execution of measures is monitored by the Management Board member whose remit covers this area; this Management Board member is also responsible for reviewing assessments conducted with regard to risk positions identified by the company. All relevant findings are discussed with the areas concerned in order to bring about improvements or rectify any weaknesses. During the 2017 financial year, audits were conducted at nine subsidiaries as well as two business and service divisions of ElringKlinger AG. None of the audits conducted within this context gave rise to any significant objections. Both statutory regulations and internal requirements were consistently met. The recommendations submitted with regard to potential areas for optimization have been put in place or are currently being implemented.

In accordance with the existing compliance system, the Chief Compliance Officer reports directly to the Chief Executive Officer. Additional Compliance Officers have been appointed for individual regions in which ElringKlinger is active; they report to the Chief Compliance Officer. The code of conduct forms an important part of the compliance system. It sets out binding rules for all employees of the ElringKlinger Group. Among other aspects, the code covers issues such as fair competition, corruption, discrimination, and the protection of confidential data. The code is distributed to all employees in the language of the country in which they are based. Staff members, and particularly management personnel, receive training relating to these issues. As part of training events conducted over the course of 2017, employees from sensitive areas such as Purchasing were instructed extensively on the legal requirements relating to the granting and acceptance of gifts/gratuities as well as on competition and anti-trust laws. These training seminars will be continued in 2018, particularly for personnel at foreign investees. The Chief Compliance Officer responded to all indications of compliance-related infringements in order to investigate the circumstances and initiate requisite measures. Where evidence suggested that an infringement may have occurred, the Management Board was informed accordingly. However, no significant infringements were reportable for 2017. For the purpose of refining its established compliance system, ElringKlinger is extending its current Whistleblower System to include a digital notification channel that can be used to report grievances. This will provide employees with another safe line of communication in order to pass on information on misconduct, violations of statutory provisions, and policy infringements. Beyond this, the Management Board is committed to adapting the existing compliance system to changing circumstances and the possibility of evolving risk exposure.

In order to reduce the liability risk from potential damage and any associated losses, the company has taken out appropriate insurance policies. The suitability of these policies, which also cover the Group companies, is subjected to regular review with regard to the actual risks covered and the level of cover provided. Where necessary, the policies are then amended.

Control and risk management system with regard to accounting

With regard to accounting and external financial reporting within the Group, the internal control and risk management system may be described with reference to the basic characteristics outlined below. The system is geared toward the identification, analysis, valuation, risk control, and monitoring of these activities. The structuring of the system in line with the specific requirements of the company is the responsibility of the Management Board and Supervisory Board. In accordance with the distribution of responsibilities within the company, the Finance department, which is in charge of accounting, comes under the remit of the Chief Financial Officer. This department, which also includes Controlling Affiliated Companies, controls accounting within the Group and ElringKlinger AG and compiles the information required for the preparation of the consolidated financial statements and the annual financial statements of ElringKlinger AG. The department Controlling Affiliated Companies is responsible, in particular, for monitoring and supporting the accounting processes of the Group companies. The Group companies report to the Chief Executive Officer.

The principal risks associated with the accounting process derive from the need to provide accurate and complete information within the specified time frame. This presupposes that the requirements have been clearly communicated and the departments responsible are placed in a position where they can meet those requirements.

ElringKlinger has compiled an accounting manual on the basis of International Financial Reporting Standards. All Group companies are required to apply the standards outlined in this manual as a basis of the financial reporting process. All the principal valuation standards such as those covering inventories, tools, and receivables under IFRS are specified in mandatory form within the manual. Mandatory accounting standards are also in use across the Group as a way of ensuring uniform treatment of the same issues.

All Group companies are obliged to comply with a predefined schedule for preparation of the Group financial statements. All Group companies are responsible for drawing up their separate financial statements in accordance with local accounting rules and the reporting packages pursuant to IFRS. Internal Group clearing accounts are reconciled with the help of confirmation of balances and the Group reporting system. Financial reporting by all the Group companies is conducted by means of a Group reporting system containing not only financial data but also information that is of importance to the notes to the consolidated financial statements and the combined management report of the ElringKlinger Group and ElringKlinger AG. The data and information are checked by the Finance department prior to release and consolidation.

SAP is used by all the German and the majority of the foreign subsidiaries within the ElringKlinger Group. As for the other companies, various IT systems are currently in use. SAP is to be introduced at other key companies within the Group. All implemented systems feature hierarchical access systems; all clearances are documented in the system. For companies that use SAP, access rights are managed centrally according to established rules. Access decisions are the responsibility of the Chief Financial Officer. Local management makes decisions on access in those companies that use other systems.

Among the risks that may affect the accounting process are, for instance, those associated with delays or errors in the entry of transactions or failure to observe the accounting manual and account allocation rules. In order to avoid mistakes, the accounting process is based on the separation of responsibilities and competencies, the automation of procedures, and plausibility checks for reporting purposes. Calculations are subject to continuous monitoring. Comprehensive and detailed checklists have to be worked through before the established reporting deadline. The accounting process is also incorporated into the ElringKlinger Group's risk management system as a way of identifying accounting-related risks at an early stage, allowing the company to take prompt action to anticipate and address potential risks.

As is the case with the other areas and functions of the company, accounting is also subject to the investigations conducted as part of internal auditing; these are performed by external accountancy firms. Accounting processes and procedures at ElringKlinger AG and its Group companies are reviewed in the course of regular internal audits. The findings are then used to make further refinements and improvements. For more information, please refer to the description of the risk management system.

Assessment of opportunities and risks

The following table presents an overview of material risks to which the ElringKlinger Group is exposed as well as key opportunities. Both the risks and the opportunities were graded according to the probability of occurrence and the potential financial impact. A probability of occurrence of 10% is considered "low," one of 40% is classified as "medium," and one of 80% is deemed "high." The potential financial impact is categorized on the basis of criteria ranging from "insignificant" to "significant." In this context, in the event of occurrence, "insignificant" refers to a potential impact on Group earnings before interest and taxes of less than 5%, "moderate" between 5 and 10%, and "significant" in excess of 10%. These factors are identified on the basis of a gross assessment, i.e., prior to possible measures aimed at risk mitigation. The overall potential with regard to risks and opportunities in relation to the respective category is derived from the interaction of probability of occurrence and potential financial impact. The assessment of opportunities and risks was performed as of the end of the reporting period, i.e., December 31, 2017. Reporting in respect of opportunities and risks is always based on a period of one year.

Opportunity and risk profile of the ElringKlinger Group

	Probability of occurrence			Potential financial impact		
Type of risk/opportunity	**low**	**medium**	**high**	**insignificant**	**moderate**	**significant**
RISKS						
Economic risks						
Economic and industry risks	x					x
Political risks		x			x	
General internal risks						
General internal risks, work-related accidents, fire	x				x	
Operational risks						
Price-related pressure/Competition			x		x	
Material risks/Supplier risks		x			x	
Customer risks	x				x	
Labor cost risks		x			x	
Personnel risks		x		x		
IT risks	x					x
Quality/Warranty risks		x			x	
Legal risks						
Legal risks/Compliance risks	x				x	
Strategic risks						
Technology risks			x			x
External growth/Acquisitions	x				x	
Financial risks						
Bad debt loss	x				x	
Liquidity and financing risks	x				x	
Currency risks		x			x	
Interest-rate risks	x				x	
Use of derivative financial instruments	x			x		
OPPORTUNITIES						
Climate change/Emission laws			x			x
Technology trends/New emissions regulations			x			x
Extension of product and service portfolio			x			x
New sales markets			x			x
Industry consolidation/M&A		x			x	

Economic risks

Economic and industry risks

The global vehicle markets tend to perform in line with prevailing economic trends. This applies to the truck segment even more so than to business relating to passenger cars. A substantial downturn in the economy represents a risk to demand and, ultimately, to vehicle production. This, in turn, could result in lower demand for ElringKlinger components.

Based on the latest assessment, risks relating to economic performance lie particularly in the uncertain outcome of negotiations with the United Kingdom concerning its withdrawal from the European Union as well as the recession in some emerging and developing countries, which, however, are of little relevance to world trade.

Forecasts issued by economists suggest that global economic growth will continue in 2018. The eurozone as a whole is expected to see a moderate improvement in its overall economic performance, similar to that projected for Germany. The US economy looks set to expand further, while the major emerging economies of India and China are also likely to enjoy a sustained upsurge. After years of stagnation, even Japan's economy is on the road to recovery. A significant slowdown in the global economy as a whole is considered unlikely. The International Monetary Fund has forecast global economic growth of 3.9% for 2018.

Based on general projections, the outlook for the automobile industry in 2018 is cautiously optimistic. Europe is expected to remain more or less as buoyant as in the previous year, whereas the US market as a whole is likely to cool slightly. China, meanwhile, is also showing relatively subdued signs of growth. By contrast, the expansion of India's car market and the recovery of markets in Brazil and Russia are seen as growth drivers. Fundamentally, growth will shift away from the established markets to the emerging and developing countries. Given its global presence with production and sales locations in the growth regions of the future, the Group is well placed to handle potential stagnation or waning demand in the traditional vehicle markets.

From today's perspective, a severe slump in vehicle production – comparable to the one seen in the crisis years of 2008/2009 – would not appear to be very likely. ElringKlinger anticipates that global car production will grow by around 2 to 3% in 2018 (cf. "Report on Expected Developments").

Benefiting from a broad customer base, ElringKlinger is not dependent on specific markets or individual manufacturers. Therefore, the effects of an economic slump in a particular region can be offset at least in part. Due to its flexible cost structures, ElringKlinger would be able to respond immediately to market conditions in the event of more severe economic turbulence. Instruments available to the company include flexitime accounts and flexible shift models as well as the option of issuing an application for short-time work. Furthermore, the company can react to changing market conditions by adjusting its staffing levels to demand patterns and by pooling the production quantities of individual plants. The central purchasing department would work in close cooperation with suppliers for the purpose of assessing and adjusting procurement volumes in a timely manner.

ElringKlinger factors in economic risks to an appropriate extent at the forward planning stage. The company always takes a cautious view of each macroeconomic scenario when drawing up budgets.

Political risks

Fundamentally, there is the potential that political decisions taken by national or international lawmakers will have a significant impact on the future business activities of the ElringKlinger Group, e.g., with regard to technological trends or sales regions.

The political situation in wide parts of the Middle East and North Africa as well as in some regions on the border to Russia remains volatile. Sales regions in these crisis hotspots are among those associated with risk in respect of ElringKlinger's business dealings. As regards the Original Equipment segment, these regions are of no particular direct relevance to business activities. By contrast, the Aftermarket segment is exposed to the risk of a loss in revenue; revenue from sales in the aforementioned regions in 2017 was a figure in the mid-double-digit million-euro range. As sales in these regions are billed in euros, customers' restricted access to foreign currency could result in delayed payments or, in the worst-case scenario, to default on such payments.

In Spain, an agreement between representatives of the separatist movement in Catalonia and the country's central government appears unlikely in the foreseeable future. The political crisis had been sparked off by an independence referendum on October 1, 2017, as part of which a majority of voters balloted for an independent Catalonia. On October 27, 2017, Catalonia's government voted in favor of a unilateral declaration of independence for the region. Subsequently, the parliament of Catalonia was dissolved by Spain's central government. In a snap regional election held on December 21, 2017, Catalonia's secessionist parties again won a narrow parliamentary majority. Provided that the political situation within the autonomous region of Spain is not further exacerbated, the ElringKlinger Group does not believe there will be a direct impact on its subsidiary Elring Klinger, S.A.U., based in Reus, Spain.

Following the United Kingdom's 2016 referendum to leave the European Union (Brexit), the British government formally triggered the process for the country to withdraw from the EU on March 29, 2017. Under the terms of Article 50, which governs withdrawal from the European Union, there is a negotiation period of up to two years. On this basis, at present, the United Kingdom is therefore likely to leave the EU in March 2019. These negotiations are focused on fundamental issues relating to future trading relationships, particularly with regard to customs arrangements. In the event of London and Brussels failing to reach an agreement on trade, World Trade Organization rules will apply. Given the uncertainties associated with these procedures, ElringKlinger currently considers the potential impact of Brexit negotiations on its subsidiary Elring Klinger (Great Britain) Ltd., Redcar, United Kingdom, to be significant.

Furthermore, the US government has announced a number of measures in support of the domestic economy. They include new tax regulations, tariffs on imported goods, and the suspension and renegotiation of the North American Free Trade Agreement (NAFTA). These measures could further inhibit the framework conditions governing global free trade. Depending on the nature of these action plans and the manner in which they are executed, the aforementioned changes may also have an impact on ElringKlinger. The Group operates within diversified structures that include three production sites in the Unites States, allowing it to produce and dispatch goods at a domestic level. However, products from plants in Mexico and Canada destined for the US market may potentially be subject to new regulations on customs duties and taxes.

Geopolitical tensions between the United States and North Korea became much more pronounced over the course of the reporting period. Near-term de-escalation in this conflict would appear unlikely, although it is difficult to predict future developments. If the United States were to impose sanctions on North Korea, ElringKlinger's subsidiary ElringKlinger Korea Co., Ltd., based in Gumi, South Korea, may be adversely affected.

Furthermore, ongoing public debate surrounding diesel technology is having a visible impact on consumer behavior. The share of diesel-powered vehicles among new registrations has been falling noticeably. What is more, the wrangle over possible inner-city driving bans, together with associated court judgments and the possibility of general quotas being introduced for electric vehicles, has caused uncertainty among the public. This may have further repercussions. A decline in general demand for vehicles would also have an impact on ElringKlinger.

General internal risks

General internal risks, work-related accidents, fire

Among the general internal risks that are not connected directly to the business model of the ElringKlinger Group are, primarily, work-related accidents and the risk of fire.

By applying preventive measures such as the implementation of safety standards applicable throughout the Group and the provision of safety briefings for personnel, ElringKlinger endeavors to mitigate the risk of work-related accidents to the largest extent possible. Where accidents do occur, the reasons and circumstances are investigated in depth and existing safety standards are adjusted accordingly in order to ensure a consistently high level of protection.

The risk of a fire occurring at operating sites is considered to be comparatively low. Fundamentally, however, it cannot be ruled out entirely. Alongside the risk of personal injury, a fire – with the associated downtime of operations over an extended period – poses the risk of substantial damage to property and significant costs for the repurchase of machinery and equipment. Production downtime and disruption to the supply of customers, however, can be ruled out to a large extent, as the Group is able to draw on its international manufacturing network for the purpose of offsetting a capacity shortfall through production at an alternative site or transferring such activities on a temporary basis.

The Group addresses the possible financial impact of fire damage well in advance through appropriate fire protection insurance policies. Insurance appraisers compile fire protection reports at all of the Group's operating plants. The suggestions included in the reports with regard to fire protection improvements are analyzed and implemented.

Operational risks

Price-related pressure/Competition

As a supplier to the automotive industry, ElringKlinger operates in a business environment that is generally considered to be highly competitive. Customers tend to demand price discounts as part of regular negotiations. Pressure on prices is to be seen as one of the largest individual risks to which the Group is exposed. In the wake of Dieselgate, this aspect has become even more pronounced.

In view of its abilities as an innovator and its strong position within the market, ElringKlinger considers itself relatively well placed as a supplier. However, requests for price reductions have become customary within this industry, and ElringKlinger is not completely immune to such demands. With a view to counteracting sustained price-related pressure, ElringKlinger's focus is on developing products with technological USPs and positioning itself in niche markets. Any remaining pressure on prices has to be offset to the largest extent possible by raising efficiency levels in production.

Competition within the automotive supply industry is intense. However, new competitors looking to penetrate the market are confronted with significant barriers to entry, as the business model and product portfolio of the ElringKlinger Group call for specialist expertise and competencies in materials processing, tool production, and process management (cf. "Overview of ElringKlinger's Activities and Structure").

Substantial investments would be needed by potential market entrants to establish the requisite plant technology. The machinery used by ElringKlinger is usually designed according to company specifications, i.e., it is not available as a standardized solution within the marketplace. To be financially viable, it is essential that plants produce large volumes. Experience has shown that initial orders placed with new suppliers tend to be relatively small in scale. However, these volumes are not sufficiently high to cover costs.

In some cases, a precondition made by manufacturers prior to awarding a contract to the ElringKlinger Group is that the products in question should be supplied from Eastern Europe. In this context, pricing as well as shorter distances to production sites operated by vehicle and engine manufacturers play a key role. Established in 2015, the subsidiary ElringKlinger Hungary Kft. is headquartered in Kecskemét-Kadafalva. Since 2016, it has been supplying serial components to plants in Hungary operated by German OEMs as well as to other customers in Europe. At the end of 2017, an additional, highly automated production plant for door module carriers commenced operations in Kecskemét. Elsewhere in Eastern Europe, ElringKlinger also operates a subsidiary specializing in tool construction – HURO Supermold S.R.L., Timisoara, Romania.

Additionally, through its international manufacturing network, the Group is able at any time to supply from plants with lower proportions of labor cost such as Brazil, India, Mexico, or Turkey to the extent that this is required in view of product composition or is requested by the customer.

Material risks/Supplier risks

Material costs constitute the single biggest expense item within the ElringKlinger Group. They accounted for 54.2% (54.2%) of the cost of sales in the 2017 financial year. Therefore, the direction taken by material prices is of particular significance to the company.

The raw materials primarily used within the ElringKlinger Group include alloyed high-grade steels, C-steel, aluminum, and polymer granules (cf. "Procurement and Supplier Management"). Prices relating to alloy surcharges (nickel, chromium, molybdenum) are subject to extreme volatility. They are added to the price of high-grade steel and cannot be fixed by contractual agreements.

In its negotiations with its raw material suppliers, ElringKlinger always concludes agreements that are as long term as possible. Any additional quantities required are procured at prevailing market prices. As commodity prices were high during the 2017 financial year, ElringKlinger negotiated contracts with shorter durations in some cases.

ElringKlinger works continuously on optimized product designs, improvements to production processes, and the qualification of new suppliers.

Looking to 2018, ElringKlinger anticipates that commodity purchase prices will continue to rise worldwide, particularly for steel. The steel market is expected to see prices rise yet again as a result of existing supply-side shortages, which are attributable to duties imposed on steel imports from China and Russia. The price of aluminum, which has surged during the last two years, is likely to stabilize at a high level or edge up slightly. On the whole, however, the risk of substantial increases in material prices can be considered moderate.

In some cases, ElringKlinger agrees cost escalation clauses with its customers. Where such clauses have not been negotiated in advance, upstream price rises that exceed cost estimates have to be passed on to customers. This involves a risk that higher costs cannot be passed on in full or only with some delay.

Metal waste produced as part of stamping processes is managed by the recycling service established for this specific purpose and is sold on. Potential cost increases can be offset, at least in part, by the proceeds from scrap sold in this way.

As part of its risk assessment, ElringKlinger monitors not only trends relating to material prices but also the actual availability of materials. In order to mitigate risks associated with bottlenecks or non-deliveries to the largest extent possible, ElringKlinger relies on close collaboration with its suppliers over the long term. The Group makes a point of planning its material requirements well in advance and is committed to a multi-supplier strategy in order to counteract the risk of production-related disruption or downtime. It qualifies and approves at least two suppliers with regard to significant materials and bought-in parts. Medium-sized and smaller suppliers are thoroughly assessed and monitored with regard to their financial strength, liquidity, and insurance cover; they also have to undergo extensive inspections at regular intervals. In fiscal 2017, the Group's top 30 suppliers accounted for 23% (19%) of its total volume of purchases. To the largest extent possible, ElringKlinger develops alternatives for commodities and materials that are either in short supply or that are subject to severe fluctuations in price.

However, the transition seen within the automotive industry also means that those fields of business focusing on new types of drive system, such as battery and fuel cell technology, are reliant on new materials. The quantities, price trends, and supplier structures associated with these new types of material are difficult to gauge from today's perspective. This exposure scenario is not covered by the material- and supplier-related risk scenarios presented to date and has to be taken into account accordingly as an additional factor.

Customer risks

A sudden decline in demand faced by a key customer may pose the risk, in turn, of a substantial reduction in the scheduled quantities of ElringKlinger components to be installed in this manufacturer's vehicles and/or engines.

In view of continuing public debate over diesel technology, customer risk has essentially become more pronounced in the automotive industry. Due to ElringKlinger's extensive product portfolio, which is not generally restricted to a specific type of drive system, and its diversified customer base, this is not expected to have a material impact on the Group, provided that the current decline in sales figures for diesel-powered vehicles does not lead to a general downturn in demand for vehicles. However, as demand for mobility will continue to rise worldwide, ElringKlinger anticipates a shift in demand at the very most.

In order to limit the company's dependence on individual customers, but also with a view to alleviating potential pricing pressure, ElringKlinger has continuously extended its customer base in recent years. In 2017, its top three customers accounted for around 25% (around 27%) of Group revenue. The customer with the single largest share accounted for 10.2% (11.0%) of Group revenue in the 2017 financial year.

It should also be noted that the structure of the customer base is changing as a result of the general transition seen within the automotive industry. The group of long-standing suppliers is being joined by new innovative manufacturers with very different business models and/or concepts. In many cases, they are similar to start-ups. The direction taken by such businesses is dependent to a large extent on their development prowess and a steady stream of funding. It cannot be ruled out that one of these so-called "new players" will fail to survive within the market in the long term due to a lack of follow-up financing. As a consequence, ElringKlinger may lose development projects or orders secured from such players. Additionally, the company may be adversely affected in financial terms in the form of expense items. The Group addresses this more pronounced counterparty risk by pursuing a risk-mitigating customer strategy. In this case, it seeks payment terms that correspond largely to project progression and therefore cover any investment and development amounts outstanding.

Labor cost risks

After cost of materials, labor costs constitute the second-largest expense item for the ElringKlinger Group. They accounted for 26.9% (26.1%) of the cost of sales in the 2017 financial year.

At 40.3% (41.4%), a large proportion of the Group's overall workforce is employed at sites in Germany. Persistent wage increases at a domestic level or the reduction in working hours covered by collective bargaining agreements could have a visibly negative impact on earnings performance within the Group in the coming years. Therefore, as illustrated by the progression of staff cost ratios at German sites, the competitive position of ElringKlinger AG would deteriorate further in relation to its international peers.

As part of last year's collective wage negotiations, the IG Metall trade union was able to push through relatively substantial wage agreements. These costs represent an increasing burden on Germany as an industrial location. The collective wage increases agreed in Germany over the last three years were 3.4% from April 2015, 2.8% from July 2016, and 2.0% from April 2017. Due to the collective wage agreement negotiated for the metal and electrical industry in Baden-Württemberg in February 2018, wages will increase by a further 4.3% effective from April 1, 2018.

By contrast, the level of labor costs in emerging countries such as China, South Korea, India, or Turkey, where almost 15% (almost 16%) of ElringKlinger's workforce is employed, is well below the Group average. A positive aspect is that both revenue and staffing levels in these regions are expanding at a faster rate than in Germany. In these markets too, however, the dynamics of wage development are to be seen as a latent risk to the financial performance of the regional companies.

In the event of an unexpected downturn in customer demand, the staff cost ratio may increase dramatically. Capacity constraints caused by a possible outage of machinery may also result in higher staff costs (temporary labor, nightshifts, and weekend work). ElringKlinger has a number of instruments at its disposal with regard to strategic HR planning (such as working time accounts, shift systems, and temporary employment contracts) that allow the company to respond rapidly and flexibly to such scenarios. Within the ElringKlinger Group, the proportion of employees with temporary contracts as of December 31, 2017, was 14.6% (18.2%).

Taking all factors into account, the direction taken by labor costs is to be seen as a moderate risk to which the ElringKlinger Group is exposed. The Group offsets higher wage costs by making substantial capital investments and implementing continuous measures aimed at raising efficiency levels in production in order to safeguard its international competitiveness and retain jobs in the domestic market.

Personnel risks

As a leading technology business, ElringKlinger is particularly reliant on the dedication and experience of its employees. As they are considered to be an important source of expertise to the company, ElringKlinger is committed to mitigating the risk of losing know-how through staff exits to the greatest extent possible. Staff turnover rates are to be kept at a percentage level in the mid-single-digit range by establishing a socially balanced and motivating working environment. Wherever possible, expertise and skills are developed within the respective teams, rather than concentrating such knowledge among individual staff members.

The age structure of the Group's workforce reveals a balanced mix: around 53% of employees are aged between 30 and 50, while approximately 26% are younger than 30. Therefore, the risk of over-aging is comparatively small.

The growing lack of specialist staff within the labor market as a whole also affects ElringKlinger. Some of the sites operating within the Group, or specific departments, are now finding it more difficult to attract qualified personnel with specialized skills. In order to address this issue in a proactive manner, ElringKlinger follows a systematic program of personnel marketing. The company attends career fairs, where it showcases itself as an attractive employer to graduates. It also meets the needs of university and college students by offering internships and thesis topics. Additionally, the Group has taken on young people as technical and commercial apprentices. In order to retain skilled personnel and managers within the company in the long term, ElringKlinger offers training courses and programs for personal advancement.

IT risks

In the digital age, companies' IT infrastructure is constantly exposed to potential risks such as cybercrime and hacking attacks. The confidentiality, integrity, and availability of data are considered to be a precious commodity. Protection within this area requires an increasing number of preventive and corrective measures. Any disruption to IT systems and application software can lead to tangible delays to individual processes – from the handling of purchase orders and ongoing production control through to activities in the supply chain. This would have a negative impact on operations, which may also affect revenue and costs or cash outflows.

ElringKlinger ensures that such risks are minimized as far as possible. Particularly sensitive data that are of importance to operational processes are always stored twice or redundant systems are deployed. Additional backup systems or transitional solutions are used in order to rule out to the largest extent possible any potential risks that might jeopardize specific projects or processes.

The company's headquarters in Dettingen/Erms, Germany, has two data centers operating independently of each other. For security reasons, these data centers are accommodated in different buildings, i.e., at two separate locations. In taking this approach, the company protects itself against system failure and data loss. All data pertaining to the international sites are backed up at a central location.

Staff access to confidential data is managed with the help of scalable access authorizations. Unauthorized access from external sources is prevented by up-to-date security software.

Quality/Warranty risks

As a manufacturing company and supplier to the automotive industry, ElringKlinger is exposed to sector-specific warranty and liability risks. The supply of non-compliant components may necessitate an exchange or recall of such parts, with corresponding costs and claims for damages. Furthermore, this may damage the company's reputation over the long term. Specific individual risks currently exist with regard to quality issues and high levels of capacity utilization within the Original Equipment segment; the possible financial impact can be considered moderate. In this context, the development of entirely new products for fields of application beyond the automobile industry or in the area of alternative drive technology is associated with further potential risks.

ElringKlinger uses appropriate quality assurance systems to prevent and mitigate the aforementioned risks. As an element of the Group-wide risk management system, quality and warranty risks are covered to a large extent by insurance policies, e.g., product liability insurance. Insurance coverage is reviewed at least once a year and adjusted where necessary. Additionally, where possible, agreements on limitation of liability are concluded between ElringKlinger and the contracting party in question.

Legal risks

Legal risks/Compliance risks

Beyond the risks already discussed in the section dealing with warranty risks, the ElringKlinger Group is exposed to further legal risks attributable to its business model and the size of the Group. These risks are covered to a large extent by insurance policies, which are an element of the risk management system. Furthermore, ElringKlinger addresses its exposure to legal risks by recognizing appropriate provisions in its separate and consolidated financial statements. Compared with the previous year, there were no other significant risks in the period under review. Likewise, ElringKlinger is at present not exposed to any significant litigation risks.

The structure of the compliance system was outlined earlier in the description of the risk management system. Risks can occur at both the parent company and the subsidiaries as a result of unlawful actions. In view of the compliance system instruments put in place and the ElringKlinger culture applied and embraced by the company, the probability of occurrence in respect of significant infringements can be classified as low but cannot be ruled out entirely. The financial effects on Group earnings are difficult to specify; depending on the respective case, they may reach a scale that could be considered significant.

Strategic risks

Technology risks

The business model of the ElringKlinger Group is based on a culture of excellence in innovation and the principle of technology leadership. The company is committed to developing products that are technologically sophisticated and to manufacturing these items with a high level of productivity, the aim being to achieve growth rates that are above the industry average (cf. "Overview of ElringKlinger's Activities and Structure").

If ElringKlinger failed to identify and pursue fundamental technological changes at an early stage, the Group could lose its role as a pioneer and jeopardize its position as a development partner to the vehicle industry. This scenario would have a detrimental effect on the Group's sales and earnings performance in the medium to long term. At around 5 to 6% of revenue, the Group has therefore been investing a comparatively large amount in research and development in recent years compared with the industry as a whole. Additionally, substantial investments have been channeled into the expansion of the Group's technology portfolio in recent years. ElringKlinger protects significant technologies and processes in the form of property rights and patents in order to combat the risk of damages caused by me-too products and imitations to the largest extent possible.

The company focuses its R&D activities firmly on key areas of interest currently driving the automotive industry, namely the optimization of vehicle weight by means of lightweight structural components and the development of alternative drive technologies. ElringKlinger is one of just a few suppliers to have taken the lead in positioning itself within the e-mobility market at an early stage and with considerable capital expenditure, be it in the field of battery technology or fuel cell solutions. As the revenue contribution made by these new divisions remains relatively low, rapid and extensive technological change within this area or stricter legislation relating to emission standards poses the risk of substantial loss of revenue in its classic areas of business; this would lead to heightened pressure on prices.

Based on today's knowledge, the Group believes that change within the industry in terms of drive systems – from the conventional combustion engine via hybrid drives as a bridging technology through to pure electric solutions – is unlikely to be abrupt. Rather, this transition is expected to be gradual in nature, covering an extensive period of several years, even though this area is being driven by considerable momentum at present.

External growth/Acquisitions

The process of consolidation within the automotive supply industry continues unabated, particularly as the sector as a whole gears up for the burgeoning transition toward e-mobility. Operating against this backdrop, ElringKlinger will have the opportunity to enter regional markets and new fields of technology faster in the medium term through targeted acquisitions.

Acquisitions are fundamentally associated with the risk that the acquired entities may fall short of specified targets or fail to meet them in the planned time frame. This may necessitate unforeseen restructuring measures that – at least temporarily – would exert downward pressure on the Group's profit margin. In addition, investments may have to be extended beyond the figure originally planned by the company, which would lead to more substantial funding requirements. Technology purchases also pose the fundamental risk that the performance originally expected by the company may not be achievable in full or to the extent desired. Thus, there is a risk that the products may ultimately fail to meet customer expectations.

Prior to an acquisition, ElringKlinger invariably conducts extensive due diligence investigations. As a matter of principle, all projects are also reviewed by a team of in-house and external experts. Financial plans and technical details are checked, analyzed, and evaluated thoroughly for plausibility.

ElringKlinger makes a point of only entering into an acquisition if there is the prospect that the EBIT margin of the Group as a whole can be achieved in the medium term. At the same time, the overall financial risk of a transaction must in no way jeopardize ElringKlinger AG's ability to offer a dividend, even when factoring in the effects of an unfavorable scenario.

As part of mandatory annual impairment tests, it may be necessary to recognize impairment losses in connection with goodwill or investees, which would in turn adversely affect annual Group earnings.

Similarly, risk exposure also occurs in the context of divestments already made or potentially yet to be made with regard to subsidiaries and/or areas of business.

Financial risks

Bad debt loss

On balance, the risk of payment default relating to customers served by the Original Equipment segment is considered relatively low for ElringKlinger, given the good performance of the industry as a whole in North America, Western Europe, and large parts of Asia. The risk of substantial bad debt losses attributable to individual customers is mitigated by a broadly diversified customer base. In the event of an insolvency of one of the three single biggest customers, which at present is considered unlikely, the default risk in respect of accounts receivable would have amounted to between EUR 13.0 and 28.9 million (between EUR 11.9 and 27.2 million) as of December 31, 2017.

Within the Aftermarket segment, the risk of bad debt losses is considered to be higher than in the case of Original Equipment. However, this risk is also much more diversified due to the significant number of customers served in this segment.

Liquidity and financing risks

The situation in respect of bank lending behavior remains unchanged following the completion of the company's Schuldscheindarlehen transaction. At the same time, corporate expansion and the development of new technologies necessitate sizeable investments, generally leading to more substantial funding requirements. If rating agencies were to downgrade the automotive industry as a whole in response to a generally less favorable risk profile, credit terms for the sector and ultimately also for ElringKlinger would be adversely affected.

In view of this situation, the market is exposed to a latent financing risk, despite improved earnings within the sector and low interest rates. The risk of insolvencies, particularly with regard to smaller automotive supply companies that are not operating at an international level, can still not be ruled out entirely.

Thanks to a strong equity ratio of 44.0% (47.2%) and a debt factor (net debt in relation to EBITDA) of 2.7 (2.3), the ability of the ElringKlinger Group to refinance itself is considered to be non-critical. Additionally, the Group has access to undrawn lines of credit totaling EUR 136.1 (122.2) million.

As of December 31, 2017, no circumstances were present that would have justified the exercise of unilateral termination rights by banks. The company has identified no immediate risks that might jeopardize the financing of major projects planned by ElringKlinger or prevent the company from meeting its payment deadlines. From today's perspective, there is no evidence of financing risks that might jeopardize the company's existence as a going concern.

Currency risks

The monetary policies adopted by the world's principal central banks and the divergence in economic performance within the respective regions have resulted in greater exchange rate volatility when viewed across an extended time frame. This applies to the exchange rate between the euro and the US dollar (USD) as well as between the euro and the majority of currencies of the emerging markets and the Swiss franc (CHF).

Compared with the industry as a whole, the ElringKlinger Group is exposed to limited currency risks relating to transactions. In almost all the company's sales regions, both costs and revenues are largely denominated in the same currency (natural hedging).

Currency risks also occur when translating revenue, earnings, and expenses of the international subsidiaries into the Group currency, i.e., the euro. Therefore, changes in the average exchange rates can have an accretive or a dilutive effect on the Group's revenue and earnings. Overall, the negative effect of foreign currency translation on revenue in the financial year 2017 was equivalent to EUR 28.7 (-33.4) million.

Exchange rate movements also have an impact on the net finance result. These factors are mainly associated with the funding of Group entities by the parent company as well as with the measurement of accounts receivable and payable. The net result of currency translation for the Group was EUR -11.1 (0.5) million in the 2017 financial year.

A summary of the quantitative impact of an appreciation or a depreciation of the euro against the key international Group currencies can be found in the sensitivity analysis contained in the notes to the consolidated financial statements.

Interest-rate risks

The ElringKlinger Group funds itself through cash flow generated from operating activities as well as through borrowings from banks. A detailed overview of current and non-current financial liabilities categorized by maturity as of December 31, 2017, can be found in the notes to the consolidated financial statements.

The Schuldscheindarlehen (loan granted to the company against a form of promissory note) placed by the company in July 2017 was used for the extinguishment of current liabilities. As a result of fixed interest rates, the predictability of interest expenses has improved. In total, a volume of EUR

200 million was issued in tranches covering maturities of 5, 7, and 10 years and with an average rate of interest of 1.23%. The current level of interest rates within the market is low when viewed over an extended period of time. A marked increase in interest rates would feed into variable rate loans and would ultimately also have an impact on the net finance result of the ElringKlinger Group. To a large extent, however, fixed interest rates have been agreed in respect of the financing liabilities of the ElringKlinger Group (cf. notes: "Non-current and current financial liabilities").

Please also refer to the notes to the consolidated financial statements for a sensitivity analysis; it outlines the impact of a change in market interest rates on the earnings of the ElringKlinger Group.

Use of derivative financial instruments

ElringKlinger only uses derivative financial instruments in isolated cases, e.g., for the purpose of hedging against price fluctuations relating to high-grade steel alloys (nickel). Where hedging contracts are employed as a protective instrument against commodity price volatility, they are always based on the actual quantity of physical materials required by the company.

Operating on a rolling basis, ElringKlinger hedged a small proportion of its requirements of alloyed high-grade steels during the 2017 financial year. This was done by means of nickel forward contracts.

Opportunities

Climate change/Emission laws

The reduction of emissions continues to be one of the key issues driving the automotive industry. The European Union is known to have some of the strictest emission standards worldwide. In the EU, cars have been subject to CO_2 regulation since 2009. The average target set for new passenger cars was 130 g/km in respect of 2015; by 2020, CO_2 emissions are to be no more than 95 g/km. This limit will have to be met by 95% of each manufacturer's vehicle fleet as early as 2020 and by the whole fleet from 2021 onwards. Should these requirements not be met by the specified dates, manufacturers face severe fines.

What is more, emission levels are to be scaled back further in future, with Brussels currently discussing even lower thresholds. At the end of 2017, the EU Commission put forward a proposal for emissions regulation for the period after 2020. According to this proposal, the CO_2 emissions of vehicles newly registered in 2025 are to be reduced by a further 15% compared to 2021. In the period up to 2030, the figure is to be scaled back by 30% compared to 2021. If these proposals were to be adopted, Europe would continue to have the world's strictest CO_2 emission standards. The United States and Asia have also seen increasingly ambitious emission targets. In the US, the fleet target to be achieved by 2020 has been set at 121 g/km. China has determined a figure of 117 g/km and Japan 105 g/km. Furthermore, emerging countries such as India tend to look at the strict Euro standards as a basis for their own policymaking.

For the ElringKlinger Group, this legislative framework offers considerable potential with regard to development and revenue growth over the coming years. The continued popularity of combustion engines is fueling strong demand in the areas of gasket technology and shielding systems. For ElringKlinger, this opens up additional sales opportunities and new markets for highly heat-resistant specialty gaskets and shielding components, such as those required for turbochargers and in exhaust systems but also in the area of lightweight construction.

Hybrid vehicles, i.e., the combination of a combustion engine and an electric motor, are gaining market share. Many car makers are extending their product portfolio to include hybrids, the aim being to achieve the strict CO_2 limits applied to their vehicle fleets. For ElringKlinger, hybrid concepts open up the opportunity to generate higher revenue per vehicle. Alongside components installed in combustion engines, hybrids provide the company with the chance to market pressure equalization modules or cell contact systems for the battery unit of the powertrain.

Germany's federal government remains committed to meeting the stated goal of one million new electric vehicles on the road by 2020 with the help of purchase schemes. To this end, a state-funded incentive program was introduced in July 2016. The subsidy available for pure electric vehicles is EUR 4,000, while buyers of cars equipped with hybrid or fuel cell technology receive EUR 3,000. The subsidy will remain in place up to June 2019 or until the EUR 1.2 billion incentive fund has been used up. Another federal government subsidy program, set up to expand the network of recharging points for electric cars in Germany, was given the green light by the European Union at the beginning of 2017. The plan for the period up to 2021 is to invest EUR 300 million on the installation of 15,000 recharging points throughout Germany. The aforementioned purchase incentives and efforts to improve the general infrastructure for e-mobility solutions are designed to prompt a sea change in consumer behavior and boost sales of electrically powered cars.

With a view to accelerating the process of transition toward e-mobility, some European countries have announced plans for a total ban on conventional combustion engines in certain regions or locations. The deadlines for execution vary: France and the United Kingdom are looking to implement their plans in 2040, while Norway is discussing the possibility of a ban by as early as 2025. China, the world's largest vehicle market, is also making preparations for a future without combustion engines by introducing laws that impose minimum targets for the production and sale of alternative powertrains. They will have to be met by automobile manufacturers from 2019 onward.

Further advances in battery technology could increase the range of electric vehicles and make them more attractive to potential buyers. ElringKlinger would benefit directly from higher sales volumes in the electric vehicle market, as the company's E-Mobility division already supplies various car makers with components from its series production lines.

Fuel cell technology also plays an important role when it comes to alternative powertrains. Alongside passenger cars, more trucks and buses are also to be fitted with fuel cells in the medium term. In contrast to battery technology, the fuel cell offers the advantage of extended range. What is more, the hydrogen required for these drive systems can be distributed via the existing network of service stations. ElringKlinger was quick off the mark in its efforts to embrace fuel cell technology and currently supplies various components as well as complete fuel cell stacks. In view of the fact that the vehicle fuel cell market is still in the process of establishing itself, the ElringKlinger Group sees considerable sales potential for the coming years.

The revenue and earnings potential associated with the issue of greenhouse gas reduction can be categorized as significant for the ElringKlinger Group. The potential for ElringKlinger to exploit these market opportunities in the medium term, at the latest, by drawing on its existing product portfolio and R&D expertise is considered highly probable.

Technology trends/New emissions regulations

The technology trends outlined earlier are being driven, inevitably, by increasingly stringent international emission standards. The industry will have to focus on more efficient engines, lightweight engineering, and the use of alternative drive technology if it is to have any chance of achieving the ambitious CO_2 targets set by policymakers.

Insofar as ElringKlinger continues to succeed in developing new solutions to tackle these issues and rolling them out onto the market by utilizing its existing expertise relating to materials processing, tooling, and development and production processes, the prospects for revenue and earnings growth of the Group can, without doubt, be categorized as significant.

Extension of product and service portfolio

The majority of the divisions within the Group are well placed to apply their existing expertise in materials and processes for the purpose of complementing and expanding the portfolio of products and services in a targeted manner.

As these aspects are described in detail in the R&D report for the Group, highlighting ElringKlinger's expertise in new material concepts within the area of lightweighting as well as alternative drive and power supply technologies relating to battery technology and fuel cells should be sufficient at this point. New opportunities are presenting themselves continuously for the Engineered Plastics division and its PTFE components used in the industrial sector as a whole as well as in the area of medical technology.

All the Group's divisions are working proactively on the expansion of their product portfolios with a view to meeting the growth target to increase at a rate in excess of global market growth.

New sales markets

In the coming years, moving into new regional sales markets may present opportunities for significant revenue and earnings growth for the existing ElringKlinger portfolio, particularly with regard to e-mobility (encompassing fuel cell and battery technology) and lightweight structural components – two central pillars with regard to the future. In this context, the Chinese vehicle market is considered to be of particular relevance. With the help of government stimulus measures targeted at both consumers and manufacturers, China is looking to propel forward the process of transition in the world of transport – from the combustion engine to e-mobility. Asia has also become a pacesetter when it comes to newly developed technologies, such as R&D and production relating to battery cells. Against the backdrop of technological developments and legislative efforts, the Group sees the potential for significant growth in sales volumes in the coming years.

There are opportunities for further expansion within the Aftermarket business by widening the existing portfolio and introducing new product ranges as well as by tapping new sales regions, particularly in North America and in Asia. Trading under the "Elring – Das Original" brand, the Aftermarket segment within the ElringKlinger Group has been ratcheting up its activities in Asia. In the period under review, there was a continued focus on measures to access and penetrate the Chinese spare parts market in the face of competition from a large number of locally based providers. The Group also systematically expanded its Aftermarket business in North America.

With a product portfolio centered around the high-performance plastic PTFE (polytetrafluoroethylene), the Engineered Plastics segment, in particular, has the opportunity to target sales markets beyond the automotive industry, such as the medical, chemical, and electrical industry or the aerospace sector.

Industry consolidation/M&A

In terms of car production, growth within the automotive industry is expected to come mainly from Asia in the coming years. This poses significant challenges for many domestic automotive suppliers operating within SME-like structures, as they still have either an insufficient international presence or none whatsoever. They are faced with substantial investments in research and development, in addition to being exposed to more extensive financing risks.

It would appear likely that the wave of consolidation sweeping through the automotive supply industry will persist in the coming years. Against this backdrop, the risk of insolvencies remains.

For the ElringKlinger Group, this offers opportunities to extend its technology portfolio through acquisitions or to establish a stronger competitive position through consolidation of individual product groups. In some cases, competitors also exit the market without the influence of consolidation processes. ElringKlinger will monitor the market systematically in order to identify potential opportunities for acquisition as early as possible and pursue them where appropriate. It would appear likely that ElringKlinger will continue to pursue growth opportunities through acquisitions in the coming years, insofar as they are related to the field of new drive technologies. The Group is focused on future-oriented areas of business, whereas further acquisitions relating to combustion engine technology can be ruled out completely. The associated financial impact is difficult to quantify in advance. It may range from insignificant to indeed significant when measured on the basis of revenue and earnings contributions for the Group.

Overall assessment of risks and opportunities

The conclusion drawn by the Management Board from scrutinizing the opportunities and risks in their entirety is that the situation of the ElringKlinger Group in respect of risk exposure remains, in essence, unchanged from that seen in the previous year, despite significant market dynamics. Some of the risks to which the Group is exposed are of a geopolitical or external nature and ElringKlinger's capacity to control these risks in an active manner is extremely limited or non-existent. When weighing the relevance of risk in respect of the possible impact on Group earnings, the principal risks to which the ElringKlinger Group is exposed are, in particular, a sudden global slump in the market, rapid change in drive system technology, and external attacks on IT infrastructure.

Economic conditions in Europe, North America, and China remain stable. Risk continues to emanate from the unchanged political situation in the Middle East and heightened tensions between the United States and North Korea. Negotiations concerning the United Kingdom's withdrawal from the European Union and the domestic crisis in Spain regarding Catalonia's independence are among those political risks that may have a direct impact on the ElringKlinger Group – depending on their outcome. Additionally, specific strategic and operational risks continue to exist within the Group. The financial opportunities and risks associated with exchange rate fluctuations continue to be pronounced.

The process of transition seen within the automotive industry has meant changes to ElringKlinger's product portfolio.

Products within the area of structural lightweighting and electromobility, which are considered promising fields for the future in strategic terms, are gaining in importance, while conventional products associated primarily with the combustion engine are becoming less relevant. These changes are also gradually altering the Group's risk profile.

Benefiting from the risk management system outlined above and its flexible cost structure, if necessary the ElringKlinger Group is in a position to respond promptly and assertively to any risks that may arise by implementing the corresponding risk management arrangements. The entity makes a point of not exposing itself to risks that may jeopardize the existence of the ElringKlinger Group or its ability to offer a dividend. The Group's solid financial position, as reflected in an equity ratio of 44.0% (47.2%) and its continued ability to raise additional funds, provides a protective shield in respect of ElringKlinger and its business model even in the event of a protracted market crisis, of which, however, there are no indications at present.

The principal opportunities for the company relate to the technological trend toward more fuel-efficient or emission-free powertrain systems, which is inextricably linked to the issue of climate change and a global drive toward stricter emission laws. The company invested early on in future-oriented lines of business such as e-mobility. Benefiting from products targeted at alternative drive systems and power supply as well as a number of new concepts in the field of lightweight construction, the Group can look forward to opportunities for growth around the globe.

There are currently no identifiable risks that might jeopardize the future existence of the company as a going concern, either in isolation or in conjunction with other factors. The Group is well positioned to actively seize any opportunities arising from long-term technology trends and ongoing industry consolidation. Against the backdrop of a manageable risk profile, the ElringKlinger Group remains well positioned to continue outpacing global automobile production in the coming years.

Compensation Report

Compensation structure for members of the Management Board

Contracts for members of the Management Board are drawn up by the Personnel Committee of the Supervisory Board, negotiated with the respective members of the Management Board, and concluded following approval by the entire Supervisory Board. The Personnel Committee reviews the level of compensation at predefined intervals and advises the Supervisory Board on appropriate adjustments where required. These recommendations are decided upon by the full Supervisory Board. The recommendations take into account the size and international operations of the company, its economic and financial situation, its prospects for the future, the level and structure of management board compensation offered by similar companies, and the compensation structure in place in other areas of the company. In addition, the duties and performance of each member of the Management Board are taken into consideration. Compensation is set at a level that ensures it is competitive within the market for highly qualified managers and provides an incentive for successful work in a corporate structure with a strong focus on performance and achievement. If requested by the company, the Management Board members also take on responsibilities in affiliated entities. The Management Board members receive no additional compensation for such activities.

Management Board compensation for the 2017 financial year is presented in accordance with the provisions set out in two different standards: first, the applicable financial reporting standards (GAS 17) and, secondly, the recommendations of the German Corporate Governance Code in the version dated February 7, 2017.

System of compensation

The compensation system applicable as from January 1, 2014, includes fixed and variable components. It comprises:

1. Fixed annual salary
2. Long-term incentive I (LTI I)
3. Long-term incentive II (LTI II)
4. Fringe benefits
5. D&O insurance
6. Retirement pension

Fixed annual salary

The fixed annual salary is a cash payment in respect of the current financial year; it takes into account the area of responsibility of the Management Board member in question and is paid in twelve monthly installments.

Long-term incentive I (LTI I) (annual management bonus)

LTI I is a variable component of compensation that is based on the average Group EBIT (Group earnings before interest and taxes) of the last three financial years. The Management Board receives a percentage share of the three-year mean. LTI I is limited to a maximum of three times the amount of fixed compensation in the financial year in question. Payment of LTI I for a financial year ended is made on approval of the separate and consolidated financial statements by the Supervisory Board in the subsequent year. On termination of the appointment as a Board member, either at the request of the Management Board member in question or for good cause, entitlements to the variable compensation components of LTI I shall lapse as soon as the termination of said Board appointment comes into legal effect.

Long-term incentive II (LTI II)

The so-called Economic Value Added (EVA) bonus is granted to the Management Board as a constituent element of variable Management Board compensation that focuses on positive corporate performance over the long term. LTI II creates a long-term incentive for the Management Board to make a committed contribution to the success of the company. LTI II is a bonus based on the economic value added to the ElringKlinger Group. The Management Board receives a percentage of the economic value added calculated in respect of the company. The EVA bonus is granted at the beginning of a three-year benefit period and corresponds to the percentage of average economic value added in respect of the three subsequent financial years. The annual economic value added is calculated according to the following formula:

EVA = (EBIT x (1 - T)) - (WACC x Capital Invested)

The first component is calculated on the basis of Group earnings before interest and taxes (Group EBIT) in respect of the financial year as well as the average Group tax rate (T).

The second component is computed by multiplying Group WACC by capital invested. The weighted average cost of capital (WACC) is calculated with the help of the basic interest rate, the market risk premium, and the beta factor. The beta factor represents the individual risk of a share in relation to the market index. It is determined as an average value of all the peer group companies. The credit spread for borrowing costs, as the premium on the risk-free basic interest rate, was derived from a peer group rating. Capital invested is calculated on the basis of Group equity plus net financial liabilities (i.e., net debt) as of January 1 of the financial year.

90% of the LTI II amount is paid out to the member of the Management Board in question, after the end of the three-year benefit period, in the subsequent year. Using the remaining 10% of the LTI II amount, the company purchases shares in ElringKlinger AG on behalf and for account of the Management Board member in question. The Management Board member is prohibited from accessing these shares for a further three years. Dividends and subscription rights

Illustrative calculation LTI I

EBIT average 210,000,000

in EUR		Variable compensation	Cap fixed salary 2017 x 3
Dr. Wolf	0.80%	1,680,000	1,662,000
Becker	0.60%	1,260,000	1,287,000
Jessulat	0.40%	840,000	864,000
Total		**3,780,000**	**3,813,000**

Illustrative calculation LTI II

EVA mean value 95,000,000

in EUR		Variable compensation	Cap fixed salary 2017 x 2
Dr. Wolf	1.25%	1,187,500	1,108,000
Becker	1.00%	950,000	858,000
Jessulat	0.40%	380,000	576,000
Total		**2,517,500**	**2,542,000**

are at the disposal of the Management Board member. The maximum amount granted from LTI II has been set at twice the amount of fixed compensation.

If a member of the Management Board enters the service of the company during the financial year and is not in employment for the company for a full twelve-month period, LTI II is reduced pro rata temporis.

On termination of a contract of service, the Management Board member in question may access the shares only after a period of twelve months subsequent to said termination. On termination of the appointment as a Board member either at the request of the Management Board member in question or for good cause, entitlements becoming applicable in the future in respect of the variable compensation components of LTI II shall lapse.

Fringe benefits

The taxable fringe benefits awarded to Management Board members mainly encompass the provision of a company car and mobile phone and communication devices as well as expense allowances and insurance benefits.

D&O insurance

The members of the Management Board are covered by the Group's existing directors' and officers' liability insurance (D&O insurance). The agreed deductible corresponds to the minimum deductible set out in Section 193 (2) sentence 3 AktG (German Stock Corporation Act) in the applicable version.

Retirement pension

The contracts of the Management Board members of ElringKlinger AG include commitments in respect of an annual retirement pension that is measured as a percentage of pensionable income. The entitlement to a retirement pension becomes applicable as soon as the contract of service has ended, but not before the individual has reached the age of 63. This entitlement also becomes applicable as soon as the Management Board member has reached the age that entitles him to receive full statutory pension benefits as well as in the event of occupational disability. The percentage is dependent on the number of years of service as a Management Board member. Existing entitlements in respect of time spent as a salaried employee of the company are not factored in to this calculation and continue to apply. The percentage rate is between 2.5% and 3.2% of the last monthly fixed salary prior to leaving the company in respect of each full year of service. This percentage rate can rise to a maximum of 45%.

If a member of the Management Board acts in a manner that is grossly negligent or displays gross negligence in his failure to act in specific instances and such actions or failures to act would result in significant damages to the Group, all entitlements to a retirement pension shall lapse; the same shall apply if the member of the Management Board enters the service of an entity that is in direct competition with the company. The contracts include provisions governing surviving dependents' benefits. If a member of the Management Board dies during the period in which the employment contract is applicable or once the retirement benefits become due, his widow or dependent children shall receive a widow's or orphan's pension. The widow's pension amounts to 50% of the retirement pension of the deceased. The orphan's pension amounts to 20% of the widow's pension to the extent that a widow's pension is payable simultaneously and 40% of the widow's pension to the extent that no widow's pension is payable.

The widow's or orphan's pensions shall not exceed 60% of the amount to which the deceased would have been entitled if he had entered into retirement on the day of his death.

Review and adjustment of compensation

The salary components are to be reviewed by the company's Supervisory Board every two years. The Supervisory Board has the right to grant the Management Board special remuneration for exceptional accomplishments. The Supervisory Board is also authorized to reduce the Management Board's total compensation to an appropriate level if the company's situation deteriorates to such an extent that continued payment of the former remuneration would be unreasonable.

Severance pay cap

In the event of premature termination of the contract of service without good cause, any payments potentially to be agreed with the Management Board member shall not exceed the amount equivalent to two years' annual compensation (severance pay cap) and the amount equivalent to compensation payable in respect of the remaining term of this contract of service.

In the event of a change of control, any potential severance payment to be agreed by the parties shall not exceed 150% of the severance pay cap.

Loans to Management Board members

No advances or loans were granted to members of the Management Board of ElringKlinger AG in 2016 or 2017. Likewise, the company provided no guarantees or similar commitments.

Management Board compensation 2017

Management Board compensation for the 2017 financial year has been presented pursuant to the applicable financial reporting standards (GAS 17) as well as in accordance with the recommendations of the German Corporate Governance Code in the version dated February 7, 2017.

Management Board compensation 2017 pursuant to financial reporting standard GAS 17

Total Management Board compensation in accordance with Section 314 (1) no. 6a sentences 1 to 4 HGB (German Commercial Code) is presented in the table below. The amounts specified for 2016 in respect of Karl Schmauder relate to the period up to the discontinuation of his services as a Management Board member on February 23, 2016. For further details, please refer to "Prior-year resignation of Management Board member."

	Dr. Stefan Wolf		Theo Becker		Thomas Jessulat		Karl Schmauder		Total	
in EUR k	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Short-term compensation										
Fixed compensation	617	554	453	418	321	313	0	69	1,391	1,354
Variable performance-related compensation	1,099	1,127	825	845	550	562	0	141	2,474	2,675
Total	**1,716**	**1,681**	**1,278**	**1,263**	**871**	**875**	**0**	**210**	**3,865**	**4,029**
Long-term compensation										
Long-term performance-related compensation	35	253	28	202	11	81	0	0	75	536
Total	**35**	**253**	**28**	**202**	**11**	**81**	**0**	**0**	**75**	**536**
Total compensation	**1,751**	**1,934**	**1,306**	**1,465**	**882**	**956**	**0**	**210**	**3,940**	**4,565**

Pension obligations

The current service cost as well as the present value (DBO) of the pension provisions are as follows:

	Dr. Stefan Wolf		Theo Becker		Thomas Jessulat		Karl Schmauder		Total	
in EUR k	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Current service cost	255	218	167	144	216	150	0	20	638	532
Present value (DBO)	5,580	5,023	4,109	3,720	409	150	–	–	10,098	8,893

Management Board compensation pursuant to the German Corporate Governance Code

The following presentation of compensation granted to and received by the Management Board members is based on the recommendations of the German Corporate Governance Code (GCGC) in the version dated February 7, 2017. The amounts specified in the table in respect of Karl Schmauder relate to the period up to the discontinuation of his services as a Management Board member on February 23, 2016.

The following table presents benefits granted to the members of the Management Board in respect of the 2017 financial year, as disclosable under the provisions of the German Corporate Governance Code:

Benefits granted (Pursuant to GCGC)

	Dr. Stefan Wolf				Theo Becker			
in EUR k	2017	Min. 2017	Max. 2017	2016	2017	Min. 2017	Max. 2017	2016
Non-performance-based compensation								
Fixed annual salary	554	554	554	507	429	429	429	393
Fringe benefits	63	63	63	47	24	24	24	25
Total	**617**	**617**	**617**	**554**	**453**	**453**	**453**	**418**
Performance-based compensation								
One-year variable compensation	1,099	0	1,662	1,127	825	0	1,287	845
Multi-year variable share-based compensation 2013–2017	0	0	0	0	0	0	0	0
Multi-year variable compensation 2014–2016	0	0	0	0	0	0	0	0
Multi-year variable compensation 2015–2017	0	0	0	0	0	0	0	0
Multi-year variable compensation 2016–2018	0	0	0	110	0	0	0	88
Multi-year variable compensation 2017–2019	39	0	1,108	0	31	0	858	0
Total	**1,138**	**0**	**2,770**	**1,237**	**856**	**0**	**2,145**	**933**
Service cost	255	255	255	218	167	167	167	144
Total compensation	**2,010**	**872**	**3,642**	**2,009**	**1,476**	**620**	**2,765**	**1,495**

In contrast to GAS 17, the table presents long-term compensation granted in 2017 for LTI II. In addition, the minimum and maximum amounts achievable have been listed. The benefit expense, which is presented in the form of the current service cost in the above table, has been included in total compensation.

	Thomas Jessulat				Karl Schmauder				Total			
	2017	Min. 2017	Max. 2017	2016	2017	Min. 2017	Max. 2017	2016	2017	Min. 2017	Max. 2017	2016
	288	288	288	288	0	0	0	66	1,271	1,271	1,271	1,254
	33	33	33	25	0	0	0	3	120	120	120	100
	321	**321**	**321**	**313**	**0**	**0**	**0**	**69**	**1,391**	**1,391**	**1,391**	**1,354**
	550	0	864	562	0	0	0	141	2,474	0	3,813	2,675
	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	81	0	0	0	0	0	0	0	81
	0	0	0	41	0	0	0	0	0	0	0	41
	0	0	0	35	0	0	0	0	0	0	0	233
	12	0	576	0	0	0	0	0	82	0	2,542	0
	562	**0**	**1,440**	**719**	**0**	**0**	**0**	**141**	**2,556**	**0**	**6,355**	**3,030**
	216	216	216	150	0	0	0	20	638	638	638	532
	1,099	**537**	**1,977**	**1,182**	**0**	**0**	**0**	**230**	**4,585**	**2,029**	**8,384**	**4,916**

The following table presents the allocation in/for the 2017 financial year. As regards fixed annual salary, fringe benefits, annual management bonus, and LTI II 2017, the table presents the allocation for the 2017 financial year.

Allocation pursuant to GCGC

	Dr. Stefan Wolf		Theo Becker	
in EUR k	2017	2016	2017	2016
Non-performance-based compensation				
Fixed annual salary	554	507	429	393
Fringe benefits	63	47	24	25
Total	**617**	**554**	**453**	**418**
Performance-based compensation				
One-year variable compensation	1,099	1,127	825	845
Multi-year variable compensation 2014–2016	0	253	0	202
Multi-year variable compensation 2015–2017	35	0	28	0
Total	**1,134**	**1,380**	**853**	**1,047**
Service cost	255	218	167	144
Total compensation	**2,006**	**2,152**	**1,473**	**1,609**

Prior-year resignation of Management Board member

Management Board member Karl Schmauder stepped down from his post with immediate effect on February 23, 2016. The separation agreement ("Aufhebungsvereinbarung" governed by German law) reached between the respective parties includes the immediate suspension of Mr. Schmauder, with ongoing compensation being payable up to the regular expiration of his contract of service on January 31, 2018. Entitlements in respect of LTI I for the financial years 2016 to 2017 were granted in full, while entitlements in respect of LTI I for the financial year 2018 were granted on a pro-rata basis. Entitlements in respect of LTI II for the tranches 2014–2016 and 2015–2017 were granted in full. LTI II for the tranche 2016–2018 shall be granted on a pro-rata basis. Retirement benefit rights granted to Mr. Schmauder shall remain valid. In the 2016 financial year, provisions totaling EUR 2,536k were recognized in respect of benefits to be provided in 2017 and 2018. In the 2017 financial year, these provisions were depleted by payments of EUR 1,434k.

Compensation structure for members of the Supervisory Board

Supervisory Board compensation is governed by the provisions set out in Section 13 of the Articles of Association of ElringKlinger AG. The level of compensation is determined by the Annual General Meeting. Within this context, the most recent resolution was passed on May 13, 2015. In accordance with the requirements of the German Corporate Governance Code, compensation is divided into a fixed and a variable component. The members of the Supervisory Board receive fixed compensation of EUR 20k (2016: EUR 20k) for each full financial year they have served on the Supervisory Board. Additionally, the members of the Supervisory Board receive a lump-sum payment of EUR 1k for each Supervisory Board meeting they attend as well as fixed compensation of EUR 4k for membership of a committee. The variable component of compensation is based on average IFRS Group earnings before taxes in respect of the last three financial years and is calculated as 0.02% of the aforementioned amount. As of the 2015 financial year, it is limited to EUR 40k per member of the Supervisory Board.

The role of the Supervisory Board Chairman and that of his Deputy are taken into consideration when determining the level of compensation. The Chairman of the Supervisory Board receives two times and the Deputy Chairman one-and-a-half times the compensation paid to other Supervisory Board members. Expenses incurred by the Supervisory Board members are reimbursed to an appropriate extent. Supervisory Board members who have not held the post for a full financial year receive a pro rata amount of fixed and variable compensation.

	Thomas Jessulat		Karl Schmauder		Total	
	2017	2016	2017	2016	2017	2016
	288	288	0	66	1,271	1,254
	33	25	0	3	120	100
	321	**313**	**0**	**69**	**1,391**	**1,354**
	550	562	0	141	2,474	2,675
	0	81	0	0	0	536
	11	0	0	0	74	0
	561	**643**	**0**	**141**	**2,548**	**3,211**
	216	150	0	20	638	532
	1,098	**1,106**	**0**	**230**	**4,577**	**5,097**

Supervisory Board compensation 2017

In the period under review, total compensation for the Supervisory Board of ElringKlinger AG was EUR 702 k (2016: EUR 741 k). Additionally, travel expenses totaling EUR 1 k (2016: EUR 2 k) were reimbursed. Compensation payable to the individual members of the Supervisory Board was as follows:

	Fixed compensation		Variable compensation		Total compensation	
in EUR k	2017	2016	2017	2016	2017	2016
Klaus Eberhardt	55	32	41	27	96	59
Walter Herwarth Lechler	24	68	19	54	43	122
Markus Siegers	44	44	37	41	81	85
Ernst Blinzinger	9	24	8	27	17	51
Nadine Boguslawski	24	24	25	27	49	51
Armin Diez	28	28	25	27	53	55
Pasquale Formisano	24	24	25	27	49	51
Rita Forst	24	24	25	27	49	51
Andreas Wilhelm Kraut	16	0	16	0	32	0
Gerald Müller	10	0	10	0	20	0
Paula Monteiro-Munz	28	28	25	27	53	55
Prof. Hans-Ulrich Sachs	24	24	25	27	49	51
Gabriele Sons	32	32	25	27	57	59
Manfred Strauß	29	24	25	27	54	51
Total	**371**	**376**	**331**	**365**	**702**	**741**

Variable compensation presented above reflects accrued expense based on average IFRS Group earnings before taxes in the last three financial years.

Details in accordance with Section 289a(1) and Section 315a of the German Commercial Code (HGB),

particularly with regard to share capital and disclosure of potential takeover obstacles

As of December 31, 2017, the nominal capital of ElringKlinger AG was EUR 63,359,990, divided into 63,359,990 registered shares, each furnished with one vote. The notional interest in the company's nominal capital is EUR 1.00 per registered share. Profits are distributed in accordance with Section 60 of the German Stock Corporation Act (Aktiengesetz – AktG) in conjunction with Section 23 no. 1 of the Articles of Association.

The persons or entities with a direct interest in capital who, according to the details of the Stock Register, held voting rights in excess of 10% as of December 31, 2017, are presented in the table below. These relate solely to interests attributable to family ownership.

Professor Walter H. Lechler, Stuttgart, Germany	Total of 22.059% (of which 10.013% is attributable to him under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))
Lechler Beteiligungs-GmbH, Stuttgart, Germany	Total of 20.037% (of which 10.006% is attributable to it under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))
Klaus Lechler Beteiligungs-GmbH, Neuhausen auf den Fildern, Germany	Total of 20.037% (of which 10.035% is attributable to it under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))

No shareholder is equipped with special rights constituting controlling powers.

ElringKlinger does not operate any employee profit-sharing schemes.

The number of Management Board members is determined by the Supervisory Board (Section 7 of the Articles of Association). The appointment and removal of Management Board members is performed in accordance with Sections 84 and 85 of the German Stock Corporation Act (Aktiengesetz – AktG). The Articles of Association contain no regulations that could be considered non-compliant with the provisions set out by law as regards the conditions applicable to the appointment or removal of Management Board members.

As stipulated by Section 179 of the Stock Corporation Act in conjunction with Section 20 of the Articles of Association, all amendments to the Articles of Association require a resolution of the Annual General Meeting with a majority of three-quarters.

The Management Board is authorized to buy back company shares up to a total amount of 10% of share capital existing at the date on which this resolution was passed (May 13, 2015). This authorization remains valid until May 13, 2020.

Details relating to authorized capital and the utilization of authorized capital are included in the notes.

ElringKlinger has not entered into any agreements containing a change of control provision that would apply in the event of a takeover bid.

There are no compensation agreements with members of the Management Board or employees in the event of a takeover bid.

Corporate Governance Statement

The Corporate Governance Statement pursuant to Section 315d in conjunction with Section 289f of the German Commercial Code (Handelsgesetzbuch – HGB) has been published on the ElringKlinger website at www.elringklinger.de/en/company/corporate-governance/declaration-of-conformity.

Combined Non-Financial Statement

Following the transposition of EU Directive 2014/95/EU as regards mandatory disclosure of non-financial information, publicly traded companies in Germany are obliged, as from the 2017 financial year, to report annually on the impacts of the undertaking's operations. This information relates to environmental matters, social and employee-related matters, respect for human rights, and anti-corruption and bribery matters. In recent years, ElringKlinger has already been presenting information on sustainability as part of its annual report and through an annual sustainability report. For the 2017 financial year, ElringKlinger will issue a combined non-financial statement in accordance with Section 315c HGB in conjunction with Sections 289c to 289e HGB, to be published on the ElringKlinger website by April 30, 2018, in a separate non-financial statement for the Group. The non-financial statement for the Group has been combined with the non-financial statement of the exchange-listed parent company ElringKlinger AG. The combined non-financial statement of ElringKlinger for the 2017 financial year can be accessed from www.elringklinger.de/2017-nfe-en.

Report on Expected Developments

Stable market conditions and favorable leading indicators would appear to suggest that the global economy will maintain its trajectory of growth. The global car market should also maintain its forward momentum in 2018. According to general projections, global car production will grow by 2 to 3% in the 2018 financial year, a view that is shared by ElringKlinger.

Outlook – Market and Sector

In its World Economic Outlook of January 2018, the International Monetary Fund (IMF) forecast a slight pickup in growth for the current year. Among the downside risks cited by the IMF are protectionist tendencies and political volatility, such as the tensions in the Persian Gulf, the North Korean crisis, and the UK's decision to leave the European Union.

The IMF's outlook for the eurozone points to a relatively substantial recovery, supported primarily by solid domestic demand and robust exports. Given the loose monetary policy being sustained by the European Central Bank, interest rates are generally expected to remain very low. This should provide further impetus for consumption and investment. Unemployment rates in the peripheral states of Europe are down and an imminent change of direction by the European Central Bank appears unlikely, despite the gradual reduction in bond-buying. Germany, too, is expected to enjoy moderate growth.

The US economy looks set to continue down the road of expansion in 2018. The US tax reform passed in November 2017 has clearly lifted the mood among consumers and companies. This should act as a stimulus to investment spending, in particular. In addition, the world's largest economy is likely to benefit from the continued buoyancy in its labor market.

The pace of expansion seen within China's economy is expected to slow marginally, with high levels of private and corporate debt acting as the key decelerators.

GDP growth projections

Year-on-year change	2017	Projections 2018	Projections 2019
World	**3.7**	**3.9**	**3.9**
Industrialized countries	2.3	2.3	2.2
Emerging and developing countries	4.7	4.9	5.0
Germany	2.5	2.3	2.0
Eurozone	2.4	2.2	2.0
USA	2.3	2.7	2.5
Brazil	1.1	1.9	2.1
China	6.8	6.6	6.4
India	6.7	7.4	7.8
Japan	1.8	1.2	0.9

Source: International Monetary Fund (January 2018)

Outlook for car sales in 2018

	Year-on-year change	Vehicles
Western Europe	-1%	14.2 million
Germany	-1%	3.4 million
USA	-2%	16.8 million
China	+2%	24.7 million
India	+10%	3.6 million

Source: Verband der Automobilindustrie (VDA)

Sustained growth in global vehicle market

The overall outlook for the global car market in 2018 is good. Both the United States and – given the downturn in the UK – Western Europe will not quite be able to match the substantial levels seen last year, but growth generated in other markets such as China and Brazil should be sufficient to more than offset this shortfall. Germany's automotive industry association, the VDA, expects worldwide sales to expand by 1% to 85.7 million units. According to general market projections, global vehicle production is expected to rise by 2 to 3%. This view is shared by ElringKlinger.

Business within the European automotive market should remain healthy. This will be underpinned mainly by a solid economic outlook and growing employment. What is more, borrowing terms continue to be very favorable. According to the VDA's projections, Spain and Italy – as two of the top five markets in Europe – will achieve the biggest percentage changes at 5% and 4% respectively. France is expected to grow by a slender 1%, while a downturn in demand in the EU's second-largest market is likely to see the United Kingdom dip by 8%. Markets in the new EU member states are proving to be more dynamic, as a result of which Europe as a whole is expected to remain stable year on year at a level of 15.6 million units.

After a buoyant year of sales in 2017, Germany is likely to see business decelerate slightly by 1% to a volume of 3.4 million new registrations. Domestic production as well as vehicle exports from Germany are expected to remain stable at 5.6 million and 4.3 million units respectively. As foreign production by German car manufacturers will continue to rise, their global output figure is likely to increase by 2% to 16.7 million units.

Despite the slowdown witnessed last year, the automotive industry in the United States continues to be operating at a high level. Although the market is expected to weaken slightly in 2018, demand among US consumers should, fundamentally, remain solid.

The Chinese car market will see moderate growth, with Sports Utility Vehicles (SUVs) proving increasingly popular. The introduction of a quota for electric cars, originally planned for 2018, has been postponed to 2019. With this in mind, the share of so-called NEVs (New Energy Vehicles) should remain relatively low in the current year. The Indian car market also continues to expand. In 2018, there is every chance that it will exceed Germany for the first time in terms of new car registrations. After strong growth in 2017, Japan's car market is likely to experience a slight lull in 2018. Markets in Russia and Brazil should continue to recover over the course of 2018.

E-mobility set to gather speed from 2020 onward

As regards alternative powertrains, it should be noted that consumer interest in e-mobility has grown substantially. Nevertheless, its share of newly registered vehicles is likely to remain relatively insignificant in the medium term. As from 2020, e-mobility is likely to be invigorated by the product offensive announced by car makers. Industry experts believe that electric vehicles (battery-powered cars and plug-in hybrids) will account for 25% of the European market by 2025. China, as the global pacesetter, is expected to have an EV share of around 30%, while the United States is likely to bring up the rear at 20%.

Commercial vehicle markets in positive territory in 2018

The European commercial vehicle market has enjoyed sustained growth since 2015. Against this backdrop, ElringKlinger anticipates that the market will trend sideways from a high base. Demand in Germany should also remain stable in 2018, reaching a level that is comparable to the all-time record achieved in 2017.

The US truck market is expected to put in a strong performance in 2018. Truck manufacturers reported substantial order intake in the fourth quarter of 2017, particularly within the segment of heavy Class 8 vehicles. With this in mind, projections suggesting that year-on-year percentage growth in this category may reach double figures in 2018 would appear justified.

Outlook – Group

Industry operating against dynamic backdrop

Global uncertainty has become more pronounced in recent months. The overall authority and decision-making clout of political institutions such as the UN, NATO, or the EU are being eroded by more widespread national interests. At the same time, the current structures of economic partnerships such as the North American Free Trade Agreement (NAFTA) are being openly challenged by some of their members, while tariffs and barriers to entry pose a threat to free trade. For the automotive industry as a whole, this volatile situation has been compounded by the introduction of increasingly strict regulations on the back of existing emission standards, the plans announced by the European Union for 2025 and 2030 being a case in point. Although generally considered apposite from the perspective of environmental policy, these measures are seen as tremendous challenges to the industry. What is more, public perception is being heavily influenced by the ongoing debate surrounding an inner-city ban on diesel-powered vehicles and a string of news reports suggesting that manufacturers and suppliers had flouted various laws and regulations. Ultimately, this has caused greater uncertainty among consumers.

The result is a dynamic industry backdrop exposed to a number of influencing factors. Operating within this environment, companies are finding it increasingly difficult to make projections that go beyond the short-term horizon. Despite these challenges, however, ElringKlinger continues to predict that growth within the global vehicle markets will remain solid, provided that there are no particularly significant factors impacting on the world economy.

Effective research and development activities

Benefiting in no small part from its early commitment to R&D in the area of lightweighting and fuel cell components almost 20 years ago as well as its first order for battery components around ten years ago, ElringKlinger is well placed to tackle the process of transformation facing the automotive industry. The Group invariably aims to develop products that are closely tailored to customer needs so that marketable ideas can be propelled forward from the initial development stage through to series production readiness. ElringKlinger remains firmly committed to meeting this goal in 2018, too. With this in mind, it plans to channel around 5 to 6% of revenue (having taken into account capitalization) into its research and development efforts.

Revenue expectations underpinned by sustained buoyancy in orders

The unique and highly innovative nature of ElringKlinger's product portfolio is reflected in the Group's very solid order book. In the period under view, the sales volume of products ordered by customers as part of their pre-scheduling was EUR 1,732.0 million – a record order intake. This exceeds the prior-year figure by EUR 38.3 million or 2.3%. If foreign exchange rates had remained stable, order intake would have amounted to as much as EUR 1,806.4 million. Correspondingly, order backlog as of December 31, 2017, was up by EUR 68.1 million, or 7.3%, taking the figure to EUR 1,000.6 (932.5) million (FX-adjusted: by as much as EUR 115.5 million, or 12.4 %, to EUR 1,048.0 million).

Given its solid order book, the Group is confident that it can generate strong revenue growth in the coming years, depending on the performance of the global vehicle market. At its heart lies a broad and attractive product portfolio that is undergoing gradual expansion and from which ElringKlinger will continue to profit. As regards revenue growth, ElringKlinger will be looking not only to its traditional fields of business but also to those areas considered particularly promising for the future. They include lightweight structural components developed within the Lightweighting/Elastomer Technology division, whose abilities in product innovation have already been translated into high-volume orders for which production ramp-up is already underway or planned for the coming years. This will be complemented by new orders anticipated within the areas of battery and fuel cell technology, which are expected to expand substantially in the medium term as the automotive industry continues to evolve.

Overall, ElringKlinger anticipates that organic revenue growth generated within the Group will continue to outpace global market growth by 2 to 4 percentage points in 2018. This is based on the general assumption within the market that global automobile production will again expand during the 2018 financial year. Having taken into account the high levels of production in North America, Europe, and China, ElringKlinger estimates that market growth will stand at

2 to 3%. Given its solid order intake and innovative product range, ElringKlinger is confident that it can also exceed global market growth in the medium term.

Revenue was diluted to some extent by the effects of foreign currency translation in the financial year under review. Given the wide range of influencing factors, it is impossible to rule out a similar situation in the current 2018 financial year.

Thanks to favorable developments in the area of battery and fuel cell technology as well as its investment in hofer, ElringKlinger has gained a strong vantage point when it comes to meeting future mobility needs. It is conceivable that the Group may opt for selected acquisitions in the future if they suitably complement ElringKlinger's existing product portfolio or pave the way for more effective market entry in specific fields of business. It is unlikely, however, that the scope of such transactions will exceed that of previous activities by a considerable extent.

Commodity prices expected to remain high

Raw material prices rose sharply in some cases over the course of the financial year just ended and are expected to remain at an elevated level in 2018 or even edge up slightly. ElringKlinger anticipates that the price of aluminum, for instance, will stabilize at a high level. Steel prices, by contrast, are expected to rise in response to supply-side shortages that are again attributable to duties imposed on steel imports from China. The price of plastic granules procured by the Group is also likely to increase further, particularly in the first half of 2018.

New personnel for future-facing business

ElringKlinger will also be expanding its workforce so that projected revenue growth can be managed in an appropriate manner. However, the Group will also be looking to control HR upsizing in such a way as to ensure that costs are streamlined and processes are optimized. The percentage increase in staffing levels is to remain below the rate of revenue growth. Given the strategic positioning of ElringKlinger, a key focus of staff recruitment is likely to be on the future-oriented fields of structural lightweighting and e-mobility.

As the Group employs around 40% of its workforce in Germany, collective wage negotiations concluded in February 2018 will have an impact on costs. On the basis of its financial planning, the company anticipates that the additional charges within this area will amount to around EUR 8 million.

Group targets sustained earnings performance in dynamic times

The 2017 financial year saw a slight improvement in earnings before interest, taxes, and purchase price allocation (EBIT before purchase price allocation), despite downward pressure exerted by start-up costs associated with new orders, higher commodity prices, and, above all, too strong demand in the NAFTA region. These factors are also expected to be of relevance to earnings performance in 2018, together with the effects of collective bargaining agreements.

The Swiss site will benefit further from the next stage of measures aimed at migrating operations from Switzerland to Hungary. Against this backdrop, the plan is for additional streamlining to be performed with regard to the operational cost structures at the plant in Switzerland. Provided that these optimization efforts progress as planned, the Group estimates that the positive effect on earnings will be around EUR 10 million in the current financial year. Overall, the Group's EBIT margin (before purchase price allocation) is expected to be around 9% in 2018, having factored in the effects on earnings from the disposal of the Hug Group.

Against this background and in view of ElringKlinger's projected revenue growth, the Group anticipates that it will be in a position to improve its EBIT margin (before purchase price allocation) gradually in the medium term. This will be underpinned by fine-tuning efforts at the Swiss site as well as by positive effects on product mix from the ramp-up of new projects.

Focused approach to capital expenditure

At 9.3%, the investment ratio (capital expenditure on property, plant, and equipment and on investment property relative to Group sales revenue) for the 2017 financial year was well below the prior-year figure of 11.0%.

In pursuit of revenue growth, additional investments in new buildings or equipment will be needed in the future. This may also include the establishment of new sites. Furthermore, the Group remains committed to replacing old machinery with new systems that offer more scope for automation. ElringKlinger always conducts thorough assessments concerning the necessity, timing of execution, and funding requirements of such measures. Overall, the Group anticipates that its investment ratio will lie within a range of around 9 to 10% of Group revenue in the 2018 financial year. The Group is of the opinion that a ratio at a similar level will be necessary in order to remain competitive in the medium to long term with innovative products, modern production systems, and a global site structure.

Targeted measures to improve working capital

The integration of toolmaking within the Group has created a significant competitive advantage for ElringKlinger in the area of process expertise. The associated unique selling propositions are employed to the benefit of customers, in addition to being steadily refined. ElringKlinger identifies trends of relevance to the industry, helps to shape them, and even acts as an initiator. As a direct result of this strategic advantage, tools that have been produced and tested but are not yet in series production use have an accretive effect on inventory levels. Therefore, ElringKlinger's working capital – measured on the basis of the net working capital ratio (inventories and trade receivables less trade payables in relation to Group revenue) – is higher than that of comparable companies within the industry. Irrespective of this, the Group initiates and continuously implements measures aimed at optimizing procurement processes and inventory levels. At the same time, programs are introduced for the purpose of matching trade receivables and payables to the largest extent possible.

Ultimately, the Group anticipates that net working capital as a percentage of Group revenue will improve slightly in 2018. In the medium term, the Group will be looking to improve this ratio slightly on a step-by-step basis.

Growth financed by moderate debt

The financial year just ended saw the Group complete the very first placement of a Schuldscheindarlehen (loan granted to the company against a form of promissory note) in its corporate history. The cash proceeds were used for the purpose of extinguishing existing liabilities. The Schuldscheindarlehen replaces the overnight maturities of short-term liabilities with maturities of five, seven, and ten years, thus considerably improving the Group's overall debt maturity structure. Such diversification in financing arrangements may again be an option in the future. As a result of growth, net financial liabilities are expected to expand slightly in the 2018 financial year (before acquisitions). The range targeted by the Group for 2018 remains at 40 to 50% of total assets. ElringKlinger also expects to achieve a similar level in the medium term.

Cash flow determined by earnings, investments, and working capital

Based on the Group's financial planning, an improved earnings performance, a consistently disciplined approach to capital expenditure, and optimized levels of working capital will lead to a tangible improvement in operating free cash flow. As the measures initiated are expected to have a step-by-step effect on these key determinants, the improvement in free operating cash flow will also be gradual. With this in mind, the Group will be looking to achieve a slight year-on-year improvement in fiscal 2018. In the medium term, it expects to see a further steady improvement in operating free cash flow.

Targeting steady development of ROCE

The Group anticipates that the improvement in earnings it is aiming to achieve will have a positive impact on its return on capital employed (ROCE), despite a projected increase in capital employed as a result of revenue growth. Overall, the Group expects to see a slight improvement in its return on capital employed in 2018. Based on projected improvements in earnings and working capital, the Group will be looking to increase its return on capital employed in the medium term.

Original Equipment segment: synthesis of traditional and new fields of business

The Original Equipment segment, which accounts for more than 80% of Group revenue, encompasses both traditional and future-looking fields of business. Based on current forecasts, the Cylinder-head Gaskets division will emulate last year's revenue performance in 2018. Revenue from sales in the Specialty Gaskets division is expected to expand slightly, while the Shielding Technology division is likely to grow roughly at the same level as the Group as a whole. Among other factors, production ramp-up for two large-scale structural component contracts, covering cockpit cross-car beams to be manufactured at the Group's site in California and door module carriers to be made at the facility in Hungary as well as the new plant in China, will see revenue generated within the Lightweighting/Elastomer Technology division increase at a faster rate in relation to Group revenue growth.

Therefore, revenue growth in the Original Equipment segment as a whole is expected to exceed the expansion in global vehicle production by 2 to 4 percentage points in the 2018 financial year. Operating with a diverse product mix, ElringKlinger anticipates that the profit margin for this segment will be just below the Group average.

Engineered Plastics segment: above-average earnings performance

The Engineered Plastics segment supplies products for a wide range of applications in various industries. Its customers include companies from the automotive sector as well as enterprises operating in the mechanical engineering, medical technology, chemicals, and aerospace industries. Taking into account the heterogeneous nature of its target markets and the fundamental volatility of the market environment, ElringKlinger forecasts segment revenue growth of similar proportions to that of the Group. As regards profitability in 2018, the Group sees the segment more or less matching the high levels recorded in 2017.

Aftermarket segment: profitable revenue growth

The principal markets targeted by the Aftermarket segment are in Germany as well as in the regions covering the Rest of Europe, North Africa, and the Middle East. In these regions, the segment benefits enormously not only from its well-established "Elring – Das Original" brand but also from an ageing vehicle fleet, particularly in Eastern Europe, North Africa, and the Middle East. Local conflicts in these regions may exert downward pressure on revenue in the 2018 financial year, although the large proportion of vehicles of Western origin generally acts as a supportive element when it comes to aftermarket business.

The Aftermarket segment will continue to pursue measures already initiated for the purpose of further expanding its revenue share in North America and Asia. Given the strong growth in vehicle sales in recent years and the fact that car servicing schedules are now beginning to apply, there are good prospects for this segment to benefit from structural expansion within the aftermarket business in these regions.

The Aftermarket segment is expected to see revenue grow at a percentage rate in the mid-single-digit range in 2018. The Group anticipates that the segment EBIT margin will be well in excess of the Group average.

Parent company: sustained growth

The parent company, ElringKlinger AG, generates around 40% of total Group revenue. Based on projections for the global market, Asia remains the key growth driver for the industry as a whole, albeit to a slightly lesser extent than in the past. The VDA's forecast for Europe suggests that the southern European countries will see growth, while Germany is expected to be faced with a slight downturn of around 1%. In consideration of these various factors, the parent company's revenue is expected to expand at a rate that is approximately 2 to 4 percentage points above that of global market growth. This estimate is underpinned by a substantial order backlog of EUR 396.9 million at the end of 2017, which exceeded the prior-year figure of EUR 342.4 million by EUR 54.5 million.

Earnings performance in 2018 is expected to benefit from projected revenue growth, coupled with efficiency gains. Among the downside effects are an increase in wage costs and the higher cost of materials. The parent company's EBIT margin is likely to be at a level roughly similar to that recorded in 2017.

Guidance summary:

OUTLOOK FOR 2018		Actual 2017
Significant financial control criteria		
Sales revenue	Organic growth of 2 to 4 percentage points above global market growth Assumption: market growth of 2 to 3%	6 percentage points above market
EBIT	Margin before purchase price allocation of around 9%	8.5%
ROCE	Slight year-on-year improvement	8.2%
Other control criteria and indicators		
R&D costs	Around 5 to 6% of Group revenue when accounting for capitalization	4.6%
Investments in property, plant, and equipment and investment property	Around 9 to 10% of Group revenue	9.3%
Net working capital	Below prior-year level (as ratio in % of Group revenue)	33.3%
Operating free cash flow	Slight year-on-year improvement	EUR -66.6 million
Equity ratio	40 to 50% of total assets	44.0%

MEDIUM-TERM TARGETS		Actual 2017
Sales revenue	Increase at a rate in excess of global market growth	6 percentage points above market
EBIT	Successive improvement in EBIT margin (before purchase price allocation)	8.5%
ROCE	Increase based on projected improvements in earnings and working capital	8.2%
Investments in property, plant, and equipment and investment property	Continuation at comparable level (in % of Group revenue)	9.3%
Net working capital	Slight step-by-step improvement in ratio (in % of Group revenue)	33.3%
Operating free cash flow	Steady improvement	EUR -66.6 million
Equity ratio	Continuation at comparable level	44.0%

Dettingen/Erms, March 22, 2018
The Management Board

Dr. Stefan Wolf
CEO

Theo Becker

Thomas Jessulat

Audit Opinion

B. Reproduction of the auditor's report

We issued the following auditor's report on the annual financial statements and the management report of the Company, which is combined with the group management report:

"Independent auditor's report

To ElringKlinger AG

Report on the audit of the annual financial statements and of the management report

Opinions

We have audited the annual financial statements of ElringKlinger AG, Dettingen/Erms, which comprise the balance sheet as of December 31, 2017, and the income statement for the financial year from January 1, 2017 to December 31, 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Company, which is combined with the group management report, for the financial year from January 1, 2017 to December 31, 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as of December 31, 2017 and of its financial performance for the financial year from January 1, 2017 to December 31, 2017 in compliance with German legally required accounting principles, and

- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the annual financial statements and of the management report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate audit opinion on these matters.

Below, we describe what we consider to be the key audit matters:

Impairment of financial assets

Reasons why the matter was determined to be a key audit matter:

Shares in affiliated companies and investments are subject to an annual impairment test. As a rule, the basis of these valuations is the present value of future cash flows of the company to be evaluated. Valuations are based on the affiliated companies' budgets, which in turn are based on the budgets approved by the Management Board and Supervisory Board. The result of these valuations depends chiefly on the executive directors' estimates of the future cash flows of the respective companies as well as the discount rate applied and is thus subject to judgment.

Auditor's response:

With regard to the fair value determined by the executive directors, we examined the underlying processes used to calculate these values. With the help of internal valuation experts, we obtained an understanding of the underlying valuation models for the determination of the value in use in terms of methodology and calculation. We also examined whether the budget planning reflects general and industry-specific market expectations. We performed a target-actual comparison of the historical forecast data and the actual results on a sample test basis to assess forecast accuracy. We examined the inputs used to estimate fair value, such as the estimated growth rates and the weighted average cost of capital, comparing them with publicly available market data and assessing changes in key assumptions, including future market conditions.

Our audit procedures did not lead to any reservations relating to the assessment of the impairment of financial assets.

Revenue recognition in the tools area

Reasons why the matter was determined to be a key audit matter:

A significant part of the Company's operating activities includes the development and manufacture of tools. Here, due to the multiplicity of various tools and buyers as well as the fact that the tools remain on-site at the Company for producing series items for the customers after they have been produced, there is an increased risk of revenue not being recognized in the appropriate period in the annual financial statements. Moreover, revenue is entered manually. Revenue recognition of tools was a key audit matter due to the significance of sales revenue and cost of materials for the annual financial statements, and the fact that sales revenue and EBIT are financial performance indicators for the Company for corporate management and the forecast.

Auditor's response:

During our audit, based on our understanding of the business and process, we obtained an understanding of the contractual arrangements with the customers, especially the arrangements governing the time of passage of risk, as well as the arrangements regarding the billing procedure. With this background, we assessed the processes for revenue recognition and accrual basis accounting established by the executive directors. Our audit approach included individual audit procedures as well as analytical procedures. For a sample chosen using statistical selection criteria, we verified whether there was matching documentation of customer acceptance for the sales revenue in December and whether the sales revenue was properly recognized in the correct period.

We requested a sample of balance confirmations for receivables from sales of tools. Our analytical audit procedures comprise the analysis of sales revenue from tools during the course of the year and any amount-related irregularities compared to the previous year. Entries other than invoices that were recorded during the year as sales revenue from tools e.g., credit notes, were analyzed for unusual activity. We also examined the general ledger in December for entries of a conspicuous amount compared to the annual average as well as for unusual clusters of entries for revenue recognized in relation to tools to detect irregularities regarding revenue recognition and the accrual basis of accounting.

Our audit procedures did not lead to any reservations relating to revenue recognition in the tools area.

Responsibilities of the executive directors and the supervisory board for the annual financial statements and the management report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles. The executive directors are also responsible for such internal control as management determines is necessary to enable the preparation of financial statements in accordance with the German principles of proper accounting that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the Annual General Meeting on May 16, 2017. We were engaged by the Supervisory Board on September 4, 2017. We have been the auditor of ElringKlinger AG without interruption since financial year 2013.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Frank Göhner."

Stuttgart, March 22, 2018
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Göhner	Vögele
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

Responsibility statement and signature of the annual financial statements

"To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of ElringKlinger AG, and the management report, which has been combined with the group management report, includes a true and fair representation of the development and performance of the business and the position of ElringKlinger AG, together with a description of the material opportunities and risks associated with the expected development of ElringKlinger AG."

Dettingen/Erms, March 22, 2018
Management Board

Dr. Stefan Wolf
Chairman/CEO

Theo Becker

Thomas Jessulat

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