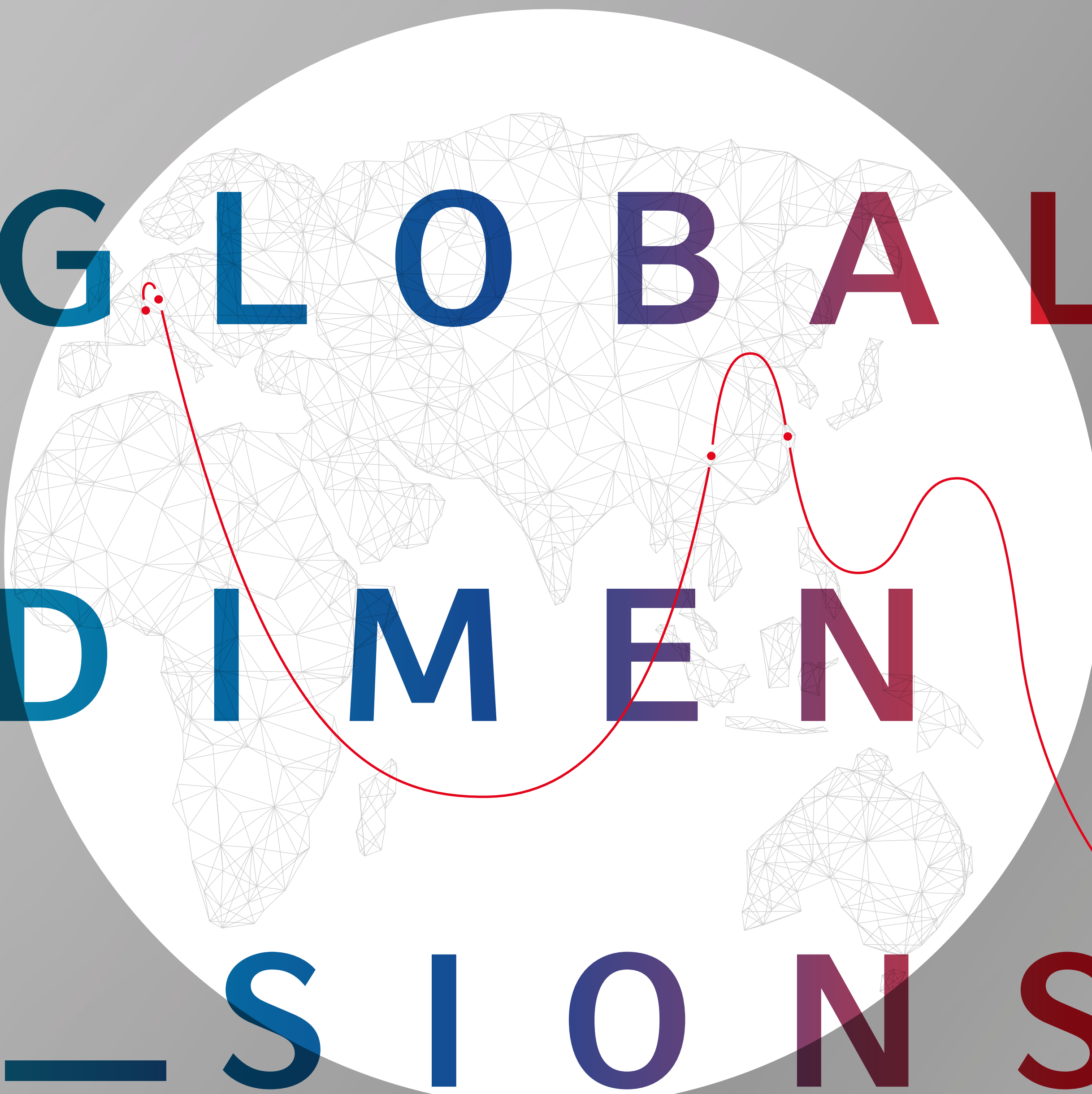
Annual Report 2018

GLOBAL DIMEN_SIONS

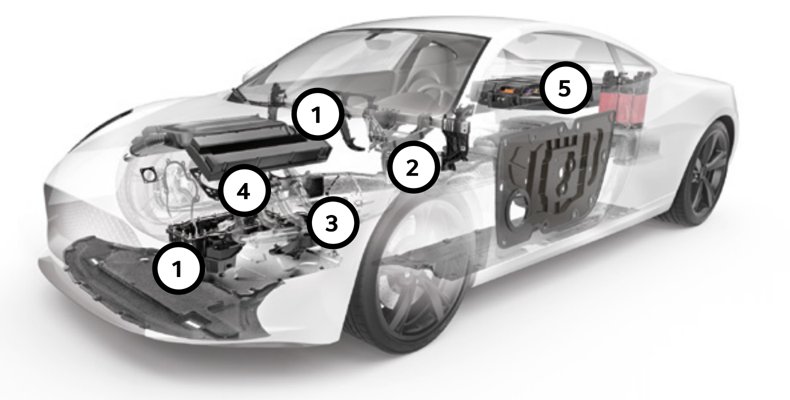


elringklinger

Experience mobility – Drive the future.

As an independent and globally positioned supplier, ElringKlinger is a powerful and reliable partner to the automotive industry. Be it passenger car or commercial vehicle, equipped with an optimized combustion engine, with hybrid technology, or with an all-electric motor – we offer innovative solutions for all types of drive system. In doing so, we are making a committed contribution to sustainable mobility. Our lightweighting concepts help to reduce the overall weight of vehicles. As a result, vehicles powered by combustion engines consume less fuel and emit less CO_2, while those equipped with alternative propulsion systems benefit from an extended range. Developing cutting-edge battery and fuel cell technology as well as electric drive units, we were among the frontrunners when it came to positioning ourselves as a specialist in the field of e-mobility. At the same time, we are committed to evolving our sealing technology for a wide range of applications. Our shielding systems are designed to ensure high-end temperature and acoustics management throughout the vehicle. Dynamic precision parts developed by ElringKlinger can be used in all types of drive system. Additionally, the Group's portfolio includes engineering services, tooling technology, and products made of high-performance plastics, which are also marketed to industries beyond the automotive sector. These efforts are supported by a dedicated workforce of more than 10,000 people at 45 ElringKlinger Group locations around the globe.

KEY AREAS OF BUSINESS



Original Equipment Segment

1

LIGHTWEIGHTING/ ELASTOMER TECHNOLOGY

27 %

2

SHIELDING TECHNOLOGY

24 %

3

SPECIALTY GASKETS

19 %

AFTERMARKET

9 %

4

CYLINDER-HEAD GASKETS

11 %

5

E-MOBILITY

1 %

EXHAUST GAS PURIFICATION

1 %

ENGINEERED PLASTICS

7 %

Percentage of Group revenue 2018

Annual Report 2018

Contents

01

TO OUR SHAREHOLDERS

02

COMBINED MANAGEMENT REPORT

– Bietigheim-Bissingen, Germany

At ElringKlinger, innovation begins with the input material. Products engineered from high-performance plastics are indispensable for many sectors. Explore the world of ElringKlinger Kunststofftechnik on page 36 ff. of »pulse« magazine.

03

CONSOLIDATED FINANCIAL STATEMENTS

The Management Board of ElringKlinger AG

Theo Becker

responsible for the business units Battery Technology & E-Mobility, Drivetrain as well as the corporate units New Business Areas, Purchasing, Real Estate & Facility Management and Tool Shop/Technology

Dr. Stefan Wolf (CEO)

responsible for Group companies; the corporate units Legal & Compliance, Human Resources, Strategic Communications, Marketing & Communications and Original Equipment Sales as well as the Aftermarket divison

Thomas Jessulat

responsible for the corporate units Finance, Operational IT, Strategic IT, Logistics and Business Development as well as the Industrial Parks division

Reiner Drews

responsible for the business units Cylinder-head Gaskets, Specialty Gaskets, Lightweight/Elastomer Technology and Shielding Technology; the corporate units Production and Quality & Environmental Management as well as ElringKlinger AG plants

(from left to right)

Thomas Jessulat, CFO

Dr. Stefan Wolf, CEO/Chairman

Theo Becker, CTO & Reiner Drews, COO

Letter to Shareholders

Dear Shareholders,
Ladies and gentlemen,

The 2018 financial year just ended was far from easy. In fact, it was dominated by a number of uncertainties. The world's biggest automobile market, China, was faced with a visible downturn in the second half of the year. The European markets – and Germany in particular – also showed signs of weakness in the post-summer months, primarily as a result of the introduction of the new WLTP-based test cycle. This situation was further compounded by global trade disputes. Our industry as a whole was severely impacted by US import tariffs on steel and aluminum. ElringKlinger, too, was affected, despite the fact that we produce goods in the United States and source raw materials from US companies. What is more, commodity prices rose sharply in 2018. In fact, the average prices in our three principal commodity groups – steel, aluminum, and polymer granules – increased by 10% and more compared with the previous year. As a result, raw materials constituted a major cost component in the financial year just ended – more so than we could have anticipated at the beginning of 2018.

Operating in this difficult climate, ElringKlinger was also faced with an issue that many would consider quite favorable: our products are proving to be so popular in the NAFTA region that we managed to expand revenue by 16% in 2018 when adjusted for currency effects, whereas the market as a whole actually contracted by 1% during the same period. This means that we outpaced market growth by 17 percentage points. As a result, we were operating at full capacity. In some cases, significant flexibility was called for on our part in order to meet customer contracts. This, however, led to follow-on costs that adversely affected our earnings. To address this issue, we immediately implemented a number of measures aimed at curbing costs in the short term and eliminating them in the medium term. New machinery was installed and logistics processes were streamlined. Additionally, our local team has worked in three shifts – seven days a week. We also renegotiated contracts with our customers. While we are definitely on the right track, these measures do require a certain lead time before they can take full effect.

In total, we managed to expand revenue further in 2018, taking the figure to EUR 1,699 million. Year-on-year growth in this area demonstrates quite clearly that our choice of product portfolio is a wise one. At EUR 100 million, however, earnings (EBIT before purchase price allocations) fell well short of expectations. In agreement with the Supervisory Board, we have therefore decided to depart from the dividend policy formerly pursued by the Group and suspend our dividend payment in respect of the 2018 financial year. This is aimed at strengthening the Group's internal financing. This decision was by no means easy, but it represents an important step forward in our efforts to adapt ElringKlinger's structure in such a way as to ensure that we are well positioned to tackle the future challenges associated with change in the automotive industry. Moving forward, it is essential that we translate ElringKlinger's solid order book into revenue in the most cost-effective manner possible and avoid exceptional events such as those seen in the NAFTA region. Our earnings performance is far from satisfactory. However, it also acts as a strong and enduring incentive for the future.

"Hard times build determination and inner strength," as the Dalai Lama once put it. It is precisely these thoughts that we will be embracing in 2019. We are firmly committed to streamlining our cost structures further in the months ahead. However, there is every chance that the situation within our industry as a whole will deteriorate as a result of trade conflicts and the downturn of key markets. Given these fundamentals, the financial year ahead is also likely to produce a number of challenges. In view of this, we anticipate that our EBIT margin in 2019 will be weaker year on year, which is due in part to the fact that fiscal 2018 included proceeds from the sale of the Hug Group.

The automotive industry is undergoing considerable change, as reflected in daily news items in the media. Public debate over diesel engines has been relentless. Fueled to some extent by various court rulings on driving bans, this technology is becoming less popular among consumers, although it can be considered one of the cleanest solutions for combustion engines if combined with state-of-the-art exhaust gas purification systems. What is more, car makers had been targeting higher sales of diesel-powered vehicles in order to meet the CO_2 emission standards that come into force in the EU as from 2021. In response, they are now introducing more and more new models equipped with alternative drive systems.

Having made an early strategic move in this direction, ElringKlinger is well prepared when it comes to embracing this transition. And yet we are by no means resting on our laurels. Our nominations in the field of battery and fuel cell technology point to sustained growth in the coming months. We have already established a solid foundation from a technological perspective. At present, we are setting up manufacturing lines for our very first series production order for a battery system – as part of a contract secured by our company in 2018. In parallel, our new research and development center in Dettingen an der Erms is scheduled for completion in the first quarter of 2020. At the organizational level, we expanded the Management Board in 2018, as a result of which Theo Becker as Chief Technology Officer is now responsible for those fields of business considered to be of strategic importance to the future of the Group. Reiner Drews has taken over his duties as Chief Operating Officer. Under his leadership, we are currently introducing a new production system. The focus here is on optimizing and harmonizing our production processes worldwide in order to pursue our growth targets in a cost-effective manner. We will resolutely continue along this path for the purpose of also positioning ourselves more strongly with regard to internal operations.

This year marks the 140th anniversary of ElringKlinger. In 1879, Paul Lechler established a trading firm in Stuttgart. ElringKlinger AG can trace its roots back to this company. Acknowledged mainly as a gasket specialist during the second half of the last century, the mid-sized enterprise from the southwest of Germany has evolved into a highly diversified player with global operations. Highlighting our international ambitions, this year's annual report is entitled "Global Dimensions." In conjunction with technological change, globalization has far-reaching implications for our industry as a whole. Our accomplishments over the last twenty years have provided us with a solid foundation. To complement our gaskets and seals, we established additional fields of business in the form of plastic housing modules and shielding systems, thereby diversifying our product portfolio targeted at combustion engines. In the area of lightweight engineering, we have extended our product offering to include components used in vehicle bodies, i.e., parts that are in no way dependent on the type of drivetrain. In parallel, we established a global network of sites. In preparation for change, we were an early mover when it came to embracing new technologies. As a result, we are now already in a position to supply complete battery and high-performance fuel cell systems. Building on our investment in hofer powertrain, we now also offer complete electric drive units for the high-end sports car and luxury vehicle segment.

Indeed, all these strategic decisions and the most recent measures aimed at improving our operational excellence provide a platform from which we as ElringKlinger can look forward with confidence to what lies ahead. On behalf of the entire Management Board, I would like to encourage you to explore our business on the following pages and in the magazine that accompanies our annual report. I hope it makes for an enjoyable read.

Dettingen/Erms, March 2019
Yours sincerely,

Dr. Stefan Wolf
Chairman of the Management Board

Report by the Supervisory Board 2018

The financial year just ended was not an easy one for ElringKlinger. Capacity constraints and the unfavorable direction taken by commodity prices had a dampening effect on the company's positive performance, as a result of which it fell short of its earnings targets. At the same time, however, ElringKlinger AG took important steps forward in its efforts to prepare itself for the future and establish a sustainable foundation, particularly in the area of alternative drive concepts.

During the 2018 financial year, the Supervisory Board of ElringKlinger AG fully performed the duties incumbent upon it according to the law, the Articles of Association, the rules of procedure, and the German Corporate Governance Code. It monitored the activities of the Management Board continuously and, in particular, supported it in an advisory capacity with regard to key issues such as the strategic positioning of the Group. The Supervisory Board was involved in all decision-making processes deemed to be of fundamental importance to the company. These decisions were the subject of thorough and in-depth discussion with the Management Board. To the extent that decisions or measures taken by the management required the approval of the Supervisory Board, the Management Board obtained such approval accordingly. Furthermore, the Management Board briefed the Supervisory Board in an appropriate manner on key performance indicators, occurrences, and circumstances as part of monthly written reports.

The Supervisory Board convened for five meetings in the reporting period. At the scheduled meetings, the Management Board provided a detailed overview of business developments, particularly as regards the direction taken by revenue and earnings as well as the cash flows and financial performance of the Group, ElringKlinger AG, and its subsidiaries. The Management Board presented its latest projections together with its evaluation of the economic, market, and competitive situation. In addition, the Management Board supplied regular information on the current risk situation, relevant compliance-related issues, the status of any significant legal disputes, and other matters of critical importance. Last but not least, reporting encompassed strategic projects and acquisitions. The issues were presented and discussed during the sessions of the full Supervisory Board. The members of the Supervisory Board were always briefed extensively and in writing on the respective agenda items, this information being furnished in good time so that they were able to prepare for the meetings.

The company's strategic positioning formed one of the focal points of the Supervisory Board's activities during the reporting period.

In the year under review, the Supervisory Board dealt with the following topics at its meetings, alongside the regularly recurring agenda items already mentioned:

- On March 23, 2018, the Supervisory Board focused on the annual financial statements of ElringKlinger AG and the Group as of December 31, 2017, including the Supervisory Board report, the corporate governance report, the compensation report, and the auditor's report compiled by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The Supervisory Board adopted the annual financial statements of ElringKlinger AG and endorsed the consolidated financial statements together with the combined management report. It approved the Management Board's proposal for the appropriation of profit as well as the non-financial statement. At this meeting, it approved the items on the agenda for the Annual General Meeting. In matters relating to the Management Board, Mr. Reiner Drews was appointed as a member of the Management Board effective from April 1, 2018, under the provisions of a fixed-term employment contract scheduled to end on March 31, 2021. Additionally, the Supervisory Board agreed an extension, until December 31, 2023, of the employment contract concluded with Mr. Thomas Jessulat as well as an increase in the fixed component of compensation effective from January 1, 2018.

- At the Supervisory Board meeting on May 16, 2018, which took place immediately after the Annual General Meeting, Messrs. Klaus Eberhardt and Markus Siegers were elected Chairman and Deputy Chairman of the Supervisory Board respectively.

- At the extraordinary meeting convened on July 2, 2018, the Management Board outlined the situation of various subsidiaries in Switzerland and the NAFTA region against the backdrop of current capacity problems and the associated negative effects on financial performance. Furthermore, the action plans already put in place were presented to the Supervisory Board and planned improvement measures were discussed.

Klaus Eberhardt
Chairman of the Supervisory Board

- At the Supervisory Board meeting on September 28, 2018, the Supervisory Board dealt with issues surrounding commodity price developments and their effects on the ElringKlinger Group. The Management Board also reported extensively on developments at the subsidiaries that had previously been the focus of discussions at the Supervisory Board meeting on July 2, 2018. It also adopted the amended rules of procedure for the Management Board, necessitated by changes to the Areas of Responsibility.

- The agenda for the meeting on December 6 and 7, 2018, included the 2019 budget and medium-term business planning. The Supervisory Board also dealt with matters relating to the audit and compliance report. It decided to commission Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft to assist it in auditing the non-financial statement. The Management Board explained its plan to introduce a new ElringKlinger production concept, the aim being to further standardize and optimize manufacturing processes and operating procedures within the ElringKlinger Group. Last but not least, the presentation focused to a large extent on ElringKlinger' s corporate strategy against the backdrop of the challenges facing the automotive industry and measures being pursued by ElringKlinger with regard to new drive concepts. The Group's future strategic orientation, associated opportunities and risks, and fundamental measures to be implemented were discussed and debated thoroughly by those present.

The majority of meetings were attended by all of the Supervisory Board members, with the exception of the meetings on March 23, 2018, July 2, 2018, and December 6, 2018. In each case, one member of the Supervisory Board was unable to attend for good reason, while another member of the Supervisory Board was only able to attend part of the meetings.

The Audit Committee convened on two occasions during the year under review. The meeting in March 2018 was devoted to in-depth discussion of the auditor's report on the 2017 annual financial statements. The agenda of the December 2018 meeting convened by the Audit Committee included the task of defining the focal points of the audit for the financial year 2018 as well as the supervision of financial reporting processes and the internal control and compliance system. In addition, as in previous years, the CEO reported regularly to the Chairman of the Audit Committee on the results of internal audits.

The Personnel Committee convened on February 15, 2018. Among the items discussed were the appointment of Mr. Drews as a member of the Management Board and the terms incorporated within his employment contract, in addition to the extension of the employment contract of Mr. Thomas Jessulat and adjustments to his compensation package.

The Mediation Committee did not have to be convened during the financial year just ended.

There were no conflicts of interest between Supervisory Board members and the company in 2018.

The Declaration of Conformity by the Supervisory Board and the Management Board pursuant to Section 161 of the German Stock Corporation Act (AktG) and regarding the German Corporate Governance Code in the version of February 7, 2017, was approved unanimously and published on the company's website on December 4, 2018. The provisions of the Corporate Governance Code, and in particular the scheduled amendment of the Code in 2019, were discussed at both the Audit Committee meeting and the Supervisory Board meeting in December.

In addition to the monthly written reports and the Supervisory Board meetings, as in previous years, the Chairman of the Supervisory Board remained in regular contact with the Chairman of the Management Board. These ongoing exchanges covered the current economic situation, important business developments, and other events of particular significance. The Chairman of the Supervisory Board informed his Board colleagues of significant occurrences.

In December 2018, the Supervisory Board, as stipulated by the provisions set out in the German Corporate Governance Code, conducted an efficiency review in respect of its activities on the basis of a questionnaire issued to all members. This did not result in any need for action.

The annual financial statements of ElringKlinger AG and the corresponding consolidated financial statements with the combined management report for the 2018 financial year, as presented by the Management Board, were audited by the auditors Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The audit mandate was issued by the Supervisory Board in accordance with the appointment of the auditor by the Annual General Meeting on May 16, 2018. In accordance with Section 315e of the German Commercial Code (HGB), the consolidated financial statements of ElringKlinger AG were prepared on the basis of International Financial Reporting Standards (IFRS). The auditing firm issued unqualified audit opinions for the annual financial statements of ElringKlinger AG as well as for the consolidated financial statements, including the combined management report, for the financial year 2018. The Supervisory Board was in possession of the documents relating to the financial and consolidated financial statements together with the Management Board's proposal for the appropriation of profits, as well as the two audit reports compiled by the auditor. The aforementioned documents were studied in depth by the Audit Committee and the Supervisory Board as a whole before being discussed at length and examined in consultation with the auditors. The Supervisory Board concurred with the outcome of the audit. No objections were raised. At its meeting on March 22, 2019, the Supervisory Board adopted the annual financial statements of ElringKlinger AG and endorsed the consolidated financial statements together with the combined management report. At the same meeting, the Supervisory Board approved the Management Board's proposal for the appropriation of profit.

The Supervisory Board would like to thank the Management Board and all members of staff at ElringKlinger AG and its subsidiaries in Germany and abroad for their hard work and excellent cooperation.

The Honorary Chairman of the Supervisory Board, Professor Walter Herwarth Lechler, passed away unexpectedly on May 17, 2018, having attended the Annual General Meeting of ElringKlinger AG just a day earlier. Mr. Lechler held various positions within the ElringKlinger Group for a period spanning several decades, most recently as the Chairman of its Supervisory Board until May 2017. He was a linchpin within the company and played a pivotal role in shaping its business. The Supervisory Board is greatly indebted to Professor Lechler and will honor his memory.

Dettingen, March 22, 2019

On behalf of the Supervisory Board

Klaus Eberhardt

Klaus Eberhardt
Chairman of the Supervisory Board

ElringKlinger on the Capital Market

Against the backdrop of more widespread political and economic uncertainties, global equity markets put in a much weaker performance in 2018 than in the previous year. Cyclical stocks such as those of companies in the automobile industry were affected more severely than others by the downward spiral seen within the market – with automotive suppliers faring worse than the manufacturers themselves. Over the course of the 2018 financial year, ElringKlinger's Investor Relations department again provided a comprehensive and transparent commentary on the Group's business performance and its prospects for the future. In addition, ElringKlinger engaged in regular dialogue with the capital markets by attending investor conferences and road shows at home and abroad.

Stock markets impacted by trade conflicts and recessionary fears

Overall, 2018 proved to be a disappointing year from an investor's perspective. Besides geopolitical factors such as uncertainty over the outcome of Brexit negotiations and ongoing global trade conflicts, weaker economic fundamentals, as evidenced by a gradual loss of economic momentum in China, caused stock markets as a whole to tumble in the period under review.

Markets around the globe came under pronounced pressure as early as the first quarter of the year. The visible deterioration in leading economic indicators for the eurozone, the introduction of US import duties on steel and aluminum, and growing anxiety over the level of US inflation were the source of greater volatility and prompted a significant downturn in stock market prices.

Markets recovered somewhat during the second quarter. In this context, equity markets were supported by the appreciation of the US dollar against the euro, the reduction in duties on cars imported into China, and the decision by the European Central Bank (ECB) to leave benchmark interest rates unchanged for the time being at an all-time low of zero percent. On a less positive note, however, global trade conflicts continued to exert downward pressure on stock markets.

The third quarter saw global markets develop along different lines. In the United States, robust economic data and the trade deal reached with Mexico and Canada provided a favorable updraft. In Europe, by contrast, fraught Brexit negotiations and negative headlines surrounding the state of the Italian and Turkish economies proved detrimental. China was buffeted by the effects of the smoldering trade dispute with the US.

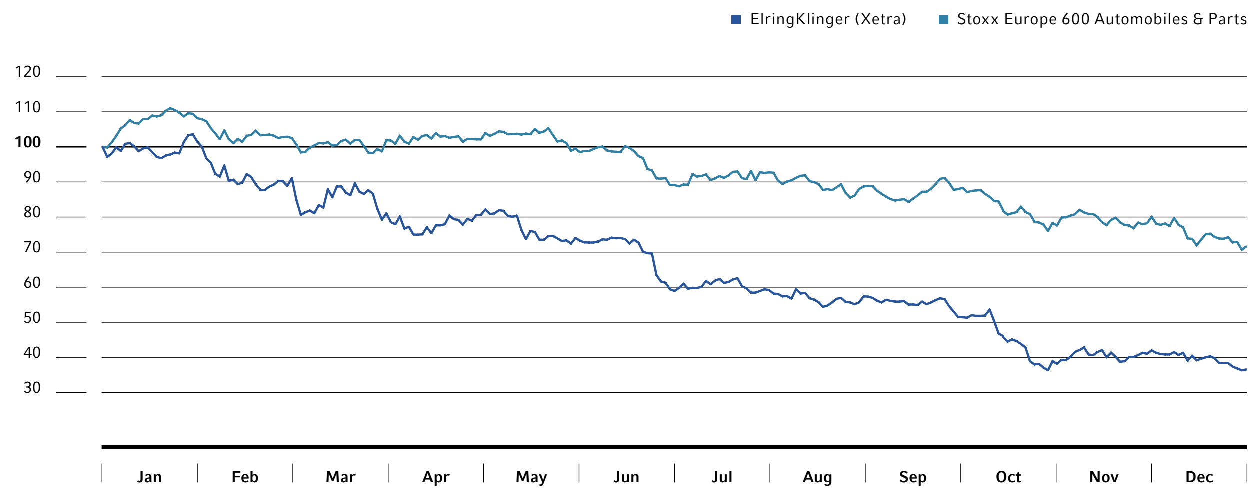
The fourth quarter, finally, saw a dramatic slump in stock market prices. Among the key influencing factors were less favorable projections for the economies of the eurozone, the US, and China – fueling recessionary fears. Furthermore, the ECB announced its plans to discontinue its bond-buying program at the end of the year. Toward the end of the year, persistent political fears over trade conflicts and Brexit negotiations also resulted in turbulent trading.

Against this backdrop, Germany's stock market recorded significant losses in 2018. Its blue chip index, the DAX, plummeted from an all-time high in January to a two-year low in December, thus losing 18.3% over the 2018 annual period as a whole. Germany's mid- and small-cap indices suffered a similar fate, with the MDAX falling by 17.6% and the SDAX by 20.0%.

ElringKlinger stock closes year at EUR 6.80

Automotive industry stocks in general were faced with considerable losses in the year just ended. Alongside car makers, automotive suppliers bore the brunt of the impact. ElringKlinger shares also recorded a significant downturn over the course of the year.

ElringKlinger's share price performance from January 1 to December 31, 2018 (indexed)
in %



Having ended the 2017 year of trading at EUR 18.68, ElringKlinger's share price initially developed along similar lines at the beginning of 2018 and reached its annual high of EUR 19.37 at the end of January. February saw a general deterioration in market sentiment that subsequently also had an impact on ElringKlinger's stock. In March, the publication of the Group's financial results for fiscal 2017 prompted another correction in the share price. Toward the end of the first quarter of 2018, ElringKlinger's share price stood at EUR 15.14.

In the second quarter, prices trended sideways to a large extent. The company's financial results for the first quarter of 2018, which were presented at the beginning of May, fell short of capital market expectations – leading to another correction in the share price. The adjustment to ElringKlinger's earnings guidance for fiscal 2018 produced further pressure on the share price toward the end of June. At the end of the first half of 2018, ElringKlinger's share price stood at EUR 10.99.

At the beginning of the third quarter, the company's stock trended sideways in line with seasonal patterns. The financial results presented at the beginning of August for the period covering the first half of 2018 initially led to slight gains. However, the stock was unable to maintain this momentum in the following months, with some analysts having revised their estimates relating to ElringKlinger and having adjusted their price targets. At the end of the third quarter of 2018, ElringKlinger's share price stood at EUR 9.56.

In the fourth quarter, the publication of ElringKlinger's financial results for the first nine months of 2018 in early November finally drove its stock price lower – coinciding with a general downturn in market sentiment at the end of the year. Once again, the adjustment in stock prices was particularly noticeable within the automotive segment. The final quarter of the year produced an annual low of EUR 6.76. At the end of 2018, ElringKlinger's share price stood at EUR 6.80.

Trading volume in 2018 down on previous year

Trading volume for the ElringKlinger share in 2018 was down on the previous year's figure. The average daily volume traded totaled 152,800 (209,600) shares. The average daily value of ElringKlinger shares traded on German stock exchanges was approx. EUR 1.9 (3.4) million. Despite the lower trading volume compared to the previous year, ElringKlinger's share again offered sufficiently high levels of liquidity for institutional investors to conduct larger share transactions.

EUR 0.50 per share agreed as a dividend

In his speech at the Annual General Meeting of ElringKlinger AG, which was held on May 16, 2018, CEO Dr. Stefan Wolf reviewed the 2017 financial year, highlighting important strategic milestones with regard to future business development. These included the investment in the hofer Group, the placement of a Schuldscheindarlehen (loan granted to the company against a form of promissory note) – covering a total volume of EUR 200 million – for the first time in its corporate history, and an agreement on the sale of the Hug Group.

The shareholders of ElringKlinger AG approved by a large majority the proposal put forward by the Management Board and Supervisory Board for a dividend of EUR 0.50 (0.50) per share for fiscal 2017, unchanged on the previous financial year. The total distribution to shareholders of ElringKlinger AG thus remained stable year on year at EUR 31.7 million. The dividend ratio was 45.3% (40.3%), i.e., slightly in excess of the figure targeted by the company's long-term dividend policy, as part of which between 30 and 40% of Group net income after non-controlling interests is to be distributed.

Based on the earnings situation of the 2018 financial year, the Management Board and Supervisory Board jointly decided to depart from the Group's established dividend policy and to suspend the dividend in respect of the 2018 finanical year.

Shareholder structure: Lechler family as an anchor investor

ElringKlinger AG's shareholder structure as of December 31, 2018, was as follows: 52.0% (52.0%), i.e., the majority of ownership interests in ElringKlinger AG, continued to be held by the Lechler family estate. The passing of Prof. Walter H. Lechler in May 2018 had no impact on the family's ownership interest. In keeping with his wishes, interests held by Prof. Lechler in ElringKlinger AG were transferred to the family trust upon his death in order to safeguard the ongoing development of ElringKlinger AG.

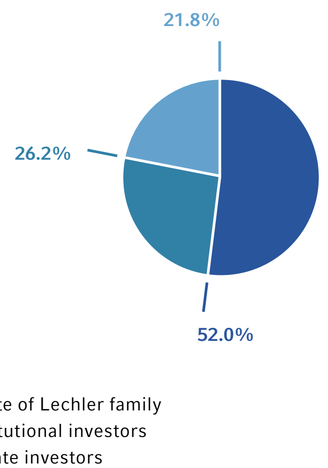
Correspondingly, the company's free float accounted for 48.0% (48.0%) of the 63,359,990 no-par-value shares issued in total. There was a year-on-year percentage shift within the free float: institutional investors now held 26.2% (31.8%) of ElringKlinger AG's share capital. The overall interest held by private investors was up at 21.8% (16.2%) at the end of the financial year.

Key Figures for the ElringKlinger Share

	2018	2017
Earnings per share IFRS (after non-controlling interests, in EUR)	0.69	1.10
Shareholders' equity per share (in EUR)[1]	13.46	13.45
High (in EUR)[2]	19.37	20.14
Low (in EUR)[2]	6.76	13.59
Closing price (in EUR)[1,2]	6.80	18.68
Price-earnings ratio[1]	9.86	16.98
Dividend per share (in EUR)	0.00	0.50
Average daily trading volume (German stock exchanges; no. of shares traded)	152,800	209,600
Average daily trading value (German stock exchanges; in EUR)	1,894,700	3,436,400
Market capitalization (EUR millions)[1,2]	430.8	1,183.6

[1] As of December 31
[2] Xetra trading

Shareholder Structure as of December 31, 2018



Engaged in dialogue with the capital markets

ElringKlinger is committed to reporting on current and future corporate and market developments regularly and in a timely and transparent manner. The Investor Relations department makes a point of addressing the needs of investor groups in equal measure when it comes to providing information and engaging in communication. ElringKlinger continued to take an active approach to communicating with key players within capital markets over the course of the 2018 financial year. In total, the company took part in 16 capital market conferences and hosted four road shows.

In Germany, ElringKlinger attended several conferences held in the financial hub of Frankfurt/Main, the aim being to showcase its business performance and prospects for the future. Over the course of the year, the company also took part in capital market events in Baden-Baden, Hamburg, and Munich, attended primarily by international and institutional investor groups. Among the major European centers of finance visited by the Investor Relations team were London, Paris, and Geneva. As in previous years, North America was also a key destination. The company also addressed new investor groups as part of a road show that focused on Australia and Singapore for the very first time.

For the purpose of presenting its quarterly results, ElringKlinger regularly organizes conference calls for institutional investors and analysts, which includes live online coverage. An audio recording of the conference and the presentation are subsequently made available on ElringKlinger's website. ElringKlinger also organizes conferences for journalists and analysts in order to present its annual financial results. These brick-and-mortar events are attended by the Management Board of ElringKlinger AG for the purpose of engaging in dialogue with the financial community.

It is also customary for ElringKlinger to meet with representatives of the capital markets at company sites. Institutional investors and financial analysts are given the opportunity to familiarize themselves first-hand with the company's latest technologies and production processes – an offer that continues to be well received by these groups.

In order to foster direct dialogue with private investors, ElringKlinger also takes part in events hosted by local Sparkasse and Volksbank financial institutions. They are targeted primarily at non-institutional investors and regional asset managers.

Multiple awards for ElringKlinger's annual report

ElringKlinger AG's 2017 annual report won several awards as part of major communication and design competitions. At the LACP (League of American Communications Professionals) Vision Awards, the company managed to outpace other entrants from around the globe; the panel of judges awarded it a gold medal in the "Automobiles & Components" category. ElringKlinger's annual report also impressed in the ARC (Annual Report Competition) award competition and won a silver medal in the "Automotive Parts" category.

The report was again among the winners of the Automotive Brand Contest within the category of "Corporate Publishing." In addition, ElringKlinger's annual report excelled in the Fox Finance Award competition, where it received a gold medal in the Automotive category. The company's annual report also impressed the jury of the Good Design Award, making it onto the winners' podium in the Graphic Design category.

Sustainability funds focus on ElringKlinger share

Alongside financial criteria, both environmental and social aspects are also of relevance to a growing number of private and institutional investors. In addition, they often tend to make their investment decisions on the basis of whether a company has embraced the recommendations set out in the German Corporate Governance Code (GCGC). ElringKlinger shares have become an interesting investment proposition for these groups of investors.

As a future-focused company committed to a sustainable approach to business, the ElringKlinger Group operates in line with applicable quality and environmental standards as well as the latest GCGC requirements. At the same time, the company's pioneering portfolio of products targeted at the key issues of CO_2 reduction and alternative drive technology is making a sizeable contribution when it comes to cutting greenhouse gases and other pollutants.

For more detailed information on ElringKlinger's efforts in the area of sustainability, readers are kindly requested to access the Sustainability section on the company's website. The Group's most recent sustainability report can also be accessed online. The impacts of the company's operations on environmental matters, social and employee-related matters, respect for human rights, and anti-corruption and bribery matters are discussed separately in the non-financial report issued by the ElringKlinger Group (cf. "Combined Non-Financial Report," page 77).

Stock Market Data for the ElringKlinger Share

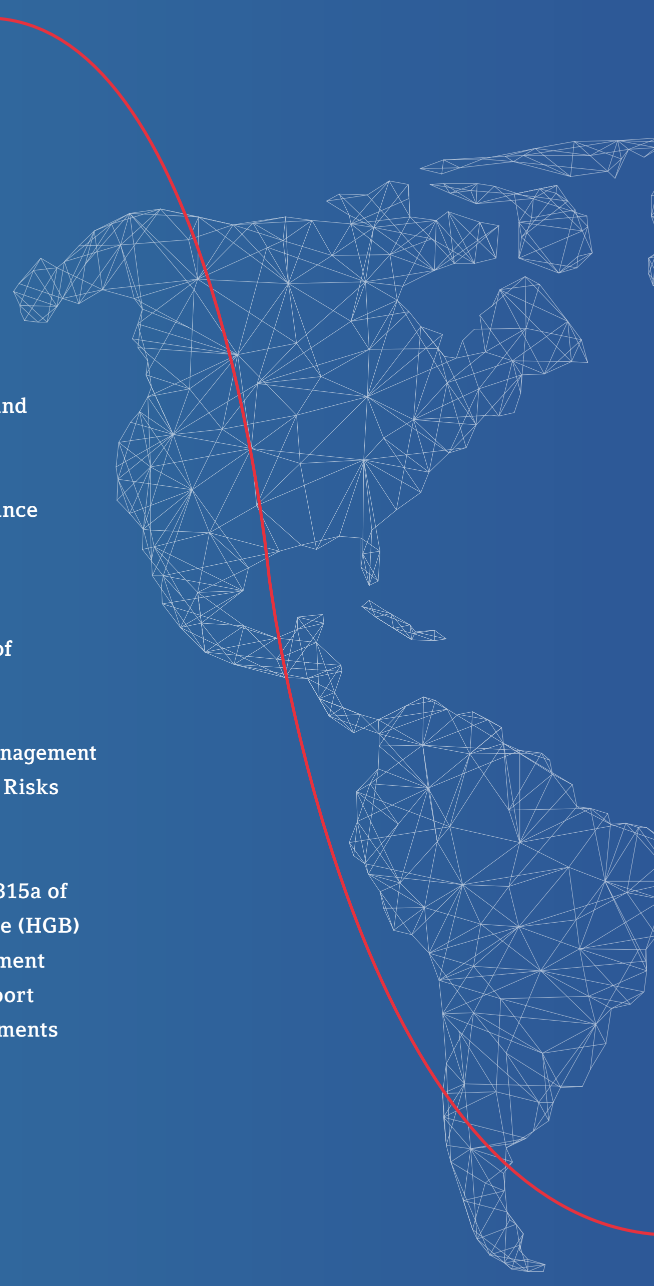
International Security Identification Number	DE0007856023
German Securities Identification Code	785602
Stock exchange symbol	ZIL2
Bloomberg ticker symbol	ZIL2 GY
Reuters ticker symbol	ZILGn.DE
Capital stock	EUR 63,359,990
Number of shares outstanding	63,359,990
Stock exchanges	Xetra and all German stock exchanges
Market segment	Regulated Market
Transparency level	Prime Standard

Corporate Governance Report

The joint report issued by the Management Board and the Supervisory Board of ElringKlinger AG with regard to corporate governance, including the Declaration of Conformity passed on December 4, 2018, in respect of the Code, has been published online at www.elringklinger.de/en/company/corporate-governance in accordance with Section 3.10 of the German Corporate Governance Code in connection with the Corporate Governance Statement.

Combined Management Report for the Financial Year 2018

02



– Chongqing, China

As a lead market for e-mobility, China is working at pace to drive change toward alternative drive systems. ElringKlinger was an early market entrant in China. Find out more about the Group's activities in the People's Republic of China – on page 14 ff. of »pulse« magazine.

Overview of ElringKlinger's Activities and Structure

The automotive industry is currently undergoing significant technological change. As a development partner and supplier, ElringKlinger is well positioned to make this transition. Its product portfolio encompasses systems and components for all types of drive system considered relevant to the future – be it combustion engine or electric motor.

Company profile

Building on a long-standing heritage, the ElringKlinger Group has established itself as an independent, globally positioned development partner and series supplier within the automotive industry. Be it components for optimized combustion engines and electric propulsion systems or lightweight engineering concepts based on pioneering fiber-reinforced composites for vehicle body applications – ElringKlinger offers a broad range of innovative, premium-quality products for all types of drive technologies. The company operates with a clear focus on solutions tailored to eco-friendly mobility.

In addition, the "Elring – Das Original" brand offers a wide range of spare parts targeted at the automotive aftermarket in more than 140 countries. The Group's portfolio also includes products made of the high-performance plastic PTFE*, which is marketed to industries beyond the automotive sector.

ElringKlinger's corporate headquarters are located in Dettingen/Erms near Stuttgart, Germany. The Group employs around 10,400 people worldwide – at 45 sites in 21 countries.

Business model and core competencies

Leveraging its business model, ElringKlinger is playing an active role in driving technological change within the automotive industry. The trend toward efficient powertrains that deliver superior driver comfort and the lowest possible – ideally zero – health-damaging and climate-changing emissions is of particular importance to the orientation of ElringKlinger's product portfolio. Newly developed products are targeted at future-proof drive systems or system-independent solutions – for more and more areas of application within the vehicle. ElringKlinger's state-of-the-art concepts for lightweighting, its products for right- or downsized* combustion engines, and its battery and fuel cell systems* for hybrid and all-electric drives are all designed to help reduce emissions such as carbon dioxide, nitrogen oxide*, hydrocarbons, and soot particulates.

ElringKlinger is thus actively supporting automobile manufacturers in their fast-paced efforts to develop vehicles powered by alternative drive systems, including ambitious goals for the introduction of hybrid and electric models. These activities are being driven by increasingly strict statutory provisions concerning emission thresholds (cf. section "Opportunities," page 65). Current projections suggest that the number of vehicles equipped with conventional combustion engines will rise slightly in the period up to 2021/22. Subsequently, growth is expected to be driven to a much larger extent by hybrid and all-electric vehicles.

Among ElringKlinger's core competencies are extensive know-how relating to materials and processes in the field of metal and plastics processing, complemented by expertise when it comes to engineering high-performance tools for efficient series production. This includes high-precision metal processing, encompassing stamping, embossing, and coating, as well as many years of experience in plastic injection-molding. The Group's well-established product fields are cylinder-head gaskets, specialty gaskets, plastic housing modules, and shielding systems. ElringKlinger has worked hard at honing its skills as a technological innovator and carving out leading market positions.

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 complete electric drive units as well as their components.

Economic and legal factors

Demand for ElringKlinger products is closely linked with the current state of the automotive sector, as reflected in vehicle production output, which in turn is influenced by economic developments. Among the key influencing factors are the labor market situation in various regions, consumer spending patterns, fuel prices, and lending terms. Benefiting from a global market presence, ElringKlinger is usually able to compensate for cyclical fluctuations in specific countries by exploiting the more favorable performance of other sales markets.

Regulations governing climate protection are considered the most significant influencing factor in terms of legislation. Due to ever-stricter emission standards, markets have seen growing demand for products that can help reduce pollutants. Another aspect is global interdependence, including international trade conditions and customs tariffs.

Group structure and organization

ElringKlinger AG, with its registered office in Dettingen/Erms, Germany, is the parent company of the ElringKlinger Group and also the largest of the Group's operating companies. It performs cross-Group managerial tasks, particularly relating to the strategic management of business activities. It also includes the central functions of Purchasing, IT, Communication, Finance, Legal Affairs, and Human Resources.

Alongside the parent company, the ElringKlinger Group comprised 39 fully consolidated subsidiaries in 21 countries as of December 31, 2018 (cf. notes, "Scope of Consolidation," page 101). The following changes occurred to the consolidated Group in the 2018 financial year: due to their disposal, the Hug subgroup, based in Elsau, Switzerland, was deconsolidated as of March 1, 2018, and the subsidiary new enerday GmbH, Neubrandenburg, Germany, as of September 30, 2018. In Fort Wayne, USA, the production entity ElringKlinger Manufacturing Indiana, Inc. and in Wels, Austria, the entity ElringKlinger Fuelcell Systems Austria GmbH were established in the period under review.

As of 2018, the Management Board of ElringKlinger AG consists of four (previously three) members. Thus, the company operates with four areas of Management Board responsibility, set up according to functional criteria. Alongside the areas of responsibility of the CEO, CFO, and COO, a new Management Board remit for E-Mobility was created.

Sales markets and company sites

With sites around the globe, ElringKlinger is represented in all key production and sales markets of the vehicle industry. The company has 39 production facilities, five sales and service sites, and one company operating solely within the area of aftermarket sales.

Calculated on the basis of revenue, Europe is the largest direct sales market (55.6%), while NAFTA* (21.2%) and Asia-Pacific (18.5%) are sales regions of growing importance within the Group.

In the majority of cases ElringKlinger holds a Tier 1 supplier 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. The segments encompassing Engineered Plastics and Industrial Parks are targeted primarily at industries beyond the automotive sector.

Segments and divisions

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

- Original Equipment
- Aftermarket
- Engineered Plastics
- Services
- Industrial Parks

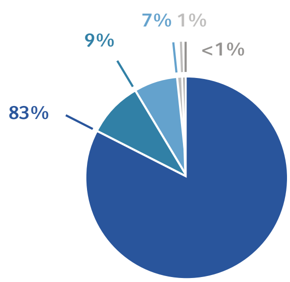
The **Original Equipment** segment develops, manufactures, and sells products and assemblies destined for the automotive industry. They include lightweight components, thermal and acoustic shielding systems, cylinder-head and specialty gaskets, battery and fuel cell systems, and complete electric drive units. Supplied to the car and truck market, these products are used in engine, drivetrain, exhaust system, underbody, chassis, and vehicle body applications.

In the **Aftermarket** segment, ElringKlinger offers an extensive range of high-quality gaskets, gasket sets, and service parts for the professional repair of engines, transmissions, exhaust systems, and auxiliary units in cars and commercial vehicles. They are marketed under the "Elring – Das Original" brand. 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 business in terms of

CONSOLIDATED FINANCIAL STATEMENTS

* Cf. glossary

Group sales by segment 2018



	in EUR million	(previous year)
Original Equipment Car, truck, and engine manufacturers, automotive suppliers	**1,408**	(1,382)
Aftermarket Independent aftermarket business	**159**	(157)
Engineered Plastics Vehicle industry, mechanical engineering, medical technology	**118**	(111)
Services Vehicle manufacturers and suppliers	**10**	(10)
Industrial Parks Unspecified industries	**4**	(4)

revenue include the Middle East and North Africa. The company also strengthened its market presence in the United States in fiscal year 2018 by opening a warehouse, in addition to expanding its local sales activities.

The **Engineered Plastics** segment covers the development, production, and sale of customized products made from various high-performance plastics. Revenue is attributable primarily to sales within the mechanical engineering sector and the medical, chemical, and energy industries as well as the vehicle industry. ElringKlinger is pushing ahead with efforts to grow its business in this segment at an international level, having previously focused on Europe, and is currently stepping up the expansion of its sales and production activities in the United States and China.

Within the **Services** segment, ElringKlinger provides 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. This segment also includes logistics services for aftermarket sales and the catering service of a Group subsidiary.

The **Industrial Parks** segment covers the business activities lease and administration, of the industrial parks in Idstein, Germany, and Kecskemét, Hungary.

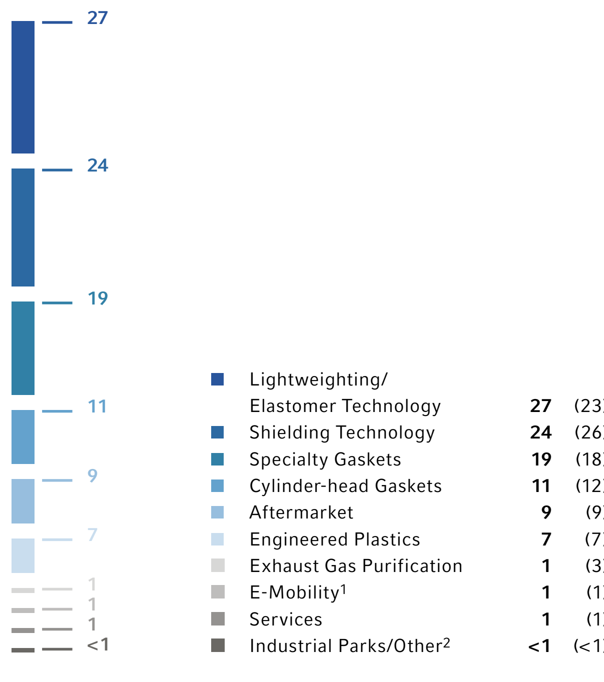
Divisions

The Original Equipment segment is divided into the following divisions: Lightweighting/Elastomer Technology, Shielding Technology, Specialty Gaskets, Cylinder-head Gaskets, E-Mobility, Drivetrain, and Exhaust Gas Purification. The segments Aftermarket, Engineered Plastics, Services, and Industrial Parks correspond to divisions.

The **Lightweighting/Elastomer Technology** division has an extensive portfolio that includes lightweight components made of polyamide plastics and fiber-reinforced organo sheets for drivetrain and vehicle body applications. The range of applications is expanding. This is due, in part, to the trend within the automotive industry – specifically also in the commercial vehicle sector – to substitute metal with lightweight components and thus achieve considerable weight savings. At the same time, the refinement of plastics and hybrid technology (i.e., a combination of plastic and metal) has opened up more and more fields of application. As a result, this division offers significant potential for growth. In contrast to the other divisions, the market within this area is much more fragmented.

The **Shielding Technology** division develops and produces 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. This product area is also of relevance to e-mobility applications, as it covers acoustics and electromagnetic shielding. The product design and associated material composition are dependent on the specific requirements of the field of application within the vehicle. ElringKlinger offers customized solutions for this purpose. 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. Based on revenue, the Group ranks as one of the top three suppliers at an international level in this division.

Group revenue by division 2018
(previous year) in %



[1] Incl. Drivetrain
[2] Tooling activities

The product portfolio managed within the **Specialty Gaskets** division includes a very broad range of gaskets for various engine, turbocharger, transmission, and exhaust tract applications as well as transmission control plates and complex formed parts engineered from sheet metal. Due to the trend toward e-mobility, this division has also seen an expansion within its product portfolio, which now also includes components for batteries and electric motors. ElringKlinger ranks as one of the three leading suppliers worldwide. Competition within this field is extensive due to the relatively high level of product diversity.

Metallic **Cylinder-head Gaskets** represent one of the traditional fields of business for ElringKlinger. Drawing on decades of experience in the metal stamping, embossing, and forming processes that are essential to this line of business as well as extensive knowledge in the field of coating technology, the company has retained its long-standing position as market leader in this oligopolistic market. Among its global competitors are, in particular, two major corporations based in the United States.

The **E-Mobility** division supplies battery and fuel cell components as well as end-to-end battery and fuel cell systems. Building on many years of R&D experience in the field of fuel cell technology, ElringKlinger offers market-ready fuel cell stacks for mobile applications. Having acquired an interest in engineering specialist hofer in fiscal year 2017, ElringKlinger also supplies complete electric drive units (Drivetrain division).

The **Exhaust Gas Purification** division has seen its business activities shrink significantly since the sale of the Hug subgroup as of March 1, 2018 (cf. "Significant Events," page 30).

Internal Control Criteria

ElringKlinger mainly uses financial indicators for the purpose of managing the Group. Additionally, leading indicators that are specific to the company and non-financial indicators deliver important information for corporate management.

Financial control criteria

The most important financial control criteria applied within the ElringKlinger Group are based on sales and earnings performance as well as the Group's capital return. In this context, the key financial indicators used are sales revenue, earnings before interest and taxes (EBIT*), and return on capital employed (ROCE*).

Sales revenue and EBIT 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.

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. After the period of transformation in 2019, the target set by the Group is to increase ROCE as from 2020 on the basis of 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. In the 2018 financial year, ROCE stood at 5.5% (8.2%) and was calculated as follows:

Calculation of ROCE

in EUR million	2018	
EBIT	**96.2**	
	Dec. 31, 2018	Dec. 31, 2017
Equity	890.1	889.7
Financial liabilities	768.8	700.7
Provisions for pensions	124.4	126.0
Interest-bearing non-current provisions	13.0	10.2
	1,796.3	**1,726.6**
Average capital employed	**1,761.5**	
ROCE = EBIT / average capital employed	**5.5%**	

Other less significant indicators of relevance to financial control include operating free cash flow*, the Group equity ratio, and net debt in relation to EBITDA.

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

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*.

Selected financial control criteria of the ElringKlinger Group

		Guidance 2018[1]	Actual 2018	2017	2016	2015	2014	2013	2012
Revenue	(in EUR million)	2–4 percentage points above global market growth[2]	1,699.0[3]	1,664.0	1,557.4	1,507.3	1,325.8	1,150.1	1,127.2
EBIT before PPA[4]	(in EUR million)	Margin of around 7%	100.2 Margin: 5.9%	141.8	140.4	140.4	162.3[5]	149.8[5]	140.9
ROCE		Slightly down year on year	5.5%	8.2%	8.7%	9.5%	12.4%	14.4%	13.3%
Operating free cash flow	(in EUR million)	Slightly down on previous year	-86.2	-66.6	-3.8	-65.2	-12.4	-4.2	8.2
Equity ratio		40 to 50%	42.8%	44.0%	47.2%	48.5%	49.7%	50.4%	50.6%
Net debt/EBITDA			3.7	2.7	2.3	2.2	1.5	1.2	1.2

[1] Based on disclosure of June 25, 2018; original guidance for 2018: EBIT margin before PPA: around 9%; ROCE: slight year-on-year improvement; operating free cash flow: slight year-on-year improvement; other target figures unchanged
[2] Adjusted for the effects of currencies and M&As* (organic)
[3] Revenue reported; revenue adjusted for effects of currencies and acquisitions (organic): EUR 1,787.8 million (+7.4%/market contraction 0.4%)
[4] PPA (write-downs from purchase price allocation) EUR 4.0 (4.5) million (accounted for in various functional categories of the income statement); calculation method applies similarly to FY 2012 to 2016
[5] Financial years adjusted for non-recurring exceptional items: 2013 by EUR -15.7 million, 2014 by EUR 4.9 million

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, particularly CO_2 emissions and energy consumption.

Further details can be found in the combined non-financial report prepared by the ElringKlinger Group, which will be published on ElringKlinger's website by April 30 at the latest in respect of the preceding financial year. The non-financial report relating to the 2018 financial year will be made available at www.elringklinger.de/2018-nfb-en. 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 2018 financial year. It is scheduled for publication in 2019 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. They also constitute an important management parameter within the company.

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. Potential market price risks from foreign exchange movements, interest rate changes, and increases in material costs are also monitored accordingly. 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 position 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 are subsequently evaluated.

* Cf. glossary

Research and Development

All over the world, strict regulations on emissions have prompted a change in thinking in the automotive industry and paved the way for road transport mega trends in the areas of efficiency, safety, and driver comfort. ElringKlinger has spent years concentrating on innovative solutions that increase efficiency and reduce emissions. As such, it plays an active role in helping to shape the future of mobility. In 2018, the Group's R&D activities were focused once again on lightweight construction and alternative drive systems. At the same time, with a view to consolidating its leading market position, ElringKlinger is working hard to refine the traditional combustion engine.

Research and development ratio at 5%

Among other things, ElringKlinger's corporate philosophy involves being close to the customer, spotting trends early, and helping to actively shape new solutions. To this end, the Group invests a substantial amount in research and development (R&D) every year – around 5% of its revenue. Deployed in a targeted manner, this capital expenditure underpins the strong competitive position enjoyed by the ElringKlinger Group.

In 2018, R&D spending (including capitalized development costs) came to EUR 87.2 (75.9) million. This corresponds to an R&D ratio of 5.1% (4.6%), i.e., within the short to medium term target range of 5 to 6%. Alongside its traditional cylinder-head gasket, specialty gasket, and shielding technology business, the main focus of the company's R&D activities in 2018 was on the divisions Lightweighting/Elastomer Technology, E-Mobility, and New Business Areas.

The Group has established a strong culture of innovation. As of December 31, 2018, the company employed 590 (597) R&D staff. This figure is slightly down on the previous year as a result of the sale of the Hug subgroup and new enerday GmbH. Excluding these disposals, the total number of R&D staff would have increased. ElringKlinger has largely centralized its R&D operations to prevent a "brain drain." The Group has concentrated its main development activities at the German sites operating within the Original Equipment and Engineered Plastics segments and at its US plant in Southfield, Michigan. Smaller modifications are also performed at other locations.

ElringKlinger always seeks legal protection for new developments at both a product and a process level. In 2018, the centralized patents unit, which is tasked with protecting the company's technological expertise and intellectual property rights, applied for 80 (69) new patents. This substantial increase of around 16% on what was already an impressive total underscores ElringKlinger's technological know-how and inventive spirit.

Adapting traditional know-how for the future

To ensure that it is successful in making the transition towards e-mobility, the Group aims to maintain its status as a sought-after partner among vehicle manufacturers in both the conventional and the electric markets. On the one hand, ElringKlinger channels its wide-ranging expertise into efforts to optimize the combustion engine and achieve further efficiency gains. At the same time, the company develops solutions for alternative drive technologies. The Group has managed this balancing act very effectively, as shown by its successful development and launch of components and systems for new vehicle technologies. Thanks to years of intensive research and development work, its traditional

Key figures R&D

		2018	2017	2016	2015	2014
R&D costs (incl. capitalized development costs)	(in EUR million)	87.2	75.9	74.8	71.2	66.5
R&D ratio (incl. capitalized development costs)		5.1%	4.6%	4.8%	4.7%	5.0%
Capitalization ratio[1]		12.7%	5.9%	9.9%	13.8%	13.8%

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

portfolio of gaskets and shielding parts is now complemented by products centered on battery and fuel cell technology* as well as innovative lightweight structural components such as cockpit cross-car beams*. From a strategic perspective, these areas of business are highly promising. In 2018, they accounted for around 7% of total revenue, largely mirroring the ratio of new vs. conventional types of powertrain within the global vehicle market.

Cylinder-head gaskets: efficiency gains at the highest level

ElringKlinger is a global leader in the market for cylinder-head gaskets. Although this is where the Group's roots lie, its product portfolio has expanded continuously over the years and the division now accounts for just 11% of total revenue. Based on estimates by the industry specialists at PwC Autofacts, the market is likely to see an annual decrease in the production of combustion engines from 2021/22 onwards. However, this decline will be gradual rather than abrupt, and there will be major regional differences. For ElringKlinger, this means that the Group will continue to receive new orders for cylinder-head gaskets and therefore maintain its investment in research and development at an appropriate level. In this context, the Group will focus primarily on further standardization in the area of gasket design and on reducing complexity. Uniform standards will also help to leverage further efficiency gains in testing and production.

Specialty gaskets: potential new applications in the field of e-mobility

Standardization can also produce additional efficiency gains in the Specialty Gaskets division. For this reason, ElringKlinger works continuously on further technical refinements to its specialty gaskets for many applications, both in and around the traditional combustion engine, where the company has a leading market position, e.g., V rings* for turbochargers* or transmission control plates. One of the key developments in 2018 was an improved check valve for exhaust gas recirculation in cars.

At the same time, the shift towards e-mobility creates many potential applications for the products made by the Specialty Gaskets division. With this in mind, the focus of the Group's R&D activities in 2018 was on sealing applications for electric machinery and batteries and on stamped packets for rotor and stator in electric engines. ElringKlinger also benefits from the trend towards replacing cast metal components with formed sheet metal components that can be made with greater precision using improved production methods. Successful series production of complex formed parts for a fully electric premium sports car began in 2018. ElringKlinger is working on an innovative central dividing system for a provider of new mobility concepts. This involves using a formed component in the transmission that offers both cost and weight savings compared to current solutions. The Group has also developed end covers with an integrated gasket for use in electric machinery.

CONSOLIDATED FINANCIAL STATEMENTS

* Cf. glossary

Shielding technology: protection from heat, noise, and electromagnetic radiation

Within an evolving automotive industry the demands placed on shielding technology have changed. ElringKlinger has responded to this transition, among other things, by extending existing shielding systems to include additional functions relating to acoustics. Targeted noise protection can make a significant difference in terms of passenger comfort, especially in electric vehicles. The company is also working on other new functions such as shielding solutions in the field of electromagnetic compatibility (EMC*), which is increasingly important in the context of hybridization and electrification.

ElringKlinger unveiled a prototype ElroTherm™ Active Shielding System at the International Motor Show (IAA) in 2017. In 2018, work to refine this technology was a focal point of the Group's R&D activities. The heating mechanism integrated into the shielding system can be used, for example, in the exhaust gas purification process. It ensures that the desired operating temperature can be reached more quickly, therefore significantly reducing the vehicle's emissions. The technology can also be used for the conditioning of battery systems. ElringKlinger's customers have already expressed considerable interest in this solution, and the first prototypes will be supplied in 2019.

Lightweighting: less is more

Vehicle weight is a crucial factor in efforts to reduce or avoid emissions. Lighter vehicles use less fuel respectively have a longer range. Every ounce matters when car makers are developing new components. For this and other reasons, ElringKlinger sees lightweighting as an important strategic field for the future.

ElringKlinger picked up on the lightweighting trend more than 15 years ago and since then has built up a large and constantly expanding portfolio of plastic components such as cam covers and oil pans that replace traditional metal parts. The company entered the structural lightweighting market in 2015 with the industrialization of innovative polymer/metal hybrid components. This technology – currently being used for cockpit cross-car beams, front-end carriers*, and front-end adapters – has generated a great deal of interest among numerous customers. It also opens up some highly promising avenues in terms of potential applications outside the automotive sector. Among the division's other R&D activities in 2018 was a project focused on the integration of solar modules into the vehicle's outer skin.

Alternative drive technologies: focus on batteries and fuel cells

ElringKlinger was among the first to prepare itself for the transition towards zero-emission vehicles. Besides transforming its traditional business areas, the company has put the development of entirely new products, based on its established process and development expertise, at the heart of its R&D activities. Without committing itself exclusively to any one technology, it now works on both battery and fuel cell components and systems.

It began series production of components for lithium-ion batteries* in electric or hybrid vehicles as long ago as 2012. These include, among others, cell contact systems* and module connectors. As well as individual components, ElringKlinger now supplies end-to-end battery systems. The Group won its first orders in 2018. Its R&D focus in 2018 was on the validation and industrialization of these projects. Series production is scheduled to commence towards the end of 2019.

ElringKlinger's R&D team also worked on refinements to cell housing components for prismatic battery cells*. In this field, there are opportunities to attract new providers and manufacturers and therefore expand the Group's existing customer base.

While the vehicle battery offers considerable potential as an alternative drive concept, so does the fuel cell. Looking ahead, ElringKlinger believes that fuel cell technology has excellent prospects, especially in commercial vehicles and buses, for long-distance applications, and as range extenders when used in combination with a battery.

The ElringKlinger Group has been working on hydrogen-based fuel cell technology since as far back as the late 1990s. Since the last financial year, it has focused its R&D activities increasingly on the low-temperature PEM* (proton exchange membrane) fuel cell systems used in mobile applications. In this area, ElringKlinger offers market-ready metallic bipolar plates*, plastic media modules, and complete fuel cell stacks*. In 2018, the company's developers produced an important new component that increases its share of the fuel cell system value chain. In the year under review, ElringKlinger set up an applications and engineering center in Suzhou, reflecting China's importance as a key market for fuel cell applications and the fact that many of the Group's current development projects have been commissioned by Chinese customers. The first fuel cell application testing stations are expected to begin operation here in 2019.

Since acquiring a strategic interest in the Nürtingen-based engineering specialist hofer in 2017, ElringKlinger has significantly expanded its e-mobility product and service portfolio. hofer has built up a great deal of expertise in the field of electric drives, and its product portfolio includes e-machines, power electronics, transmissions, thermal management/cooling, and safety/security concepts. Together with ElringKlinger's own expertise in production methods, industrialization, and process development, all based on its long-standing record as a Tier 1 supplier, this means the Group is now able to offer tailored solutions to its customers. In 2018, the Group's R&D teams pushed forward these developments for existing orders, made preparations for series production, and began work on other interesting projects in the acquisition phase with both household-name car makers and start-up companies.

Overall, thanks to its many varied activities in the field of e-mobility, ElringKlinger is well equipped for the future and in a good position to harness its existing know-how for new applications – whether in battery-driven or hydrogen-powered vehicles.

Engineered plastics: a wide range of potential applications

The Group's Engineered Plastics segment develops products made of PTFE* (polytetrafluorethylene), a high-performance plastic whose properties include excellent chemical and thermal stability. Thanks to these properties, PTFE is now used for applications in other sectors as well, e.g., medical technology and mechanical engineering.

The segment's R&D activities are therefore focused on the main trends within each sector. As a result, the Engineered Plastics division benefits not only from the shift toward e-mobility in the automotive sector but also from the trends towards miniaturization in medicine and towards robotics and sensor technology in the field of mechanical engineering. One of the goals of the company's R&D teams in 2018 was to optimize the adhesive bonding properties of fluoropolymers. This focus led to the development of flexible tubes made of fluoropolymer materials. The teams also made further progress on the design of dynamic seals for high-pressure systems and projects to develop new cryogenic* applications.

* Cf. glossary

Macroeconomic Conditions and Business Environment

Against the backdrop of more widespread challenges, the world economy saw its rate of growth decelerate slightly in 2018. The spread of trade barriers caused major tensions within the global arena, and the world economy continued to diverge. According to data published by the International Monetary Fund (IMF), global economic output expanded by 3.7% in 2018. Overall, 2018 also proved to be a very eventful year for the automotive industry. From an annual perspective, vehicle markets in the United States and Europe weakened slightly from a high base. The Chinese vehicle market recorded a downturn from the second half onward, which was due in part to ongoing tariff disputes. At 94 million units, global production output of light vehicles came close to the prior-year figure recorded by the industry as a whole.

Global economy loses momentum in 2018

Among the key factors influencing the world economy in 2018 were trade conflicts culminating in tariff sanctions imposed as from mid-2018 espacially with regard to trade between China and the United States. Trade-related measures resulted in higher tariffs in the United States on imports from China, while countermeasures implemented by China focused on vehicle imports from the United States. Furthermore, the US Federal Reserve took a stricter approach to monetary policy by raising interest rates slightly. This prompted a reversal in international capital flows, which, in turn, exerted downward pressure on the economies of emerging nations. The regional differences in economic performance became more pronounced in 2018.

Among the advanced economies, the United States recorded above-average growth in the year under review. Its economy remained buoyant, thus maintaining an upward trend that

GDP growth rates

Year-on-year change (in %)	2018	2017[1]
World	**3.7**	**3.8**
Industrialized countries	2.3	2.4
Emerging and developing countries	4.6	4.7
Germany	1.5	2.5
Eurozone	1.8	2.4
USA	2.9	2.2
Brazil	1.3	1.1
China	6.6	6.9
India	7.3	6.7
Japan	0.9	1.9

Source: International Monetary Fund (January 2019)
[1] Prior-year figure changed in accordance with data applicable as of publication date of January 21, 2019

has lasted for almost ten years. The key influencing factors in 2018 were the US tax reform, substantial private consumption, and more expansive government spending. By contrast, the eurozone as a whole saw its economy weaken further in the second half, having already experienced a downturn in the first six months. In this context, waning global demand, primarily from China, and a decline in automobile production had a detrimental effect on Europe's economic performance. The latter was attributable mainly to the introduction of a new standard for the measurement of emissions, the so-called Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP*). On the plus side, buoyant domestic demand fueled by the highly expansive monetary policy adopted by the European Central Bank (ECB) provided some support.

The emerging economies came under increased pressure over the course of the year, which was due in part to foreign exchange turbulence. On the whole, however, they remained robust. While the Asian region and Russia continued to expand strongly, both Turkey and Argentina were pushed into recession. In China, meanwhile, the rate of growth was down only slightly, which was due in part to supportive measures implemented by the country's central government.

Automobile markets close eventful year at solid level

The international car industry faced a palpable headwind in 2018, as the above-mentioned trade conflict between the United States and China took hold. Additionally, there were temporary signs of turbulence in the European Union – and particularly in Germany – due to the transition toward the new WLTP-based test cycle. In mid-2018, there was evidence of new registrations having been brought forward, while sales figures slumped quite significantly as from September 2018.

According to data presented by the German automotive industry association, the VDA, new passenger car registrations totaled approx. 85 million units at a global level in 2018, which was comparable to the prior-year figure. The individual sales markets developed along different lines. Europe recorded new vehicle registrations of 15.6 million units in 2018, thus matching the figure reported for the previous year. Of the five single biggest markets only France (3.0%) and Spain (7.0%) were in positive territory, while the United Kingdom (-6.8%) and Italy (-3.1%) recorded a downturn. With new registrations totaling 3.4 million units, the German passenger car market matched the buoyant performance seen a year earlier.

At 17.2 million units, i.e., +0.5%, the number of light vehicles sold in the United States was up slightly in 2018 compared to the previous year. As in the past, demand within the light truck segment – which also includes the popular SUV category – remained buoyant. By contrast, sales within the passenger vehicle sector were down yet again.

The world's largest vehicle market, China, saw new car registrations decline by 3.8% to 23.3 million units on the back of a severe downturn during the fourth quarter of 2018. Despite this situation, German manufacturers of premium cars managed to expand their market share in China. Russia and Brazil continued to see double-digit percentage growth in their markets.

World vehicle production close to prior-year level in 2018

Global vehicle production output stood at 94.0 million units in 2018, just slightly below the strong figure recorded a year earlier:

Light vehicle production
Million units

	2018	2017	Change in %
European Union	**18.9**	**19.0**	**-0.4%**
Germany	5.6	5.9	-4.8%
Eastern Europe	**3.4**	3.4	2.3%
Russia	1.6	1.5	11.7%
North America	**16.8**	17.0	-1.0%
USA	10.8	11.2	-2.9%
South America	**3.4**	3.2	7.0%
Brazil	2.8	2.6	8.6%
Asia-Pacific	**48.7**	49.3	-1.3%
China	26.3	27.3	-3.7%
Japan	9.0	9.2	-1.6%
India	4.9	4.4	10.7%
Middle East & Africa	**2.7**	**2.5**	**6.5%**
World	**94.0**	**94.4**	**-0.4%**

Source: PwC Autofacts January 2019

CONSOLIDATED FINANCIAL STATEMENTS

* Cf. glossary

Low share of electric vehicles amid significant regional differences

Demand for electric cars, i.e., all-electric and plug-in hybrid vehicles, continued to develop along very different lines regionally in 2018. In the lead market of China, government subsidies and regulations were again used to promote the sale of so-called New Energy Vehicles. In 2018, sales of electric vehicles breached the one million mark by a significant margin for the very first time, which corresponds to a market share of around 4.5%. In Europe, meanwhile, Norway retained its sizeable lead with a share of almost 50% of new registrations, whereas the proportion of electric vehicles sold in other European countries remained relatively insignificant. In Germany, the share of electric cars stood at around 2%, which in fact was higher than the pan-European average of 0.9%. The launch of a new model by one of America's key producers of all-electric vehicles prompted strong growth in the United States. Overall, the share of electric vehicles in new registrations in the US was around 2%. The percentage of electric vehicles sold in Japan, one of the world's high-tech powerhouses, is even lower. In 2018, e-mobility was of no particular importance in other regions of the world – including South America, the Middle East, and Russia.

Positive performance for commercial vehicle markets

Benefiting from solid economic conditions, commercial vehicle markets fared well during 2018. In Europe, new registrations of mid-sized and heavy trucks (>3.5 tons) rose by 3.5% to around 396,000 units. The five largest markets in Europe developed along different lines. France (8.1%), Poland (8.0%), Italy (5.1%), and Germany (2.9%) expanded, whereas the United Kingdom was in negative territory at -4.0%. Expansion in the US truck sector was particularly strong. Here, too, solid economic conditions proved advantageous, with higher transport volumes leading to shortages in freight capacity and greater demand for new commercial vehicles. The segment encompassing heavy Class 8 trucks, which are particularly popular, rose by almost one-quarter to around 300,000 units.

Significant Events

Among the significant events for the ElringKlinger Group during the 2018 financial year were the introduction of a new area of Management Board responsibility for e-mobility, headed by Theo Becker, the appointment of Reiner Drews as new Chief Operating Officer, and the extension of Thomas Jessulat's contract as Chief Financial Officer. In addition, the annual period under review saw the disposal of new enerday GmbH, the closing of the sale of the Hug Group, and the passing of Professor Walter H. Lechler, Honorary Chairman of the Supervisory Board of ElringKlinger AG.

Merger of subsidiary

Effective from January 1, 2018, Taiyo Jushi Kakoh Co., Ltd., based in Tokyo, Japan, a wholly-owned subsidiary of ElringKlinger Marusan Corporation, also based in Tokyo, Japan, was merged into ElringKlinger Marusan Corporation.

New company established in United States

ElringKlinger Manufacturing Indiana, Inc., based in Fort Wayne, USA, was established effective from February 28, 2018. The parent company ElringKlinger AG holds 100.0% of the interests in this new subsidiary.

Sale of Hug Group completed

The contract signed in December 2017 between ElringKlinger and a French automotive supplier, covering the sale of the Hug Group, based in Elsau, Switzerland, was closed effective from March 1, 2018. The 93.7% interest held by ElringKlinger in Hug Engineering AG, Elsau, Switzerland, passed entirely to the contracting party upon closing of the transaction.

The sale of the Hug Group is to be seen against the background of industry transition and increasing globalization, which would have necessitated further substantial investments by ElringKlinger in order to remain competitive within the exhaust gas purification 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.

Dedicated Management Board role created for e-mobility – Reiner Drews appointed new COO

At its meeting on March 23, 2018, the Supervisory Board of ElringKlinger AG passed a resolution for the introduction of a new area of Management Board responsibility covering e-mobility. It is headed by Theo Becker. Having previously held the position of COO within the ElringKlinger Group, Theo Becker will in future focus on battery and fuel cell technology as well as on the integration of the Group's hofer investment. In creating a fourth area of Management Board responsibility, the company has further reinforced the significance of e-mobility to ElringKlinger's future operations.

Reiner Drews, who had previously headed the Cylinder-head Gaskets and Specialty Gaskets divisions at ElringKlinger, was appointed to the Management Board of ElringKlinger AG effective from April 1, 2018, and named as successor to Theo Becker and thus as the company's new COO. Reiner Drews has taken over Management Board responsibility from Theo Becker for manufacturing operations, the German plants, and the area of quality assurance. In addition, the area covering Logistics was transferred to the field of responsibility directed by CFO Thomas Jessulat.

Extension of Management Board contract of Chief Financial Officer Thomas Jessulat

The Supervisory Board of ElringKlinger AG extended the contract of Chief Financial Officer Thomas Jessulat by five years as from January 1, 2019, i. e., until December 31, 2023. Thomas Jessulat was appointed to the Management Board of ElringKlinger AG effective from January 1, 2016. In accordance with the German Corporate Governance Code, the term of the contract had initially been set at three years.

Passing of Professor Walter H. Lechler

The Honorary Chairman of the Supervisory Board of ElringKlinger AG, Professor Walter H. Lechler, passed away on May 17, 2018, at the age of 75. Holding senior roles, Professor Lechler shaped the business activities of ElringKlinger AG and its predecessor companies over a period of four decades. From 2012 and 2017, he served ElringKlinger AG as Chairman of the Supervisory Board. Having retired from the Supervisory Board in May 2017 for reasons of age, Professor Lechler was elected Honorary Chairman of the Supervisory Board. Furthermore, he held the position of Managing Partner of Lechler GmbH, Metzingen, from 1976 onward.

ElringKlinger sells interest in new enerday

ElringKlinger has divested itself of its business activities centered around high-temperature SOFC* (Solid Oxide Fuel Cell) technology. In this context, the ownership interest held by ElringKlinger AG in new enerday GmbH, Neubrandenburg, Germany, was transferred to sunfire GmbH, Dresden, Germany. The purchase agreement was signed on September 19, 2018, and the transaction was closed as of September 30, 2018. In taking this strategic decision, ElringKlinger is honing its focus within the area of fuel cell technology and will in future be concentrating entirely on PEMFC* (Proton Exchange Membrane Fuel Cell) technology, which is of key relevance to mobile applications.

ElringKlinger stock affected by index adjustments by Deutsche Börse

Effective from September 24, 2018, Deutsche Börse implemented a fundamental reform of the German stock exchange indices DAX, MDAX, SDAX, and TecDAX. As a result of the changes to the composition of these indices, shares issued by ElringKlinger AG were removed from the SDAX, the index for small caps. For shares to be included and to remain in the indices, the following two key criteria are of significance: market capitalization of free float and average trading volume of the shares in question. ElringKlinger's inclusion in the Prime Standard, as part of which exchange-listed companies are required to meet higher standards of transparency, remains unaffected by the aforementioned adjustments.

New subsidiary established in Austria

ElringKlinger Fuelcell Systems Austria GmbH, based in Wels, Austria, was founded effective from December 18, 2018. The parent company ElringKlinger AG holds 100.0% of the interests in this new subsidiary. The new subsidiary was established for the purpose of driving forward the development of fuel cell systems.

* Cf. glossary

Sales and Earnings Performance

Exposed to challenging market conditions, the ElringKlinger Group saw revenue grow by 2% to EUR 1,699 million in 2018, thus exceeding the target it had set itself. By contrast, earnings before interest and taxes were adversely affected by high commodity prices and persistently strong demand in the NAFTA* region. At EUR 100.2 million, EBIT before purchase price allocation* fell short of the prior-year figure.

Revenue guidance for 2018 exceeded

The ElringKlinger Group maintained its trajectory of growth in 2018 and generated sales revenue of EUR 1,699.0 (1,664.0) million – up by a significant 2.1% or EUR 35.0 million. Despite weaker markets in Europe and Asia, the Group also recorded solid revenue growth during the second half of the year. In organic terms, i.e., excluding the impact of currencies and acquisitions, revenue grew by as much as 7.4% in 2018. Due to foreign exchange effects, particularly from the translation of the Turkish lira, Brazilian real, and US dollar into euros, revenues were diluted by 2.6% in the annual period as a whole. At minus 2.7%, M&A* activities also resulted in a negative revenue contribution. In this context, the sale of the Hug subgroup in the first quarter of 2018 was of particular significance, while the disposal of new enerday GmbH in the third quarter of 2018 had less of an impact.

Overall, ElringKlinger again managed to exceed growth in global vehicle production (-0.4%) in 2018 at an organic level – by a substantial 7.8 percentage points. In doing so, the Group met its revenue target, which had been to outpace the market by two to four percentage points in organic terms.

With respect to earnings before interest and taxes (EBIT*), ElringKlinger had originally been looking to achieve an EBIT margin* before purchase price allocation of around 9%. In view of difficult market conditions in both political and macroeconomic terms as well as the spiraling price of some commodities and persistently high follow-on costs from strong demand in the NAFTA region, the Group adjusted its EBIT guidance to around 7% in June 2018. With the EBIT margin before purchase price allocation standing at 5.9% in the annual period under review, the ElringKlinger Group fell short of this target. In the fourth quarter, too, several factors contributed to the lower-than-expected EBIT margin: in the NAFTA region, raw material prices were still impacted by tariffs on steel and aluminum, while prices for plastic granules remained very high worldwide. With regard to operational optimization in the NAFTA region, the Group successfully launched initial improvement measures, but these efforts did not produce the anticipated effects on earnings in 2018 yet.

Sustained growth surge in North America

Global demand for ElringKlinger products was buoyant in 2018 and the Group benefited from a number of new product roll-outs. Strong demand was also reflected in sales revenue: the Group recorded its most substantial growth – both in absolute and percentage terms – in the NAFTA region, where revenue expanded by 11.4% to EUR 360.3 (323.3) million. Adjusted for the effects of currencies, growth was 15.5%; the North American market, i.e., vehicle production, declined by 1.0% over the same period. The share of the NAFTA region in total sales rose substantially in 2018 to 21.2% (19.4%).

In Germany and the Rest of Europe, by contrast, the introduction of the new WLTP-based test cycle had a visible impact from the third quarter of 2018 onward, as a result of which the general pace of growth slowed quite considerably in the second half of the year. This, however, had only a moderate impact on ElringKlinger. Additionally, the sale of the Hug subgroup led to a reduction in revenues in Europe during 2018. In total, the ElringKlinger Group recorded slight growth of 0.5% in Germany, taking the figure to EUR 428.5 (426.2) million. Thus, its home market still accounted for 25.2% (25.6%) of total Group sales. In the Rest of Europe, sales revenue amounted to EUR 515.6 (521.5) million. The share of total Group sales generated in the region encompassing the Rest of Europe fell to 30.4% (31.3%).

Factors influencing Group revenue

in EUR million	2018	2017	Change absolute	Change in %
Group revenue	**1,699.0**	**1,664.0**	**+35.0**	**+2.1%**
of which currency			-44.0	-2.6%
of which M&A			-44.8	-2.7%
of which organic			+123.8	+7.4%

The Asia-Pacific region accounted for revenue of EUR 314.5 (317.3) million in the 2018 financial year. China, in particular, showed signs of waning market demand toward the end of the year. However, the slight downturn recorded by ElringKlinger – by 0.9% – was attributable primarily to negative foreign exchange effects. Adjusted for currencies, this sales region stood its ground in a contracting market (-1.3%) and achieved growth of 1.4%. The share of total revenue attributable to this region was 18.5% (19.1%).

ElringKlinger managed to expand its business in South America and the Rest of the World, fueled by strong Aftermarket sales. Revenue was up 5.7% on the previous year's figure – at EUR 80.1 (75.8) million. Adjusted for the effects of currency translation, growth was as high 17.3%. This region's share of total Group revenue rose slightly to 4.7% (4.6%).

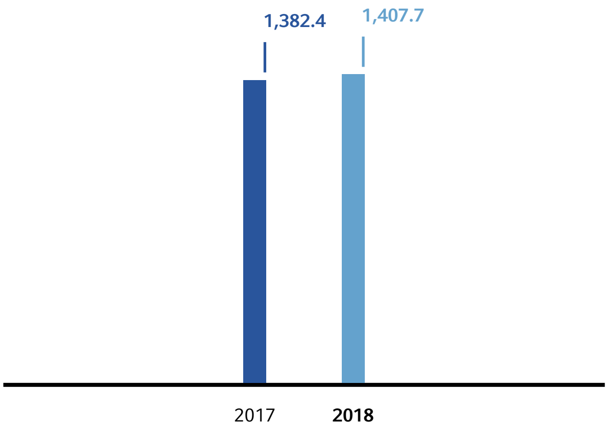
Overall, business in the international markets continued to gain in importance. The share of foreign sales in total Group revenue increased from a high base to 74.8% (74.4%).

Original Equipment segment impacted by internal and external factors

Accounting for 82.9% (83.1%) of total revenue, the Original Equipment segment remained the largest segment within the ElringKlinger Group in the period under review. Fueled by strong demand for products from the company's well-established portfolio and larger volumes of E-Mobility products requested as part of customer production scheduling, revenues increased by 1.8% to EUR 1,407.7 (1,382.4) million. Despite weaker markets in Europe and Asia, this segment also recorded solid revenue growth in the fourth quarter. The Lightweighting/Elastomer Technology division recorded the most substantial gains by far in 2018. In this context, the automotive industry's growing commitment to lightweight solutions and more expansive customer demand for innovative lightweight components engineered by ElringKlinger from high-performance plastics had a positive impact on sales. The Specialty Gaskets division also grew at a rate that exceeded the Group average. The Cylinder-head Gaskets and Shielding Technology divisions, by contrast, fell short of the prior-year revenue figures, which was primarily due to currency effects.

In recent years, ElringKlinger has successfully positioned itself to serve the markets of the future with its E-Mobility division, the focus being on components for battery and fuel cell systems*. This is complemented by its investment in hofer for electric drive technology. The global market share of alternative drive concepts remained low in the period under review. Correspondingly, this division's revenue contribution was still relatively minor for the ElringKlinger Group, although the upward trend is very noticeable indeed. In 2018, revenue grew by 37.2% to EUR 24.7 (18.0) million. ElringKlinger is currently establishing further production capacity in the United Kingdom and Germany for the manufacture of electric drive systems. Therefore – and due to the low market share currently held by alternative drives –, this division recorded a loss before interest and taxes in 2018.

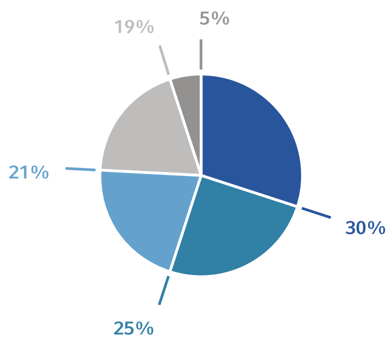
Sales in the Original Equipment segment
in EUR million



* Cf. glossary

CONSOLIDATED FINANCIAL STATEMENTS

Group sales by region 2018



	in EUR million	(previous year)
Rest of Europe	**516**	(522)
Germany	**428**	(426)
NAFTA	**360**	(323)
Asia-Pacific	**315**	(317)
South America and Rest of the World	**80**	(76)

The Exhaust Gas Purification division saw revenues decline in 2018. This was due to the sale of the Hug subgroup, which accounted for the largest share of business within this division. The gain on disposal totaled EUR 24.5 million. In parallel, the Group incurred incidental costs of EUR 1.3 million.

High capacity utilization in NAFTA region

The NAFTA region continues to be faced with extremely strong demand, despite the market as a whole actually trending slightly lower in 2018. As a result, plants are operating at the top end of their capabilities in terms of capacity, which translates into a disproportionately high increase in costs as well as exceptional costs, e.g., for additional shifts, overnight freight forwarding, and external inspections. This mainly impacted earnings in the long-standing divisions covering Cylinder-head Gaskets and Shielding Technology. Management has already initiated extensive measures for the purpose of addressing the situation in the NAFTA region, the focus being on stabilizing processes and expanding capacity levels. These include, among other aspects, the installation of additional production lines, the adjustment and optimization of logistics processes, the recruitment and training of new personnel, and the gradual adjustment of product prices. The company is thoroughly committed to driving forward the effective execution of these measures. Furthermore, impairments relating to inventories had to be accounted for in the NAFTA region at the end of the year; they had an adverse effect on earnings in the fourth quarter of 2018.

Successful implementation of improvement measures in Switzerland

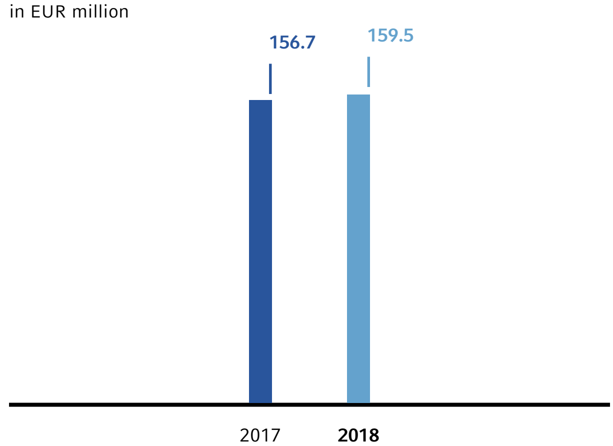
Further progress was made with regard to improvement measures at the Swiss production site of the Shielding Technology division in the period under review and the transfer of production volumes was completed as planned at the end of the year. The Management Board will continue to press ahead with efforts to implement cost optimization measures in the quarters ahead and complete its action plan for improvements at this site at the end of 2019 as expected.

Overall, earnings in the Original Equipment segment were impacted by high commodity prices for aluminum, steel, and plastic granules as well as the above-mentioned exceptional operating costs. Segment earnings before interest and taxes fell short of the prior-year figure, despite the gain on disposal of the Hug subgroup, and amounted to EUR 50.7 (86.3) million.

Sustained drive towards globalization of Aftermarket business

The Aftermarket segment covers ElringKlinger's range of spare parts, consisting primarily of cylinder-head gaskets and gasket sets. Despite significant geopolitical friction in

Sales in the Aftermarket segment
in EUR million



key sales markets, ElringKlinger managed to expand segment revenue by 1.8% to EUR 159.5 (156.7) million.

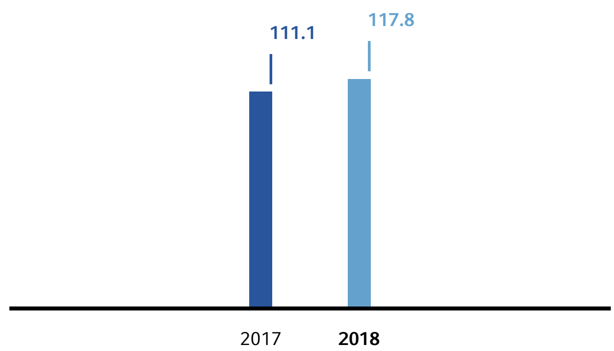
Eastern Europe, as the largest sales market in this segment, maintained its forward momentum in 2018; business also proved very encouraging in South America. Western Europe and the Middle East, by contrast, were faced with a slight downturn in revenue, partly due to the more lethargic state of the Turkish economy. Efforts to cultivate the North American market are progressing at pace. A case in point is the new spare parts warehouse opened in Fremont, California, in the period under review for the purpose of serving the local vehicle market. From a low base, revenue generated in North America expanded by an encouraging 46.1%. ElringKlinger also worked tirelessly at further penetrating the Asian market and succeeded in taking revenue forward slightly in the period under review.

Earnings in the Aftermarket segment were impacted by market cultivation efforts in the key Asian and North American markets for spare parts, as outlined above, and by other temporary cost-related factors. For example, ElringKlinger focused on projects aimed at optimizing the availability of materials. Segment earnings before interest and taxes fell to EUR 24.9 (31.8) million. The EBIT margin in this segment was down at 15.6% (20.3%) in the 2018 financial year.

Stable EBIT margin for Engineered Plastics segment

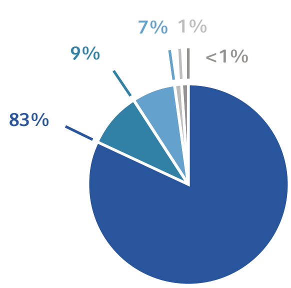
The Engineered Plastics segment manufactures and distributes products made of the high-performance plastic PTFE*, serving not only the automotive sector but also industries centered around medical technology, mechanical engineering, and chemical and plant engineering.

Sales in the Engineered Plastics segment
in EUR million



Due to buoyant demand mainly from the automotive industry and the mechanical engineering sector, together with a growing share of sales in the medical technology industry, revenue for this segment increased by 6.0% to EUR 117.8 (111.1) million. The global expansion of sales activities has had an increasingly positive impact on business. Revenue generated in Asia, for instance, grew substantially. In the year under review, a production line for PTFE products was installed at the former sales center in Qingdao, China. Benefiting from determined cost management, combined with optimization measures in production, the segment managed to offset spiraling commodity prices and lift segment earnings before interest and taxes to EUR 19.5 (18.5) million. Correspondingly, its EBIT margin stood at 16.6% (16.7%).

Group sales by segment 2018



	in EUR million	(previous year)
Original Equipment	**1,408**	(1,382)
– Lightweighting/Elastomer Technology		
– Shielding Technology		
– Specialty Gaskets		
– Cylinder-head Gaskets		
– E-Mobility		
– Exhaust Gas Purification		
Aftermarket	**159**	(157)
Engineered Plastics	**118**	(111)
Services	**10**	(10)
Industrial Parks	**4**	(4)

* Cf. glossary

Stable revenue contributions from Services and Industrial Parks

The Services and Industrial Parks segments, neither of which belongs to the core business of the ElringKlinger Group, delivered stable revenue contributions in 2018. The Services segment contributed revenue of EUR 9.7 (9.5) million and segment earnings before interest and taxes of EUR 0.7 (1.2) million. The Industrial Parks segment generated revenue of EUR 4.3 (4.3) million and segment earnings before interest and taxes of EUR 0.3 (- 0.5) million.

Gross profit margin affected by high commodity prices

At 5.8%, the increase in the cost of sales was disproportionately large, taking the total to EUR 1,328.9 (1,255.6) million. Commodity prices rose, in some cases substantially, during the first half of the year in particular. This applied primarily to materials such as steel, aluminum, and polymer granules, which ElringKlinger requires for the production of gaskets, shielding systems, and lightweight plastic components (cf. "Procurement and Supplier Management," page 49). The **cost of materials** therefore rose at a faster rate than revenue, up by 9.7% to EUR 747.0 (680.9) million. At 44.0% (40.9%), the cost-of-materials ratio (cost of materials as a proportion of Group revenue) was noticeably higher year on year.

As a result, **gross profit** fell by 9.4% to EUR 370.1 (408.4) million, while the gross profit margin declined to 21.8% (24.5%).

Total **staff costs** for the Group increased by 9.2% to EUR 531.2 (486.3) million in the 2018 financial year. Under the cost-of-sales (also referred to as function-of-expense) method, staff costs were distributed across all operational expense items in the income statement. The increase was attributable primarily to an expansion in HR capacities, which also included the new areas of business targeted by the company (cf. "People," page 48). The collective wage increase by 4.3% as of April 1, 2018, for domestic entities as well as the staff profit-sharing bonus for employees at ElringKlinger AG, ElringKlinger Kunststofftechnik GmbH, and Elring Klinger Motortechnik GmbH amounting to EUR 5.7 (5.3) million, also had an impact. In total, staff costs in relation to revenue increased to 31.3% (29.2%).

In 2018, **selling expenses** amounted to EUR 146.5 (141.9) million. This was driven yet again by large-volume orders placed by NAFTA-based customers as part of their scheduling arrangements, which resulted in higher follow-on costs for non-standard deliveries and freight movements.

General and administrative expenses rose to EUR 84.0 (76.9) million in the period under review. The year-on-year increase is due in part to provisions recognized for collective agreements covering partial retirement, which were extended in 2018, and incidental costs associated with the sale of the Hug subgroup.

R&D ratio within target range

In response to the far-reaching process of transformation in the automotive industry, ElringKlinger is focusing on alternative drive technologies. For this purpose, the Group expanded its research and development activities in a targeted manner during the period under review. R&D expenses rose by 6.6% to EUR 76.1 (71.4) million. Additionally, research and development costs of EUR 11.1 (4.5) million were capitalized. This contrasted with amortization of capitalized development costs totaling EUR 6.2 (7.9) million. Taking into account development costs capitalized by the Group, the R&D ratio, i.e., R&D costs relative to Group revenue, increased to 5.1% (4.6%). This was within the 5–6% range set for the short to medium term.

In 2018, ElringKlinger again received government grants, primarily for research projects in the field of battery and fuel cell technology. Government grants for R&D projects, recognized in profit/loss, amounted to EUR 5.3 (7.6) million in total. In parallel, the company incurred project-related expenses at a comparable level for development work and prototyping.

Other operating income was up significantly year on year at EUR 45.6 (31.2) million. This was attributable primarily to the gain on disposal from the sale of the Hug subgroup and to a lesser extent to the sale of new enerday GmbH. **Other operating expenses** remained largely unchanged at EUR 12.8 (12.2) million.

EBIT margin before purchase price allocation at 5.9%

Due to the developments outlined above, earnings before interest, taxes, depreciation and amortization (EBITDA*) fell short of the prior-year level and amounted to EUR 196.6 (238.4) million. Depreciation and amortization fell slightly to EUR 100.4 (101.1) million. Thus, the ElringKlinger Group recorded earnings before interest and taxes (EBIT) of EUR 96.2 (137.3) million. Including depreciation/amortization relating to purchase price allocation, EBIT before purchase price allocation totaled EUR 100.2 (141.8) million. This corresponds to an EBIT margin, before purchase price allocation, of 5.9% (8.5%). Therefore, the Group failed to meet its revised target of an EBIT margin before purchase price allocation of around 7%. This was attributable mainly to a sluggish earnings performance in the fourth quarter. In the final quarter, commodity prices remained high and, in some cases, even spiraled up further. Additionally, improvement measures initiated in the NAFTA region have yet to produce the full effect on earnings originally planned.

Net finance costs down

As became evident in the course of the year, foreign exchange gains and losses were roughly in balance in 2018. The net result for the year was a foreign exchange gain of EUR 0.8 (-11.1) million. Interest expenses rose slightly, which was due in part to higher debt, and in combination with no sizeable change in interest income the net interest result was therefore lower year on year at EUR minus 15.1 (-13.1) million. In total, net finance costs, which primarily consist of the net result of currency translation and the net interest result, were down significantly at EUR 14.7 (27.3) million.

Earnings before taxes thus fell by 26.1% to EUR 81.4 (110.1) million.

Net income impacted by high tax rate

Income tax expenses fell to EUR 33.5 (36.3) million for the annual period as a whole. The effective tax rate for the 2018 financial year was 41.2% (33.0%). The year-on-year increase was attributable in particular to losses at production companies for which no deferred tax assets were recognizable due to impairment.

After the deduction of income taxes, **net income** amounted to EUR 47.9 (73.8) million. Net income attributable to non-controlling interests rose marginally to EUR 4.1 (3.9) million. Excluding these interests, net income attributable to the shareholders of ElringKlinger AG amounted to EUR 43.8 (69.9) million. Correspondingly, earnings per share* were down year on year at EUR 0.69 (1.10). As of December 31, 2018, the number of shares outstanding that were entitled to a dividend remained unchanged at 63,359,990.

Suspension of dividend

In view of the Group's earnings performance in fiscal 2018, the Management Board and the Supervisory Board have jointly agreed to depart from the Group's established dividend policy and to suspend the dividend for the 2018 financial year. This is aimed at strengthening internal financing in support of the company's transformation process in order to improve the Group's financing structure in conjunction with a syndicated loan* agreement for EUR 350 million concluded in February 2019.

* Cf. glossary

Financial Position

With an equity ratio of 42.8%, the ElringKlinger Group's financial position remained solid as of December 31, 2018. Growth-induced investments scheduled by the Group and directed to a larger extent at technologies centered around alternative drive systems prompted an expansion in property, plant, and equipment and non-current assets in general. This coincided with an increase in current financial liabilities. Initiated toward the end of 2017, the sale of the Hug Group, an entity specializing in exhaust gas purification, was accounted for in the financial position in the first quarter of 2018.

Expansion of assets reflects organic growth

Compared to the previous financial year, total assets held by the ElringKlinger Group rose by 2.8% to EUR 2,079.7 (2,022.4) million. This upward trend is indicative of the Group's growth in business at an organic level. Within the category encompassing non-current assets, this was reflected primarily in an investment-driven increase in property, plant, and equipment, which also serves to focus the company on future technologies. In total, property, plant, and equipment rose by EUR 68.2 million to EUR 997.8 (929.6) million.

Within current assets, working capital* (inventories and current contract assets as well as trade receivables) in particular is closely linked to business performance. As of December 31, 2018, it amounted to EUR 714.0 (672.2) million, which was up 6.2% or EUR 41.8 million on the prior-year figure. The year-on-year increase is attributable almost entirely to inventories and current contract assets, whereas receivables grew only slightly.

As of December 31, 2018, inventories stood at EUR 401.4 (369.5) million, up 8.6% or EUR 31.9 million on the previous year. Excluding currency effects and adjustments relating to the first-time application of IFRS* 15, the year-on-year increase was 10.0%. Besides the growth-induced expansion in inventory levels, higher commodity prices in particular prompted an increase in the carrying amount of raw material inventories. Another factor was more expansive stockpiling at facilities being set up in Fort Wayne, USA, and Warwick, United Kingdom. The current contract assets relate to entitlements from customer contracts that were accounted for in accordance with IFRS 15, which was applied for the first time in 2018.

Trade receivables illustrate the success of ElringKlinger's optimization measures, such as the harmonization and standardization of payment terms and the introduction of software. Despite higher revenue, they were up only slightly year on year at EUR 306.4 (302.6) million. This favorable trend, aimed at keeping the commitment of funds as low as possible, became apparent in the course of the year.

Deconsolidation of Hug Group and new enerday completed

The disposal of the Swiss Hug Group, initiated in December 2017 and closed as of March 1, 2018, resulted in a reduction in the balance sheet total by EUR 40.4 million. The asset and liability items in question had already been reclassified in the Group statement of financial position as of December 31, 2017, and had been aggregated as "Assets held for sale" and "Liabilities relating to assets held for sale." Reclassification adjustments for currency translation, included in other reserves, and non-controlling interests decreased upon deconsolidation (March 1, 2018). By contrast, the gain on disposal of EUR 24.5 million resulted in higher net income for the period and therefore also higher revenue reserves.

The deconsolidation of new enerday GmbH, Neubrandenburg, Germany, led to an overall reduction in the balance sheet total by EUR 0.5 million as of September 30, 2018. Beyond this, changes in the scope of consolidation had no significant impact on the Group's financial position in 2018. Further details relating to the divestment of the Hug Group and new enerday GmbH are presented in the notes to the consolidated financial statements (page 103 ff.).

First-time application of the new IFRS Standards 9 and 15

The mandatory first-time application of IFRS 9 "Financial Instruments" in respect of the 2018 financial year resulted in adjustments to the measurement and classification of financial instruments, which are described in detail in the notes to the consolidated financial statements. The adjustments in the Group statement of financial position of ElringKlinger AG relate in particular to the recognition of valuation allowances on trade receivables. These changes resulted in a reduction of the valuation allowances, before deferred taxes, by EUR 3.5 million, which was accounted for correspondingly in revenue reserves and thus led to a higher carrying amount for receivables.

The first-time application of IFRS 15 "Revenue from Contracts with Customers" resulted in further adjustments of minor significance. The Standard, which has to be applied as from January 1, 2018, under IFRS reporting includes provisions on revenue recognition that have an impact on the amounts, timing, and presentation of revenue. As regards ElringKlinger, this mainly affects tool-related contracts, goods and products held in consignment warehouses, and development contracts. ElringKlinger chose the modified retrospective method, i. e., rather than restating the prior-year amounts, the transitional effects were accounted for cumulatively in revenue reserves as of January 1, 2018. In terms of assets, intangible assets were down by EUR 4.1 million as of January 1, 2018, property, plant, and equipment by EUR 2.2 million, and inventories by EUR 7.3 million. At the same time, current and non-current "contract assets" of EUR 7.1 million were recognized by the Group as well as "contract performance costs" totaling EUR 0.7 million. Within total equity and liabilities, revenue reserves, before deferred taxes, were down by EUR 5.9 million. Further details relating to the first-time application of this standard and its implications for the period under review are presented in the notes to the consolidated financial statements (page 96 ff.).

Other asset-side items

Beyond this, asset-related items remained largely unchanged year on year. The investments in associates totaling EUR 23.3 (28.6) million related to the non-controlling interests acquired in hofer AG, Nürtingen, Germany, in 2017 and have been accounted for using the equity method. They were lower in 2018, due to pro rata profit/loss taken over as well as adjustments as part of annual impairment testing. Other non-current assets totaling EUR 8.1 (4.0) million, which were higher year on year due to a transfer of items from current assets, included receivables from insurers in respect of warranty incidents. As of December 31, 2018, the item "assets held for sale" includes a land right whose sale is scheduled for 2019. The comparative prior-year figure related to assets of the Hug Group, which was disposed of in 2018.

Equity ratio at around 43%

As of December 31, 2018, equity accounted for by the ElringKlinger Group amounted to EUR 890.1 (889.7) million. The positive effect of net income totaling EUR 47.9 (73.8) million in 2018 was offset almost entirely by the dividend payout to shareholders and non-controlling interests in ElringKlinger AG for the previous year, totaling EUR 33.6 (34.2) million, and disposals of EUR 2.8 (prev. year: additions of 2.3) million relating to changes in the scope of consolidation. Additionally, foreign exchange translation differences, amounting to EUR -11.4 (-41.5) million, and the aforementioned effects of the first-time application of two International Financial Reporting Standards (IFRS) had a dilutive effect on equity.

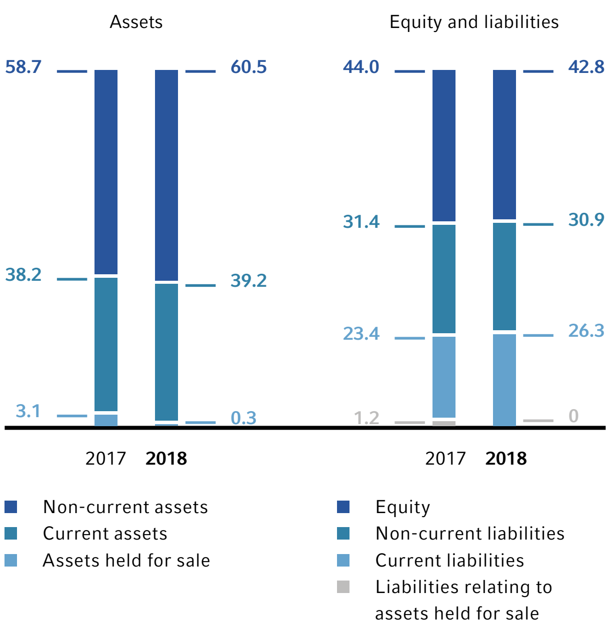
As of December 31, 2018, the equity ratio remained solid at 42.8% (44.0%), which is within the target corridor of 40 to 50% defined for the Group.

Pension obligations, which were adjusted mainly due to the annual remeasurement of existing obligations, were down slightly at EUR 124.4 (126.0) million.

Current and non-current provisions amounted to EUR 30.4 (35.3) million at the end of the year and mainly include personnel-related obligations such as partial retirement arrangements and anniversary benefits. They also include warranty obligations and a number of other minor items. The year-on-year decline in current provisions is attributable

* Cf. glossary

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



primarily to the utilization of provisions for various business transactions and a transfer to non-current provisions.

The application of IFRS 15 resulted in non-current and current contractual liabilities of EUR 2.6 (0) million and EUR 10.5 (0) million respectively. They relate to payments made by a customer in advance, which will be reversed in subsequent periods, with revenue being recognized accordingly.

Other non-current liabilities totaling EUR 8.9 (3.6) million include, among other items, public funding for two buildings, which will be reversed in future periods and accounted for in profit and loss. These funds were granted for the purpose of ensuring compliance with an energy efficiency program at the site in Dettingen/Erms, Germany, and for measures relating to the provision of structural aid at the site in Kecskemét, Hungary.

Net debt higher as part of investing activities

Net debt* (current and non-current financial liabilities less cash) totaled EUR 723.5 (655.3) million at the end of 2018, which was EUR 68.2 million more than a year earlier. While ElringKlinger managed to reduce net debt in the first quarter, partly as a result of the sale of the Hug Group (EUR 52.5 million in the first quarter of 2018), it saw an expansion in its net debt/EBITDA ratio to 3.7 (2.7) due to scheduled investing activities and the dividend payment as well as, above all, strong growth in business.

Cash Flows

The ElringKlinger Group's financial situation in terms of cash flows remained solid on the back of net cash from operating activities of EUR 92 million as well as sufficient cash and ample financial scope in the form of undrawn credit lines.

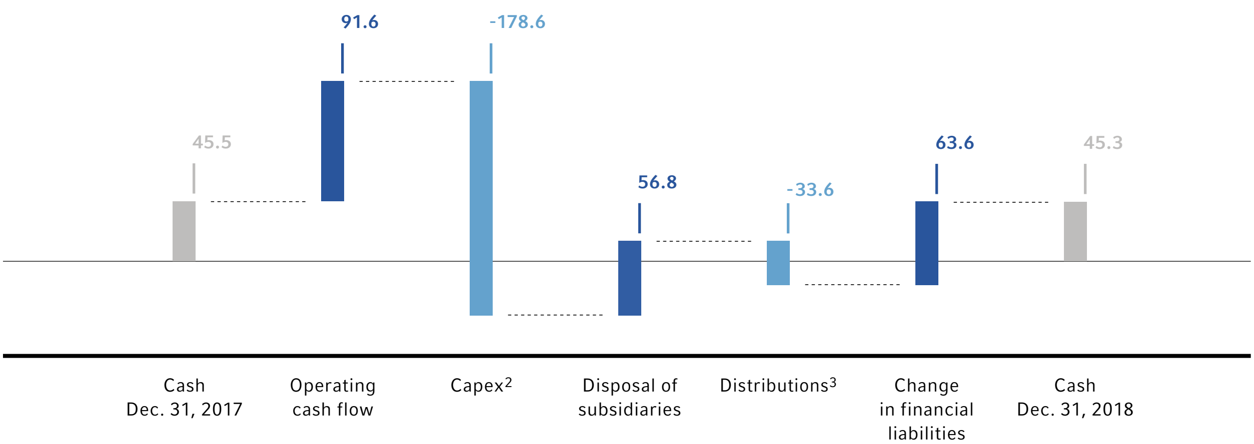
Cash flow from operating activities at EUR 92 million

The generation of cash from operating activities is to be seen as the key source of funding for ElringKlinger. In the 2018 financial year, the Group recorded net cash from operating activities of EUR 91.6 (95.5) million – a solid performance considering the downturn in Group earnings. This was attributable mainly to the lower absorption of funds in net working capital* (inventories, current contract assets, and trade receivables less trade payables and current contract liabilities) in relative terms, which is of relevance to operating cash flow*. Including other assets and liabilities not attributable to investing or financing activities, the outflow attributable to the change in net working capital was EUR 32.0 (87.8) million.

More sizeable investment in E-Mobility

Payments made in connection with capital expenditure on property, plant, and equipment as well as investment property totaled EUR 163.5 (155.5) million in 2018. This translates into a capex ratio (capital expenditure on property, plant, and equipment and on investment property relative to Group revenue) of 9.6% (9.3%), which is within the target range of around 9 to 10% of Group revenue.

Changes in cash 2018[1]
in EUR million

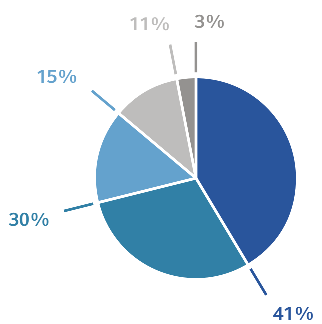


[1] Does not correspond to IAS 7 presentation
[2] Investments in property, plant, and equipment, investment property, and intangible assets
[3] Distributions to shareholders and non-controlling interests

CONSOLIDATED FINANCIAL STATEMENTS

* Cf. glossary

Investment[1] spending by region



	in EUR million	(previous year)
Germany	74	(61)
NAFTA	54	(32)
Asia-Pacific	26	(23)
Rest of Europe	19	(47)
South America and Rest of the World	6	(3)

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

As from the second half of the year, there was a stronger emphasis on investment measures connected to the Group's strategic fields of the future. For instance, 2018 saw the commencement of construction work on a technology center for E-Mobility at ElringKlinger's headquarters in Dettingen/Erms. It will focus mainly on future research and development activities in the field of battery and fuel cell technology. Completion is scheduled for 2020.

One of the other domestic sites operated by ElringKlinger AG saw the installation of a production line for battery modules as part of a large-scale project in the E-Mobility division. In installing this line, the company is making preparations for the series production of complete battery systems, which are to be rolled out from the second half of 2019 onward. Additionally, production lines are being installed in the United Kingdom and Germany for the manufacture of electric drive systems.

Investment spending was directed at almost all of the Group's production sites, the focus being on expansion measures to raise capacity levels as well as the installation of production machinery for new ramp-ups. From a regional perspective, the emphasis was on sites in Germany and the NAFTA* region as well as the growth region of Asia-Pacific.

Besides the German sites, expenditure in Europe was directed primarily at the new plant in Kecskemét, Hungary, the production facility in Redcar, United Kingdom, and measures implemented at the Swiss site in Sevelen. At the three major North American plants in Leamington, Canada, Buford, USA, and Toluca, Mexico, investments were centered around expansion and streamlining measures. In Fort Wayne, USA, machinery is being installed for the production of thermal and acoustic shielding systems. The Brazilian site in Piracicaba has been undergoing expansion since 2018, which includes a larger building to accommodate Lightweighting/Elastomer Technology and Aftermarket operations. Further investment measures were also required for local production at the Group's Chinese plants. The focus of capital expenditure at the fourth Chinese site in Chongqing, established in 2017, was on the ramp-up of series production of door module carriers during the fourth quarter.

Payments for intangible assets amounted to EUR 15.1 (10.7) million in 2018.

The disposal of the Hug Group in the first quarter and new enerday GmbH in the third quarter produced an inflow of EUR 56.8 million for the Group. Payments accounted for in the previous year for the acquisition of associates (EUR 29.0 million) related to the purchase of interests in hofer AG.

Overall, the net outflow of cash for investing activities totaled EUR -120.7 (-193.2) million.

Expansion in short-term loans for financing activities

A significantly lower level of borrowing was necessary in the 2018 financial year compared with the previous year, due in part to the inflow of cash from the divestments outlined above. In 2017, cash flow from financing activities had been dominated by the first-time issuance of a Schuldschein (loan granted to the company against a form of promissory note) covering a volume of EUR 200 million. The Group generated net cash from financing activities of EUR 30.0 (109.3) million. Alongside a net inflow from the change in current and non-current loans, which totaled EUR 63.6 (143.6) million, this figure also included the dividend payment to shareholders and non-controlling interests totaling EUR 33.6 (34.2) million.

As of December 31, 2018, the Group had access to approved yet undrawn lines of credit totaling EUR 190.2 (136.1) million.

As investment spending exceeded the Group's cash inflow from operating activities in 2018, operating free cash flow* was in negative territory at EUR -86.2 (-66.6) million. It is calculated as cash flow from operating activities less cash flow from investing activities, adjusted for payments in respect of acquisitions and financial assets as well as proceeds from divestments.

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

Operating in a difficult market environment, the ElringKlinger Group once again saw its revenue grow at a much faster rate than global vehicle production in 2018. Earnings before interest, taxes, and purchase price allocation* (EBIT* before purchase price allocation) fell short of the prior-year figure. This was attributable in part to external factors such as a difficult market environment from both a political and a macroeconomic perspective as well as an increase in commodity prices, which proved substantial in some cases. At the same time, persistently strong demand in the NAFTA region resulted in high follow-on costs. Against this backdrop, the Group's EBIT margin before purchase price allocation was 5.9%.

With a Group equity ratio of 43% and sufficient cash and cash equivalents, the Group's financial and asset structure remains solid. With a view to further strengthening internal financing for the company's transformation process, the Group is pursuing a highly disciplined approach to investment spending and is looking to further optimize the absorption of funds in working capital*.

ElringKlinger is well positioned to tackle the transition facing the automotive industry. In 2018, the Group continued to hone its focus on lightweighting and electromobility as strategically promising fields of the future. The Group managed to expand the share of revenue generated in these areas of business to around 7% (4%). Given the Group's broad customer base, encompassing both long-standing and new manufacturers, as well as its diversified product portfolio, the prospects for future business development remain good.

* Cf. glossary

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 relating to 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 nearly all regions in 2018 and increased its revenue by around 7%. The earnings situation, by contrast, was significantly constrained by cost increases and write-downs related to affiliated companies.

Revenue up 7%

In 2018, ElringKlinger AG benefited once again from strong global demand for its products and increased its revenue by 6.8% to EUR 720.5 (674.4) million. As a result, the company exceeded its projected target of boosting revenue by two to four percentage points above the global market growth rate (-0.4%), calculated on the basis of vehicle production.

Revenue growth in the NAFTA* region was particularly impressive. Here, ElringKlinger AG recorded an increase in sales revenue of 46.1%, taking the figure to EUR 77.3 (52.9) million. Revenue generated in the Rest of Europe (excluding Germany) was up at EUR 305.8 (290.6) million. By contrast, revenue in the Asia-Pacific region was slightly lower year on year at EUR 57.5 (58.6) million. The loss of momentum in this region was particularly noticeable towards the end of the year in China. In total, revenue from foreign sales rose by 9.5% to EUR 466.0 (425.7) million, taking foreign sales as a percentage of Group revenue to 64.7% (63.1%).

Revenue growth from domestic sales was equally solid, up by 2.3% to reach EUR 254.4 (248.7) million. This figure generally includes revenues from products incorporated into vehicles and engines that are subsequently exported.

Original Equipment remains growth driver

The Original Equipment segment boosted its sales revenue by 8.3% to EUR 574.8 (530.6) million, making it once again the main driver of growth. The segment's contribution to the total revenue generated by ElringKlinger AG rose to 79.8% (78.7%). Within this segment, the biggest increase in revenue was achieved by the Lightweighting/Elastomer Technology division. The E-Mobility division also delivered revenue growth, recording a strong percentage increase from a low base.

Modest uptick in Aftermarket revenue

Overall, the Aftermarket segment remained stable despite geopolitical tensions in many regions. Sales revenue rose slightly by 1.3% to EUR 145.4 (143.5) million. The segment's contribution to total revenue fell to 20.2% (21.3%). Fiscal 2018 saw another year-on-year increase in Eastern Europe, the Aftermarket segment's largest single region in terms of sales. However, revenue was slightly lower in Western Europe and the Middle East. Sales in both Asia and North America ended the year up – from a low base – and efforts are being made to achieve greater market penetration in these regions.

Year-on-year increase in total operating revenue

Despite more expansive business, inventory changes in finished goods and work in progress fell to EUR 4.8 (5.8) million in the financial year under review. Work performed by the enterprise and capitalized declined to EUR 0.3 (1.5) million. Total operating revenue, i.e., revenue +/- inventory changes +/- work performed by the enterprise and capitalized, increased by EUR 43.9 million year on year, taking the figure to EUR 725.6 (681.7) million in 2018.

Other operating income rose by a substantial EUR 30.3 million to EUR 46.9 (16.6) million. This was mainly due to income from asset disposals of EUR 29.8 (0.1) million, primarily from the sale of the Hug Group.

Other operating expenses amounted to EUR 118.6 (98.8) million. This year-on-year rise was due to increases in several items under this heading. These included higher costs for trade shows and rents. Audit and consulting expenses were also up, partly in connection with the sale of Hug, as were the company's repair and travel costs.

Rising commodity prices push up cost of materials

In 2018, there were significant increases in the price of key input materials such as aluminum and steel, which are required by ElringKlinger in large quantities for production. Polyamide*, a plastic, was also noticeably more expensive, partly due to supply constraints. As a result, the total cost of materials at ElringKlinger AG rose by 8.2% – outpacing revenue growth – to EUR 326.2 (301.6) million. The cost-of-materials ratio (cost of materials in relation to total operating revenue) climbed to 45.0% (44.2%).

Headcount continues upward trajectory

2018 saw a further rise in the headcount in response to strong growth at ElringKlinger AG overall and in particular to the expansion of new business areas. The total year-end figure was up by 427, or 14.6%, at 3,357 (2,930). The Original Equipment segment (especially New Business Areas) accounted for nearly all these hirings. Personnel expenses also ended the year higher. The main factors here, apart from the increased headcount, were a collective bargaining pay increase of 4.3% as of April 1, 2018, and a year-on-year rise in the employee profit-share bonus. Personnel expenses rose by 20.3% to EUR 237.9 (197.8) million, thus outpacing the increase in revenue. At 32.8% (29.0%), the personnel expense ratio for 2018 was significantly higher as a proportion of total operating revenue.

Write-downs

While systematic depreciation and amortization of intangible and tangible fixed assets came to EUR 36.7 (33.1) million, the company also had to make write-downs of receivables from affiliated companies totaling EUR 24.2 (0) million. As a result, the overall figure for depreciation/amortization and write-downs rose by EUR 27.8 million (excluding write-downs of financial assets).

Higher costs reduce earnings before interest, taxes, and equity investments

As outlined above, higher material and personnel expenses, together with write-downs, had a substantial impact on ElringKlinger AG's earnings in 2018. At EUR 28.9 (67.0) million, earnings before interest, taxes, and equity investments could not match the previous year's total. This is equivalent to a margin (i.e., as a proportion of total operating revenue) of 4.0% (9.8%). As such, the company was unable to meet its target of maintaining the margin at roughly the same level as in 2017.

Lower net income from equity investments

During the year under review, there was a further increase in income from equity investments. Most importantly, the distribution from the company's subsidiary ElringKlinger China, Ltd., Suzhou, China, led to an increase of EUR 14.7 million. Total income from equity investments stood at EUR 35.0 (20.3) million. On the other hand, write-downs on financial assets pushed the net figure down by EUR 53.5 (-5.0) million. Accordingly, total net income from equity investments fell significantly to EUR -18.5 (+15.3) million.

Earnings before taxes at EUR 4 million

As a result of the decline in earnings before interest, taxes, and equity investments, and the negative net income from equity investments, the company's earnings before taxes ended the year much lower at EUR 4.1 (75.5) million. Income taxes did not fall by the same margin because the write-downs on receivables from affiliated companies and on financial assets are not tax-deductible. Total income taxes for 2018 amounted to EUR 9.2 (15.0) million. As a consequence, the

* Cf. glossary

figure for profit after tax in 2018 was negative at EUR -5.1 (+60.5) million. After deducting other taxes, ElringKlinger AG posted a net loss of EUR -5.3 (+60.2) million.

Suspension of dividend

As a result of its negative earnings, ElringKlinger AG did not allocate any amounts to its revenue reserves (previous year: EUR 28.5 million). As such, the accumulated loss presented in the balance sheet is identical to the net loss for the year at EUR -5.3 (+31.7) million. In view of this, the Management Board and Supervisory Board have jointly agreed to depart from the established dividend policy and suspend the dividend for 2018 so that the company can further strengthen its internal financing in readiness for the transformation process.

Net Assets of ElringKlinger AG

ElringKlinger AG's twin role as a holding and Group operating company is reflected in its asset structure. Financial assets – predominantly interests in affiliated companies and equity investments – account for slightly more than half of its fixed assets.

The parent company's year-end figure for total assets was up 4.1% at EUR 1,370.4 (1,316.2) million. Apart from an increase in tangible fixed assets, the change on the asset side of the balance sheet is mainly due to transactions linked to the company's holding function and its central Group financing role.

As a result of its investment activities (see "Cash Flows of ElringKlinger AG," p. 47), the company's tangible fixed assets rose to EUR 367.7 (343.2) million as of December 31, 2018.

Financial assets totaled EUR 431.4 (486.7) million at the end of the reporting period. Interests in affiliated companies are the biggest single item in this asset category. This figure declined by EUR 30.8 million to EUR 397.8 (428.6) million. One of the main factors here was the disposal of the Hug Group, Elsau, Switzerland, and, on a smaller scale, that of new enerday GmbH, Neubrandenburg, Germany. Another factor was a reduction in the value of equity interests due to write-downs on holdings in various subsidiaries following annual impairment tests. At the same time, however, the value of equity interests was boosted by capital increases at three subsidiaries (Kecskemét in Hungary, Buford in the USA, and Suzhou in China). There were no write-ups relating to financial assets during the year under review.

The year-end figure for loans to affiliated companies stood at EUR 8.5 (28.7) million, down on the prior-year figure. This drop was partly due to year-end write-downs, with an effect on profit/loss, and intra-year repayments.

The company's 2017 acquisition of an equity interest in hofer AG, Nürtingen, Germany, is valued in the balance sheet as of December 2018 at EUR 24.7 (29.0) million. This fall was due to write-downs following the annual impairment tests.

Inventories accounted for by ElringKlinger AG ended the year at EUR 153.5 (144.5) million. Taking account of the increase in material prices over the year and the company's general business expansion, this increase of EUR 9.0 million, or 6.2%, is roughly in line with the figure of around 7% for revenue growth. Trade receivables were more or less unchanged year on year at EUR 92.3 (93.6) million.

Receivables from affiliated companies mainly consist of current loans to subsidiaries. At EUR 299.6 (227.3) million, these form the largest single item within current assets.

As of December 31, 2018, the company's fixed assets made up around 58.9% (63.8%) of its total assets. Accordingly, current assets accounted for the remaining 40.9% (36.2%). Additionally, there was a small amount of prepaid expenses.

Equity ratio of ElringKlinger AG at 40%

At the end of the reporting period, ElringKlinger AG's shareholder equity stood at EUR 547.6 (584.6) million. The total figure for equity declined following the dividend payment of EUR 31.7 million for the previous year and the net loss of

EUR 5.3 million for 2018. Despite this, the equity ratio remains solid at 40.0% (44.4%).

The year-end figure for provisions stood at EUR 116.8 (107.8) million. Pension provisions increased to EUR 74.6 (68.9) million, primarily due to the annual remeasurement of existing obligations. At EUR 41.8 (38.4) million, other provisions were slightly up on the previous year, mainly due to higher partial retirement obligations.

As of December 31, 2018, total liabilities were EUR 705.5 (623.5) million and therefore accounted for 51.5% (47.4%) of the balance sheet total. The main item under this heading was liabilities to banks, which stood at EUR 599.5 (541.3) million. At EUR 44.8 (34.4) million, trade payables were higher compared with the previous year due to business expansion.

Cash Flows of ElringKlinger AG

Operating cash flow shows marked improvement to EUR 94 million

Despite the decrease in net income, ElringKlinger AG's net cash from operating activities showed a marked improvement at EUR 94.2 (75.7) million. This was primarily because the charges against earnings related to ElringKlinger AG's holding company function (write-downs on financial assets and on receivables from affiliated companies) have no effect on cash flow*. In addition, ElringKlinger AG achieved improvements in the operating indicators that determine the net cash figure. For instance, cash outflow, which is of relevance to net working capital (inventories and trade receivables less trade payables) fell by a much smaller margin in 2018 than in the previous year. Including other assets and liabilities not attributable to investing activities, total cash outflows from the change in working capital declined to EUR 7.4 (17.2) million. Furthermore, income taxes paid were down EUR 16.1 million on the previous year.

Cash flows from investing activities influenced by several factors

Cash outflows for investments in tangible fixed assets at ElringKlinger AG totaled EUR 52.1 (47.8) million in 2018. New production and assembly lines had to be procured for the company's traditional divisions in order to cope with business expansion and forthcoming projects. In line with its increased focus on future technologies, the company also began work on the construction of a new technology center for electromobility and new business areas at its headquarters in Dettingen/Erms. An assembly line for complete battery systems is currently being installed at another location (see "Cash flows," p. 41). Cash outflows for investments in financial assets came to EUR 35.7 (47.3) million. These were linked to capital increases at a number of subsidiaries (see above). The comparative figure for 2017 includes the amount paid to acquire equity interests in hofer Group companies. Disposals of subsidiaries related to the sale of the Hug Group in Switzerland and new enerday GmbH in Germany generated cash inflows of EUR 56.8 (0) million.

In total, net cash used in investing activities amounted to EUR -30.6 (-95.9) million in 2018.

Financing activities produced a net cash outflow of EUR 63.6 million compared with a net inflow of EUR 20.2 million in 2017. The 2018 figure includes the dividend of EUR 31.7 (31.7) million paid to shareholders of ElringKlinger AG in respect of 2017.

As of December 31, 2018, the undrawn lines of credit available to ElringKlinger AG totaled EUR 136.3 (98.3) million.

The statement of cash flows* for the annual financial statements 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/2018-gbag-en.pdf.

* Cf. glossary

People

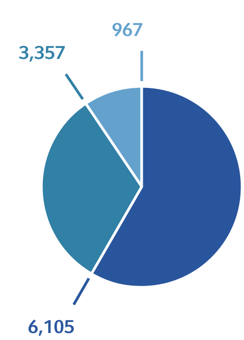
It is the employees of the ElringKlinger Group who, by bringing to bear their expertise and creative ideas on a daily basis, lay the foundations for the company's long-term success. For the first time in the company's history, 2018 saw the workforce grow to include more than 10,000 people, all helping to advance the strong competitive position of the ElringKlinger Group.

Global growth leads to an increase in staffing numbers

In order to support the Group's organic growth in fiscal 2018, the company increased its staffing capacity both in Germany and abroad. During 2018, an average of 10,033 (9,001) people were employed by ElringKlinger. As of December 31, 2018, the Group employed 10,429 (9,611) people. This corresponds to an increase of 818 people or 8.5%. Most of this increase involved staff employed at locations belonging to the parent company, ElringKlinger AG (Dettingen/Erms, Gelting, Runkel, Langenzenn, Lenningen, and Thale). At the end of the reporting period, the headcount for these sites totaled 3,357 (2,930), an increase of 427. At the Dettingen/Erms headquarters in particular, newly recruited employees consisted largely of skilled workers for the new areas of batteries and fuel cells*. In contrast, staffing levels at the Group's domestic subsidiaries – 967 (947) – were up only slightly year on year. This was due mainly to the sale of the Hug subgroup headquartered in Elsau, Switzerland, which also employed a few people in Germany, mainly in sales roles, along with the sale of new enerday GmbH, Neubrandenburg, Germany. Deconsolidation of these entities in 2018 largely counterbalanced the increase in staff numbers seen at the Group's other German subsidiaries.

The North America region accounted for the largest percentage increase. In the USA in particular, but also in Mexico and Canada, additional employees were hired in order to respond to persistently high levels of demand. Similarly, the larger business volumes in Asia and Brazil also necessitated additional staff numbers. In contrast, the headcount in Europe (excluding Germany) was lower year on year. This was largely due to the sale of the Hug subgroup. In the course of the relocation of production from Switzerland to Hungary during 2018, a gradual process was initiated of adjusting the size of the workforce there in line with requirements. The total headcount abroad was 6,105 (5,734). As a result, the proportion of Group employees based outside Germany fell to 58.5% (59.7%), a slightly lower figure relative to the previous year. Thus, the proportion of staff members employed at domestic facilities was 41.5% (40.3%).

ElringKlinger Group employees worldwide
as of Dec. 31, 2018 (previous year)



Foreign subsidiaries	**6,105**	(5,734)
ElringKlinger AG	**3,357**	(2,930)
Domestic subsidiaries	**967**	(947)

Headcount data for the ElringKlinger Group

	2018	2017
Absolute number of employees	10,429	9,611
of which men	71.0%	71.6%
of which women	29.0%	28.4%
Absolute number of employees	10,429	9,611
of which domestic	41.5%	40.3%
of which abroad	58.5%	59.7%
Average number of employees	10,033	9,001

Procurement and Supplier Management

The central purchasing department of the ElringKlinger Group is responsible for procuring raw materials, goods, and services around the world and for ensuring that these are made available on time, in the required quantities, and in a cost-effective manner. In terms of procurement, 2018 was shaped by worldwide trade disputes, tariffs, and increases in commodity prices, some of them major. The central purchasing department was nevertheless always able to keep the international ElringKlinger plants supplied.

At 44.0% of revenue, materials are one of the largest cost items for the ElringKlinger Group. Active purchasing and goods control therefore plays a considerable part in the company's success. The key raw materials needed by ElringKlinger to manufacture its products include aluminum, alloyed high-grade steels (and especially chromium-nickel alloys), carbon steel, polyamide-based polymer granules, and elastomers* as well as polytetrafluoroethylene (PTFE*) in the Engineered Plastics segment. Materials and components used in the production of battery and fuel cell systems* are also becoming increasingly important with regard to ElringKlinger's purchasing requirements.

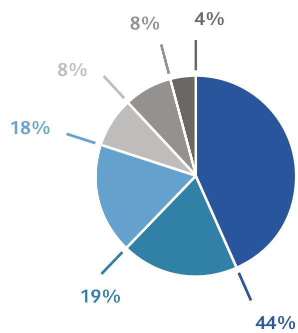
High commodity prices: cost-of-materials ratio rises to 44%

The ElringKlinger Group's spending on materials increased significantly due to sharp rises in the prices of raw materials, particularly in the first half of 2018. Almost all commodity groups were affected by this. The steel market in North America, for example, was negatively affected to a considerable extent by import tariffs of 25%. There was also strong demand for steel across industries, which likewise led to price rises and long supply times. The alloy surcharges for high-grade steel, which ElringKlinger uses to produce gaskets, increased by more than 10% on average. Alloys such as nickel are exclusively traded on the stock exchange and cannot be fixed in framework agreements. Prices for aluminum, too, which is needed to produce shielding parts, proved to be very volatile at an elevated level. There were several price rises in 2018 for polyamide*, a plastic that ElringKlinger requires to produce lightweight components, again due to the very limited quantity available.

In total, materials accounted for 56.2% (54.2%) of the cost of sales in 2018. The cost-of-materials ratio (materials in relation to revenue) was 44.0% (40.9%) and thus noticeably

* Cf. glossary

Breakdown of raw materials used in 2018



	in %	(previous year)
Other/components	**44**	(31)
Aluminium	**19**	(20)
High-grade steel	**18**	(20)
C-steel, coated and uncoated	**8**	(11)
Polyamides	**8**	(11)
Elastomers	**4**	(7)

higher than for the previous year. The total purchase volume including 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 rose to EUR 1,160.2 (1,067.8) million.

Price escalation clauses successfully implemented

In order to become more independent of material price rises over the medium to long term, ElringKlinger has begun to integrate price escalation clauses more rigorously into customer contracts. For some raw materials, such as aluminum and high-grade steel, these are already active; other escalation clauses are undergoing consultation. In the medium term, these are expected to have a positive effect on the ElringKlinger Group's earnings situation.

Beyond this, ElringKlinger guards against volatile price trends by concluding framework agreements for the most important commodity groups. By so doing, the Group also guarantees the availability of materials and limits exchange rate risk. For polyamides, framework agreements in 2018 tended to be concluded for shorter terms. For aluminum and steel, by contrast, the contracts agreed to for 2019 were mainly annual.

Strategy workshops were held for several commodity groups in 2018. The results of these will be gradually implemented and are expected to have a positive effect in terms of costs, quality, and reliability of supply from 2019 on and in subsequent years.

EUR 37 million in proceeds from scrap

While high raw material prices had a negative impact on earnings in terms of material costs, ElringKlinger benefited from them when selling waste metal. The Group operates a global waste metal management system; scrap arising from production processes is recovered both at local level and globally and sold off. The global proceeds from scrap were similar to those recorded last year at EUR 37.1 (38.1) million.

Energy needs secured for the long term

ElringKlinger secures the greater part of its electricity and gas requirement through long-term supply agreements. The contracts agreed with existing suppliers in 2017 had terms up to and including 2021. The company is able to address its energy requirement in flexible tranches, independently of energy prices specified by the market. ElringKlinger also covers part of its electricity requirement itself by operating combined heat and power units.

Global purchasing structure optimized further

With ElringKlinger having transferred the purchasing structure into a matrix organization in 2017, this was selectively optimized over the course of the 2018 financial year. For complex projects, particularly those relating to the new fields of business centered around batteries and fuel cells, special project coordinators act as the interface between the development team and purchasing, thereby ensuring optimal coordination. Procurement has also been more strongly centralized within the individual regions and standardized, with strategic procurement having been separated from logistics on the organizational side. In the USA, procurement has been centralized at the ElringKlinger site in Buford, Georgia. This enables the Group to combine purchasing volumes more effectively.

Period allowed for payments increased, capital tie-up improved

One important project for the procurement team in the 2018 financial year was to optimize the tie-up of capital. For this purpose, periods for payments to suppliers were increased in line with a new, Group-wide guideline. The new periods for payments have already been negotiated and implemented with most of the principal suppliers. This should have a positive impact on capital outflows from 2019. The initiative will continue to be rolled out over the coming year with high priority. Furthermore, consignment stocks were agreed with suppliers in order to improve the tie-up of capital and to reduce delivery periods. Another project in 2018 was to implement software for the tendering and award process.

Supplier management: new purchasing sources for new fields of business

It is the ElringKlinger Group's policy to keep dependence on individual suppliers low. Nevertheless, requirements are increasingly pooled to produce cost savings through economies of scale. In 2018, the 30 biggest suppliers accounted for 24% (23%) of the total purchase volume, once again representing an increase compared to the figure for the previous year.

New suppliers were successfully selected in 2018 for the new fields of business, which are increasingly a focal point. In general, new suppliers were developed in Europe, the Americas, and Asia. Audits were also undertaken around the globe. In order to handle the increased number of procurement projects, particularly in Asia, further regional supplier developers were deployed there. Additional resources were also allocated to the team responsible for ensuring supplier quality to enable them to evaluate and reduce the risks associated with new suppliers.

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 risk management system itself is continually adapted and refined in respect of its effectiveness and suitability 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 Group 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 Group 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 Group 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 early stage and measures aimed at avoiding or mitigating such risks can be implemented rapidly. Overall, the risk structures relating to the Group and the parent company do not differ significantly.

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 Group 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 cooperation 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 financial year 2018, audits were conducted at both domestic and international subsidiaries and within selected business areas of ElringKlinger AG. Outside Germany, the focus of these audits was on subsidiaries in the Asia-Pacific region. 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 ElringKlinger code of conduct forms an important part of the compliance system. It sets out binding expectations and 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. Training courses are held on a regular basis in order to prevent compliance-related infringements. In 2018, employees in relevant positions at various locations received training on compliance issues. Further courses are already scheduled for 2019.

ElringKlinger's Whistleblower System allows employees to report any irregularities they may come across using a variety of channels. This gives them a safe line of communication in order to pass on information on misconduct, violations of statutory provisions, and policy infringements. 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. One case involving a German subsidiary was reported and investigated. The required legal action was taken against an individual suspected of breach of trust and embezzlement. However, no other significant infringements were reportable for 2018.

The Management Board is committed to adapting and refining 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 Group 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 Corporate Investment Management, 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. Corporate Investment Management 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 (IFRS*). 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 and the ElringKlinger accounting manual. 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. It contains 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.

CONSOLIDATED FINANCIAL STATEMENTS

* Cf. glossary

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.

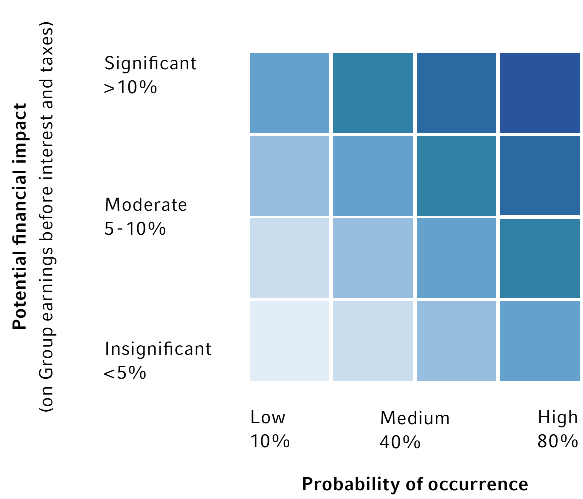
Among the risks that may affect the accounting process are, for instance, those associated with delays or errors in the entry of transactions or failure to observe the accounting manual and account allocation rules. In order to avoid mistakes, the accounting process is based on the separation of responsibilities 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 Group, 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, 2018. Reporting in respect of opportunities and risks is always based on a period of one year.

Risk matrix of the ElringKlinger Group



Opportunity and risk profile of the ElringKlinger Group

Type of risk/opportunity	Probability of occurrence	Potential financial impact
Economic risks		
Economic and industry risks	Medium	Significant
Political risks	Medium	Moderate
General internal risks		
General internal risks, work-related accidents, fire	Low	Moderate
Operational risks		
Price-related pressure/Competition	High	Moderate
Material risks/Supplier risks	Medium	Significant
Customer risks	Low	Moderate
Labor cost risks	Medium	Moderate
Personnel risks	Medium	Insignificant
IT risks	Low	Significant
Quality/Warranty risks	Medium	Moderate
Legal risks		
Legal risks/Compliance risks	Low	Moderate
Strategic risks		
Technology risks	High	Significant
External growth/Acquisitions	Low	Moderate
Financial risks		
Bad debt loss	Low	Moderate
Liquidity and financing risks	Low	Moderate
Currency risks	Medium	Moderate
Interest-rate risks	Low	Moderate
Use of derivative financial instruments	Low	Insignificant
Opportunities		
Climate change/Emission laws	High	Significant
Technology trends	High	Significant
Extension of product and service portfolio	High	Significant
New sales markets	High	Significant
Industry consolidation/M&A	Medium	Moderate

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 possibly result in lower demand for the product portfolio of the ElringKlinger Group.

Based on the Group's year-end assessment with regard to economic performance, there is a risk of a general slowdown in global market growth. In this context, the main risk factors are those associated with global trade disputes (especially the stand-off between the economic superpowers USA and China), the consequences of a disorderly withdrawal of the United Kingdom from the European Union, and a sustained weakening of economic growth in China.

Against the backdrop of greater risks to economic activity in 2019, economists expect to see a general slowdown in growth in the world's major national economies. The International Monetary Fund (IMF) believes that the eurozone will see its overall economic performance weaken, taking it to under 2%. The outlook for Germany's economy has also deteriorated: it is likely to grow by just 1.3% in 2019, compared with 1.5% in 2018. At 2.5%, GDP growth in the

United States is also expected to expand at a slower rate year on year. In China, there is evidence to suggest an increasing normalization of economic growth, although GDP is still likely to increase at a consistent rate of more than 6% per year. At the beginning of 2019, the IMF expected the global economy to grow by 3.5% over the coming year.

According to forecasts by Germany's automotive industry association (VDA), overall sales growth in the global automotive market will be limited to around 1% in 2019. While total sales in Europe are forecast to remain on a par with 2018, the US vehicle market as a whole is expected to cool down slightly. The VDA believes most of the growth will come from Asia, especially – despite a subdued start to the year – the Chinese car market.

Industry experts predict a similarly modest increase – i.e., at the lower end of the single-figure percentage range – in global vehicle production. Despite the cautious nature of these forecasts for 2019, a more significant decline in vehicle production is not very probable based on the information currently available. ElringKlinger anticipates that global vehicle production will expand by 0 to 1% in 2019 (cf. "Report on Expected Developments," page 78).

Benefiting from a broad customer base, ElringKlinger is not dependent on specific markets or individual manufacturers. Given its global presence with production and sales locations in the growth regions of the future, the Group is well positioned to handle potential stagnation or waning demand in the traditional vehicle markets.

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 works 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.

The automotive industry continues to face a number of sector-specific risks. The biggest of these concerns the speed of the transition from combustion engines to alternative drives. It is very difficult to predict how fast this shift will occur. Even if there is a further increase in demand for electric vehicles in some regions, in terms of global market share, they will remain relatively insignificant in 2019 at around 3%. Among experts, there are widely differing views on when alternative drive systems based on battery and fuel cell technology will finally achieve significant market penetration.

The ElringKlinger Group aligned its portfolio to the requirements of all types of drive system at a very early stage. The Group has also responded to the risks it faces in relation to battery and fuel cell technology by establishing separate monitoring mechanisms for its new business areas within the broader risk management system.

One particular issue that continues to occupy the entire automotive industry is the ongoing debate around diesel technology. This has created uncertainty among potential buyers and produced a noticeable change in consumer behavior. As a result, diesels now account for a significantly smaller proportion of total new vehicle registrations. The downturn in diesel sales does not have a major impact on ElringKlinger, as most of the Group's product range is not considered to be dependent on a particular fuel type. However, general uncertainty is exacerbated by the increasing number of driving bans in German cities. It is therefore possible that concerns over diesel could continue to affect the wider automotive sector.

Another industry-specific risk is the shift to the Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP*). As from September 2018 a new, harmonized approach became mandatory for the purpose of determining fuel consumption and exhaust emissions – in the form of the WLTP standard. The transition has caused delays in the registration of new vehicles. Based on ElringKlinger's current assessment, it is possible that these delays may continue into the first half of 2019.

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. New laws and regulations can have a direct or indirect impact on technology trends or on the Group's sales regions.

At geopolitical level, there are numerous trouble spots around the world. The conflict between the Ukraine and Russia has flared up again, and the situation has deteriorated in large parts of the Middle East, especially in Syria. The major powers that used to maintain a degree of stability in the region are withdrawing, and the balance of regional power is changing. In addition, the countries of North Africa remain politically unstable.

For ElringKlinger, all these regions present certain sales risks. As regards the Original Equipment segment, these regions are of no particular relevance to business activities. However, North Africa and the Middle East are core regions for the Group's Aftermarket segment, which is therefore exposed to a general risk in terms of revenue. 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.

The current trade disputes between the USA and both Europe and China continue to exert a negative impact on global free trade. In this context, there is a real chance that the USA may introduce new tariffs on imports of commodities and that it may go ahead with a long-standing government plan to impose punitive tariffs on imported vehicles produced by non-US manufacturers. Therefore, the political risks emanating from the customs spat and the repercussions that they may have for the automotive industry in general and, specifically, the ElringKlinger Group remain palpable.

There is continuing uncertainty over the UK's exit from the European Union (Brexit). As yet, the EU and the UK parliament have not been able to conclude a "divorce agreement," and there is still a risk of a disorderly Brexit. At present, it is difficult to fully assess the risks associated with a no-deal scenario. While the ElringKlinger Group is undoubtedly affected by the issue of Brexit given its existing customer relationships and UK-based operations, the overall extent of risk exposure associated with its UK subsidiaries is considered manageable in relation to the Group as a whole.

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, in particular, work-related accidents and the risk of fires at production facilities.

By applying preventative 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 an operating site of the ElringKlinger Group 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 production 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.

* Cf. glossary

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. For the Group, this pressure is a significant risk, especially against the backdrop of rising commodity prices and/or potential tariff-related price increases.

In view of its abilities as an innovator and its strong position within the market, the ElringKlinger Group considers itself relatively well positioned 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 toward 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. In this context, 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," page 18).

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.

Thanks to its global production network, which has seen further major expansion over recent years, the ElringKlinger Group is in a good position to react flexibly and supply much of its product portfolio from alternative locations and regions, should this become necessary due to the make-up of those products or if requested by customers.

Material risks/Supplier risks

Material costs constitute the single biggest expense item within the ElringKlinger Group. They accounted for 56.2% (54.2%) of the cost of sales in the 2018 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, polyamides, and elastomers*. In addition, the materials and components used to make battery and fuel cell systems play an increasingly important role in ElringKlinger's procurement activities (see "Procurement and Supplier Management," p. 49).

Prices in nearly all the groups of materials used rose sharply in 2018, especially on the steel market, where prices were driven up by import tariffs and generally strong demand. Commodity prices for plastics also increased during the year, while the price of aluminum remained high and very volatile. The alloy surcharges for high-grade steel also rose by a considerable margin. In financial terms, the increases in the price of its input materials translated into significant additional expenses for the Group in 2018. In fact, they could even go up further retrospectively for fiscal 2018 if the USA subsequently decides to apply the import tariffs introduced during the year to the whole of the annual period. This would be equivalent to a backdated price increase for materials.

In light of global trade disputes and the possibility of additional import tariffs on commodities, ElringKlinger anticipates that purchase prices for the key commodity groups will remain at an elevated level in 2019. In this context, the Group also remains exposed to the potential risk of "countervailing duties*" on materials imported into the USA. The risks created by excessive rises in material prices would have a direct and – depending on the extent of any such increases – potentially considerable impact on the Group.

ElringKlinger's central procurement unit works continuously to identify and implement optimization measures in order to counter the risks associated with rises in the cost of input materials. These measures include improving and standardizing internal processes across the Group and conducting ongoing reviews of procedures for selecting and approving suppliers. In addition, ElringKlinger responds actively to spiraling material prices by optimizing the design of its products and improving its manufacturing processes.

In its negotiations with its raw material suppliers, ElringKlinger generally concludes contractual agreements that are as long term as possible. Any additional quantities required are procured at prevailing market prices. Alloys such as nickel are traded exclusively on the stock market and cannot be fixed by framework agreements. In 2018, following substantial increases in the price of most of its materials, the Group concluded a number of shorter-term contracts for some groups of materials where it made sense to do so.

Increasingly, as part of a range of measures to reduce its dependence on material price rises over the medium to long term, ElringKlinger negotiates cost escalation clauses in its customer contracts. If this is not possible, price rises that exceed cost estimates have to be passed on to customers where this is considered feasible. This involves a risk that additional costs cannot be passed on in full or only with some delay.

Although high material prices have an adverse impact on the Group's earnings, ElringKlinger benefits from the same high prices when it sells the metal residues produced during stamping processes. All metal residues are recycled and sold by the Group's in-house scrap management unit. 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 mitigate the risk of production-related disruption or downtime due to disruptions within the supply chain. In the 2018 financial year, ElringKlinger's top 30 suppliers accounted for 24% (23%) of volumes purchased within the Group. 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.

Alongside the materials needed for its traditional product portfolio (e.g., steel, aluminum, and plastic), the Group uses other types of commodities and materials for battery and fuel cell components and systems in its New Business Areas. With regard to these inputs, it is difficult to estimate future volumes, price movements, and supplier structures based on the information currently available, partly because of the lack of certainty over future demand for vehicles with alternative drive systems. ElringKlinger counters this uncertainty and therefore minimizes its exposure to risk by requesting these input materials as required from suppliers' consignment warehouses, i.e., the supplier retains ownership of the goods until they are requested by ElringKlinger.

Inventories are analyzed regularly across the Group to help assess the overall material risks. These analyses are used to ascertain the rate of inventory turnover. Stocks with a low turnover rate are evaluated to determine whether they should be used, sold, or scrapped.

Customer risks

A sudden decline in demand faced by one or several key customers may pose the risk of a substantial reduction in demand for ElringKlinger components to be installed in the respective vehicles and/or engines.

In order to minimize the company's dependence on individual customers, also with a view to alleviating potential pricing pressure, ElringKlinger has continuously extended its customer base in recent years. In 2018, its top three customers accounted for around 26% (around 25%) of Group revenue. The customer with the single largest share accounted for 9.5% (10.2%) of Group revenue in the 2018 financial year.

The structure of ElringKlinger's customer base is also changing as a result of the industry-wide transition from combustion engines to alternative drive systems. Increasingly, established manufacturers are being challenged by innovative new competitors focusing exclusively on vehicle models with alternative drive systems and/or entirely new mobility concepts. Many of these new industry players are start-ups. It is difficult to predict whether such challengers will succeed. This depends to a large extent on their development capacity and their ability to negotiate adequate financing. Consequently, some of these new manufacturers may fail to break into the market if they cannot secure continued financing and/or fail to generate sufficient demand or acceptance among potential customers.

CONSOLIDATED FINANCIAL STATEMENTS

* Cf. glossary

As a consequence, ElringKlinger may lose existing development projects or orders secured from such players. Additionally, the company may potentially be adversely affected in financial terms in the form of expense items. The Group has established business relationships with several customers in this category and therefore classes the corresponding projects as being exposed to the risks outlined above. In response to the greater counterparty risk presented by such customers, ElringKlinger minimizes its exposure by maintaining a particularly close dialogue and regularly addressing their financing position. The aim is to agree on 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 27.3% (26.9%) of the cost of sales in the 2018 financial year.

At 41.5% (40.3%), a significant 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 the most recent collective wage negotiations, the IG Metall trade union remained committed to relatively substantial wage agreements. These costs represent an increasing burden on Germany as an industrial location. The collective wage increases agreed for the metal and electrical engineering industry in Baden-Württemberg over the last three years were 2.8% from July 2016, 2.0% from April 2017, and 4.3% from April 2018. The most recent agreement runs for 27 months and offers greater planning certainty for businesses covered by the collective bargaining system.

By contrast, the level of labor costs in emerging countries such as China, South Korea, India, or Turkey, where around 14% (around 15%) 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 viewed critically with regard 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, 2018, was 13.5% (14.6%).

The Group has offset the more pronounced wage costs seen in recent years 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

During periods of fundamental change for the automotive industry, the ElringKlinger Group depends more than ever on the expertise and dedication of its workforce and their capacity to innovate. Skilled and motivated employees are an important source of expertise and a significant factor in the Group's success. It is of importance that any risk of losing expertise through workforce fluctuation is mitigated to the greatest extent possible. Staff turnover rates are to be kept at a low percentage level in the mid-single-digit range by establishing a socially balanced and motivating working environment. The Group's staff turnover rate in 2018 was 7.3% (9.6%). This was back at a more normal level after a relatively high figure in the previous year when production sites outside Germany had very high levels of capacity utilization. To mitigate the impact of losing staff, the Group aims to develop the skills and expert knowledge of its teams rather than individual employees.

The age structure of the Group's workforce reveals a balanced mix: around 55% of employees are aged between 30 and 50, while approximately 25% are younger than 30. The average age of Group employees is 38. Therefore, the risk of overaging is comparatively small.

The lack of specialist staff within the labor market as a whole has become more noticeable. Some of the sites operating within the Group, or specific departments, are now finding it relatively difficult to attract qualified personnel with specialized skills. ElringKlinger has conducted targeted recruitment campaigns for some years to ensure that it is able to compete successfully in the "war for talent." 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 in order to retain their services in the long term. Additionally, the Group has taken on young people as technical and commercial apprentices to secure talent for the future. In order to retain skilled personnel and managers within the company in the long term, ElringKlinger offers internal and external 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 preventative 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. Such a scenario would have a negative impact on operations, which may also affect revenue and earnings.

The ElringKlinger Group aims to minimize these risks by maintaining a sophisticated IT infrastructure divided into a strategic and an operational unit. For instance, sensitive data that are of importance to operational processes are always stored twice or redundant systems are deployed. Additional back-up systems and bridging solutions are also in place to deal with potential risks for specific projects and 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. Furthermore, all data pertaining to the international sites are backed up at a central location.

Staff access to confidential data is controlled by means of scalable access authorizations. State-of-the-art security software applications are used for the purpose of protecting the company against unauthorized access via external sources.

Quality/Warranty risks

As a manufacturing company and supplier to the automotive sector, ElringKlinger is exposed to the warranty and liability risks generally associated with this industry. 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.

In this context, the development of entirely new products for fields of application beyond the automobile industry or in the area of alternative drive technologies 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.

Within the Group, there is currently a small number of cases of risk associated with deficient product quality and high capacity utilization. In order to minimize these risks, ElringKlinger has introduced a variety of improvement measures at project and process levels. Capacity constraints are addressed by shifting parts of the manufacturing process to other sites or installing additional capacity. Cases of deficient quality are tackled, for example, by tightening up procurement specifications for input materials and by continuously upgrading production equipment and increasing the level of automation. The Group also optimizes its logistics processes.

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's operations are tailored to the development of products that are technologically sophisticated and to the manufacture of such goods at a high level of productivity. On this basis, the Group aims to achieve long-term growth rates above the market average (see "Overview of ElringKlinger's Activities and Structure," p. 18).

If ElringKlinger were to fail to identify and pursue fundamental technological changes in good time, the Group could lose its vantage point as a pioneer. In the medium term, this could jeopardize its strong 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. ElringKlinger invests a large sum of around 5% of its total Group revenue in research and development each year. 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.

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 market for alternative drive systems at an early stage and with considerable capital expenditure, be it in the field of battery technology or fuel cell solutions.

The main technology risks facing the Group are those presented by any sudden shift towards electric drive systems and by more stringent legislation on exhaust emissions. Even if, as planned, the E-Mobility business area generates a greater contribution to total Group revenue over the next few years, any abrupt shift in technology or further tightening of the regulations on CO_2 emissions would have a substantial impact on revenue from the Group's traditional business areas. In turn, this would lead to severe pressure on prices. ElringKlinger counters these risks by consistently expanding its non-combustion engine portfolio.

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 away from the combustion engine toward alternative drive systems. Operating against this backdrop, ElringKlinger will have the opportunity for complementary acquisitions and targeted takeovers in order to enter regional markets and new fields of technology faster.

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, the level of new investment required in this area may be higher than originally planned. This, in turn, 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 company and/or external team of experts. Financial plans and technical details are checked and evaluated thoroughly for plausibility.

ElringKlinger makes a point of only entering into acquisitions 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

In light of the generally positive outlook for the industry, the risk of bad debts among customers in the Group's Original Equipment segment is classed as moderate. 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 12.6 and 25.8 million (between EUR 13.0 and 28.9 million) as of December 31, 2018.

Compared with the Original Equipment segment, there is a higher risk of bad debts in the Aftermarket business area due to activities in the core sales regions of North Africa, Eastern Europe, and the Middle East. However, the customer base is much more diversified thanks to a larger number of customers. The ElringKlinger Group counters potential bad debt losses in its aftermarket business by insisting on advance payments as part of its payment terms and conditions or with the help of trade credit insurance.

Liquidity and financing risks

The company may be exposed to liquidity and financing risks if it cannot meet its financial obligations (e.g., to repay loans) and generate enough cash to cover its ongoing capital requirements and therefore continue to operate, and/or if it is unable to refinance its activities.

The Group needs to invest substantial amounts of cash to support its growth and the development of new technologies. This means that it generally needs to service a high level of financing. The banks have always been quite restrictive when lending to companies in the automotive sector, although in recent years it has been possible to obtain credit on relatively favorable terms. 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.

* Cf. glossary

Against this backdrop, despite relatively low market interest rates and the industry's continued ability to generate healthy levels of revenue, the company is constantly exposed to an implicit financing risk. 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 its strong financial position, the ability of the ElringKlinger Group to refinance itself remains solid. At 42.8% (44.0%) the equity ratio still lies within the Group's medium-term target corridor of 40 to 50% of total assets. The Group's debt factor (net debt* in relation to EBITDA*) stands at 3.7 (2.7). At the year end, the Group's undrawn credit lines totaled EUR 190.2 (136.1) million.

With one exception at a subsidiary outside Germany, none of the Group's loan agreements contained financial covenants*. As of December 31, 2018, 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, financing risks that might jeopardize the company's existence as a going concern can be ruled out.

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. As well as the EUR-USD exchange rate, this applies to the exchange rates between the euro and most emerging-market currencies such as the Turkish lira (TRY), the Brazilian real (BRL), and the Mexican peso (MXN).

ElringKlinger is automatically exposed to currency risks by virtue of its global operations. These include local currency surpluses at certain Group companies and intra-Group loans. Local currency surpluses are largely minimized through natural hedging*, i.e., in almost all sales regions, the majority of costs and revenues are denominated in the same currency. Intra-Group financing risks are gradually eliminated by shifting the loans into the same currency zone.

ElringKlinger is also exposed to currency translation risks when local results are consolidated in the Group currency. 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 2018 was equivalent to EUR -44.0 (-28.7) 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. In the 2018 financial year, the Group recorded a net foreign exchange gain of EUR 0.8 (-11.1) million.

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

Interest-rate risk

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, 2018, can be found in the notes to the consolidated financial statements.

The bonded loan (Schuldscheindarlehen) granted in 2017 was used to optimize the term structure of the Group's interest expenses and therefore make them easier to plan. In total, a volume of EUR 200 million was issued in tranches covering maturities of five, seven, and ten 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 ElringKlinger's net finance result. 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 makes use of derivative financial instruments in isolated cases, e.g., for the purpose of protecting the company against price fluctuations relating to high-grade steel alloys (particularly 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.

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 and light commercial vehicles have been subject to CO_2 regulation since 2009. The EU Commission has specified that average fleet emissions of CO_2 must be reduced to 95 g/km or below by 2021. Should these requirements not be met by the specified dates, manufacturers face severe fines.

It is important to note that this limit will continue to fall. In December 2018, the Commission set out proposals for an even lower ceiling after 2021. According to this proposal, the CO_2 emissions of vehicles newly registered in 2025 are to be reduced by a further 15% throughout the EU compared to 2021. In the period up to 2030, the figure is to be scaled back by 37.5% compared to 2021. Although this decision allows manufacturers to plan ahead with greater certainty as far as 2030, it means that within Europe they face the strictest limits on CO_2 emissions anywhere in the world. However, statutory limits on emissions are also being tightened up in North America and Asia. China and Japan aim to limit emissions to 117 g/km and 122 g/km respectively by 2020. The USA and Canada have set a fleet target of just 99 g/km to be reached by 2025. Furthermore, many emerging countries tend to look at the Euro standards as a basis for their own policy making. For example, India has set an average limit of 113 g/km of CO_2. This comes into force in 2022.

For the ElringKlinger Group, this legislative framework offers considerable potential with regard to development and revenue growth over the coming years. The trend towards increasingly fuel-efficient engines places greater demands on 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 the components installed in combustion engines, hybrids provide the company with the chance to market components for the battery unit of the powertrain, e.g., cell contact systems* and pressure equalization modules.

In July 2016, the German government introduced a subsidy to boost demand for vehicles with alternative drive systems. At present, this subsidy stands at EUR 4,000 for pure electric and EUR 3,000 for hybrid vehicles. 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 change in consumer behavior and boost sales of cars powered by alternative drive systems.

To accelerate the transition towards e-mobility, more and more European countries have announced their intention to prohibit combustion-engine vehicles completely from a certain date. In this respect, it is the countries of Scandinavia that have taken a lead. The Swedish government plans to ban sales of new vehicles with combustion engines from

* Cf. glossary

2030. Denmark plans a similar ban on sales of diesel and gasoline vehicles from 2030. In Norway, the prohibition on new vehicles with combustion engines will take effect as early as 2025. By contrast, France and the UK have announced a target date of 2040. Even China, the world's biggest vehicle market, is preparing to phase out combustion engines. Starting in 2019, car makers are obliged by law to ensure that at least 10% of their newly registered vehicles are equipped with an alternative drive system.

The shift towards battery technology within the automotive industry continues to accelerate. Both vehicle manufacturers and policymakers are making great efforts to drive the transition towards e-mobility. The number of new electric models is increasing steadily. To date, however, there has been no major e-mobility campaign by Germany's premium car makers. Based on their announcements, this will not happen until 2020 onwards. To reduce its dependence on Asia in the field of e-mobility, the EU is making greater efforts to expand battery cell* production in Europe. Currently, most of the lithium-ion cells installed in vehicles in Europe are made in Asia. Further progress in the development of battery technology, e.g., to improve vehicle range and bring down the price, would help to stimulate demand and persuade buyers to invest in electric vehicles. ElringKlinger would benefit directly from growing sales in the e-mobility market as its product portfolio includes a range of components for battery-powered vehicles. In fact, the company's E-Mobility segment has been supplying various car makers and automotive suppliers with series products for battery-driven and hybrid models for some years.

Fuel cell technology also plays an important role when it comes to alternative powertrains. Alongside passenger cars, more trucks and buses in particular are 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. After an initial ramp-up phase over the next few years, the company expects to achieve in-depth market penetration from 2025 onwards.

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

As a result of increasingly strict international emissions standards, the probability of the technology trends outlined above actually coming to fruition is classed by the ElringKlinger Group as high. 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 be categorized as significant.

If the shift occurs more rapidly than currently forecast, the Group can market its portfolio of products covering different areas of alternative drive technology and harness the transition to boost its revenue. The battery components and systems, fuel cell stacks, and complete electric drive units developed by ElringKlinger are ready for full market rollout.

Extension of product and service portfolio

The majority of the divisions within the Group are well positioned to apply their existing expertise relating to materials and processes proactively for the purpose of complementing the range with new products and expanding the portfolio in a targeted manner.

The possibilities open to the Group have already been discussed extensively in the chapter on Research and Development. By way of example, these include the Group's expertise in the design of new lightweight materials and in alternative drive technologies for battery and fuel cell systems. Beyond the automotive industry, new opportunities are presenting themselves continuously for the Engineered Plastics division and PTFE components, e.g., in the industrial sector as a whole and in the area of medical technology.

All the Group's divisions are working proactively on the expansion of their product and service portfolios with a view to meeting the organic revenue growth target that exceeds growth in global automobile production.

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 (i. e., fuel cell and battery technology) and lightweight structural components – two central pillars with regard to the future. The most important of these regions is China, a lead market for e-mobility products. 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 has also systematically improved the processes and structures in its Aftermarket business in North America.

With a product portfolio centered around the high-performance plastic PTFE, 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. In geographical terms, future growth potential is seen in particular in the markets of Asia and the United States.

Industry consolidation/M&A

Measured on the basis of production output, it is expected that growth in the automotive industry in the coming years will continue to be driven primarily by Asia. In the medium term, this trend poses significant challenges for many small and medium-sized enterprises that currently have either an insufficient international presence or none whatsoever. What is more, suppliers are having to take on responsibility for an increasingly large proportion of value creation relating to new vehicle production. They are faced with substantial investments in research and development, in addition to being exposed to more extensive financing risks.

The present wave of consolidation within the automotive supply industry therefore looks set to persist over the coming years. Against this backdrop, the risk of insolvencies cannot be excluded.

For the ElringKlinger Group, this scenario offers additional opportunities to extend its technology portfolio through targeted 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 continue to monitor the market systematically in order to identify potential opportunities for acquisitions as early as possible and pursue them where this is deemed appropriate and financially viable. There is a good chance that ElringKlinger will 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 very significant when measured on the basis of revenue and earnings contributions to the Group.

CONSOLIDATED FINANCIAL STATEMENTS

* Cf. glossary

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 similar to that of the previous year, despite a number of structural changes that directly affect the automotive industry. Some of the risks to which the Group is exposed are of a geopolitical or external nature, and ElringKlinger therefore has either no or a very limited capacity to control these risks in an active manner. When weighing the relevance of risk in respect of the possible financial 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. In addition, the direction taken by raw material prices has added a significant risk for the ElringKlinger Group.

Economic conditions in Europe, North America, and much of Asia remain stable, even though growth in China is returning to more normal levels compared with recent years. By contrast, the political situation between Russia and the Ukraine and in large parts of the Middle East remains a source of risk. The ongoing global trade dispute between the USA and China and the possibility that the UK may still leave the European Union in a disorderly fashion are the main political risks with the capacity to exert a direct impact on the ElringKlinger Group. 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 will become less relevant in the years ahead.

Drawing on the risk management system outlined above and its flexible cost structure, if necessary the ElringKlinger Group is in a position to respond promptly 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 42.8% (44.0%) 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 drive systems, which is inextricably linked to the issue of climate change and a global drive toward stricter emission laws. The company invested at an early stage in areas such as battery and fuel cell technology that offer considerable potential going forward. 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 market growth 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 on 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 2018 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 German Corporate Governance Code in the version of 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 upon 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 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 or 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 93 (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 into 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

In 2018, an advance of EUR 50k was granted to the Chief Executive Officer (CEO), which was offset in the month in which the bonus payment was made. The company provided no guarantees or similar commitments.

Management Board compensation 2018

Management Board compensation for the 2018 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. Average EBIT of the years 2016–2018, totaling EUR 123,030k, was used as a basis for calculating LTI I. Of this, the respective members of the Management Board receive the following percentage shares:

- Dr. Wolf 0.80%
- Becker 0.60%
- Drews 0.40%
- Jessulat 0.40%

Based on the calculation of the Economic Value Added (EVA) bonus (LTI II), no compensation is payable for the 2018 financial year, as the targeted return is below the Group WACC.

Management Board compensation 2018 pursuant to financial reporting standard GAS 17

Total Management Board compensation in accordance with Section 314 (1) no. 6a sentence 1 to 4 HGB (German Commercial Code) is presented in the table below.

	Dr. Stefan Wolf		Theo Becker		Reiner Drews		Thomas Jessulat		Total	
in EUR k	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Short-term compensation										
Fixed compensation	613	617	449	453	226	0	367	321	1,655	1,391
Variable performance-related compensation	981	1,099	736	825	369	0	490	550	2,576	2,474
Total	**1,594**	**1,716**	**1,185**	**1,278**	**595**	**0**	**857**	**871**	**4,231**	**3,865**
Long-term compensation										
Long-term performance-related compensation	0	35	0	28	0	0	0	11	0	75
Total	**0**	**35**	**0**	**28**	**0**	**0**	**0**	**11**	**0**	**75**
Total compensation	**1,594**	**1,751**	**1,185**	**1,306**	**595**	**0**	**857**	**882**	**4,231**	**3,940**

CONSOLIDATED FINANCIAL STATEMENTS

Pension obligations

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

in EUR k	Dr. Stefan Wolf 2018	Dr. Stefan Wolf 2017	Theo Becker 2018	Theo Becker 2017	Reiner Drews 2018	Reiner Drews 2017	Thomas Jessulat 2018	Thomas Jessulat 2017	Total 2018	Total 2017
Current service cost	268	255	176	167	162	0	206	216	812	638
Present value (DBO)	5,601	5,580	4,058	4,109	151	0	615	409	10,425	10,098

Management Board compensation pursuant to 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 following table presents benefits granted to the members of the Management Board in respect of the 2018 financial year, as disclosable under the provisions of the German Corporate Governance Code:

Benefits granted (Pursuant to GCGC)

in EUR k	Dr. Stefan Wolf 2018	Dr. Stefan Wolf Min. 2018	Dr. Stefan Wolf Max. 2018	Dr. Stefan Wolf 2017	Theo Becker 2018	Theo Becker Min. 2018	Theo Becker Max. 2018	Theo Becker 2017
Non-performance-based compensation								
Fixed annual salary	558	558	558	554	432	432	432	429
Fringe benefits	55	55	55	63	17	17	17	24
Total	**613**	**613**	**613**	**617**	**449**	**449**	**449**	**453**
Performance-based compensation								
One-year variable compensation	981	0	1,674	1,099	736	0	1,296	825
Multi-year variable compensation 2015–2017	0	0	0	0	0	0	0	0
Multi-year variable compensation 2016–2018	0	0	0	0	0	0	0	0
Multi-year variable compensation 2017–2019	0	0	0	39	0	0	0	31
Multi-year variable compensation 2018–2020	0	0	1,116	0	0	0	864	0
Total	**981**	**0**	**2,790**	**1,138**	**736**	**0**	**2,160**	**856**
Service cost	268	268	268	255	176	176	176	167
Total compensation	**1,862**	**881**	**3,671**	**2,010**	**1,361**	**625**	**2,785**	**1,476**

In contrast to GAS 17, the table presents long-term compensation granted in 2018 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.

	Reiner Drews				Thomas Jessulat				Total			
	2018	Min. 2018	Max. 2018	2017	2018	Min. 2018	Max. 2018	2017	2018	Min. 2018	Max. 2018	2017
	216	216	216	0	317	317	317	288	1,523	1,523	1,523	1,271
	10	10	10	0	50	50	50	33	132	132	132	120
	226	**226**	**226**	**0**	**367**	**367**	**367**	**321**	**1,655**	**1,655**	**1,655**	**1,391**
	369	0	648	0	490	0	950	550	2,576	0	4,568	2,474
	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	432	0	0	0	0	0	0	0	432	0
	0	0	576	0	0	0	0	12	0	0	576	82
	0	0	576	0	0	0	634	0	0	0	3,190	0
	369	**0**	**2,232**	**0**	**490**	**0**	**1,584**	**562**	**2,576**	**0**	**8,766**	**2,556**
	162	162	162	0	206	206	206	216	812	812	812	638
	757	**388**	**2,620**	**0**	**1,063**	**573**	**2,157**	**1,099**	**5,043**	**2,467**	**11,233**	**4,585**

The following table presents the allocation in/for the 2018 financial year. As regards fixed annual salary, fringe benefits, annual management bonus, and LTI II 2018, the table presents the allocation for the 2018 financial year.

Allocation pursuant to GCGC

in EUR k	Dr. Stefan Wolf 2018	Dr. Stefan Wolf 2017	Theo Becker 2018	Theo Becker 2017
Non-performance-based compensation				
Fixed annual salary	558	554	432	429
Fringe benefits	55	63	17	24
Total	**613**	**617**	**449**	**453**
Performance-based compensation				
One-year variable compensation	981	1,099	736	825
Multi-year variable compensation 2015–2017	0	35	0	28
Multi-year variable compensation 2016–2018	0	0	0	0
Total	**981**	**1,134**	**736**	**853**
Service cost	268	255	176	167
Total compensation	**1,862**	**2,006**	**1,361**	**1,473**

Resignation of a Management Board member in 2016

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 2,536 k were recognized in respect of benefits to be provided in 2017 and 2018. In the 2018 financial year, these provisions were depleted by payments of EUR 864 k (2017: EUR 1,434 k).

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 20 k (prev. year: EUR 20 k) 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 1 k for each Supervisory Board meeting they attend as well as fixed compensation of EUR 4 k 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 40 k 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.

	Reiner Drews		Thomas Jessulat		Total	
	2018	2017	2018	2017	2018	2017
	216	0	317	288	1,523	1,271
	10	0	50	33	132	120
	226	**0**	**367**	**321**	**1,655**	**1,391**
	369	0	490	550	2,576	2,474
	0	0	0	11	0	74
	0	0	0	0	0	0
	369	**0**	**490**	**561**	**2,576**	**2,548**
	162	0	206	216	812	638
	757	**0**	**1,063**	**1,098**	**5,043**	**4,577**

Supervisory Board compensation 2018

In the period under review, total compensation for the Supervisory Board of ElringKlinger AG was EUR 672k (2017: EUR 702k). Additionally, travel expenses totaling EUR 4k (2017: EUR 1k) were reimbursed. Compensation payable to the individual members of the Supervisory Board was as follows:

	Fixed compensation		Variable compensation		Total compensation	
in EUR k	2018	2017	2018	2017	2018	2017
Klaus Eberhardt	68	55	44	41	112	96
Walter Herwarth Lechler	0	24	0	19	0	43
Markus Siegers	44	44	33	37	77	81
Ernst Blinzinger	0	9	0	8	0	17
Nadine Boguslawski	23	24	22	25	45	49
Armin Diez	28	28	22	25	50	53
Pasquale Formisano	24	24	22	25	46	49
Rita Forst	24	24	22	25	46	49
Andreas Wilhelm Kraut	24	16	22	16	46	32
Gerald Müller	24	10	22	10	46	20
Paula Monteiro-Munz	28	28	22	25	50	53
Prof. Hans-Ulrich Sachs	24	24	22	25	46	49
Gabriele Sons	32	32	22	25	54	57
Manfred Strauß	32	29	22	25	54	54
Total	**375**	**371**	**297**	**331**	**672**	**702**

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 Sections 289a(1) and 315a of the German Commercial Code (HGB),

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

As of December 31, 2018, 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, 2018, are presented in the table below. These relate solely to interests attributable to family ownership.

Estate Professor Walter H. Lechler, Stuttgart, Germany	Total of 22.059% (of which 10.013% is attributable to it 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 10.036% 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 Report

ElringKlinger has prepared a separate non-financial report for the exchange-listed parent company ElringKlinger AG in accordance with Section 289b HGB*, which has been combined with the separate non-financial Group report pursuant to Section 315b HGB. The combined non-financial report of ElringKlinger for the financial year 2018 will be published by April 30, 2019, on the corporate website at www.elringklinger.de/2018-nfb.en.

* Cf. glossary

Report on Expected Developments

The world economy is likely to weaken in 2019. According to figures published by the International Monetary Fund (IMF), fraught trading relationships and more restrictive lending terms will have an adverse effect on economic performance. Europe, China, and the United States are all expected to see subdued growth. As regards global automobile production, recent projections suggest a slight expansion in output for 2019. In this case, growth will be supported primarily by the key markets of Asia, while production in North America and Europe is expected to trend sideways. The Group anticipates further revenue growth within a difficult market environment.

Outlook – Market and Sector

Loss of momentum in global economic upturn

In its most recent World Economic Outlook, published in January 2019, the IMF points to more pronounced economic risks as a factor feeding into the slowdown anticipated for the world's major economies. Having said that, the global economy as a whole is likely to trend upward. Among the downside risks are the repercussions of the bilateral trade conflict between two of the world's economic heavyweights, the United States and China, as well as the diminishing solidity of political and economic agreements reached at an international level. Others include the risk of the United Kingdom withdrawing from the European Union without a coordinated exit plan, substantial private and state debt, and the general trend toward stricter lending terms.

The eurozone's economy is likely to improve over the course of the year after experiencing a period of weakness in the first quarter of 2019. Increasingly sluggish export-driven demand from countries outside the euro area, coupled with after-effects of the newly introduced WLTP* emissions testing standard in the automotive industry, will have a dampening effect. The loose monetary policy adopted by the European Central Bank will continue to act as a supportive pillar for domestic demand within the eurozone. In the United States, meanwhile, political tensions may also impact on the economy. As hardly any additional impetus is expected with regard to US fiscal policy, the US economy looks set to expand at a less dynamic rate. Having said that, it will remain on a well-established trajectory of growth. According to the IMF experts, China's economic growth will continue to stabilize at more normal levels. Fueled by government-led stimulus measures, Asia's largest economy is likely to grow by more than 6% in 2019.

Slight growth for automobile market in 2019

The global vehicle market is unlikely so see any significant growth in 2019. According to Germany's automotive industry association, the VDA, global car sales will expand by a modest 1%, driven mainly by Asia, and specifically China. The European market is expected to trend sideways, whereas the US is likely to experience a slight downturn. Based on analysts' projections, global automobile production will also expand slightly – by a percentage rate at the lower end of the single-digit spectrum. ElringKlinger is working on the assumption that the market, i. e., global automobile production, will increase by 0 to 1% in 2019.

Among the key sales markets in Europe, Spain in particular is expected to perform well over the course of the year. Italy is likely to return to a trajectory of growth, while France and Germany look set to remain stable. As anticipated, car sales in the United Kingdom will contract further in 2019. Following a decline in the final quarter of 2018, the market should see some compensatory effects in the first half of 2019 as the

GDP growth projections

Year-on-year change in %	2018	Projections 2019	Projections 2020
World	**3.7**	**3.5**	**3.6**
Industrialized countries	2.3	2.0	1.7
Emerging and developing countries	4.6	4.5	4.9
Germany	1.5	1.3	1.6
Eurozone	1.8	1.6	1.7
USA	2.9	2.5	1.8
Brazil	1.3	2.5	2.2
China	6.6	6.2	6.2
India	7.3	7.5	7.7
Japan	0.9	1.1	0.5

Source: International Monetary Fund (January 2019)

WLTP-based test cycle applicable since September 2018 is implemented. At the same time, uncertainty over the deal relating to Britain's withdrawal from the European Union and the risk of higher customs duties are negative factors. Against this backdrop, it is impossible to rule out a further deterioration in the situation. Automobile production in Germany is expected to expand by 2% to 5.2 million vehicles in 2019, according to the VDA. At a global level, vehicle production output attributable to German manufacturers could thus climb to 17.0 million units.

In view of rising interest rates and higher fuel prices, the United States is expected to see a slight downturn in its light vehicle market in 2019. For the first time since 2014 the overall sales volume is likely to fall to a level below the mark of 17.0 million vehicles, which would correspond to a decline of around 2%. The direction taken by production output in North America is expected to be slightly more robust, i.e., within a corridor ranging from stable to slightly positive.

After a further downturn in the first quarter, China's car market should be able to gain ground again from mid-2019 onward. Overall, market analysts are predicting growth within a relatively broad range of between around 1 and 9%.

E-mobility: lead market China in the fast lane

Expanding from a very low base (cf. "Macroeconomic Conditions and Sector Environment," page 28), demand for electric vehicles will continue to grow in some regions of the world. In 2019, however, the market share held by such vehicles is still likely to be relatively insignificant. Europe is expected to see a substantial expansion of the electric vehicle market from 2021 onward, which marks the introduction of stricter emissions standards stipulating that a car maker's new vehicle fleet may not exceed an average of 95 grams CO_2/km. E-mobility is likely to advance at a slightly faster pace in the lead market of China. From 2019 on, larger-scale manufacturers are obliged to meet a so-called e-quota (New Energy Vehicles in relation to new registrations) of 10%.

Light vehicle production
Million units

	2018	Projections 2019	Change in %
European Union	**18.9**	**19.3**	**1.9%**
Germany	5.6	5.8	3.8%
Eastern Europe	**3.4**	3.5	2.5%
Russia	1.6	1.7	2.6%
North America	**16.8**	16.9	0.2%
USA	10.8	11.2	3.2%
South America	**3.4**	3.5	3.7%
Brazil	2.8	2.8	2.1%
Asia-Pacific	**48.7**	51.9	6.6%
China	26.3	28.7	9.3%
Japan	9.0	8.8	-2.3%
India	4.9	5.3	8.5%
Middle East & Africa	**2.7**	**2.8**	**2.1%**

Source: PwC Autofacts January 2019

CONSOLIDATED FINANCIAL STATEMENTS

Slowdown in truck markets

Given the solid economic outlook, strong demand for logistics services should persist in 2019 – a positive indicator with regard to truck market performance. The prospects for truck sales in Europe remain favorable. However, they are likely to trend sideways from a high base. The North American truck market is expected to maintain its trajectory of moderate growth from the solid levels recorded in the past.

Outlook – Group

Difficult competitive environment

Markets have seen no improvement in the underlying fundamentals compared with the previous year, with political and economic uncertainties remaining high. National interests are being pursued with unparalleled vigor, while multilateral agreements are coming under pressure. This trend is also reflected in a number of trade conflicts that carry the risk of intensifying with the introduction of higher vehicle-related tariffs. Alongside these spiraling events, markets are having to contend with commodity prices that remain firmly entrenched at the upper end of the scale.

This situation is compounded by other external effects impacting directly and indirectly on the automotive industry. The protracted debate over diesel-powered engines and a spate of judicial rulings on banning diesel vehicles from inner cities have caused uncertainty among consumers in terms of purchasing behavior. At the same time, the year 2021 draws ever closer and with it the full-scale introduction of stricter CO_2 emission standards within the EU. Manufacturers failing to meet these standards for their vehicle fleets face the prospect of severe fines. Against this backdrop, car makers are launching an increasing number of new models equipped with alternative drivetrains – evidence of the far-reaching technological change that is engulfing the automotive industry as a whole. Some countries, such as Norway, the United Kingdom, and France, have already set target dates from which point on new registrations of combustion engine vehicles will no longer be permitted.

In summary, the current business climate can be considered challenging, and exposure to many different influencing factors has made it increasingly difficult to issue accurate and meaningful forecasts.

Successful continuation of R&D activities

Innovative prowess and a commitment to best-in-class technology are part of ElringKlinger's DNA. The Group invariably aims to develop solutions that are tailored closely to customer needs. With this in mind, and against the backdrop of technological change, it plans to channel around 5 to 6% of Group revenue (having taken capitalization into account) into its research and development efforts.

Impressive order books

ElringKlinger's order books bear testimony to the popularity of its product and service portfolio. The Group recorded incoming orders of EUR 1,735.3 (1,732.0) million in the 2018 financial year. This corresponds to a slight year-on-year increase of EUR 3.3 million; adjusted for currencies, it was up by EUR 43.5 million or 2.5%. Correspondingly, order backlog was up by EUR 19.5 million, or 1.9%, taking the figure to EUR 1,020.1 (1,000.6) million – FX-adjusted by EUR 16.7 million or 1.7%.

Revenue growth above market level

Based on this substantial order backlog, the Management Board remains confident that ElringKlinger can outpace global automobile production in terms of organic growth. This outlook is supported in particular by sustained buoyancy in demand for the company's well-established products and growth planned in fields of business considered particularly promising for the future in strategic terms. Overall, the Group anticipates that its organic revenue growth in fiscal 2019 will exceed the projected expansion of global automobile production by two to four percentage points. On the basis of estimates issued by industry experts, ElringKlinger is working on the assumption that the reference figure used as a benchmark will increase slightly by 0 to 1%.

Given the raft of influencing factors and growing uncertainty, currency effects are very difficult to predict. Acquisitions cannot be ruled out for the current financial year, as management assesses such opportunities continuously. In line with transactions concluded in the past, the likely focus would be on entities that complement the Group's existing product portfolio in an appropriate manner or that allow improved market access. It is unlikely, however, that the scope of such transactions will exceed that of previous activities by a considerable extent. From today's perspective, it is also impossible to rule out divestments within subsegments that are not part of the Group's core business.

Numerous influencing factors

The sharp rise in commodity prices had a major impact on earnings performance in the financial year just ended. In 2019, too, prices are expected to remain high, as a result of which positive effects on earnings in this area would appear unlikely – despite signs of a slight dip in the price of some commodities toward the end of 2018. This situation is compounded by the implications of more intense trade conflicts.

In order to achieve the levels of growth targeted by the Group, ElringKlinger is likely to expand its headcount further in 2019. The focus will be on managing growth in such a way as to ensure that costs are streamlined and processes are optimized.

Pressure on earnings

In the financial year just ended, earnings were impacted not only by elevated commodity prices but also by follow-on costs associated with strong demand in the NAFTA region, an issue that was addressed by initiating targeted optimization measures. In parallel, the Group completed operational relocations at its plant in Switzerland. These combined measures are expected to result in improved earnings for the 2019 financial year. Due to the difficult market climate, however, these improvements could be offset by downside factors stemming from more severe trade conflicts (e.g., US car tariffs) or weakening markets (e.g., China). Additionally, the Group will no longer have the benefit of proceeds from the sale of Hug, as was the case in 2018. The Group's EBIT margin* before purchase price allocation* is expected to be around 4 to 5% in 2019. The Group anticipates that it will be in a position to gradually improve its EBIT margin before purchase price allocation in the medium term.

Disciplined investment approach

At 9.6%, the investment ratio (investments in property, plant, and equipment and investment property in relation to Group revenue) was within the target range of 9 to 10%. In 2019, the Group will actively manage growth in its well-established areas of business in order to unlock the growth potential associated with strategic fields of the future. ElringKlinger always conducts thorough assessments concerning the necessity, timing of execution, and funding requirements of such measures. The Group will continue to pursue a disciplined approach in the 2019 financial year and is targeting an investment ratio of under 9%.

Optimized working capital

The strategic decision to integrate tool engineering within the Group allows ElringKlinger to apply processing techniques that deliver a genuine competitive advantage. During the period in which tools are manufactured and used for the first time, but not yet invoiced to customers as part of series production, they increase inventories and thus net working capital*. Irrespective of this, the Group will further optimize its inventory levels and purchasing processes. At the same time, measures have been put in place to significantly improve receivables management and to align payment periods for trade payables with those applicable to trade receivables. In view of this, the net working capital ratio (net working capital in % of Group revenue) looks set to improve slightly year on year in the current annual period. In the medium term, the Group will be looking to gradually improve this figure further.

Improved cash flow

In stabilizing its earnings, optimizing net working capital, and continuing to embrace a disciplined investment approach, the Group will also visibly improve its cash flow situation. In the short term, the benefits from measures implemented by the Group will become most apparent in net working capital and investments. As a result, fiscal 2019 is expected to produce positive operating free cash flow*. In the medium term, the Group will be looking to achieve a steady improvement in this key indicator.

Lower debt

ElringKlinger has taken a highly diversified approach to financial liabilities. Ultimately, the Schuldschein loan executed in 2017 and the new syndicated loan* agreed in February 2019 have helped to improve the overall maturity structure. This provides a solid foundation for planning in the medium to long term. Due to strong growth in recent years, net financial liabilities expanded. At the same time, exceptional factors (primarily high commodity prices and substantial follow-on costs associated with strong demand in the NAFTA region) proved detrimental to earnings performance. With respect to net financial liabilities* (net debt) in relation to EBITDA*, this translates into a higher numerator and a lower denominator. Consequently, the ratio has risen to 3.7.

The aim is to gradually reduce debt as part of efforts to optimize the Group's cash flow situation. In combination with improved earnings in the medium term, this will drive

* Cf. glossary

down the net debt/EBITDA ratio. As for fiscal 2019, the Group is expecting to see a slight year-on-year improvement in this area. Factoring in the extensive measures being implemented, the ratio is likely to fall below 2.0 in the medium term.

With regard to its equity ratio, the Group remains committed in the short to medium term to a target range of 40 to 50% – a corridor within which it has been moving for quite a while.

Medium-term increase in ROCE

The Group determines its overall profitability on the basis of return on capital employed (ROCE*). While capital employed will expand in response to business growth, improvements in the area of working capital* will deliver a positive effect. In combination with improved earnings performance, the plan is to gradually optimize ROCE in the medium term. With regard to the 2019 financial year, the Group expects ROCE to be below the figure seen in 2018 due to its projected earnings performance and the challenging market environment.

Original equipment segment

At 80%+ of Group revenue, Original Equipment represents the largest segment within the Group. Viewed on the basis of orders, growth within the well-established areas of business will continue in 2019. At the same time, the ramp-up of series production of a battery system toward the end of the year constitutes a major contract in the promising strategic fields of the future. Overall, this segment is likely to see further revenue growth. In view of the heterogeneous nature of margin contributions from the respective divisions, the Management Board believes that profitability will be slightly below the Group average.

Engineered Plastics segment

In the coming years, the Engineered Plastics segment will benefit not only from the process of transformation seen in the area of automotive technology but also from the mega trend toward miniaturization and growing demands in the field of robotics and sensor technology. In this context, the many advantageous material properties associated with the high-performance plastics used within this segment provide a solid basis for future business development. Given the consistently solid levels of demand, the segment as a whole will continue to grow in fiscal 2019. Earnings are expected to reach a level that is well in excess of the Group average.

Aftermarket segment

The prospects for the Aftermarket segment, with its "Elring – Das Original" brand, have to be viewed against the backdrop of a challenging market environment with many geopolitical difficulties and more pronounced barriers to trade. This uncertainty will continue to dominate business during the 2019 financial year. Overall, the Group is targeting revenue growth for this segment. In view of a potential downturn in the market caused by macroeconomic factors, the Group's earnings performance in this segment is likely to be challenging. Ultimately, earnings are expected to be visibly in excess of the Group average in terms of margin.

Parent company ElringKlinger AG

The parent company ElringKlinger AG accounts for around 40% of Group revenue. In the coming years, the sites operated by the parent company – alongside fundamentally robust business in well-established areas – will see strong growth in the fields considered promising for the future in strategic terms. A point in case is series production in connection with a battery system being realized at one of the German sites. The parent company is expected to see growth exceed that of the market as a whole by two to four percentage points.

This is based in particular on solid orders: at the end of 2018, the company had an order backlog of EUR 399.2 (396.9) million.

Due to persistently high commodity prices and ramp-up costs associated with series production in the field of battery technology, operating result is unlikely to improve substantially at the parent company. Its earnings margin is expected to match or fall slightly short of last year's figure.

OUTLOOK FOR 2019		Actual 2018
Significant financial control criteria		
Sales revenue	Organic growth of 2 to 4 percentage points above global market growth, Assumption: market growth of 0 to 1%	7.8 percentage points above markets
EBIT	Margin before purchase price allocation of around 4 to 5%	5.9%
ROCE	Below previous year	5.5%
Other control criteria and indicators		
R&D costs	Around 5 to 6% of Group revenue (incl. capitalization)	5.1%
Investments (in property, plant, and equipment and investment property)	Under 9% of Group revenue	9.6%
Net working capital	Year-on-year improvement (in % of Group revenue)	33.4%
Operating free cash flow	Positive	EUR -86.2 million
Equity ratio	40 to 50% of total assets	42.8%
Net debt/EBITDA	Year-on-year improvement	3.7

MEDIUM-TERM TARGETS		Actual 2018
Sales revenue	Organic growth above global market growth	7.8 percentage points above markets
EBIT	Gradual improvement in margin before purchase price allocation	5.9%
ROCE	Increase on the basis of projected improvements in earnings and working capital	5.5%
R&D costs	Around 5 to 6% of Group revenue (incl. capitalization)	5.1%
Investments (in property, plant, and equipment and investment property)	Continuation of disciplined approach	9.6%
Net working capital	Gradual improvement in ratio (in % of Group revenue)	33.4%
Operating free cash flow	Positive	EUR -86.2 million
Equity ratio	40 to 50% of total assets	42.8%
Net debt/EBITDA	Under 2.0	3.7

Dettingen/Erms, March 21, 2019
The Management Board

Dr. Stefan Wolf
CEO

Theo Becker

Thomas Jessulat

Reiner Drews

* Cf. glossary

Consolidated Financial Statements of ElringKlinger AG

FOR THE FINANCIAL YEAR 2018

03

– Fremont, USA

Those eager to find out about next-generation mobility should visit the stomping ground of industry visionaries and creative masterminds. ElringKlinger is one of these shakers and movers. Take a visual tour of Silicon Valley on page 26 ff. of »pulse« magazine.

Group Income Statement

of ElringKlinger AG, January 1 to December 31, 2018

EUR k	Note	2018	2017
Sales revenue	**(1)**	**1,699,000**	**1,664,041**
Cost of sales	(2)	-1,328,917	-1,255,631
Gross profit		**370,083**	**408,410**
Selling expenses	(3)	-146,516	-141,859
General and administrative expenses	(4)	-84,046	-76,917
Research and development costs	(5)	-76,116	-71,387
Other operating income	(6)	45,599	31,242
Other operating expenses	(7)	-12,824	-12,171
Operating result/EBIT		**96,180**	**137,318**
Finance income		33,157	20,900
Finance costs		-42,608	-47,710
Share of result of associates	(8)	-5,283	-454
Net finance costs	**(9)**	**-14,734**	**-27,264**
Earnings before taxes		**81,446**	**110,054**
Income tax expense	(10)	-33,543	-36,274
Net income		**47,903**	**73,780**
of which: attributable to non-controlling interests	(23)	4,068	3,850
of which: attributable to shareholders of ElringKlinger AG	**(23)**	**43,835**	**69,930**
Basic and diluted earnings per share in EUR	(11)	0.69	1.10

Group Statement of Comprehensive Income

of ElringKlinger AG, January 1 to December 31, 2018

EUR k	2018	2017
Net income	**47,903**	**73,780**
Currency translation difference	-5,083	-42,689
Reclassification of foreign exchange losses included in the income statement	-6,365	0
Share of other comprehensive income of associates	-6	0
Gains and losses that can be reclassified to the income statement in future periods	**-11,454**	**-42,689**
Remeasurement of defined benefit plans, net	2,332	4,200
Gains and losses that cannot be reclassified to the income statement in future periods	**2,332**	**4,200**
Other comprehensive income after taxes	**-9,122**	**-38,489**
Total comprehensive income	**38,781**	**35,291**
of which: attributable to non-controlling interests	4,032	2,716
of which: attributable to shareholders of ElringKlinger AG	**34,749**	**32,575**

Group Statement of Financial Position

of ElringKlinger AG, as at December 31, 2018

EUR k	Note	Dec. 31, 2018	Dec. 31, 2017
ASSETS			
Intangible assets	(12)	190,307	190,540
Property, plant and equipment	(13)	997,843	929,570
Investment property	(14)	16,567	17,030
Financial assets	(15)	2,663	1,036
Shares in associates	(8)	23,274	28,563
Non-current income tax assets	(16)	98	99
Other non-current assets	(16)	8,116	3,984
Deferred tax assets	(10)	11,805	16,986
Contract performance costs	(17)	5,427	0
Non-current contract assets	(18)	1,319	0
Non-current assets		**1,257,419**	**1,187,808**
Inventories	(19)	401,391	369,547
Current contract assets	(18)	6,297	0
Trade receivables	(20)	306,351	302,621
Current income tax assets	(20)	8,531	7,041
Other current assets	(20)	48,432	48,093
Cash and cash equivalents	(21)	45,314	45,498
Current assets		**816,316**	**772,800**
Assets held for sale	**(22)**	**5,966**	**61,772**
		2,079,701	2,022,380

EUR k	Note	Dec. 31, 2018	Dec. 31, 2017
LIABILITIES AND EQUITY			
Share capital		63,360	63,360
Capital reserves		118,238	118,238
Revenue reserves		721,060	710,885
Other reserves		-49,562	-40,184
Equity attributable to the shareholders of ElringKlinger AG	**(23)**	**853,096**	**852,299**
Non-controlling interest in equity	(24)	37,014	37,368
Equity		**890,110**	**889,667**
Provisions for pensions	(25)	124,401	125,999
Non-current provisions	(26)	19,603	12,319
Non-current financial liabilities	(27)	472,005	478,811
Non-current contract liabilities	(28)	2,614	0
Deferred tax liabilities	(10)	14,949	14,075
Other non-current liabilities	(29)	8,915	3,551
Non-current liabilities		**642,487**	**634,755**
Current provisions	(26)	10,769	23,005
Trade payables	(29)	135,560	118,846
Current financial liabilities	(27)	296,786	221,944
Current contract liabilities	(28)	10,469	0
Tax payable	(10)	12,470	14,881
Other current liabilities	(29)	81,050	95,535
Current liabilities		**547,104**	**474,211**
Liabilities relating to assets held for sale	**(22)**	**0**	**23,747**
		2,079,701	**2,022,380**

Group Statement of Changes in Equity

of ElringKlinger AG, January 1 to December 31, 2018

EUR k	Share capital	Capital reserves	Revenue reserves
Balance as of Dec. 31, 2016/Balance as of Jan. 1, 2017	**63,360**	**118,238**	**672,635**
Dividend distribution			-31,680
Change in scope of consolidated financial statements			
Total comprehensive income			**69,930**
Net income			69,930
Other comprehensive income			
Balance as of Dec. 31, 2017	**63,360**	**118,238**	**710,885**
Application of new standards[1]			-2,062
Balance as of Jan. 1, 2018	**63,360**	**118,238**	**708,823**
Dividend distribution			-31,680
Purchase of shares from non-controlling interests			
Change in scope of consolidated financial statements			82
Total comprehensive income			**43,835**
Net income			43,835
Other comprehensive income			
Balance as of Dec. 31, 2018	**63,360**	**118,238**	**721,060**

[1] See comments regarding IFRS 15 and IFRS 9 in the notes to the consolidated financial statements

Other reserves					
Remeasurement of defined benefit plans, net	**Equity impact of controlling interests**	**Currency translation differences**	**Equity attributable to the shareholders of ElringKlinger AG**	**Non-controlling interests in equity**	**Group equity**
-43,616	**-212**	**40,999**	**851,404**	**34,963**	**886,367**
			-31,680	-2,561	-34,241
				2,250	**2,250**
4,104		**-41,459**	**32,575**	**2,716**	**35,291**
			69,930	3,850	73,780
4,104		-41,459	-37,355	-1,134	-38,489
-39,512	**-212**	**-460**	**852,299**	**37,368**	**889,667**
			-2,062	57	-2,005
-39,512	**-212**	**-460**	**850,237**	**37,425**	**887,662**
			-31,680	-1,898	-33,578
	-210		-210	210	0
-82			0	-2,755	-2,755
2,278		**-11,364**	**34,749**	**4,032**	**38,781**
			43,835	4,068	47,903
2,278		-11,364	-9,086	-36	-9,122
-37,316	**-422**	**-11,824**	**853,096**	**37,014**	**890,110**

Group Statement of Cash Flows

of ElringKlinger AG, January 1 to December 31, 2018

EUR k	Note	2018	2017
Earnings before taxes		81,446	110,054
Depreciation/amortization (less write-ups) of non-current assets[1]	(12) – (15)	100,466	101,074
Net interest	(9)	15,070	13,099
Change in provisions		-5,946	6,765
Gains/losses on disposal of non-current assets		-48	1,348
Share of result of associates		5,283	454
Dividends from associates		0	0
Change in inventories, trade receivables and other assets not resulting from financing and investing activities		-51,698	-114,528
Change in trade payables and other liabilities not resulting from financing and investing activities		19,743	26,732
Income taxes paid	(10)	-30,843	-50,581
Interest paid		-12,461	-10,697
Interest received		540	314
Other non-cash expenses and income		-30,000	11,441
Net cash from operating activities		**91,552**	**95,475**
Proceeds from disposals of property, plant and equipment, intangible assets and investment property		846	1,365
Proceeds from disposals of financial assets		2,960	2,792
Proceeds from the disposal of subsidiaries		56,802	0
Payments for investments in intangible assets	(12)	-15,061	-10,674
Payments for investments in property, plant and equipment and investment property	(13), (14)	-163,506	-155,534
Payments for investments in financial assets	(15)	-2,770	-3,450
Payments for the acquisition of associates		0	-29,017
Payments made for the acquisition of subsidiaries and other entities		0	1,321
Net cash from investing activities		**-120,729**	**-193,197**
Dividends paid to shareholders and to non-controlling interests		-33,578	-34,241
Proceeds from the addition of long-term loans	(27)	76,718	234,706
Payments for the repayment of long-term loans	(27)	-72,834	-44,036
Change in current loans		59,703	-47,082
Net cash from financing activities		**30,009**	**109,347**
Changes in cash		832	11,625
Effects of currency exchange rates on cash		-1,016	-2,957
Cash at beginning of period	(21)	45,498	39,407
Cash at end of period		45,314	48,075
Less cash relating to assets held for sale		0	-2,577
Cash at end of period as per statement of financial position	**(21)**	**45,314**	**45,498**

[1] Excluding amortization of shares in associates

Notes to the Consolidated Financial Statements

of ElringKlinger AG for the Financial Year 2018

General information

As parent company of the Group, ElringKlinger AG is filed in the commercial register at the local court of Stuttgart (Amtsgericht) under the number HRB 361242. The company is domiciled in Dettingen/Erms (Germany). The address is ElringKlinger AG, Max-Eyth-Str. 2, 72581 Dettingen/Erms. The Articles of Association are dated May 26, 2017. The registered company name is ElringKlinger AG.

The financial year is the calendar year.

The object of ElringKlinger AG and its subsidiaries (the "ElringKlinger Group") is the development, manufacture and distribution of technical and chemical products, in particular of gaskets, sealing materials, plastic products and modules for the automotive sector and for the manufacturing industry in general. The company also offers services relating to the technology used in its products. The corporate object also encompasses the administration and commercial exploitation of landed property.

Accounting principles

The consolidated financial statements of ElringKlinger AG as of December 31, 2018, have been prepared in accordance with the International Financial Reporting Standards (IFRSs) approved by the International Accounting Standards Board (IASB) as adopted by the European Union (EU), the interpretations of the International Financial Reporting Interpretations Committee (IFRS IC), the supplementary commercial law regulations pursuant to Sec. 315e (1) German Commercial Code (Handelsgesetzbuch, "HGB") and the provisions of German commercial and stock corporation law. ElringKlinger AG's Articles of Association contain regulations on profit appropriation. All IASs, IFRSs and IFRICs mandatory for financial year 2018 have been observed.

On March 21, 2019, the Management Board of ElringKlinger AG submitted the consolidated financial statements to the Supervisory Board, which will meet on March 22, 2019 to approve them.

The consolidated financial statements have been prepared in euros. Unless otherwise stated, all amounts are in thousands of euro (EUR k).

The income statement was prepared in accordance with the cost of sales method. In order to enhance the clarity of presentation, various items in the consolidated statement of financial position and in the consolidated income statement have been combined.

The following regulations and amendments to existing regulations were applied for financial year 2018 for the first time:

IFRS pronouncement (published on)	Title	To be applied for financial years beginning on or after
IFRS 15 (May 28, 2014)	Revenue from Contracts with Customers	January 1, 2018
Amendments to IFRS 15 (September 11, 2015)	Effective Date of IFRS 15	January 1, 2018
Amendments to IFRS 15 (April 12, 2016)	Clarifications to IFRS 15 – Revenue from Contracts with Customers	January 1, 2018
IFRS 9 (July 24, 2014)	Financial Instruments	January 1, 2018
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	January 1, 2018
Amendments to IFRS 4 (September 12, 2016)	Applying IFRS 9 – Financial Instruments with IFRS 4 Insurance Contracts	January 1, 2018
Amendments to IAS 40 (December 8, 2016)	Transfers of Investment Property	January 1, 2018
IFRIC Interpretation 22 (December 8, 2016)	Foreign Currency Transactions and Advance Consideration	January 1, 2018
Annual IFRS Improvements (December 8, 2016)	2014–2016 Cycle (IFRS 1, IAS 28)	January 1, 2018

The first-time application of the regulations listed in the table had, except for IFRS 9 and IFRS 15, no or no material effect on the presentation of financial performance, net assets and cash position.

IFRS 9 Financial Instruments

The IASB completed its project to replace IAS 39 Financial Instruments: Recognition and Measurement in July 2014 by publishing the final version of IFRS 9 Financial Instruments. In the final version of IFRS 9, the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting in particular were thoroughly revised. IFRS 9 is to be applied for the first time for reporting periods beginning on or after January 1, 2018. The first-time application is to be performed retrospectively, although various simplification options are available. The Group applied IFRS 9 retrospectively, i. e. with January 1, 2018 as the time of first-time application. The comparative information of the previous year has not been adjusted and reported unchanged in accordance with IAS 39.

The first-time application of IFRS 9 affects the measurement and classification of financial instruments, especially for trade receivables. A forward-looking approach for valuation allowances is to be applied for trade receivables and not the measurement model applied to date which is based on historical information. The adjustments resulting from the transition yielded income of EUR 3,118 k before deferred taxes and EUR 2,435 k after deferred taxes were posted against revenue reserves as of January 1, 2018.

For further comments on impairments and financial instruments, please refer to Note (20) and (31) in the notes to the financial statements.

IFRS 15 Revenue from Contracts with Customers

The new standard was published by the IASB in May 2014 and aims to bring together the large number of revenue recognition requirements previously contained in a variety of standards and to define uniform basic principles that are applicable to all industries and for all categories of revenue transaction. IFRS 15 specifies when and in what amount revenue is recognized. As a basic principle, revenue is recognized to depict the transfer of goods and services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognized when the customer receives the power of disposal over the goods or services. In addition, the new standard encourages entities to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 replaces IAS 11 Construction Contracts and IAS 18 Revenue as well as the associated interpretations. The new regulations are effective for the first time for financial years beginning on or after January 1, 2018. Voluntary early adoption is permitted. When transitioning to the new standard, entities can choose between a full retrospective approach (with optional practical expedients) and a modified retrospective approach. The latter permits initial application of the standard from the current reporting period onward without adjusting the comparative periods, but requires additional disclosures. The Group has elected not to early adopt IFRS 15, but rather applied it from January 1, 2018. The modified retrospective method was chosen, which means that the comparative period was not adjusted, but the cumulative effects from the transition were recorded directly in revenue reserves. In addition, disclosures will be made regarding the changes.

The customer agreements, mainly series and tool agreements, were examined in a global analysis for the potential accounting effects. Building on this, a concept was developed for reconciling revenue recognition to the new regulations of IFRS 15 and the necessary adjustments made to the system.

Effects from the first-time application as of January 1, 2018

The current findings confirm that the application of IFRS 15 has not resulted in any significant effects on the consolidated financial statements of ElringKlinger. Revenue reserves as of January 1, 2018 decreased by EUR 5,882 k before deferred taxes and by EUR 4,440 k after deferred taxes. The effects on other items in the statement of financial position are to be found in an increase in contract assets of EUR 7,112 k and contract liabilities of EUR 7,230 k as well as in a decrease in non-current assets by EUR 5,710 k and inventories by EUR 7,284 k. Besides, other current liabilities decreased by EUR 7,230 k.

Effect in financial year 2018

In financial year 2018, the application of IFRS 15 resulted in an increase in sales revenue of EUR 12,832 k and an overall positive effect on earnings of EUR 3,189 k.

Tools used to manufacture components that are also legally and economically owned by customers meet the definition of revenue recognition according to IFRS 15 when control of the tool is transferred, regardless of whether the price of the component is written down or it is directly purchased. As such, it is often the case that revenue is recognized at the time ownership is transferred and thus the profit or loss is recognized in full. The accounting in accordance with IFRS 15 presents a decrease in non-current assets by EUR 2,120 k and in inventories by EUR 3,058 k as well as an increase in contract assets by EUR 2,304 k.

In terms of delivering components, ElringKlinger has come to the conclusion that revenue from agreements with certain customers and business models should be recognized in the period in which it is earned as the units sold by the Group cannot be used otherwise and likewise the Group is owed payments for the services that it has provided. ElringKlinger has come to the conclusion that the Group is owed payments for components that remain in the consignment warehouse until the minimum inventory amount is reached. Compared to the current accounting, according to IFRS 15, this results in an increase of EUR 4,690 k in contract assets and a decrease of EUR 3,149 k in inventories.

A part of the Group's business activities is processed via long-term development contracts. Revenue from long-term contracts in services is recognized in accordance with IFRS 15 based on the percentage of completion. Compared to the current accounting, this results in an increase of EUR 622 k in contract assets and a decrease of EUR 5,838 k in inventories.

The requirement to capitalize costs associated with performing contracts with customers if certain requirements pursuant to IFRS 15 are fulfilled resulted in an increase in non-current assets of EUR 5,427 k.

Compared to the accounting treatment in the past, contract liabilities according to IFRS 15 increased by EUR 13,083 k, while the payments received, which were previously reported under other current liabilities, decreased accordingly by EUR 13,083 k.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

In December 2016, the IASB Interpretations Committee (IFRS IC) published IFRIC 22 Foreign Currency Transactions and Advance Consideration. The interpretation clarifies that for the purposes of determining the exchange rate used for the initial recognition of the relevant assets, expenses or income (or a portion thereof) or the derecognition of a non-monetary asset or a non-monetary liability from a prepayment, the date of the transaction is to match the date of the initial recognition of the non-monetary asset or non-monetary liability from the prepayment. If there are several advance incoming or outgoing payments, the company is to determine the date of the transaction for each of the incoming or outgoing payments of each of the prepayment. Companies can apply the changes retrospectively. Alternatively, the company can apply the interpretations prospectively to all assets, expenses and income denominated in foreign currency that are included in the scope of this interpretation for which the initial recognition on or after the commencement of the first reporting period during which the company applies the interpretation for the first time, or upon commencement of the previous reporting period, which is presented as comparative information. IFRIC 22 is effective for reporting periods beginning on or after January 1, 2018. ElringKlinger adopted the amended standard as of the date it became effective. The amendment did not have any significant effects on the consolidated financial statements.

The following regulations or amendments of existing provisions are not yet mandatory and have not been applied by the ElringKlinger Group:

IFRS pronouncement (published on)	Title	To be applied for financial years beginning on or after
Incorporated in European law		
IFRS 16 (January 13, 2016)	Leases	January 1, 2019
IFRIC® Interpretation 23 (June 7, 2017)	Uncertainty over Income Tax Treatments	January 1, 2019
Amendments to IFRS 9 (October 12, 2017)	Prepayments Features with Negative Compensation	January 1, 2019
Amendments to IAS 28 (October 12, 2017)	Long-term Interests in Associates and Joint Ventures	January 1, 2019
Amendments to IAS 19 (February 7, 2018)	Plan Amendment, Curtailment of Settlement	January 1, 2019
Incorporation in European law still outstanding		
Annual IFRS Improvements (December 12, 2017)	2015–2017 Cycle	January 1, 2019
Amendments to IFRS Standards (March 29, 2018)	References to the Conceptual Framework in IFRS Standards	January 1, 2020
Amendments to IFRS 3 (October 22, 2018)	Definition of a Business	January 1, 2020
Amendments to IAS 1 and IAS 8 (October 31, 2018)	Definition of Material	January 1, 2020
IFRS 17 (May 18, 2017)	Insurance Contracts	January 1, 2021

For standards that are yet to be adopted by the EU, the initial date for first-time application is assumed to be the date approved by the IASB.

Provisions whose application will or may have an effect on the presentation of financial performance, net assets and cash position are described further below. As far as the explanations hereinafter do not contain any statements on possible effects, ElringKlinger, after performing a review, has come to the conclusion that their application will have no or no significant influence on the financial performance, net assets and cash position.

IFRS 16 Leases

IFRS 16 replaces the existing regulations and interpretations regarding leases, in particular IAS 17 "Leases", and introduces a uniform accounting model for lessees, according to which, similar to the accounting treatment of financing leases pursuant to IAS 17, all leases are to be accounted for in the statement of financial position of the lessee. The lessor's financial accounting is comparable with the IAS 17 regulations, according to which the lessor has to record the lease if it is classified as a finance or operating lease, and thus remain largely unchanged.

The Group will apply IFRS 16 for the first time as of January 1, 2019, using as a practical expedient the modified retrospective method. The comparative figures of previous-year periods will not be adjusted in the course of first-time application. The analysis as part of a group-wide project for first-time application has revealed that IFRS 16 will only have moderate effects on the components of the consolidated financial statements and the presentation of financial performance, net assets and cash position of the ElringKlinger Group.

Effects on the statement of financial position:

For the lessee IFRS 16 introduces uniform principles for the treatment of leases, according to which right-of-use assets and lease liabilities are to be recognized in the statement of financial position for the obligations undertaken. The exemptions provided by IFRS 16 have been exercised for leases for which the underlying asset is of low-value (with a carrying amount of less than EUR 5k) and short-term leases (lease term of less than twelve months). For leases that were classified as operating leases applying IAS 17, the lease liability is measured at the present value of the lease payments that are not paid at that date and discounted using the corresponding incremental borrowing rate at the time of first-time application. In the accounting following the first-time application of IFRS 16, the right-of-use asset is measured at the amount of lease liability plus any initial direct costs. Furthermore, prepayments and liabilities that relate to the past financial year have been taken into account.

The analysis as part of the group-wide project for first-time application has revealed that from the transition, lease liabilities and corresponding right-of-use assets in the range of EUR 35–45 million are expected to be reported in the statement of financial position as of January 1, 2019. The application of the simplified retrospective method is not expected to cause any material change in revenue reserves. The deviation in obligations from operating leases reported under other information mainly results from the options to extend leases (those that are classified as highly probable). Due to the increase in total assets, the equity ratio is expected to decrease by rounded one per cent. As a result of the increase in lease liabilities, net debt will increase accordingly.

Effects on the income statement:

Contrary to the current disclosure of expenses from operating leases, in the future, amortization of rights-of-use and interest expenses from unwinding of the discount of lease liability will be reported. These changes will lead to an improvement in the operating result. On the basis of leases existing as of January 1, 2019, Group EBIT is expected to increase by EUR 300–600k.

Effects on the statement of cash flows

The change in the disclosure of lease expenses from operating leases will have a positive effect on the cash flow from operating activities and a negative effect on the cash flow from financing activities. On the basis of leases existing as of January 1, 2019, the shift between cash flow from operating activities and cash flow from financing activities is expected to be around EUR 11 million.

IFRIC 23 Uncertainty over Income Tax Treatments

In June 2017, the IASB Interpretations Committee (IFRIC) published IFRIC 23 – Uncertainty over Income Tax Treatments. The interpretation clarifies the requirements of the recognition and measurement of uncertain income tax items. A company is to assess the likelihood of the relevant authority accepting the respective tax treatment. The amendment will not have any significant effect on the consolidated financial statements.

Amendments to IAS 28 Investments in Associates

In October 2017, the IASB published amendments to IAS 28 Investments in Associates. The amendments include the requirement that a company first applies IFRS 9 to financial instruments that are not accounted for using the equity method. The ElringKlinger Group intends to adopt the amended standard as of the date it is due to become effective. No effects are expected for the Group.

Annual Improvements to IFRSs (2015–2017)

The pronouncement relates to amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 that are not expected to have any significant effects on the financial performance, net assets and cash position of the ElringKlinger Group. The amendments are effective as of January 1, 2019. The ElringKlinger Group does not anticipate any effects from the adjustment.

Amendments to IAS 19 Employee Benefits

In February 2018, the IASB published amendments to IAS 19 Employee Benefits. The amendments prescribe the treatment of plan amendments, curtailments and settlements of defined benefit plans. The amendments to IAS 19 relate to plan amendments, curtailments or settlements made at or after the start of a financial year beginning on or after January 1, 2019. Early adoption is permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

Amendments to IFRS 3

In October 2018, the IASB published amendments to IFRS 3 Definition of a Business. With this amendment, the IASB clarifies whether a company has acquired business operations or a group of assets as part of a business combination. The amendment is to be applied to business combinations with the acquisition date as of or after January 1, 2020.

Amendments to IAS 1 and IAS 8

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 Definition of Material and thus providing a more precise definition of materiality of financial information. In this context, the definitions used in the Conceptual Framework, IAS 1, IAS 8 and IFRS Practice Statement 2 Making Materiality Judgments were aligned. The amendments are effective as of January 1, 2020. Early adoption is permitted. The Group is currently examining what effects these amendments will have on the consolidated financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB published IFRS 17 Insurance Contracts, thereby creating uniform regulations for the accounting treatment of insurance contracts. The new standard replaces IFRS 4 and its application is mandatory for financial years beginning on or after January 1, 2021. Early adoption is permitted if IFRS 15 and IFRS 9 are adopted at the same time. This amendment is not relevant for the ElringKlinger Group and will therefore not have any effect on the financial performance, net assets and cash position of the Group.

Scope of consolidated financial statements

The consolidated financial statements of ElringKlinger AG as of December 31, 2018, include the annual financial statements of 7 (2017: 9) domestic and 32 (2017: 35) foreign subsidiaries in which ElringKlinger AG holds, either directly or indirectly, more than 50% of the shares or is able to control the entity's financial and business policy for other reasons. Inclusion begins at the time the control relationship comes into being and ends when control is deemed to no longer exist.

The 28.89% share in hofer AG, Nürtingen, is recorded as an associate in non-current group assets as ElringKlinger has a significant influence on the business and financial policies. A significant influence in assumed for associates with voting rights ranging from 20% to 50%.

As of December 31, 2018, the following companies made use of the exemption provisions provided by Sec. 264 (3) HGB:

- ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen,
- ElringKlinger Logistic Service GmbH, Rottenburg/Neckar,
- Kochwerk Catering GmbH, Dettingen/Erms

Furthermore, ElringKlinger (Great Britain) Ltd. made use of the exemption provisions under s479A of the UK Companies Act 2006 regarding the audit of financial statements for the financial statements as of December 31, 2018.

An overview of the 39 companies included in the consolidated financial statements of the parent company is provided below.

Schedule of Shareholdings and Scope of Consolidation

as of December 31, 2018

Name of company	Domicile	Capital share in %
Parent		
ElringKlinger AG[1]	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[2]	Mönchengladbach	77.50
hofer powertrain products GmbH	Nürtingen	53.00
KOCHWERK Catering GmbH	Dettingen/Erms	100.00
Shares in affiliated companies (fully consolidated in the consolidated financial statements)		
Foreign		
ElringKlinger Abschirmtechnik (Schweiz) AG	Sevelen (Switzerland)	100.00
Elring Klinger (Great Britain) Ltd.	Redcar (UK)	100.00
hofer powertain products UK Ltd.	Warwick (UK)	53.00
ElringKlinger Italia Srl	Settimo Torinese (Italy)	100.00
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 Fuelcell Systems Austria GmbH	Wels (Austria)	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

ElringKlinger Manufacturing Indiana, Inc.	Fort Wayne (USA)	100.00
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.[2]	Buford (USA)	77.50
ElringKlinger Engineered Plastics (Qingdao) Co., Ltd.[2]	Qingdao (China)	77.50
ElringKlinger Marusan Corporation[3]	Tokyo (Japan)	50.00
Marusan Kogyo Co., Ltd.[5]	Tokyo (Japan)	23.45
PT. ElringKlinger Indonesia[4]	Karawang (Indonesia)	50.00
ElringKlinger (Thailand) Co., Ltd.[4]	Bangkok (Thailand)	50.00
Shares in associates (accounted for in the consolidated financial statements using the equity method)		
Germany		
hofer AG	Nürtingen	28.89

[1] ElringKlinger AG prepares the consolidated financial statements for the largest and smallest group of subsidiaries to be consolidated
[2] 100% subsidiary of ElringKlinger Kunststofftechnik GmbH
[3] Consolidated due to contractual possibility of exercising control
[4] Wholly owned subsidiary of ElringKlinger Marusan Corporation
[5] 46.9% subsidiary of ElringKlinger Marusan Corporation, consolidated due to majority of voting rights

Notes on non-controlling interests in subsidiaries

ElringKlinger AG holds controlling interests of 77.5% (unchanged) in ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen (Germany), with its 3 subsidiaries (EKT subgroup).

- Polytetra GmbH, Mönchengladbach, Germany
- ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd., China
- ElringKlinger Engineered Plastics North America, Inc., Buford, USA

(EKT subgroup) controlling interest of 77.5% (unchanged). The non-controlling interests amount to 22.5%.

The share in the earnings of this subgroup attributable to non-controlling interests for financial year 2018 is EUR 3,109 k (2017: EUR 2,881 k).

A dividend of EUR 1,575 k (2017: EUR 2,025 k) was distributed to the non-controlling interests in financial year 2018. The remaining EUR 5,425 k (2017: EUR 6,975 k) were distributed to the parent company ElringKlinger AG.

Cash flow of the subgroup

EUR k	2018	2017
Operating activities	16,661	17,351
Investing activities	-4,905	-3,906
Financing activities	-11,487	-13,360
Cash change	**269**	**85**
Effects of currency exchange rates on cash	**-1**	**-159**

Summarized key financial information of the subgroup

EUR k	2018	2017
Non-current assets	62,627	63,809
Current assets	48,233	40,227
Non-current liabilities	13,827	13,903
Current liabilities	11,065	10,197
Sales revenue	111,775	105,067
Earnings before taxes (EBT)	17,424	16,730
Net income	**12,623**	**11,922**
Total comprehensive income	**12,885**	**11,833**

Further detailed information

EUR k	2018	2017
Cash and cash equivalents	2,683	2,415
Cash in hand	6	6
Bank deposits	2,677	2,409
Non-current financial liabilities	225	225
to associates	225	225
Current financial liabilities	138	1,000
to banks from loans	0	1,000
from overdraft facilities (only IC)	138	0
Interest income	183	266
Interest expenses	255	290
Depreciation and amortization	5,709	5,582

Newly formed company 2018

ElringKlinger Manufacturing Indiana, Inc. headquartered in Fort Wayne, USA, was formed effective February 28, 2018. ElringKlinger AG holds a 100% interest in the company.

ElringKlinger Fuelcell Systems Austria GmbH, headquartered in Wels, Austria, was formed effective December 18, 2018. ElringKlinger AG holds a 100% interest in the company.

Merger 2018

With effect from January 1, 2018, Taiyo Jushi Kakoh Co., Ltd headquartered in Tokyo, Japan, a fully owned subsidiary of ElringKlinger Marusan Corporation, also headquartered in Tokyo, Japan, was merged into ElringKlinger Marusan Corporation.

Divestitures 2018

The Group primarily focuses its strategic direction on areas of the future: lightweighting, electromobility and electric drive systems. In this context, the Group reached an agreement with a French automotive supplier in December 2017 on the sale of the Hug Group with registered offices in Elsau, Switzerland. The acquisition agreement was signed on December 21, 2017. The transaction was completed on February 28, 2018, with effect as of March 1, 2018. The selling price is EUR 55,802 k. The 93.67% share that ElringKlinger held in Hug Engineering AG was transferred in full to the contracting party.

The net gain on disposal of EUR 24,534 k is included in other operating income. Ancillary costs of EUR 1,272 k have been incurred for the disposal of the Hug Group. These have been reported in administrative expenses.

As part of its strategic orientation in the area of electromobility, ElringKlinger AG has decided to concentrate on the low-temperature fuel cell PEMFC (Proton Exchange Membrane Fuel Cell) relevant for mobile applications in fuel cell technology. Against this backdrop, ElringKlinger is selling its current activities related to the high-temperature fuel cell SOFC (Solid Oxide Fuel Cell) and as a result, its investment in new enerday GmbH in Neubrandenburg, Germany.

In a first step, ElringKlinger AG acquired 20% of the shares in new enerday GmbH as of September 30, 2018. Subsequently, the 100% share held by ElringKlinger was transferred in its entirety to the contracting party at the same time.

The purchase contract was signed on September 19, 2018, the transaction was closed on September 30, 2018. The selling price amounts to EUR 1,288 k. As of the acquisition date, EUR 1,000 k of the purchase price was paid, the other components of the selling price are long-term and depend on the defined sales revenue of the years 2019 to 2021.

The net gain on disposal of EUR 975 k is included in other operating income.

Business buyouts in 2017

With effect as of March 1, 2017, ElringKlinger AG acquired 27% of the shares in hofer AG with registered offices in Nürtingen, Germany, and 53% of the shares in its subsidiary hofer powertrain products GmbH, also with registered offices in Nürtingen, Germany, with effect as of February 6, 2017. The shares were acquired by subscribing to a capital increase. The imputed share of ElringKlinger in hofer AG increased to a total of 28.89% following the share buy-back of treasury shares by hofer AG in the first half of 2017.

ElringKlinger AG contributed an amount of EUR 3,570 k to the capital stock and an amount of EUR 25,370 k to the capital reserves of hofer AG. The shares in hofer AG, an associate, are accounted for using the equity method. There are additional acquisition-related costs of EUR 77 k on top of the purchase price.

ElringKlinger AG contributed an amount of EUR 1,060 k to the capital stock of hofer powertrain products GmbH. All payments were made in January 2017. The transaction contracts also contain a framework loan agreement of EUR 30,000 k to finance the hofer powertrain products GmbH's future investments. The agreed loan interest is lower than the market interest rate, which results in an interest benefit of EUR 2,858 k that is to be allocated to the purchase price. The transaction-related costs of EUR 3 k to date were recognized in general and administrative expenses.

The hofer Group is a competent systems developer for drive chain systems in the automotive sector. The share deal allows ElringKlinger to benefit from this innovative capacity, especially in the development and production of alternative drive technology.

The assets and liabilities of the acquired shares in hofer powertrain products GmbH were measured at fair value as of the acquisition date. The difference of EUR 1,381 k remaining after taking into account deferred tax liabilities (EUR 178 k) on the hidden reserves identified (EUR 606 k) was recognized as goodwill. This was paid primarily for the positive earnings prospects as well as the expected synergies. Goodwill is not tax deductible; there are no resulting deferred taxes.

The first-time full consolidation of hofer powertrain products GmbH as of February 6, 2017, increased the Group's sales revenue by EUR 5,606 k and earnings before taxes by EUR 422 k. Had the acquisition been completed as of January 1, 2017, hofer powertrain products GmbH would have contributed EUR 6,161 k to group revenue and burdened earnings before taxes by EUR 509 k.

The following table contains the final allocation of the purchase price to the assets and liabilities:

EUR k	IFRS carrying amount as of the acquisition date	Purchase price allocation	Acquisition date fair value
Intangible assets	8	606	614
Property, plant and equipment	52	–	52
Inventories	930	–	930
Trade receivables	3,860	–	3,860
Other current assets	38	–	38
Cash and cash equivalents	2,382	–	2,382
Total assets	**7,270**	**606**	**7,876**
Deferred tax liabilities	843	178	1,021
Non-current financial liabilities	1,048	–	1,048
Current provisions	22	–	22
Trade payables	347	–	347
Tax payable	45	–	45
Other current liabilities	606	–	606
Total liabilities	**2,911**	**178**	**3,089**
Net assets	**4,359**	**428**	**4,787**
Goodwill			1,381
Non-controlling interests in net asset value			-2,250
Purchase price			**3,918**

The amount recognized for the non-controlling interest in the acquiree on the acquisition date is measured according to the net assets of the acquiree.

No contingent liabilities were identified in the course of the acquisition. No impairment losses were recognized on trade receivables. In 2017, their fair value corresponded to the gross value of EUR 3,860 k.

With effect as of March 23, 2017, ElringKlinger AG acquired a 53% interest in hofer powertrain products UK Ltd., with registered offices in Warwick, UK. The cash purchase price came to EUR 62. The company, which was founded in 2016, has capital stock of EUR 117.

Newly formed company 2017

ElringKlinger Chongqing Ltd. headquartered in Chongqing, China, was formed effective April 10, 2017. ElringKlinger AG holds a 100% interest in the company.

On November 24, 2017, a framework agreement was entered into with the Chinese company Sichuan Chengfei Integration Technology Co., Ltd. regarding a joint venture in battery technology. The framework agreement sets out the formation of a joint venture company to develop, manufacture and distribute lithium ion battery modules for the global car market.

Summary of the principal accounting and measurement methods

The consolidated financial statements were prepared on the basis of historical acquisition and manufacturing costs with the exception of assets and liabilities for which measurement at fair value is mandatory in accordance with IFRS.

The fundamental accounting and measurement methods applied in preparing the consolidated financial statements are described below:

Consolidation methods

Assets and liabilities of the domestic and foreign companies included in the consolidated financial statements are recognized and measured according to the accounting policies that apply uniformly across the ElringKlinger Group.

Upon acquisition of a company, the assets and liabilities of the subsidiaries acquired are measured at their fair value at the time of acquisition. If the purchase price of the interest exceeds the identified assets and liabilities to be measured at fair value, the excess is capitalized as goodwill. If the difference is negative, the identifiable assets and liabilities are remeasured, as are the acquisition costs.

Any remaining negative difference is recorded in income.

Any hidden reserves and liabilities that have been uncovered are rolled forward, depreciated, or released together with the corresponding assets or liabilities. Goodwill is not amortized, but is subject to annual impairment testing in accordance with IFRS 3.

If additional shares of an already fully consolidated subsidiary are acquired, the difference between the purchase price and carrying amount of non-controlling interests is recognized through other comprehensive income.

The minority interest in subsidiaries held by shareholders outside the Group must be shown as a separate line item under group equity.

Net income for the year for subsidiaries acquired or sold in the course of the year are included in the group income statement from the effective time of acquisition or until the effective time of divestment.

The financial year of all consolidated companies, except the Indian subsidiary (March 31), corresponds to the financial year of the parent company. If the reporting dates differ, interim financial statements are prepared as of the reporting date of the parent company.

All receivables, liabilities, sales revenue, other income and expenses within the scope of consolidation are eliminated. Accumulated gains and losses from intercompany supplies are eliminated from inventories or non-current assets.

Investments in associates

Associates are measured at their share of equity using the equity method and initially recognized along with their acquisition costs, including the transaction costs. The Group’s share in the associate’s net profit or loss for the period is recognized separately in the consolidated income statement as a share of the financial result. The share in other comprehensive income is recognized directly in group equity. The cumulative changes after the acquisition date increase or decrease the carrying amount of the investment in the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary adjustments are made to bring the accounting policies in line with those of the Group.

After using the equity method, the Group determines whether it is necessary to recognize an impairment loss for its investment in an associate. At each reporting date, the Group determines whether there is any objective evidence of impairment of an investment in an associate. If so, the impairment loss is determined as the difference between the recoverable amount of the investment in an associate and its carrying amount, and the loss is recognized through profit or loss as “Share of result of associates.”

Currency translation

The reporting currency of the ElringKlinger Group is the euro.

Foreign currency transactions are translated in the annual financial statements of ElringKlinger AG and its consolidated companies at the rates current as of the transaction date. As of the end of the reporting period, assets and liabilities in foreign currency are measured at the closing rate. Differences arising on translation are posted through profit or loss.

Currency translation differences from monetary items that form part of a net investment in a foreign operation are reported in equity under other comprehensive income until the disposal of the net investment.

The financial statements of the foreign companies are translated into euros since this is the functional currency of the parent company. Since the subsidiaries operate their businesses independently in financial, economic and organizational respects, the functional currency is generally identical to the relevant national currency of the company. The expenses and income from financial statements of entities included in the consolidated financial statements which were originally prepared in foreign currencies are translated at the average rate for the year. The average rate for the year is calculated on the basis of daily rates. Assets and liabilities are translated at the closing rate. Currency differences are reported in other comprehensive income and as a separate item in equity.

In the event of a disposal of a consolidated entity, accumulated currency differences are recorded as part of the gain or loss on sale.

The rates used for currency translation are shown in the table below:

		Closing rate		Average rate	
Currency	Abbr.	Dec. 31, 2018	Dec. 31, 2017	2018	2017
US dollar (USA)	USD	1.14500	1.19930	1.17932	1.13703
Pound sterling (UK)	GBP	0.89453	0.88723	0.88595	0.87572
Franc (Switzerland)	CHF	1.12690	1.17020	1.15158	1.11628
Canadian dollar (Canada)	CAD	1.56050	1.50390	1.53288	1.47253
Real (Brazil)	BRL	4.44400	3.97290	4.32938	3.64344
Peso (Mexico)	MXN	22.49210	23.66120	22.65259	21.42845
RMB (China)	CNY	7.87510	7.80440	7.81563	7.65567
WON (South Korea)	KRW	1,277.93000	1,279.61000	1,295.97500	1,275.34917
Rand (South Africa)	ZAR	16.45940	14.80540	15.61657	15.06342
Yen (Japan)	JPY	125.85000	135.01000	130.00583	127.30417
Forint (Hungary)	HUF	320.98000	310.33000	319.97250	309.31000
Turkish lira (Turkey)	TRY	6.05880	4.54640	5.68349	4.14289
Leu (Romania)	RON	4.66350	4.65850	4.65583	4.57379
Indian rupee (India)	INR	79.72980	76.60550	80.62578	73.78786
Indonesian rupiah (Indonesia)	IDR	16,500.00000	16,239.12000	16,788.76417	15,233.45750
Baht (Thailand)	THB	37.05200	39.12100	38.05167	38.35650

Accounting policies

Goodwill

The goodwill is attributable to cash-generating units (segments) as follows:

EUR k	2018	2017
Original Equipment	149,834	148,385
Engineered Plastics	6,313	6,313
Aftermarket	1,658	1,658
Total	**157,805**	**156,356**

Testing for impairment

Annual impairment testing of goodwill is performed as of the closing date on December 31. An impairment is recognized in the consolidated income statement through profit or loss if the recoverable amount, which is the higher of fair value less costs of disposal and value in use, is lower than the carrying amount of the cash-generating unit.

Impairment of goodwill is not reversed, even if the impairment has ceased to apply. The recoverable amount of the respective cash-generating unit for impairment testing as of December 31, 2018, is determined using the respective value in use as present value of forecast future cash inflows. For this purpose, the value in use of the cash-generating unit is determined by discounting future cash flows. A detailed plan of the cash flows for the cash-generating units is established over the forecast period of five years. Subsequent periods are accounted for by a perpetual annuity (terminal value) determined on the basis of the last detailed planning year.

Planning is based on expectations and assumptions of the Management Board regarding future market developments, taking into consideration the business development to date. Significant assumptions relate to the future development of sales revenue and earnings after taxes. Sales revenue and cost planning at the ElringKlinger Group is performed at individual component level.

Both historical data as well as the expected market performance are taken into account for determining the value in use of the cash-generating units. With regard to short-term sales revenue planning, the current order backlog, information on the respective manufacturer and information from independent sources, such as advisory firms or automobile associations, is used. In its sales revenue planning for the medium term, ElringKlinger assumes that it will be able to outpace global growth in automotive production. The figures allocated to the key assumptions are generally in line with external sources of information, e.g. production and expected sales for the respective regional sales markets and customer-specific budgets.

Cost planning takes into account both efficiency gains as well as cost increases. For the raw materials processed in the cash-generating units, group-wide uniform planning assumptions were applied. Due to the global trade conflicts and the imposition of additional import duties on raw materials currently being discussed, ElringKlinger expects a further increase in procurement prices for the significant groups of raw materials in 2019. In this context, there are also potential risks posed by countervailing duties on raw materials imported to the US. The ElringKlinger Group will be directly, and depending on the development of the price level, significantly affected by the risks arising from excessive increases in the prices of raw materials. We assume a normalized planning for cost types in the medium term.

The cost of capital of the cash-generating unit is calculated as the weighted average cost of equity and debt capital. Capital structure, equity and debt capital are based on the Company's peer group and are derived from the available capital market information. The WACC applied in each case is determined on the basis of the risk-free rate according to the method of the IDW ["Institut der Wirtschaftsprüfer in Deutschland e.V., Düsseldorf": Institute of Public Auditors in Germany, Düsseldorf], the market risk premium and the beta factor. Beta represents the individual risk of a share as compared to a market index. It is calculated as the average value for the peer group. The credit spread, which expresses the premium over the risk-free rate, was derived from a rating of the peer group.

As in the previous year, the discount rate was used without applying a growth discount to determine the terminal value, i. e., a growth rate of 0% is applied in the model due to reasons of prudence.

The discount factor applied as of December 31, 2018, was the weighted average cost of capital (WACC) before taxes of 11.12% (2017: 10.22%).

The following significant assumptions have been applied for the projections of cash-generating units:

Original Equipment

The Original Equipment unit suffered a few operative setbacks in financial year 2018. Although these led to an increase in sales revenue, due to difficult circumstances, they had a noticeably negative impact on earnings after taxes. Due to the one-time effects in various plants, e.g. capacity bottlenecks and the related special runs, the previous-year planning in terms of earnings was not achieved. The impairment test as of December 31, 2018, in addition to the historical development of the unit, included the development of the peer group as well as the general market outlook. Compared to the previous year, to give due consideration to the changing environment in the automotive sector, a significantly lower margin was assumed in the planning period as well as in perpetuity. The strategy of the Management Board is still to capture further market share, to increase the sales revenue and to implement margin improvements.

Therefore, in the planning period it was assumed that margin improvements can also be realized with rising sales and the margins will again be higher than the margins of the peer group. For the calculation of expected future margins, continuous improvement with regard to the current capacity bottlenecks is also assumed.

Engineered Plastics

Among other things, due to a very positive market response and successful development in the past financial years, Engineered Plastics in its planning still assumes an increase in sales revenue and a constant positive development in margin.

Aftermarket

The Aftermarket planning also assumes an increase in sales revenue and the related constant positive development in margin. The planned growth is to be realized through further expansion of business relationships with existing and new customers.

The impairment test performed as of December 31, 2018, did not result in any impairment of goodwill.

The value in use, determined on the basis of the abovementioned assumptions for Original Equipment as the cash-generating unit, exceeds the carrying amount by around EUR 73 million. Slight changes in cost of capital or profit margin can meanwhile lead to the situation where the carrying amount exceeds the recoverable amount. In the case of an isolated increase in cost of capital by around 0.3 percentage points, the recoverable amount would correspond to the carrying amount. An isolated reduction of the profit margin in the terminal value by around 0.3 percentage point would have the same effect.

Intangible Assets

Purchased intangible assets, mainly patents, licenses and software, are recognized at cost.

Internally generated intangible assets, with the exception of goodwill, are capitalized if it is sufficiently probable that use of the asset is associated with a future economic benefit, the costs of the asset can be determined reliably, and the technical and economic feasibility along with the ability and intent to market it are ensured.

The manufacturing costs of internally generated intangible assets are determined on the basis of directly attributable individual costs as well as their proportion of attributable overheads. The revaluation method, which is also permitted, is not applied.

With the exception of goodwill, all intangible assets in the Group have determinable useful lives and are amortized over these useful lives using the straight-line method. Patents, licenses and software generally have useful lives of 10 years. Capitalized development costs and basic standard software have useful lives of 5 years. If the actual useful life is materially longer or shorter than 10 or 5 years, this actual useful life is recognized.

Property, plant and equipment

Tangible assets used in business operations for a period longer than one year are measured as property, plant and equipment at cost less straight-line depreciation in accordance with their useful life as well as any necessary impairment. The manufacturing cost of self-constructed property, plant and equipment is determined on the basis of directly attributable individual costs and their proportion of attributable overheads. The revaluation method, which is also permitted, is not applied.

Depreciation is calculated throughout the Group based on the following useful lives:

Category of property, plant and equipment	Years
Buildings	15 to 40
Plant and machinery	12 to 15
Special tooling	3
Operating and office equipment	3 to 15

The useful lives and the depreciation methods and residual carrying amounts are reviewed regularly in order to ensure that the depreciation method and period are consistent with the expected consumption of the economic benefit.

Investment property

Investment property is measured at cost less straight-line depreciation. It is reported separately under non-current assets.

The useful lives of investment property are 40 years in the case of buildings and 20 years in the case of external facilities.

Impairment of property, plant and equipment and of intangible assets other than goodwill

Pursuant to IAS 36, property, plant and equipment and intangible assets are subjected to impairment testing at the end of each reporting period or if there is evidence of impairment. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized to the recoverable amount. The recoverable amount is the higher of the following two amounts: the net realizable value less anticipated costs to sell or the value in use. If the recoverable amount for an individual asset cannot be determined, an estimate of the recoverable amount is made at the next higher level cash-generating unit.

In the event that the recoverable amount exceeds the carrying amount in subsequent periods, a reversal is recognized up to, at most, amortized cost.

Impairments and reversals are recorded through profit and loss.

Assets and liabilities held for sale

Assets held for sale or asset and liability groups related to assets held for sale are classified as "held for sale" and recognized separately in the statement of financial position if the corresponding carrying amount is mostly realized by the sale transaction and not by its continued use. In this case, the sale must be concluded and its completion probable. Assets held for sale and related liabilities are recognized at the lower of the carrying amount and fair value less costs to sell. Depreciation ceases when an asset is classified as held for sale.

Financial instruments

The Group applied IFRS 9 for the first time in the current financial year. IFRS 9 establishes new classification and measurement methods for financial instruments and a new model for impairments of financial instruments. The previous-year figures were not adjusted in the course of the transition to IFRS 9 and are still reported according to IAS 39.

Financial instruments pursuant to IAS 39

Under IAS 39, a financial instrument is a contract that constitutes a financial asset for one entity and a financial liability for another entity, or an equity instrument.

Financial instruments held within the Group are divided into the following categories:

- Financial assets measured at fair value through profit or loss
- Financial liabilities measured at fair value through profit or loss
- Loans and receivables
- Available-for-sale financial assets
- Held-to-maturity investments
- Other financial liabilities that are measured by the effective interest rate method at amortized cost

At their acquisition date, financial instruments are categorized on the basis of their intended use.

Financial assets include cash, trade receivables and other loans and receivables and derivative financial assets held for trading, furthermore investments and non-current securities.

Financial liabilities include trade payables, bank debt, derivative financial liabilities held for trading and other financial liabilities.

Financial instruments pursuant to IFRS 9

According to IFRS 9, financial assets are measured at either amortized cost or fair value, depending on the business model of the Group with regards to the control and on the cash flow characteristics of financial assets.

Debt instruments are measured **at amortized cost** if they meet two conditions. First, for a financial asset the business model determines collecting cash flows from the financial asset exclusively. Second, the contractual terms determine specified dates that are solely for payments of interest and principal on the principal amount outstanding. By contrast, if the business model does not exclusively provide for the collection of cash flows, but also the sale financial assets, then a financial asset is measured **at fair value through other comprehensive income**. If these conditions are not fulfilled, it is measured **at fair value through profit or loss**. However, there is an option for first-time recognition to designate the financial asset as **at fair value through profit or loss**, provided this designation eliminates or significantly reduces the accounting mismatch. This option was not exercised in the Group.

In general, equity instruments are measured **at fair value through profit or loss**. An exception is formed by equity instruments that are held for trading and classified by the Group as **recognized through other comprehensive income**. Recycling does not take place in this case.

The first-time application of IFRS 9 did not result in any implications on the classification of financial liabilities.

Financial instruments held within the Group are divided into the following categories:

- Financial assets measured at amortized cost
- Financial assets measured at fair value through profit or loss
- Financial assets measured at fair value through other comprehensive income
- Financial liabilities measured at acquisition cost
- Financial liabilities measured at fair value through profit or loss.

At their acquisition date, financial instruments are categorized on the basis of their intended use.

Financial assets include cash and cash equivalents, trade receivables, financial investments, long-term securities and other loans and receivables as well as derivative financial assets held for trading.

Financial liabilities include trade payables, bank debt, derivative financial liabilities held for trading and other financial liabilities.

Financial assets

Financial assets pursuant to IAS 39

Upon initial recognition, financial assets are measured at fair value. In the case of all financial investments that are not classified as “measured at fair value through profit or loss”, transaction costs directly attributable to the purchase are included.

Derivatives are recognized on the trade date, all other regular way purchases and sales of financial assets are recognized in the statement of financial position on the settlement date.

Financial assets that are not classified as “fair value through profit or loss” are reviewed for impairment at the end of each reporting period. If the fair value of the financial asset is lower than its carrying amount, the carrying amount is written down to its fair value. This reduction represents an impairment loss and is recognized as an expense. Any impairment previously recognized as an expense is reversed and credited to the income statement if warranted by events occurring after the original recognition of the impairment. In the case of equity instruments classified as “held for sale”, later reversals of impairment losses are, however, recognized directly in equity.

Changes to the fair value of financial assets classified as held for sale are recognized in equity under other comprehensive income after taking deferred taxes into account. Any foreign exchange gains or losses that arise are recognized through profit or loss.

The fair values recognized in the statement of financial position generally correspond to the market prices of the financial assets. If market prices are not available, the fair values are calculated using recognized measurement models and with recourse to current market parameters. The measurement methods include using the most recent transactions between knowledgeable, willing and independent business partners (i. e., at arm's length), comparison with a current fair value of another, substantially identical, financial instrument and the analysis of discounted cash flows.

A financial asset is derecognized if the contractual rights to receive cash flows from this financial asset have expired or have been transferred. In the framework of the transfer, essentially all risks and rewards connected with ownership of the financial asset or the power of control over the asset must be transferred.

Financial assets acquired for the purpose of sale in the near future (financial instruments held for trading) are recognized at their fair value through profit or loss. At ElringKlinger, these are derivatives which do not meet the prerequisites for hedge accounting.

Financial assets resulting from money transfer, the rendering of services or the procurement of merchandise involving third parties are classified as loans and receivables. Current assets classified in this category are measured at acquisition cost, the non-current financial assets are measured at amortized cost in accordance with the effective interest method.

Cash and cash equivalents includes cash in hand, bank deposits and short-term deposits with an original term of less than three months, and are measured at amortized cost.

Impairments on doubtful receivables involve to a considerable extent estimates and judgments of the individual receivables based on the creditworthiness of the customer concerned. If there is objective evidence of impairment of loans and receivables (e.g., major financial difficulties on the part of the debtor or negative changes in the market environment of the debtor), these are recognized in the income statement. Impairments of trade receivables are initially recognized in an adjustments account. The impaired receivable is derecognized when it is considered unrecoverable.

The financial instruments allocated to the category "held to maturity investments" are recorded at amortized cost using the effective interest method when the Group has the intent and the legal ability to hold them to maturity.

Assets are allocated to financial assets classified as held for sale if they are financial assets for which there is intention to sell and they were not acquired for trading purposes or cannot be allocated to any of the categories above. This category does not contain securities held for trading, for example. They are measured at fair value.

Financial assets pursuant to IFRS 9

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Groups' business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or at fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Derivatives are recognized on the trade date, all other regular way purchases and sales of financial assets are recognized in the statement of financial position on the settlement date.

The fair values recognized in the statement of financial position generally correspond to the market prices of the financial assets. If market prices are not available, the fair values are calculated using recognized measurement models and with recourse to current market parameters. The measurement methods include using the most recent transactions between knowledgeable, willing and independent business partners (i. e., at arm's length), comparison with a current fair value of another, substantially identical, financial instrument and the analysis of discounted cash flows.

A financial asset is derecognized if the contractual rights to receive cash flows from this financial asset have expired or have been transferred. In the framework of the transfer, essentially all risks and rewards connected with ownership of the financial asset or the power of control over the asset must be transferred.

Financial assets measured at amortized cost are financial assets resulting from money transfer, the rendering of services or the procurement of merchandise involving third parties are classified as loan and receivables. Current assets classified in this category are measured at acquisition cost, the non-current financial assets are measured at amortized cost in accordance with the effective interest method.

Financial assets acquired for the purpose of sale in the near future (financial instruments held for trading) are recognized **at fair value through profit or loss**. At ElringKlinger, these are derivatives which do not meet the prerequisites for hedge accounting.

Financial assets measured **at fair value through other comprehensive income** if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. In the same manner, equity instruments are measured as financial instruments at fair value through other comprehensive income if they fulfill the definition of equity according to IAS 32 and are not held for trading.

Cash and cash equivalents includes cash in hand, bank deposits and short-term deposits with an original term of less than three months, and are measured at amortized cost.

While according to IAS 39 impairment losses were only taken into account for any impairment which may have already occurred but were not yet known – Incurred Loss Model (ICL) –, with IFRS 9 the future expected credit loss is material for the valuation allowance. Valuation allowances will be recognized for all financial assets measured at historical cost as well as for debt instruments measured at fair value through other comprehensive income. For the measurement, external measurement sources are consulted for the counterparties. IFRS 9 outlines a three-step model. A risk provision will either be recognized on the basis of the 12-month expected credit loss (step I) or on the basis of the lifetime expected credit loss, if the credit risk has significantly increased since the first-time recognition (step II) or if there is a deterioration in the credit rating (step III). The changes in measurement between the individual steps are determined according to external ratings and based on the model of established rating agencies: investment grade (step I), speculative grade (step II) and risk/default grade (step III).

The simplified procedure is applied to trade receivables. According to this, expected credit losses are calculated over the entire lifetime of receivables.

Impairments on doubtful receivables involve to a considerable extent estimates and judgments of the individual receivables based on the creditworthiness of the customer concerned. Should this not be possible or appropriate under certain circumstances, an average rating (which is based on the average of all the ratings obtained in the reporting period) is applied. ElringKlinger considers this estimate regarding ratings as appropriate.

If there is objective evidence of impairment of loans and receivables (e.g., major financial difficulties on the part of the debtor or negative changes in the market environment of the debtor), these are recognized through profit or loss. The expected credit loss methodology (ECL) in accordance with IFRS 9 does not rely on historical figures as previously under IAS 39, but instead applies forward-looking indicators. These not only consider the micro- and macroeconomic aspects, but also the expected development of the individual borrower. For determining risk provisions, ElringKlinger uses the assessment of recognized rating agencies (S&P, Moody's, Fitch, etc.). Impairments of trade receivables are initially recognized in an adjustments account. The impaired receivable is derecognized when it is considered unrecoverable. An irrecoverability is indicated in case of a "D" rating (according to S&P), or insolvency of the debtor has been made public or if there are specific payment defaults.

Financial liabilities

Financial liabilities comprise, in particular, trade payables, bank debt, derivative financial liabilities and other liabilities.

Upon initial recognition, financial liabilities are measured according to fair value less any transaction costs directly attributable to borrowing.

Financial liabilities are derecognized when the liability on which the obligation is based is settled, terminated or has expired.

At ElringKlinger, **financial liabilities measured at amortized cost** include trade payables, liabilities to banks and other financial liabilities. They are measured at amortized cost using the effective interest method. Gains or losses are recognized through profit or loss when the liability is retired or has been redeemed.

Financial liabilities measured at fair value through profit or loss comprise the financial liabilities held for trading purposes, in this case, derivatives, including any embedded derivatives that have been separated from the host contract, if applicable, since these do not qualify for hedge accounting as a hedging instrument. Gains or losses are recognized through profit or loss.

Other current liabilities

ElringKlinger agreed on a call and put option with the non-controlling shareholders for their share as part of the agreements with minority interests of ElringKlinger Marusan Corporation, Tokyo, Japan. The obligation that results from this agreement is recognized at the fair value of the shares under other current liabilities with an effect on income. ElringKlinger Marusan is therefore fully consolidated in the ElringKlinger Group; non-controlling interests have not been disclosed.

Derivative financial instruments and hedge accounting

Under IAS 9, all derivative financial instruments such as currency, price and interest swaps as well as forward exchange transactions, must be recognized at market values, independently of the purpose or the intent of the agreement under which they were concluded. Since no hedge accounting is applied in the ElringKlinger Group, the changes in the fair value of the derivative financial instruments are always recognized through profit or loss.

The derivative financial instruments used in the ElringKlinger Group are price hedges. The purpose of derivative financial instruments is to reduce the negative effects of interest and price risks on the financial performance, net assets and cash position of the Group. As of the reporting date, there were forward contracts for electricity and gas.

Costs to fulfil a contract

According to IFRS 15, the costs that are not within the scope of another standard can be recognized as an asset, if the costs relate directly to a contract and generate or enhance resources that will be used in satisfying performance obligations of a contract, and they are expected to be recovered as part of a contract.

Costs to fulfill a contract are determined on the basis of directly attributable individual costs and their proportion of attributable overheads.

The capitalized contract costs are amortized on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer. Amortization is recognized in cost of sales.

Furthermore, costs to fulfill a contract are amortized affecting cash if the carrying amount of an asset exceeds the amount of consideration the entity expects to receive in exchange for providing the associated goods and services, less the remaining costs that relate directly to providing those goods and services.

Contract assets and contract liabilities

A contract asset is the right to consideration in exchange for goods or services already transferred to the customer. Contract assets are reported as receivables when they have been billed.

Contract liabilities are recognized for prepayments received from customers before performing the contractually agreed service. On satisfying the performance obligations, these contract liabilities are recognized as revenue.

Inventories

Inventories are recognized at cost or the lower net realizable value. Raw materials, supplies and consumables as well as merchandise are measured at the average amortized cost. Cost of conversion of work in progress and finished goods is determined on the basis of directly attributable individual costs and their proportion of production overheads. The proportion of overhead cost attributable to these products is determined on the basis of normal staffing levels. Cost of conversion does not include selling expenses and borrowing cost. Administrative expenses are included in cost of conversion if related to production. Net realizable value represents the estimated sales price less all estimated costs through to completion as well as the cost of marketing, sales and distribution. Markdowns are recorded for detectable impairment due to lack of marketability and quality defects, and to account for declining sales prices.

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

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, checks and bank deposits available on demand. There are cash equivalents. Cash is recognized at amortized cost.

Provisions for pensions

Provisions for pensions are calculated on the basis of the projected unit credit method in accordance with IAS 19 (revised 2011). The calculation considers not only the pensions and vested claims known at the end of the reporting period but also future anticipated increases in pensions and salaries, with appropriate estimates of the relevant factors, as well as biometric assumptions, for which different discount rates are used.

Actuarial gains and losses resulting from the difference between the expected and actual accounting changes in headcount, as well as differences arising from changes to accounting assumptions, are recognized in full in the period in which they occur. They are recognized outside of the income statement under other comprehensive income.

In determining the discount interest rates, the company is guided by the interest rates observed in capital markets for corporate bonds with first class credit ratings (AA rating or better) which are denominated in the same currency and have similar terms.

Provisions

Provisions are recorded when a past event gives rise to a present legal or constructive obligation to a third party, utilization of the obligation is probable and the anticipated amount of the obligation can be estimated reliably.

The measurement of these provisions is at the present best estimate of the expenses necessary to fulfill the obligation.

If appropriate, the amount of the provision corresponds to the present value of the expenditures expected to be necessary to meet the obligations.

Refund claims are capitalized separately, if applicable. If the Group expects at least a partial refund for a provision, the refund is recognized under other assets if the return of the refund is virtually certain.

Leases

In lease relationships in which the Group is the lessee, beneficial ownership of the leased items is attributed to the lessee in accordance with IAS 17 to the extent that the lessee bears all risks and rewards associated with ownership of the leased item (finance leases). The depreciation methods and useful lives correspond to those of comparable purchased assets. Leases are generally recognized as such at the inception of the lease at fair value as at the start of the lease or the lower present value of the future minimum lease payments. Initial direct costs are recorded as part of the asset. The lease liabilities, which correspond to the carrying amount of the leased asset, are shown under financial liabilities.

If beneficial ownership under a lease rests with the lessor (operating leases), the lessor recognizes the leased asset in its statement of financial position. The lease expenditures incurred are then recorded as expenses over the term of the lease using the straight-line method.

Lease relationships in which the ElringKlinger Group is the lessor, and for which the lessee does not for the most part bear all risks and rewards associated with ownership, are classified as operating leases. Income from operating lease relationships of the industrial park is recognized as sales revenue.

Recognition of income and expense

Sales revenue is measured at the fair value of the transaction price received or to be received and represents the amounts that are to be obtained for goods and services in the normal course of business. Sales revenue is shown net of sales deductions, discounts and value added taxes.

Sales revenue is recorded when the performances due have been rendered and the control has passed to the buyer and receipt of the payment can be reliably expected.

A portion of income from development services is to be recognized over time because the customer simultaneously receives and consumes the benefits provided by the ElringKlinger Group. The progress of development services is determined using the input method because there is a direct relationship between the effort of the ElringKlinger Group and the transfer of service to the customer. The Group recognizes sales revenue on the basis of the costs incurred relative to the total expected costs to complete the service.

Interest income is recognized on an accrual basis using the effective interest method.

Dividend income from financial investments is recorded at the time the payment claim arises.

Other income is recognized on an accrual basis in accordance with the substance of the underlying contract.

Operating expenses are recorded in the consolidated income statement at the time of performance or at the time of origination.

Research and development costs

Research costs are expensed at the time they are incurred. The costs for development activities are recognized if all the following criteria are satisfied.

- The development costs can be determined reliably.
- The product or the process can be realized technically and commercially.
- Future commercial benefits are likely.
- There is the intent and sufficient resources to complete the development and to use or sell the asset.

Capitalized costs are included under intangible assets. Other development costs are recognized as an expense when incurred. Capitalized development costs are amortized over five years.

Government grants

In accordance with IAS 20, government grants are recognized at fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grant and that the grant will be received.

The Group receives government grants primarily for development projects. These are recorded in income in the period when they are received and reported as other operating income, since the expenses have already been incurred.

Grants that relate to the acquisition or production cost of assets are recognized as deferred income and systematically released to income over the expected useful life of the related asset. The item is disclosed in other current and non-current liabilities.

Borrowing costs

Borrowing costs directly associated with the acquisition, construction, or production of qualifying assets are added to the production costs of these assets until the period in which the assets are largely available for their intended use or for their sale. Interest not capitalized pursuant to IAS 23 is recognized on an accrual basis as an expense using the effective interest method. The actual borrowing costs are capitalized if a financing loan can be definitively assigned to a specific investment. Unless a direct relationship can be established, the Group's average interest rate for borrowed capital for the current period is used. The Group's average interest rate for borrowed capital for financial year 2018 amounted to 1.77% (2017: 1.95%). In financial year 2018, borrowing costs of EUR 232 k (2017: EUR 403 k) were capitalized.

Income taxes and deferred taxes

The income tax expense represents the sum of current tax expense and deferred tax expense.

Current tax expense is determined on the basis of the taxable income for the relevant year. Taxable income differs from earnings before taxes as shown in the income statement, since it excludes expenses and income which will be tax deductible in earlier or later years or those which will never become taxable or tax deductible. The liability of the Group for current tax expense is calculated on the basis of applicable tax rates or tax rates established by law as of the end of the reporting period.

Deferred taxes are the expected tax charges and benefits from the differences in the carrying amounts of assets and liabilities in the tax base of the individual companies compared with the valuations in the consolidated financial statements under IFRS. The balance sheet liability method is applied. Such assets and liabilities are not recognized if the temporary difference is the result of (i) the first-time recognition of goodwill or (ii) the first-time recognition of other assets and liabilities resulting from occurrences (not including business combinations) that do not affect taxable income or earnings before taxes according to the income statement. Deferred taxes are recorded on all taxable temporary differences when it is probable that taxable profits will be available against which the deductible temporary differences can be offset. Otherwise, deferred tax assets are recognized on loss carryforwards to the extent that their future use may be anticipated.

The carrying amount of deferred tax assets is reviewed every reporting date.

Deferred taxes are measured at the future tax rates, i.e., those that are expected to apply at the time of realization.

Changes in deferred tax assets are recognized in the income statement as tax income or expense unless they relate to other comprehensive income or items recognized directly in equity; in these cases, changes in deferred taxes are also reported under other comprehensive income or directly in equity.

Contingent liabilities and contingent receivables

Contingent liabilities are not recognized. They are disclosed in the notes, unless the possibility of an outflow of resources with economic benefit is remote. Contingent receivables are not recognized in the financial statements. If the inflow of economic benefits is probable, they are disclosed in the notes.

Use of estimates

Financial statements are prepared in accordance with the pronouncements of the IASB using estimates which influence valuations of items in the statement of financial position, the nature and the scope of contingent liabilities and contingent receivables as of the end of the reporting period and the amounts of income and expenses in the reporting period. At ElringKlinger, the assumptions and estimates relate mainly to the recognition and measurement of provisions, the measurement of financial liabilities from put options, the measurement of goodwill and the realization of future tax relief. Actual results may deviate from these estimates. Changes are recognized through profit or loss at the time better insights are available.

Warranty obligations may arise by force of law, by contract or for policy reasons. Provisions are recognized for the expected claims arising from warranty obligations. A claim may be expected especially if the warranty period has not yet expired, if warranty expenses have been incurred in the past, or if there is concrete evidence of warranty incidents being imminent. The warranty risk is determined on the basis of the circumstances from individual estimates or from past experience, and appropriate provisions are recognized.

The use of estimates for other items in the group statement of financial position and the group income statement are described in the accounting principles for the respective items. This pertains in particular to the matters: Impairments of goodwill and the measurement of pension provisions.

Risks and uncertainties

As a rule, the global automotive markets develop similarly to the economy in general. This applies even more so to the commercial vehicle segment than to the passenger vehicle segment. If economic development cools down considerably, this represents a risk for demand and ultimately for vehicle production. This could possibly result in lower demand for the product portfolio of the ElringKlinger Group.

According to the assessment as of the reporting date, risks regarding economic development exist in the general slowdown of the global market growth. Risk in this context arises from possible effects of the global trade conflict, particularly between the economic powers USA and China, the consequences of a no-deal exit of the UK from the European Union as well as from a sustained weakening of economic growth in China.

Due to the increase in economic risks, for 2019, economists forecast a general growth deceleration in large economies. According to the International Monetary Fund's forecast, total economic output is expected to fall below 2% in the eurozone. The prospects are looking gloomy in Germany as well: the German economy may grow by just 1.5% in 2019, after 2.5% in the year before. At 2.5%, the expected GDP will also weaken slightly compared to the previous year. An increasing normalization of economic growth can be observed in China – growth rate may nevertheless remain constant above 6%. At the beginning of 2019, the International Monetary Fund forecast global economic growth of 3.5% for the year as a whole.

According to the VDA ["Verband der Automobilindustrie": German Association of the Automotive Industry], 2019 is forecast to be a year of low sales growth, at 1%. While a sideward movement at the level of the previous year is expected for Europe, the US vehicle market is expected to cool down slightly overall. Despite a moderate first half of the year, the majority of the expected growth will be carried by Asia, particularly by the Chinese passenger car market.

ElringKlinger, with its broad customer structure, is neither dependent on individual markets nor on individual manufacturers. Thanks to its global presence with manufacturing and sales locations in the growth regions of the future, the Group is prepared for potential stagnation or declining demand in the traditional vehicle markets.

This means that an economic downturn in one region can at least be partially offset. Thanks to its flexible cost structures, ElringKlinger, in the event of greater economic turmoil, would be in the position to react immediately to the market conditions. The instruments available include flextime accounts and flexible shift models as well as the option to apply for government-sponsored schemes for shorter working hours. In addition, it is possible to react to changing market situations by adjusting the headcount to the demand situation and by merging the production quantities of individual plants. Procurement quantities would be reviewed and adjusted at short notice in close cooperation with the central procurement function and suppliers.

ElringKlinger makes adequate provision for economic risks during the planning stage. A policy of using a cautious macro-economic scenario for budgeting purposes is applied.

Provisions are recognized for risks arising from litigation if an entity of the ElringKlinger Group is the defendant and the weight of evidence supports a negative outcome. The provision is recognized in the amount that the entity will probably lose in the case of a negative outcome. This amount includes any payments to be made by the entity such as compensation or severance pay and the expected costs of the lawsuit. In litigation in which the entity itself is the plaintiff, provisions are set up for the cost of the lawsuit only.

Individual disclosures on the Group Income Statement

1 — Sales revenue

EUR k	2018	2017
Cylinder-head Gaskets	193,482	204,877
Special Gaskets	317,007	299,241
Lightweighting/Elastomer Technology	451,651	383,399
Shielding Technology	400,069	423,047
E-Mobility	24,708	17,967
Exhaust Gas Purification Technology	19,611	52,981
Other	1,190	864
Segment Original Equipment	**1,407,718**	**1,382,376**
Segment Original Equipment	1,407,718	1,382,376
Segment Engineered Plastics	117,824	111,141
Segment Aftermarket	159,497	156,664
Sale of goods	**1,685,039**	**1,650,181**
Sale of goods	1,685,039	1,650,181
Proceeds from the rendering of services	9,659	9,513
Revenue from contracts with customers	1,694,698	1,659,694
Revenue from contracts with customers	1,694,698	1,659,694
Income from rental and leasehold	4,302	4,347
Total	**1,699,000**	**1,664,041**

Breakdown by geographical markets:

EUR k	2018	2017
Revenue from contracts with customers	428,356	426,025
Income from rental and leasehold	189	176
Total Germany	**428,545**	**426,201**
Revenue from contracts with customers	1,266,342	1,233,669
Income from rental and leasehold	4,113	4,171
Total other countries	**1,270,455**	**1,237,840**
Total	**1,699,000**	**1,664,041**

The location of the customer is used to determine allocation of sales revenue. The division of group sales revenue by segment and region is provided under note (35) Segment reporting.

Contract balances

EUR k	Dec. 31, 2018	Jan. 1, 2018
Trade receivables	306,351	302,621
Contract assets	7,616	7,112
Contract liabilities	**13,083**	7,230

Sales revenue of EUR 7,230 k was recorded in the reporting period, which, at the beginning of the financial year, was included in contract liabilities.

A contract asset is the right to consideration in exchange for goods or services already transferred to the customer. This mainly takes place through sales revenue that is to be recognized over time. Contract assets are reported as receivables when billed. This is generally performed on a short-term basis within a month.

Contract liabilities include long-term prepayments for customer-specific provisions of additional production capacity and short-term prepayments for customer-specific tools. The increase in contract liabilities in 2018 was due to the EUR 2,614 k long-term advances received from customers during the year.

Reconciliation of contract balances

The changes in contract assets and contract liabilities in the reporting period result from the following matters:

EUR k	Contract assets 2018	Contract liabilities 2018
Revenue that was included in the contract liability balance at the beginning of the period		7,230
Reclassification of contract assets reported at the beginning of the reporting period to trade receivables	5,737	
Additions from payments received less amounts reported as sales revenue in the reporting period		13,083
Additions from performance completed not yet billed in the reporting period	6,241	
Total	**7,616**	**13,083**

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as of December 31 is as follows:

EUR k	Dec. 31, 2018
Within one year	3,426
More than one year	3,740

Limited variable consideration is not taken into account in the disclosed amounts. Furthermore, no information is included for performance obligations from contracts with an expected original term of a maximum of one year. Similarly, no disclosures on performance obligations are included that are satisfied over a certain period and for which the entitlement of a consideration is equivalent to the amount that corresponds directly to the value of the performance already completed and for which revenue can be realized to that amount that can be billed.

2 — Cost of sales

The cost of sales shows the costs incurred to obtain the sales revenue.

Cost of sales includes:

EUR k	2018	2017
Cost of materials	746,994	680,856
Personnel expenses	362,368	338,214
Depreciation and amortization	88,572	89,807
Reversal of costs to fulfill a contract	123	0
Other expenses	130,860	146,754
Total	**1,328,917**	**1,255,631**

3 — Selling expenses

Selling expenses increased by EUR 4,657 k compared to 2017 to reach EUR 146,516 k. Selling expenses mainly include personnel expenses, material and marketing costs, as well as depreciation and amortization related to sales activities.

4 — General and administrative expenses

General and administrative expenses primarily include personnel expenses and material costs as well as the depreciation and amortization related to the administrative area. General and administrative expenses rose by EUR 7,129 k compared to 2017 to reach EUR 84,046 k.

5 — Research and development costs

Research and development costs include the personnel expenses and the cost of experimental materials and tools attributable to these activities, unless these are development costs that are required to be capitalized under the conditions set forth in IAS 38.57. Compared to 2017, research and development costs increased by EUR 4,729 k to EUR 76,115 k. Development costs of EUR 11,073 k (2017: EUR 4,529 k) were capitalized in financial year 2018.

6 — Other operating income

EUR k	2018	2017
Income from first-time consolidation	25,508	0
Government grants	5,348	7,578
Reimbursements from third parties	4,217	4,333
Insurance reimbursements/claims reimbursements	2,187	10,961
Other taxes (excl. income tax)	1,873	1,060
Reversal of provisions/deferred liabilities	1,620	2,509
Income from disposals of non-current assets	291	195
Reversal of impairments on receivables	259	794
Other	4,296	3,812
Total	**45,599**	**31,242**

7 — Other operating expenses

EUR k	2018	2017
Other taxes (excl. income tax)	4,141	4,672
Impairment of receivables	2,136	1,499
Recognition of provisions/deferred liabilities	968	426
Expenditures for claims	928	1,068
Other fees	885	714
Selling costs for machinery	556	115
Defaults on receivables	359	346
Losses on disposal of non-current assets	244	1,541
Other	2,607	1,790
Total	**12,824**	**12,172**

8 — Associates

ElringKlinger holds a share of 28.89% in hofer AG, Nürtingen. The hofer Group is a competent systems developer for drive train systems in the automotive sector. ElringKlinger uses the equity method to account for its share in hofer AG in the consolidated financial statements. The following table provides summarized information of the Group's investment in hofer AG.

EUR k	2018	2017
Non-current assets	52,297	45,078
Current assets	35,789	32,707
Non-current liabilities	15,403	17,412
Current liabilities	29,131	15,862
Net assets	**43,552**	**44,511**
Group share (28.89%)	12,582	12,859
Goodwill	15,704	15,704
Impairment loss	-5,012	0
Carrying amount of the Group's share	**23,274**	**28,563**
Sales revenue	65,465	46,794
Comprehensive income for the financial year	**-938**	**-1,571**
Other comprehensive income	22	0
Group share in profit/loss (28.89%)	**-271**	**-454**
Dividends received	**0**	**0**

The associate had no contingent liabilities or capital commitments as of December 31, 2018.

According to IAS 28.42, the total carrying amount of the investment in an associate pursuant to IAS 36 is tested for impairment as a single asset. The regular testing for impairment is performed as of the closing date on December 31. Here the recoverable amount of the net investment is compared to its carrying amount. Recoverable amount is measured at value in use. The value in use of the net investment is determined by discounting future cash flows expected to be generated by the associate.

This calculation is based on the following key assumptions:

A detailed plan of the cash flows is established over a forecast period of five years. Subsequent periods are accounted for by a perpetual annuity (terminal value) determined on the basis of the last detailed planning year.

The discount factor applied as of December 31, 2018 was the weighted average cost of capital (WACC) before taxes of 10.61% (2017: 10.54%). The WACC is determined on the basis of the risk-free rate according to the method of the IDW ["Institut der Wirtschaftsprüfer in Deutschland e.V., Düsseldorf": Institute of Public Auditors in Germany, Düsseldorf], the market risk premium and the beta factor. Beta represents the individual risk of a share as compared to a market index. It is calculated as the average value for the peer group. The credit spread, which expresses the premium over the risk-free rate, was derived from a rating of a peer group.

The test for impairment performed as of December 31, 2018 revealed that the recoverable amount of the net investment (2018: EUR 20,530 k) is lower than the carrying amount, resulting in the need to recognize an impairment loss of EUR 5,012 k (2017: EUR 0 k). The decrease of the recoverable amount is mainly attributable to the current assessment by management in the form of its updated planning. Necessary investments contained in the business plan were taken into account. hofer AG is assigned to the Original Equipment segment.

9 — Net finance costs

EUR k	2018	2017
Financial income		
Income from currency differences	27,796	20,380
Interest income	500	512
Income from a put option	4,861	0
Other	0	8
Finance income, total	**33,157**	**20,900**
Finance costs		
Expenses from currency difference	-26,977	-31,471
Interest expenses	-15,569	-13,611
Other	-62	-2,628
Finance costs, total	**-42,608**	**-47,710**
Share of result of associates	**-5,283**	**-454**
Net finance costs	**-14,734**	**-27,264**

Of the interest expenses, EUR 2,285 k (2017: EUR 2,281 k) relates to interest portions of pension plans and the remainder to bank interest and interest expense from the reversal of discounts on non-current provisions. Borrowing costs for qualifying assets in the amount of EUR 232 k were capitalized in the reporting year (2017: EUR 403 k); this represents a corresponding improvement in the result. Interest expenses for finance leases are immaterial.

10 — Income taxes

Income taxes break down as follows:

EUR k	2018	2017
Current tax expense	27,301	39,996
Deferred taxes	6,242	-3,722
Tax expense reported	**33,543**	**36,274**

The income taxes consist of corporation and municipal trade taxes including the solidarity surcharge of the domestic Group companies as well as comparable income taxes of the foreign Group companies.

The income tax rate calculated for the German companies is 29.6% (2017: 29.6%). Foreign taxation is calculated at the rates applicable in the countries concerned and lies between 9.0% and 34.7% (2017: between 9.0% and 34.7%). The average foreign tax rate is 23.7% (2017: 24.8%).

Deferred taxes are calculated by applying the applicable tax rates or tax ratios established by law in the different countries at the time of realization based on the accounting policies above.

The following table shows a reconciliation between the income tax expense that might theoretically be expected to arise for the Group under application of the current domestic rate of 24.9% (2017: 25.7%) and the income tax expense actually reported.

EUR k	2018	2017
Earnings before taxes	81,446	110,054
Expected tax rate	**24.9%**	**25.7%**
Expected tax expenses	**20,272**	**28,240**
Change in the expected tax rate due to:		
– Permanent differences	-6,610	251
– Difference in basis of assessment of local taxes	1,084	400
– Use of non-capitalized or forfeiture of capitalized tax loss carryforwards	-932	-599
– Reversal/impairment loss of capitalized tax loss carryforwards (from other periods)	0	0
– Addition to non-current tax loss carryforwards (relating to the period)	13,286	6,143
– Taxes relating to other periods	446	-3,679
– Deviations due to changes in tax rate	5,219	4,515
– Deviations on account of withholding taxes	783	989
– Other effects	-5	14
Current tax expense	**33,543**	**36,274**
Actual tax rate	**41.2%**	**33.0%**

Retained earnings of EUR 26,147 k (2017: EUR 23,004 k) at domestic and foreign subsidiaries will be distributed to ElringKlinger AG in the coming years. The tax expense on distributions in Germany amounts to EUR 1,083 k (2017: EUR 986 k) and was recorded as a deferred tax liability. Further retained earnings of domestic and foreign subsidiaries of EUR 229,943 k (2017: EUR 184,087 k) are intended to be permanently reinvested in those operations on the basis of current planning.

Deferred tax assets on tax loss carryforwards have been recognized in the amount of EUR 12,176 k (2017: EUR 12,621 k). No deferred tax assets were recognized in respect of tax loss carryforwards amounting to EUR 128,442 k (2017: EUR 67,541 k), since it was not expected that the deferred tax assets would be utilized in the foreseeable future.

Unused income tax loss carryforwards primarily relate to foreign subsidiaries. The loss carryforwards not recognized for tax purposes will be forfeited as follows:

Loss carryforwards are forfeited within

EUR k	Dec. 31, 2018	Dec. 31, 2017
One year	0	0
Two years	0	0
Three years	0	356
Four years	1,071	880
Five years	11,814	1,288
More than five years	76,250	50,535
Non-forfeitable	39,307	14,482
Total	**128,442**	**67,541**

Tax deferrals relate to the following line items:

Line items EUR k	Deferred tax assets Dec. 31, 2018	Deferred tax assets Dec. 31, 2017	Deferred tax liabilities Dec. 31, 2018	Deferred tax liabilities Dec. 31, 2017
Intangible assets	871	708	8,339	8,357
Property, plant and equipment	4,465	4,033	36,593	37,032
Investment properties	82	82	1,959	1,949
Financial assets	7	4	0	0
Other non-current assets	73	105	1,362	2
Inventories	4,758	5,079	103	858
Current contract assets	0	0	1,259	0
Trade receivables	1,464	1,005	213	162
Other current assets	328	8	2,171	2,599
Cash and cash equivalents	0	0	0	6
Provisions for pensions	20,587	22,399	0	483
Non-current provisions	2,833	2,230	0	0
Non-current financial liabilities	28	35	170	905
Other non-current liabilities	458	547	70	44
Current provisions	1,373	4,944	0	0
Trade payables	195	17	96	255
Current financial liabilities	1,320	28	2,061	441
Other current liabilities	1,912	2,691	594	1,008
Deferred taxes associated with investments in subsidiaries	0	0	1,083	986
Tax loss carryforwards	12,176	12,621	0	0
Reclassification to assets held for sale	0	-1,002	0	-2,464
Total	**52,930**	**55,534**	**56,073**	**52,623**
Offsetting of deferred tax assets against deferred tax liabilities	-41,125	-38,548	-41,125	-38,548
Recognized in the statement of financial position	**11,805**	**16,986**	**14,948**	**14,075**

Deferred taxes totaling EUR -266 k (2017: EUR -1,706 k) were recognized in other comprehensive income. Of this amount EUR -1,115 k (2017: EUR -1,505 k) relates to pension provisions and EUR 849 k (2017: EUR -201 k) to net investments.

11 — Basic and diluted earnings per share

To obtain the basic earnings per share, the period profit attributable to the shareholders of the parent company is divided by the number of individual shares.

Diluted earnings per share correspond to basic earnings per share and are calculated as follows:

	2018	2017
Profit/loss attributable to the shareholders of ElringKlinger AG (EUR k)	43,835	69,930
Average number of shares	63,359,990	63,359,990
Earnings per share in EUR	**0.69**	**1.10**

Disclosures on the Group Statement of Financial Position

12 — Intangible assets

EUR k	Development costs (internally developed)	Goodwill (purchased)	Patents, licenses, software and similar rights (purchased)	Intangible assets under construction (purchased)	Total
Acquisition/production cost as of Jan. 1, 2018	**44,205**	**169,765**	**57,767**	**815**	**272,552**
Adjustment carryforward new standards	0	0	-9,699	0	-9,699
Acquisition/production cost as of Jan. 1, 2018	**44,205**	**169,765**	**48,068**	**815**	**262,853**
Currency changes	623	1,925	-36	0	2,512
Change in consolidated group	-451	-363	-305	0	-1,119
Additions	11,073	0	2,949	1,039	15,061
Reclassifications	0	0	622	-468	154
Disposals	6,455	0	368	0	6,823
Reclassification to assets held for sale	0	0	0	0	0
As of Dec. 31, 2018	**48,995**	**171,327**	**50,930**	**1,386**	**272,638**
Depreciation as of Jan. 1, 2018	**29,907**	**13,409**	**38,696**	**0**	**82,012**
Adjustment carryforward new standards	0	0	-5,555	0	-5,555
Depreciation as of Jan. 1, 2018	**29,907**	**13,409**	**33,141**	**0**	**76,457**
Currency changes	522	114	-45	0	591
Change in consolidated group	0	0	-255	0	-255
Additions	6,232	0	5,902	0	12,134
Reclassifications	0	0	0	0	0
Disposals	6,230	0	366	0	6,596
Reclassification to assets held for sale	0	0	0	0	0
As of Dec. 31, 2018	**30,431**	**13,523**	**38,377**	**0**	**82,331**
Net carrying amount as of Dec. 31, 2018	**18,564**	**157,804**	**12,553**	**1,386**	**190,307**

EUR k	Development costs (internally developed)	Goodwill (purchased)	Patents, licenses, software and similar rights (purchased)	Intangible assets under construction (purchased)	Total
Acquisition/production cost as of Jan. 1, 2017	**50,567**	**180,628**	**81,404**	**1,156**	**313,755**
Currency changes	-1,774	-5,973	-1,489	0	-9,236
Change in consolidated group	0	1,381	615	0	1,996
Additions	4,529	0	5,330	815	10,674
Reclassifications	0	0	1,190	-1,156	34
Disposals	6,523	0	17,036	0	23,559
Reclassification to non-current assets held for sale	2,594	6,271	12,247	0	21,112
As of Dec. 31, 2017	**44,205**	**169,765**	**57,767**	**815**	**272,552**
Depreciation as of Jan. 1, 2017	**30,977**	**13,793**	**56,545**	**0**	**101,315**
Currency changes	-1,231	-384	-1,305	0	-2,920
Additions	7,865	0	10,192	0	18,057
Reclassifications	0	0	-30	0	-30
Disposals	6,591	0	17,028	0	23,619
Reclassification to non-current assets held for sale	1,113	0	9,678	0	10,791
As of Dec. 31, 2017	**29,907**	**13,409**	**38,696**	**0**	**82,012**
Net carrying amount as of Dec. 31, 2017	**14,298**	**156,356**	**19,071**	**815**	**190,540**

Purchase commitments to acquire intangible assets amounted to EUR 339 k as of December 31, 2018 (December 31, 2017: EUR 1,132 k).

All amortization of intangible assets is contained under the following line items in the income statement:

EUR k	2018	2017
Cost of sales	6,752	11,938
Selling expenses	3,170	3,935
General and administrative expenses	978	805
Research and development costs	1,234	1,379
Total	**12,134**	**18,057**

13 — Property, plant and equipment

EUR k	Land and buildings	Plant and machinery	Other equipment, furniture and fixtures	Property, plant and equipment under construction	Total
Acquisition/production cost as of Jan. 1, 2018	**473,383**	**1,049,277**	**193,340**	**89,854**	**1,805,854**
Adjustment carryforward new standards	0	-3,925	0	0	-3,925
Acquisition/production cost as of Jan. 1, 2018	**473,383**	**1,045,352**	**193,340**	**89,854**	**1,801,929**
Currency changes	2,146	4,722	84	-689	6,263
Change in consolidated group	-67	-873	-797	0	-1,737
Additions	8,568	51,705	8,384	94,296	162,953
Reclassifications	18,811	44,332	9,434	-72,731	-154
Disposals	110	7,788	3,629	3	11,530
Reclassification Assets held for sale	6,194	0	0	0	6,194
As of Dec. 31, 2018	**496,537**	**1,137,450**	**206,816**	**110,727**	**1,951,530**
Depreciation as of Jan. 1, 2018	**100,543**	**652,256**	**123,485**	**0**	**876,284**
Adjustment carryforward new standards	0	-1,694	0	0	-1,694
Depreciation as of Jan. 1, 2018	**100,543**	**650,562**	**123,485**	**0**	**874,590**
Currency changes	672	2,542	17	0	3,231
Change in consolidated group	-4	-303	-395	0	-702
Additions	12,493	60,576	14,684	0	87,753
Reclassifications	0	1	-1	0	0
Disposals	107	7,476	3,374	0	10,957
Reclassification to assets held for sale	228	0	0	0	228
As of Dec. 31, 2018	**113,369**	**705,902**	**134,416**	**0**	**953,687**
Net carrying amount as of Jan. 1, 2018	**383,168**	**431,548**	**72,400**	**110,727**	**997,843**

EUR k	Land and buildings	Plant and machinery	Other equipment, furniture and fixtures	Property, plant and equipment under construction	Total
Acquisition/production cost as of Jan. 1, 2017	**465,422**	**1,006,196**	**182,403**	**108,066**	**1,762,087**
Currency changes	-16,550	-35,566	-3,396	-6,321	-61,833
Change in consolidated group	0	2	50	0	52
Additions	18,272	51,312	15,022	69,116	153,722
Reclassifications	24,463	49,130	7,376	-81,003	-34
Disposals	2,019	7,666	5,024	0	14,709
Reclassification to non-current assets held for sale	16,205	14,131	3,091	4	33,431
As of Dec. 31, 2017	**473,383**	**1,049,277**	**193,340**	**89,854**	**1,805,854**
Depreciation as of Jan. 1, 2017	**94,515**	**631,990**	**118,264**	**0**	**844,769**
Currency changes	-2,967	-19,728	-1,611	0	-24,306
Additions	11,488	57,540	13,408	0	82,436
Reclassifications	0	14	16	0	30
Disposals	528	6,780	4,631	0	11,939
Reclassification to non-current assets held for sale	1,965	10,780	1,961	0	14,706
As of Dec. 31, 2017	**100,543**	**652,256**	**123,485**	**0**	**876,284**
Net carrying amount as of Dec. 31, 2017	**372,840**	**397,021**	**69,855**	**89,854**	**929,570**

Property, plant and equipment contains technical equipment capitalized by the Group as finance leases in the amount of EUR 416 k (2017: EUR 550 k). In the financial year, amortization of leased assets amounted to EUR 145 k (2017: EUR 191 k).

As in the previous year, no impairment losses were recognized on property, plant and equipment in financial year 2018.

Purchase commitments to acquire property, plant and equipment from third parties amounted to EUR 35,283 k as of December 31, 2018 (December 31, 2017: EUR 44,277 k).

14 — Investment property

EUR k	Investment property	Investment property under construction	Total
Acquisition/production cost as of Jan. 1, 2018	**28,293**	**99**	**28,392**
Currency changes	-652	-3	-655
Additions	544	10	554
Reclassifications	0	0	0
As of Dec. 31, 2018	**28,185**	**106**	**28,291**
Depreciation as of Jan. 1, 2018	**11,362**	**0**	**11,362**
Currency changes	-197	0	-197
Additions	559	0	559
As of Dec. 31, 2018	**11,724**	**0**	**11,724**
Net carrying amount as of Dec. 31, 2018	**16,461**	**106**	**16,567**
Acquisition/production cost as of Jan. 1, 2017	**26,335**	**273**	**26,608**
Currency changes	-28	0	-28
Additions	0	1,812	1,812
Reclassifications	1,986	-1,986	0
As of Dec 31, 2017	**28,293**	**99**	**28,392**
Depreciation as of Jan. 1, 2017	**10,786**	**0**	**10,786**
Currency changes	-10	0	-10
Additions	586	0	586
As of Dec. 31, 2017	**11,362**	**0**	**11,362**
Net carrying amount as of Dec. 31, 2017	**16,931**	**99**	**17,030**

Investment property includes the Idstein and Kecskemét-Kádafalva (Hungary) industrial parks.

Investment property has a fair value of EUR 25,615 k as of the reporting date (2017: EUR 25,753 k). The input data used to determine the fair value correspond to stage 3 of the fair value hierarchy. The fair value is determined using the discounted cash flow method and official valuations. Under the discounted cash flow method, the surplus of expected future rental payments over the expected cash expenses is discounted to the valuation date. The discount rate used for the Idstein industrial park was 3.22% (2017: 3.18%) and 6.52% for the Kecskemét-Kádafalva industrial park (2017: 6.09%). Measurement of the fair values was not performed by an independent expert.

All investment property is rented out under operating leases. The resulting rental income came to EUR 4,302 k (2017: EUR 4,347 k). Expenses directly connected with these financial investments amounted to EUR 4,508 k (2017: EUR 5,377 k). Material contractual commitments to acquire or maintain investment property did not exist as of the end of the reporting period. Furthermore, there were no limitations regarding the salability of investment property.

15 Financial assets and shares in associates

EUR k	Investments in associates	Non-current securities	Other financial investments	Total
Acquisition cost as of Jan. 1, 2018	**28,563**	**1,083**	**16**	**29,662**
Currency changes	-5	7	0	2
Additions	0	0	2,000	2,000
Changes in value	-272	-37	0	-309
Disposals	0	324	0	324
As of Dec. 31, 2018	**28,286**	**729**	**2,016**	**31,031**
Depreciation as of Jan. 1, 2018	**0**	**63**	**0**	**63**
Currency changes	0	0	0	0
Additions	5,012	19	0	5,031
Changes in value	0	0	0	0
Disposals	0	0	0	0
As of Dec. 31, 2018	**5,012**	**82**	**0**	**5,094**
Net carrying amount as of Dec. 31, 2018	**23,274**	**647**	**2,016**	**25,937**
Fair value Dec. 31, 2018		647	2,016	
Acquisition cost as of Jan. 1, 2017	**0**	**1,085**	**16**	**1,101**
Currency changes	0	-6	0	-6
Additions	29,017	206	0	29,223
Revaluations	-454	2	0	-452
Disposals	0	204	0	204
As of Dec. 31, 2017	**28,563**	**1,083**	**16**	**29,662**
Depreciation as of Jan. 1, 2017	**0**	**72**	**0**	**72**
Currency changes	0	0	0	0
Additions	0	3	0	3
Revaluations	0	-9	0	-9
Disposals	0	3	0	3
As of Dec. 31, 2017	**0**	**63**	**0**	**63**
Net carrying amount as of Dec. 31, 2017	**28,563**	**1,020**	**16**	**29,599**
Fair value Dec. 31, 2017		1,020	16	

Of the non-current securities, EUR 549 k (2017: EUR 829 k) is pledged in full to secure pension claims.

16 — Non-current income tax assets and other non-current assets

Non-current income tax assets include an investment income tax credit carried by ElringKlinger Automotive Components (India) Pvt. Ltd. of EUR 98 k.

Other non-current assets also include a receivable due to a warranty event of EUR 4,500 k. This was recognized in current assets in the previous year.

17 — Costs to fulfill a contract

The requirement to capitalize costs associated with performing contracts with customers if certain requirements pursuant to IFRS 15 are fulfilled resulted in a remeasurement through other comprehensive income of EUR 665 k as of January 1, 2018. As of December 31, 2018, the carrying amount stood at EUR 5,427 k.

18 — Non-current and current contract assets

Due to the transition to IFRS 15 as of January 1, 2018, there was a remeasurement effect from the first-time recognition of assets of EUR 7,112 k through other comprehensive income. As of December 31, 2018, the carrying amount stood at EUR 7,616 k. No significant events for impairment pursuant to IFRS 9 were identified.

19 — Inventories

EUR k	Dec. 31, 2018	Dec. 31, 2017
Raw materials, consumables and supplies	132,344	116,421
Work in progress	78,537	72,686
Finished goods and merchandise	172,305	171,215
Advance payments	18,205	9,225
Total	**401,391**	**369,547**

Impairments of EUR 16,910 k were recognized on inventories due to market risks and obsolescence (2017: EUR 12,145 k). Impairments and write-ups of inventories are recognized in cost of sales.

20 — Trade receivables, current income and other current assets

For trade receivables, valuation allowances of EUR 3,492 k (2017: EUR 5,760 k) were recognized for future credit risks.

The carrying amount of the trade receivables and other assets corresponds to their fair values. The adjustment of valuation allowances as part of the first-time application of IFRS 9 of EUR 3,118 k was recognized through other comprehensive income in revenue reserves.

Trade receivables do not bear interest and are generally due in 30 to 120 days.

Movements in the valuation allowance for trade receivables are presented in the table below:

EUR k	2018	2017
IFRS 9 – Financial Instruments	-3,118	0
As of Jan. 1	2,642	5,767
Transfer in provisions	-358	0
Addition	2,136	1,163
Reversals/utilizations	-259	-672
Change of risk parameters (IFRS 9)	-453	0
Exchange rate effects	-216	-180
Reclassification to assets held for sale	0	-318
As of Dec. 31	**3,492**	**5,760**

In the reporting period, receivables with a carrying amount of EUR 359 k (2017: EUR 346 k) were written-down, which are currently being enforced.

As part of the first-time application of IFRS 9, a new impairment model for trade receivables was introduced in 2018. The new impairment model takes into account the expected credit losses (expected credit loss model), where mainly forward-looking information is used. This represents a significant change from the previously applied model (incurred credit loss model). A suitable model was developed to implement the new impairment provisions.

ElringKlinger applies the simplified impairment model of IFRS 9 and considers the lifetime expected losses from all receivables and active contract items.

The ratings from Standard & Poors (S&P) or other well-known rating agencies are used as the basis for the new impairment model. Future impairments are determined using these ratings and with the help of probability of default, also published by S&P.

The risk categories used for the model are also used as internal risk categories:

Internal credit rating	External rating by S&P	Probability of default	Basis of recognition of risk provision	Gross carrying amount
High creditworthiness	AAA – A	0.0%	Lifetime expected credit loss	53,334
Medium creditworthiness	BBB – B	0.0% – 9.4%	Lifetime expected credit loss	256,509
Low creditworthiness	CCC – C	9.4% – 26.3%	Lifetime expected credit loss	–
Default	D	100.0%	Write-down of asset	2,748
Risk provision pursuant to IFRS 9				744
Total				**306,351**

The differences for former calculations of valuation allowances determined during the first-time application of the model of EUR 3,118 k were recognized as of January 1, 2018, in revenue reserves.

Other current assets include tax receivables from VAT and other taxes of EUR 16,985 k (2017: EUR 14,692 k), time deposits and securities of EUR 5,259 k (2017: EUR 4,892 k) and other receivables from third parties of EUR 26,188 k (2017: EUR 28,509 k), of which EUR 6,110 k (2017: EUR 2,573 k) relates to financial assets and EUR 12 k (2017: EUR 176 k) to financial derivatives.

Current income tax assets mainly contain the corporate income tax credits of ElringKlinger Mexico, S.A. de C.V. of EUR 4,076 k (2017: EUR 3,163 k) and ElringKlinger TR Otomotiv Sanayi ve Ticaret A.S. of EUR 1,494 k (2017: EUR 838 k) as well as of ElringKlinger AG of EUR 1,989 k (2017: EUR 1,715 k).

21 — Cash and cash equivalents

The item cash and cash equivalents comprises cash and deposits held by the Group in current accounts. As in the previous year, there were no cash equivalents. No significant events for impairment pursuant to IFRS 9 were identified.

The carrying amount of these assets corresponds to their fair value.

22 — Assets and liabilities held for sale

As of December 31, 2018, a right similar to land rights was disclosed in assets held for sale. An amortization on the fair value was performed. Sale is planned during 2019.

In accordance with IFRS 5, the assets and liabilities of HUG Engineering AG and those of its four subsidiaries were reclassified to assets and liabilities held for sale in the previous year. In December 2017 the Group reached an agreement with a French automotive supplier on the sale of the Hug Group with registered offices in Elsau, Switzerland. The 93.67% share that ElringKlinger held in Hug Engineering AG was transferred in full to the contracting party. The transaction was completed on February 28, 2018, with effect as of March 1, 2018.

EUR k	Dec. 31, 2018	Dec. 31, 2017
Intangible assets	0	10,316
Property, plant and equipment	5,966	18,813
Deferred tax assets	0	1,002
Non-current assets	**5,966**	**30,131**
Inventories	0	13,515
Trade receivables	0	11,653
Current income tax refund claims	0	133
Other current assets	0	3,763
Cash and cash equivalents	0	2,577
Current assets	**0**	**31,641**
ASSETS	**5,966**	**61,772**
Provisions for pensions	0	5,018
Non-current provisions	0	587
Deferred tax liabilities	0	2,464
Non-current provisions and liabilities	**0**	**8,069**
Current provisions	0	1,177
Trade payables	0	1,088
Current financial liabilities	0	5,302
Tax payable	0	2,703
Other current liabilities	0	5,408
Current provisions and liabilities	**0**	**15,678**
EQUITY AND LIABILITIES	**0**	**23,747**

23 — Equity

The changes in individual items of equity in the Group are shown separately in the "Statement of changes in equity".

The share capital of ElringKlinger AG amounted to EUR 63,359,990 as of December 31, 2018 and is divided into 63,359,990 registered shares, each entitled to a single vote. The share capital is paid in full. Each registered share represents a theoretical interest of EUR 1.00 of the share capital. Profit is distributed in accordance with Sec. 60 AktG ["Aktiengesetz": German Stock Corporation Act] in conjunction with Sec. 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 more 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 Sec. 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 in exclusion of shareholders' subscription rights in direct or indirect application of Sec. 186 (3) sentence 4 AktG.

The Management Board has not exercised the authorization to date.

The capital reserves were essentially created from the premium from the 2010 capital increase.

The revenue reserves contain the earnings generated by the group companies which have not yet been distributed. There is also an amount of EUR 26,181 k arising from the first application of IFRSs in 2005.

Other reserves contain actuarial gains and losses from pension commitments, equity impact of controlling interests and currency translation differences.

Under the AktG, the distributable dividend is measured by the sum of retained earnings and the profit or loss for the year, as shown in the annual financial statements of ElringKlinger AG that have been drawn up according to the provisions of the German Commercial Code (HGB). In financial year 2018, ElringKlinger AG distributed to its shareholders a dividend of EUR 31,680 k (EUR 0.50 per share) from the retained earnings reported in 2017. A net retained profit of EUR 5,291 k (2017: net retained profit of EUR 31,680 k) is reported in financial year 2018. On the basis of the earnings situation in the current financial year, the Management Board and the Supervisory Board have jointly decided to deviate from the current dividend policy and not distribute dividends for financial year 2018.

24 — Non-controlling interests in equity and net income

ElringKlinger AG holds less than 100% of the shares in some of the companies that have been included in the consolidated financial statements. In accordance with IFRS 10, the relevant non-controlling interests are reported under equity in the group statement of financial position, separately from the equity attributable to the shareholders of the parent company. Similarly, non-controlling interests in the net income and in total comprehensive income are reported separately in the group income statement and in the consolidated statement of comprehensive income.

25 — Provisions for pensions

The pension obligations of most of the Group's foreign companies mainly take the form of defined contribution plans while in the case of domestic companies and the group company in Switzerland, pension obligations take the form of defined benefit and defined contribution plans.

Under the **defined contribution plans** the company pays contributions to state or private pension schemes on the basis of statutory or contractual obligations or on a voluntary basis. Once the contributions are paid, the company has no further obligations, such as follow-up contribution payments. Current contribution payments are reported under personnel expenses in the reporting year; in the reporting year, the Group's contribution payments totaled EUR 25,554 k (2017: EUR 24,168 k) and are allocated to the relevant function costs.

The Group accounts for **defined benefit plans** by creating provisions for pensions that are calculated using the projected unit credit method pursuant to IAS 19. Under the defined benefit plans, the employees receive life-long pension payments once they have reached a certain age or suffered disability. In addition, surviving dependents also receive benefits. The amount of the benefit is determined by the length of service with the company and the employee's terminal salary. For employees subject to collective bargaining, the eligible service period is limited to 30 years. For executive employees, the benefit is limited to 35% or 45% of the terminal salary, whereby in certain cases the benefits from prior commitments do not count towards this limit.

In 2011, the ElringKlinger AG's pension system was partially modified. In order to secure pension payments going forward, the obligations to certain executive employees were transferred to Allianz Pensionsfonds AG, Stuttgart, and a provident fund covered by plan assets, Allianz Pensions-Management e.V., Stuttgart. This does not affect the amount of benefits. The assets held by the pension fund constitute plan assets as defined by IAS 19.8 and are thus netted with the obligation to the beneficiaries.

The pension plans of the Swiss Group company insure employees against the economic consequences of old age, disability and death. The pension benefits not covered by plan assets are covered by employer's pension liability insurance. No shortfall can arise from an agreement on an insured pension fund.

The obligations from the benefits granted are subject to certain risks. The main risks are interest rate risks, where falling market interest rates lead to a higher present value of the obligation in the future, inflation risks, which may lead to higher pension benefits and longevity risks where benefits are paid over a period longer than the one assumed in the mortality tables.

The following assumptions were used as a basis for measuring the Group's obligations.

Measurement as of	Dec. 31, 2018	Dec. 31, 2017
Discount rate (vesting period)	1.78%	1.48%
Discount rate (pension period)	1.46%	1.28%
Expected salary increases (in %)	2.67%	2.44%
Future pension increases	1.52%	1.51%

The changes in the present value of the defined benefit obligation are as follows:

EUR k	2018	2017
Present value of pension benefits as of Jan. 1	**152,879**	**181,611**
Current service cost	5,508	6,902
Past service cost	161	154
Plan participant contributions	2,580	5,463
Interest expense	2,285	2,281
Disbursements/utilization	-8,216	-10,915
Actuarial gains/losses	-3,557	-5,627
Currency differences	1,170	-4,566
Other changes	156	68
Liabilities in connection with assets held for sale	0	-22,492
Present value of pension benefits as of Dec. 31	**152,966**	**152,879**
of which (partially) covered by plan assets	49,731	48,865
of which not covered	103,235	104,014

The average weighted term of the defined benefit obligation amounts to 18 years (2017: 18 years). Actuarial gains and losses arise from the following effects:

EUR k	2018	2017
Effects from changes in the interest rate	-3,200	-2,895
Effects from changes in demographic assumptions	191	-2,284
Effects from other experience-based adjustments	-548	-448
Actuarial gains/losses	**-3,557**	**-5,627**

The table below shows the changes to the plan assets over the course of the financial year:

EUR k	2018	2017
Market value as of Jan. 1	**26,880**	**45,049**
Interest income	281	348
Employer contributions	2,397	3,824
Plan participant contributions	2,580	5,463
Service costs	-4,311	-7,167
Actuarial gains/losses	-9	78
Currency effects	747	-3,241
Liabilities in connection with assets held for sale	0	-17,474
Market value as of Dec. 31	**28,565**	**26,880**

Plan assets comprise insurance claims. The plan assets and present values of defined benefit obligations are allocated to key countries as follows:

EUR k	2018	2017
Present value of pension benefits as of Dec. 31		
Germany	120,371	122,321
Switzerland	27,127	25,997
Other	5,468	4,561
Present value of pension benefits as of Dec. 31	**152,966**	**152,879**
Market value of plan assets as of Dec. 31		
Germany	7,762	7,438
Switzerland	20,414	19,136
Other	389	306
Market value of plan assets as of Dec. 31	**28,565**	**26,880**

The actual return on plan assets amounts to EUR 272 k (2017: EUR 409 k).

In 2019, liquidity is likely to be reduced due to contributions to plan assets and the reimbursement rights and by direct Group benefit payouts, which are expected to amount to EUR 5,149 k (2017: EUR 5,595 k). The future payments from pension obligations are as follows:

EUR k	2018	2017
For the next 12 months	5,149	5,595
Between one and five years	69,291	70,643
More than five years	271,684	264,761

The following amounts are reported in the income statement for defined benefit plans:

EUR k	2018	2017
Current service cost	5,508	6,902
Net interest expenses	2,004	1,933
Past service cost	161	154
Total pension expense	**7,673**	**8,989**

Net interest expenses comprise interest expenses of EUR 2,285 k (2017: EUR 2,281 k) as well as interest income from plan assets of EUR 281 k (2017: EUR 348 k).

The current service cost and past service costs are reported as part of the personnel expenses of the functional areas.

The full amount of actuarial gains and losses during the current year is reported under other comprehensive income. Changes are shown in the table below:

EUR k	2018	2017
Actuarial gains (–) and losses (+) recognized in other comprehensive income	-3,493	-5,705
Deferred taxes on actuarial gains (–) and losses (+) recognized under other comprehensive income	1,161	1,505

The amount of the Group's obligation as reported on the statement of financial position is derived as follows:

EUR k	2018	2017
Present value of pension obligation	152,966	152,879
Fair value of plan assets	28,565	26,880
Reported pension provision	124,401	125,999

With regard to sensitivities, the key actuarial assumptions determined were the discount rate, salary increases and future pension developments.

A 1% increase/decrease in the discount rate would lead to a decrease/increase in the DBO of EUR 25,698 k/EUR 29,361 k.

A 0.5% increase/decrease in future salary increases would lead to an increase/decrease in the DBO of EUR 3,923 k/EUR 3,655 k.

A change in future pension developments of +0.25%/-0.25% would lead to an increase/decrease in the DBO of EUR 4,407 k/EUR 4,197 k.

26 — Other provisions

Other provisions can be broken down as follows:

EUR k	Dec. 31, 2018	Dec. 31, 2017
Current provisions	10,769	23,005
Non-current provisions	19,603	12,319
Total	**30,372**	**35,324**

Current provisions:

EUR k	Personnel obligations	Warranty obligations	Potential losses from customer contracts	Litigation costs	Other risks	Total
As of Dec. 31, 2017	**2,994**	**14,153**	**4,352**	**265**	**1,241**	**23,005**
Adjustment carryforward new standards	0	0	0	0	384	384
Currency changes	24	-15	21	-21	38	47
Utilization	3,777	7,180	3,590	87	1,056	15,690
Reversal	130	1,204	0	25	24	1,383
Addition	3,753	1,295	3,350	66	661	9,125
Reclassifications	0	-4,750	0	0	31	-4,719
As of Dec. 31, 2018	**2,864**	**2,299**	**4,133**	**198**	**1,275**	**10,769**

Non-current provisions:

EUR k	Personnel obligations	Warranty obligations	Litigation costs	Other risks	Total
As of Dec. 31, 2017	**11,025**	**606**	**26**	**662**	**12,319**
Currency changes	29	5	0	7	41
Change in consolidated group	0	0	0	-2	-2
Utilization	255	23	0	0	278
Reversal	467	68	0	50	585
Unwinding of discount/discounting	127	0	0	0	127
Addition	2,914	290	0	58	3,262
Reclassifications	0	4,750	0	-31	4,719
As of Dec. 31, 2018	**13,373**	**5,560**	**26**	**644**	**19,603**

Personnel provisions are recognized for phased retirement schemes, long-term service benefits and similar obligations.

The provision for warranties represents the best estimate of management and was recognized on the basis of past experience and the industry average for defective products with regard to the Group's liability for a warranty of twelve months. In addition, specific individual warranties were taken into account.

The provision for a warranty obligation is counterbalanced by insurance reimbursements of EUR 4,500 k, which are disclosed in other non-current assets. The provision of EUR 4,750 k was reclassified from a short-term to a long-term provision.

The other risks relate to a variety of identifiable individual risks and uncertain obligations, which have been recognized as they are more likely than not to lead to an outflow of resources.

27 — Non-current and current financial liabilities

EUR k	Domestic (Germany)	Foreign	Total Dec. 31, 2018	Domestic (Germany)	Foreign	Total Dec. 31, 2017
Overdrafts	169,740	9,256	178,996	105,451	13,931	119,382
Financial liabilities with a residual term of less than one year	70,074	47,716	117,790	59,485	43,077	102,562
Current financial liabilities	**239,814**	**56,972**	**296,786**	**164,936**	**57,008**	**221,944**
Financial liabilities with a residual term of between one and five years	253,309	95,692	349,001	265,275	85,476	350,751
Financial liabilities with a residual term of more than five years	123,004	0	123,004	128,060	0	128,060
Non-current financial liabilities	**376,313**	**95,692**	**472,005**	**393,335**	**85,476**	**478,811**
Total	**616,127**	**152,664**	**768,791**	**558,271**	**142,484**	**700,755**

This includes liabilities from finance leases of EUR 309k (2017: EUR 496k) with a nominal volume of EUR 318k (2017: EUR 521k).

The average interest rates were:

in %	Dec. 31, 2018	Dec. 31, 2017
Overdrafts:		
Domestic	2.13	1.34
Other countries	3.15	4.02
Financial liabilities:		
Domestic: less than one year	1.75	2.35
Domestic: between one and five years	1.32	1.34
Domestic: more than five years	1.44	1.43
Foreign: less than one year	2.74	2.42
Foreign: between one and five years	2.57	2.67
Foreign: more than five years		

Fixed interest rates have been agreed for financial liabilities amounting to EUR 573,870 k (2017: EUR 565,696 k).

Land charges on company land with a carrying amount of EUR 159,533 k (2017: EUR 158,844 k) are recognized as collateral. The secured liabilities amounted to EUR 23,711 k (2017: EUR 36,334 k) as of December 31, 2018.

As of December 31, 2018, the Group had unused lines of credit amounting to EUR 190,200 k (2017: EUR 136,056 k).

28 — Contract liabilities

IFRS 15 led to a first-time recognition through other comprehensive income of contract liabilities of EUR 7,230 k as of January 1, 2018. As of December 31, 2018, the carrying amount of contract liabilities came to EUR 13,083 k.

Contract liabilities include long-term prepayments for customer-specific provisions of additional production capacity and short-term prepayments for customer-specific tools. The increase in contract liabilities in 2018 was due to the EUR 2,614 k long-term advances received from customers during the year.

29 — Trade payables and other current and non-current liabilities

Trade payables and other non-current and current liabilities include open obligations from the exchange of goods and services.

The carrying amounts of trade payables approximate their fair value.

The trade payables and other current and non-current liabilities are not secured except for the retentions of title that are customary in trading relationships.

Other current liabilities from third parties contain financial liabilities of EUR 43,275 k.

In financial year 2018, government grants of EUR 6,478 k (2017: EUR 0 k) were recognized as deferred income. This includes an investment allowance and a repayment allowance for a loan. These grants were provided for property, plant and equipment, particularly buildings and machinery at the locations in Dettingen/Erms, Germany and Kecskemét, Hungary. In the reporting period, a total of EUR 247 k of the deferred item was released through profit or loss. The release takes place in cost of sales.

30 — Hedging policy and financial instruments

Risks and hedging policy

As a consequence of the international nature of the activities of the ElringKlinger Group, changes in exchange rates, interest rates and prices of raw materials impact the financial performance, net assets and cash position of the Group. The risks arise from currency and interest rate fluctuations in connection with business operations and financing. Further risks result from fluctuations in the market prices of raw materials. Additionally, there are liquidity risks which relate to credit and market risks or accompany a deterioration of business operations and financial market turmoil.

By concluding hedges, the Management Board of ElringKlinger AG aims to manage the risk factors that may adversely affect the financial performance, net assets and cash position and thus to minimize these influences. Within the ElringKlinger Group, derivative financial instruments may only be entered into with the consent of the Management Board. Hedge accounting in accordance with IAS 39 of IFRS 9 was not applied.

Currency risk

Due to the international nature of its business, the ElringKlinger Group is exposed to currency risks in the normal course of business.

Exchange rate risk arises for the Group in relation to its operating business principally when sales revenues are generated in a different currency than that in which the related costs are incurred. Sales revenues are generally generated in the functional currency (which is the relevant national currency) of the Group entity concerned. In order to reduce currency risks from operating business, the purchases of goods, raw materials and services as well as investing and financing activities are generally accounted for in the functional currency of the group entity. The group also endeavors to minimize its foreign currency risk by manufacturing its products in the relevant local sales markets.

Subsidiaries are not permitted to take out financing in foreign currency or to invest it for speculative reasons. Intercompany financing and investment is usually denominated in the relevant functional currency.

Several ElringKlinger AG subsidiaries are domiciled outside the euro area. Since the euro is the reporting currency of the ElringKlinger Group, the income and expenses of these subsidiaries are translated into euros upon consolidation. Changes in the closing rates and changes in the closing rates compared to the average rates and historical rates can give rise to currency translation effects that are reflected in the equity of the Group under other comprehensive income.

Due to the inclusion of subsidiaries, the group also recognizes assets and liabilities relating to these subsidiaries outside of the euro area that are denominated in national currencies. When these assets are translated into euros, exchange rate fluctuations can lead to changes in value. The changes in these net assets are reflected in group equity under other comprehensive income.

A sensitivity analysis has been conducted in order to quantify the potential effects of exchange rate changes on consolidated net income. This analysis illustrates the change in consolidated net income in the event that the relevant functional currency of the Group companies appreciates or depreciates by 10% as compared to the foreign currency.

Dec. 31, 2018
EUR k

Local currency	EUR	MXN	USD	CHF	HUF	Other	Total
Local currency +10%							
Consolidated net income	-3,606	4,772	2,676	2,673	2,302	934	9,751
Local currency -10%							
Consolidated net income	3,606	-4,772	-2,676	-2,673	-2,302	-934	-9,751

Dec. 31, 2017
EUR k

Local currency	CHF	HUF	MXN	USD	KRW	Other	Total
Local currency +10%							
Consolidated net income	3,597	2,692	2,493	1,574	850	-322	10,884
Local currency -10%							
Consolidated net income	-3,597	-2,692	-2,493	-1,574	-850	322	-10,884

Interest rate risk

Interest rate risk arises primarily from financial assets that are subject to a floating rate of interest. The Group manages interest rate risk with the objective of optimizing its interest income and expense.

Fixed interest rates have been agreed mainly for the financing liabilities of the ElringKlinger Group. As a result, the risk arising from interest rate fluctuations is only slight.

Had market interest rates been 30 basis points higher as of December 31, 2018, earnings would have been EUR 551k (2017: EUR 361k) lower. Had market interest rates been 30 basis points lower, earnings would have been EUR 34k (2017: EUR 47k) lower.

Risk arising from prices for raw materials

ElringKlinger is exposed to risks from changes in the prices for the raw materials it uses in production. In order to mitigate fluctuations in the purchase prices for raw materials, ElringKlinger has entered into two nickel hedges. Where necessary, it is possible to secure acceptable procurement prices by means of additional derivatives.

ElringKlinger processes a significant volume of high-grade stainless steels. This includes alloy surcharges, in particular for nickel, which is a listed metal subject to market price fluctuations. ElringKlinger uses derivative financial instruments to hedge portions of alloy surcharges assessed in cost calculations. A price corridor surrounding the average calculation cost is hedged. If the quoted exchange price of nickel exceeds the upper range of the corridor, ElringKlinger receives a compensatory payment. If the quoted exchange price of nickel falls below the lower range of the corridor, ElringKlinger has to pay a surcharge. As of the reporting date, there were two nickel hedging contracts for a total of 240 metric tons of nickel. One of the nickel hedges ended on December 31, 2018 and the other ends on September 30, 2019.

The Group manages the credit risk of derivatives by entering into derivative financial transactions exclusively with major banks of impeccable creditworthiness in accordance with uniform guidelines.

Had the market value of nickel been 10% higher on December 31, 2018, earnings would have been EUR 77k higher (2017: EUR 306k). A 10% decrease in the market value would have resulted in an increase in earnings of EUR 80k (2017: EUR 74k).

Credit risk

Credit risk defines the risk of economic loss arising from a counterparty's failure to satisfy contractual payment obligations.

Credit risk encompasses both the direct risk of default, the risk of a ratings downgrade, and concentration risks. The maximum risk exposures of financial assets generally subject to credit risk correspond to their carrying amounts and can be described as follows:

Liquid funds

Liquid funds comprise primarily bank deposits available on demand. The ElringKlinger Group is exposed to losses from credit risks in connection with the investment of liquid funds if financial institutions fail to meet their obligations (counterparty risk). In order to minimize this risk, care is taken in selecting the financial institutions at which deposits are made. The maximum risk exposure corresponds to the carrying amount of the liquid funds at the end of the reporting period.

Trade receivables

Trade receivables relate primarily to the global sales of gaskets, sealing materials, plastic products and modules for the automotive sector and for the manufacturing industry in general. Credit risk resides in the possibility of counterparty default, and is characterized by the Group's customer base, which includes a number of key accounts.

In domestic business, most receivables are secured by retention of title. In order to limit credit risk, credit checks in the form of inquiries with credit information services are performed for selected counterparties. Moreover, internal processes are in place to continually monitor receivables where partial or complete default may be anticipated.

In its export business, ElringKlinger also assesses the credit standing of its counterparties by submitting inquiries to credit information services and on the basis of the specific country risk. In addition, credit insurance policies are taken out or letters of credit are required in certain cases. Trade receivables of EUR 12,178k (2017: EUR 11,249k) are secured by credit insurance policies.

Allowances are also recognized in respect of identifiable individual risks. The maximum risk exposure from trade receivables corresponds to the carrying amount of these receivables at the end of the reporting period. The carrying amounts of trade receivables, together with a separate breakdown of overdue receivables and receivables for which allowances have been recognized, can be found under note (20).

In 2018, the two largest customers accounted for 9.5% and 9.2% of sales, respectively (2017: 10.2% and 8.0%).

Liquidity risk

The solvency and liquidity of the ElringKlinger Group is constantly monitored by liquidity planning. Furthermore, a cash liquidity reserve and guaranteed credit lines ensure solvency and liquidity. Reference is also made to the financing risks presented in the risk report as part of the group management report of the ElringKlinger Group (Opportunity and risk report – Financial risks – Liquidity and financing risks).

Expected cash outflows

The following table shows all contractually fixed payments for redemptions, repayments and interest from financial liabilities recognized in the statement of financial position, including derivative financial instruments that have a negative market value.

EUR k	Trade payables	Financial liabilities	Finance leases	Derivatives	Other current liabilities	Total
As of Dec. 31, 2018						
Carrying amount	**135,560**	**768,482**	**309**	**122**	**43,275**	**947,748**
Expected outflows:	**135,560**	**787,219**	**318**	**122**	**43,275**	**966,494**
– less than one month	100,328	73,883	17	14	0	174,242
– between one and three months	31,707	25,837	38	27	9,659	67,268
– between three months and one year	2,617	205,016	153	81	33,616	241,483
– between one and five years	659	358,184	110	0	0	358,953
– more than five years	249	124,299	0	0	0	124,548
As of Dec. 31, 2017						
Carrying amount	**118,846**	**700,259**	**496**	**11**	**47,467**	**867,079**
Expected outflows:	**118,846**	**731,842**	**522**	**11**	**47,467**	**898,688**
– less than one month	88,627	31,786	25	1	0	120,439
– between one and three months	23,644	29,249	52	2	8,663	61,610
– between three months and one year	4,577	170,083	218	8	38,804	213,690
– between one and five years	1,755	367,715	227	0	0	369,697
– more than five years	243	133,009	0	0	0	133,252

Further disclosures on financial liabilities are provided under note (27).

31 — Additional information on financial instruments

This section provides a comprehensive overview of the significance of financial instruments and offers additional information on line items of the statement of financial position containing financial instruments. No recognized financial instruments were offset.

The following table presents the IAS 39 measurement categories and carrying amounts and the new IFRS 9 measurement categories and carrying amounts:

EUR k	Measurement category according to IAS 39	New IFRS 9 measurement category	Carrying amount pursuant to IAS 39	New carrying amount pursuant to IFRS 9	Carrying amount pursuant to IFRS 9
	As of Dec. 31, 2017	As of Jan. 1, 2018	Dec. 31, 2017	Jan. 1, 2018	Dec. 31, 2018
Cash and cash equivalents	Credits and receivables	At amortized cost	45,498	45,498	45,314
Trade receivables	Credits and receivables	At amortized cost	302,621	305,739	306,351
Other current assets	Credits and receivables	At amortized cost	7,465	7,465	11,490
Derivatives	Held for trading	At fair value recognized through profit or loss	176	176	12
Non-current securities	Held to maturity	At amortized cost	829	829	549
Non-current securities	Available for sale	At fair value recognized through OCI	192	192	98
Other financial assets	Credits and receivables	At amortized cost	8	8	2,008
Other financial assets	Available for sale	At fair value recognized through OCI	7	7	8

The following table shows the carrying amounts (CA) and fair values (FV) of financial assets:

	Cash and cash equivalents	Trade receivables	Other current assets
EUR k	CA	CA	CA
As of Dec. 31, 2018			
Financial assets at amortized cost	45,314	306,351	11,490
Financial assets at fair value through profit or loss	0	0	0
Financial assets at fair value through other comprehensive income	0	0	0
Total	**45,314**	**306,351**	**11,490**
As of Dec. 31, 2017			
Loans and receivables	45,498	302,621	7,465
Held to maturity	0	0	0
Held for trading	0	0	0
Available for sale	0	0	0
Total	**45,498**	**302,621**	**7,465**

The following table shows the carrying amounts (CA) and fair values (FV) of financial liabilities:

	Other current liabilities	Current financial liabilities	Current financial leases	
EUR k	CA	CA	CA	FV
As of Dec. 31, 2018				
Financial liabilities at amortization cost	43,275	296,584	0	0
Financial liabilities measured at fair value through profit or loss	0	0	0	0
No IFRS 9 measurement category	0	0	202	209
As of Dec. 31, 2017				
Financial liabilities measured at amortization cost	47,467	221,666	0	0
Financial liabilities measured at fair value through profit or loss	0	0	0	0
No IAS 39 measurement category	0	0	278	295

Derivatives	Non-current securities		Other financial assets		Total
CA	CA	FV	CA	FV	CA
0	549	438	2,008	2,008	365,712
12	0	0	0	0	12
0	98	98	8	8	106
12	**647**	**536**	**2,016**	**2,016**	**365,830**
0	0	0	8	8	355,592
0	829	840	0	0	829
176	0	0	0	0	176
0	192	192	7	7	199
176	**1,021**	**1,032**	**15**	**15**	**356,796**

Trade payables	Derivatives		Non-current financial liabilities		Non-current financial leases		Total
CA	CA	FV	CA	FV	CA	FV	CA
135,560	0	0	471,898	430,639	0	0	947,317
0	165	165	0	0	0	0	165
0	0	0	0	0	107	109	309
118,846	0	0	478,593	468,251	0	0	866,572
0	11	11	0	0	0	0	11
0	0	0	0	0	218	226	496

Other current liabilities contain a purchase price liability of EUR 29,921 k (2017: EUR 34,782 k) from a put option which is measured at amortized cost.

Management determined that the carrying amount of cash, trade receivables, other receivables, trade payables, other current financial liabilities and other current liabilities is virtually the same as their fair value primarily as a result of the short term of these instruments.

ElringKlinger determines the market value of non-current fixed-interest liabilities to banks, finance lease liabilities and derivatives by discounting expected future cash flows with the current prevailing interest rates for similar financial liabilities with comparable residual terms and the company-specific risk rate.

The fair value of the put option of non-controlling interests of ElringKlinger Marusan Corporation on their shares contained in other current liabilities is based on forecasts of its business value. For the measurement of this put option of non-controlling interests, estimates are made when forecasting business development as well as when selecting the interest rate used regarding the liability recognized. A 10% change in the business value causes the put option to increase/decrease by EUR 2,992 k (2017: EUR 3,478 k).

Equity instruments of the measurement category **at fair value recognized through other comprehensive income:**

EUR k	Fair value Dec. 31, 2018
Non-current securities	98
Other financial assets	8
Total	**106**

These equity instruments were allocated to the measurement category **at fair value recognized through other comprehensive income**. Generally speaking, ElringKlinger holds its equity interests for strategic reasons as a complement to the operating activities.

Financial assets and liabilities measured at fair value are classified into the following 3-level fair value hierarchy as of the valuation date December 31, 2018:

EUR k	Level 1	Level 2	Level 3
Dec. 31, 2018			
Financial assets			
Non-current securities	98	0	0
Other financial assets	8	2,000	0
Derivatives*	0	12	0
Total	**106**	**2,012**	**0**
Financial liabilities			
Derivatives*	0	165	0
Total	**0**	**165**	**0**
Dec. 31, 2017			
Financial assets			
Non-current securities	192	0	0
Other financial assets	7	0	0
Derivatives*	0	176	0
Total	**199**	**176**	**0**
Financial liabilities			
Derivatives*	0	11	0
Total	**0**	**11**	**0**

* These are derivatives which do not meet the prerequisites for hedge accounting.

The following table presents the allocation of financial assets and liabilities not measured at fair value, but for which fair value is disclosed, to the 3-level fair value hierarchy as of the measurement date December 31, 2018:

EUR k	Level 1	Level 2	Level 3
Dec. 31, 2018			
Financial assets			
Non-current securities	549	0	0
Other financial assets	0	0	8
Total	**549**	**0**	**8**
Financial liabilities			
Non-current liabilities from finance leases	0	0	109
Non-current financial liabilities	0	456,640	0
Purchase price liability from written put option	0	0	29,921
Total	**0**	**456,640**	**30,030**
Dec. 31, 2017			
Financial assets			
Non-current securities	829	0	0
Other financial assets	0	0	8
Total	**829**	**0**	**8**
Financial liabilities			
Non-current liabilities from finance leases	0	0	226
Non-current financial liabilities	0	468,251	0
Purchase price liability from written put option	0	0	34,782
Total	**0**	**468,251**	**35,008**

The levels of the fair value hierarchy are defined as follows:

Level 1: Measurement based on market prices

Level 2: Measurement based on market prices for similar instruments on the basis of measurement models based on inputs that are observable on active markets

Level 3: Measurement based on inputs for assets and liabilities not representing observable market data.

An assessment is made at the end of every reporting period as to whether the assets and liabilities accounted for at fair value have been transferred between the levels of the fair value hierarchy. There were no reclassifications in the reporting period.

The liabilities of fair value level 3 developed as follows:

EUR k	2018	2017
As of Jan. 1	**35,008**	**34,145**
Change in fair value	-4,978	863
As of Dec. 31	**30,030**	**35,008**

Net gains/losses on financial instruments

EUR k	2018	2017
At fair value recognized in profit or loss*	-153	165
Financial assets measured at amortized cost	1,877	-2,818
Financial liabilities measured at amortized cost	3,219	-7,134

* These are derivatives which do not meet the prerequisites for hedge accounting.

Net gains and losses from derivatives include the effects from changes in market values, which were recorded in full in profit or loss for the period.

Net gains and losses from financial assets measured at amortized cost primarily consist of currency effects.

Net gains from financial liabilities measured at cost include currency effects.

Total interest income and expenses for financial assets and financial liabilities not measured at fair value through profit or loss are as follows:

EUR k	2018	2017
Total interest income	562	314
Total interest expense	-13,388	-11,230

As in the previous year, total interest income did not result in interest income from impaired financial assets.

32 — Finance leases

Liabilities from finance leases relate to leases of property, plant and equipment which transfer substantially all risks and rewards of beneficial ownership to the Group as lessee. As of December 31, 2018, future minimum lease payments under finance leases amounted to EUR 318 k (2017: EUR 521 k). The reconciliation of future minimum lease payments from finance lease arrangements to the corresponding liabilities as of December 31, 2018 is as follows:

EUR k	Minimum lease payments Dec. 31, 2018	Interest included in minimum lease payments Dec. 31, 2018	Liabilities from finance leases Dec. 31, 2018
Due date			
Less than one year	209	7	202
Between one and five years	109	2	107
More than five years	0	0	0
Total	**318**	**9**	**309**

33 — Capital management

ElringKlinger believes that the Group's sound financial base is a prerequisite for further growth. The Group's solid capital resources render it possible to invest in future organic growth, as well as in external growth.

The Management Board of the parent company has set a target equity ratio of 40% to 50% within the Group. ElringKlinger AG's Articles of Association do not define any capital requirements.

The Management Board is authorized to buy back own shares up to a total of 10% of the share capital existing at the time of the resolution (May 13, 2015). The authorization is valid until May 13, 2020. There are no share option programs that impact the capital structure.

The following table presents changes in equity, debt and total capital as of December 31, 2018 as compared to December 31, 2017.

EUR million	2018	2017
Equity	**890.1**	**889.7**
as % of total capital	42.80%	44.00%
Non-current liabilities	642.5	634.8
Current liabilities	547.1	474.2
Liabilities in connection with assets held for sale	0	23.7
Debt	**1,189.60**	**1,132.70**
as % of total capital	57.20%	56.00%
Total capital	**2,079.70**	**2,022.40**

The change in equity from December 31, 2017 to December 31, 2018 was due primarily to an increase in revenue reserves and a decrease in other reserves. Debt increased year-on-year by 5.0%.

The equity ratio of the Group (42.8%) exceeded the 40% target equity ratio set by the Supervisory Board and Management Board.

For one loan at a subsidiary, financial covenants have been agreed upon. These affect the equity ratio and gearing factor. If these covenants are breached, the terms of the loan change and the loan becomes immediately callable.

As of December 31, 2018, there were no issues prevailing that would have justified banks exercising their unilateral right of termination.

34 — Notes to the statement of cash flows

The group statement of cash flows shows how the liquidity of the ElringKlinger Group has changed as a result of cash inflows and outflows in the course of the financial year. In accordance with IAS 7, cash flows are categorized as cash flows from operating activities, investing activities or financing activities.

The cash reported in the statement of cash flows comprises liquid funds reported in the statement of financial position, i. e., cash in hand, checks and bank deposits.

Cash flows from investing and financing activities are determined by reference to payments. By contrast, cash flows from operating activities are derived indirectly from earnings before taxes for the year. For the indirect computation, effects from currency translation and changes to the basis of consolidation are eliminated from the changes to the items of the statement of financial position arising from operating activities. For this reason, it is not possible to reconcile the changes in the relevant items of the statement of financial position with the corresponding figures in the published group statement of financial position.

Change in liabilities from financing activities:

EUR k	Non-current financial liabilities	Current financial liabilities
Dec. 31, 2017	478,811	221,944
Cash change	-7,812	71,400
Exchange rate differences	3,547	2,226
Change in fair value	0	0
Other changes	-2,541	1,216
Dec. 31, 2018	**472,005**	**296,786**
Dec. 31, 2016	320,813	257,392
Changes in cash	165,639	-22,051
Business acquisitions	1,048	0
Reclassifications of liabilities in connection with assets held for sale	0	-5,338
Exchange rate differences	-8,888	-9,232
Change in fair value	0	0
Other changes	199	1,173
Dec 31, 2017	**478,811**	**221,944**

35 — Segment reporting

The organizational and internal reporting structure of the ElringKlinger Group is centered around its five business divisions: “Original Equipment”, “Aftermarket”, “Engineered Plastics”, “Services” and “Industrial Parks”.

The activities in the “Original Equipment” and “Aftermarket” reporting segments relate to the manufacturing and distribution of parts and components for the engine, transmission and exhaust system and lightweight plastic components in motor vehicles (powertrain), as well as battery and fuel cell components and tools machining.

The “Engineered Plastics” segment manufactures and distributes technical products made of high-performance PTFE plastics for the vehicle and general industrial sectors.

The “Services” reporting segment primarily operates engine test benches and contributes to the development of engines.

The “Industrial Parks” segment is responsible for the administration and leasing of land and buildings.

The “Consolidation” column in the “Segment reporting” table below provides an overview of consolidation entries between the segments. Internal control and reporting are based on IFRS. With the exception of the Original Equipment segment’s provision of supplies to the Aftermarket segment, the extent of trade between the individual segments is insignificant. The exchange of goods and/or services between the segments takes place at arm’s-length prices.

The segment results do not contain an impairment loss.

The Original Equipment segment generated 9.5% of the Group’s consolidated sales revenues from one customer (EUR 161,747 k).

Segment reporting

Segment	Original Equipment		Aftermarket		Engineered Plastics		Industrial Parks	
EUR k	2018	2017	2018	2017	2018	2017	2018	2017
External revenue	**1,407,718**	**1,382,376**	**159,497**	**156,664**	**117,824**	**111,141**	**4,302**	**4,347**
Intersegment revenue	20,321	19,933	0	0	25	194	530	567
Segment revenue	**1,428,039**	**1,402,309**	**159,497**	**156,664**	**117,849**	**111,335**	**4,832**	**4,914**
EBIT[1]/ Operating result	**50,716**	**86,320**	**24,919**	**31,755**	**19,543**	**18,476**	**324**	**-463**
Depreciation and amortization	88,376	90,101	2,975	2,300	6,104	6,181	1,069	1,034
Capital expenditures[2]	163,422	156,777	6,546	2,695	5,285	4,150	561	1,826
Segment assets	1,824,420	1,791,231	116,016	96,908	118,597	110,044	19,401	20,665

Segment	Services		Other		Consolidation		Group	
EUR k	2018	2017	2018	2017	2018	2017	2018	2017
External revenue	**9,659**	**9,513**	**0**	**0**	**0**	**0**	**1,699,000**	**1,664,041**
Intersegment revenue	7,260	6,875	0	0	-28,136	-27,569	0	0
Segment revenue	**16,919**	**16,388**	**0**	**0**	**-28,136**	**-27,569**	**1,699,000**	**1,664,041**
EBIT[1]/ Operating result	**678**	**1,230**	**0**	0	**0**	**0**	**96,180**	**137,318**
Depreciation and amortization	1,923	1,463	0	0	0	0	100,447	101,079
Capital expenditures[2]	2,753	760	0	0	0	0	178,567	166,208
Segment assets	16,052	14,238	0	0	-14,785	-10,706	2,079,701	2,022,380

[1] Earnings before interest and taxes
[2] Investments in intangible assets and property, plant and equipment and investment property

Segment reporting by region

Region EUR k		Sales revenues[1]	Non-current assets	Investments
Germany	2018	428,545	535,477	74,092
	2017	426,201	514,447	61,604
Rest of Europe	2018	515,574	271,528	19,013
	2017	521,507	272,922	46,704
NAFTA	2018	360,287	203,974	53,486
	2017	323,277	161,558	32,531
Asia-Pacific	2018	314,509	201,829	26,299
	2017	317,269	195,898	22,686
South America and rest of the world	2018	80,085	23,273	5,677
	2017	75,787	21,914	2,683
Group	**2018**	**1,699,000**	**1,236,081**[2]	**178,567**
	2017	**1,664,041**	**1,166,739**[2]	**166,208**

[1] The location of the customer is used to determine allocation of sales revenues to the regions.
[2] This includes financial assets of EUR 2,662 k (2017: EUR 1,036 k)

Other disclosures

Contingent liabilities

As in the previous year, the ElringKlinger Group does not have any contingent liabilities stemming from guarantees, performance bonds or bills of exchange issued.

Contingent assets and liabilities

As of the reporting date, there were no contingent assets and liabilities.

Operating leases

Expenses include payments from operating leases of EUR 14,968 k (2017: EUR 10,756 k).

At the end of the reporting period, the Group had outstanding obligations arising from binding operating leases that fall due as follows:

EUR k	Dec. 31, 2018	Dec. 31, 2017
Less than one year	10,511	4,781
Between one and five years	19,336	9,212
More than five years	5,212	867
Total	**35,059**	**14,860**

Of the total, EUR 27,058 k (2017: EUR 8,135 k) is related to outstanding obligations from binding operating leases for commercial premises, EUR 6,436 k (2017: EUR 5,236 k) to office equipment, and EUR 1,565 k (2017: EUR 1,490 k) to other lease arrangements.

Financial leases

Information on the finance lease can be found under note (32).

Other financial commitments

Energy purchase commitments

EUR k	Dec. 31, 2018	Dec. 31, 2017
Less than one year	11,954	10,946
Between one and five years	21,489	19,287
Total	**33,443**	**30,233**

Proceeds from lease agreements

The future lease payments due to ElringKlinger in relation to binding operating leases from letting the industrial parks Idstein and Kecskemét-Kádafalva (Hungary) are due as follows:

EUR k	Dec. 31, 2018	Dec. 31, 2017
Less than one year	1,658	1,753
Between one and five years	1,675	2,888
More than five years	0	1,792
Total	**3,333**	**6,433**

Number of employees

The average number of employees during the year (excluding Management Board members) was as follows:

	2018	2017
Employees	9,670	8,628
Trainees	363	373
Total	**10,033**	**9,001**

Personnel expenses

Personnel expenses in the reporting year amounted to EUR 531,175 k (2017: EUR 486,278 k) and break down as follows:

EUR k	Dec. 31, 2018	Dec. 31, 2017
Wages and salaries	454,366	416,475
Social security contributions	66,354	60,969
Post-employment benefit	10,455	8,834
Total	**531,175**	**486,278**

Events after the end of the reporting period

On February 15, 2019 a syndicated loan of EUR 350,000 k with a minimum term of five years was concluded with six national and international banks. Standard bank financial covenants were agreed.

Related-party disclosures

Transactions between the parent company, ElringKlinger AG, and its subsidiaries are eliminated in the course of consolidation and are therefore not discussed in this note. Other than these, the following business relationships exist between companies of the ElringKlinger Group and related parties and companies controlled by related parties:

Cooperation agreement between ElringKlinger AG and Lechler GmbH, Metzingen, concerning traineeships. The deceased Prof. Walter H. Lechler held a significant interest in ElringKlinger AG and control over Lechler GmbH. The testamentary disposition of Prof. Lechler regarding the shares he held has yet to be conclusively implemented. ElringKlinger AG earned EUR 42 k during the reporting year (2017: EUR 56 k). Receivables outstanding amounted to EUR 10 k (2017: EUR 0 k) as of the reporting date.

Lease agreement between Technik-Park Heliport Kft., Kecskemét-Kádafalva, Hungary (TPH), and the Lechler GmbH subsidiary, Lechler Kft., Kecskemét-Kádafalva, Hungary. Based on this lease, TPH earned EUR 300 k in rental income including ancillary costs in the reporting year (2017: EUR 298 k). As in the previous year, there were no open receivables as of the end of the reporting period.

Agreement between ElringKlinger Logistic Service GmbH, Rottenburg-Ergenzingen, and Lechler GmbH, Metzingen, regarding assembly activities and the storage of components. This agreement gave rise to EUR 533 k in sales revenue during the reporting year (2017: EUR 542 k). As of December 31, 2018, there were open receivables of EUR 33 k (2017: EUR 0 k).

Business relations between the ElringKlinger subsidiary, Changchun ElringKlinger Ltd., China, (CEK), and CHYAP, the company controlled by Ms. Liu, a close relative of Mr. Huang, who is a joint partner in CEK. CEK procured EUR 76 k worth of services under these business relations in 2018 (2017: EUR 99 k). As of December 31, 2018, there is EUR 4 k in liabilities (2017: EUR 17 k). Furthermore, CEK sold EUR 89 k worth of goods and raw materials to CHYAP (2017: EUR 62 k). As in the previous year, there are no outstanding trade receivables as of the reporting date 2018.

Loan agreement between Lechler GmbH and ElringKlinger AG. Lechler GmbH granted ElringKlinger AG loans totaling EUR 17,000 k (2017: EUR 17,000 k). A loan of EUR 7,000 k was extended indefinitely in the reporting period and carries an interest rate of 2.10% p.a., an additional loan of EUR 5,000 k carries an interest rate of 0.69% p.a. and has a term until August 15, 2019, a further loan of EUR 5,000 k carries an interest rate of 0.90% p.a. and has a term until June 19, 2020.

Supply agreement between Lechler GmbH and KOCHWERK Catering GmbH, a wholly owned subsidiary of ElringKlinger AG. KOCHWERK Catering GmbH supplies Lechler GmbH with canteen food. KOCHWERK Catering GmbH earned EUR 127 k during the reporting year (2017: EUR 160 k). As of the end of the reporting period, outstanding receivables came to EUR 10 k (2017: EUR 1 k).

Relationships in the course of ordinary activities exist between various subsidiaries of hofer AG, Nürtingen, and the ElringKlinger subsidiary hofer powertrain products GmbH, Nürtingen, as well as hofer powertrain products UK Ltd., Warwick. The business dealings pertain to services received and other expenses of EUR 6,204 k. Outstanding liabilities come to EUR 2,372 k as of December 31, 2018. The services received mainly relate to services for sales, project management and product development of EUR 5,871k and for a rent agreement between hofer powertrain products GmbH, Nürtingen, and the subsidiary of hofer AG, hofer immobilien UG & Co. KG, Nürtingen, for the rent of office and production space in Nürtingen of EUR 309 k. The goods and services received and other expenses are counterbalanced by income from development services rendered or from delivery of machines and tools of EUR 2,971 k. Outstanding liabilities come to EUR 3,179 k as of December 31, 2018.

The salaries of the employee representatives to the Supervisory Board are in line with market conditions.

Corporate bodies

Supervisory board

Klaus Eberhardt Lindau, Chairman	Independent consultant, Lindau Former CEO of Rheinmetall AG, Düsseldorf **Governance roles:** a) MTU Aero Engines AG, Munich b) n/a
Markus Siegers* Nürtingen, Deputy Chairman	Chairman of the Works Council of ElringKlinger AG, Dettingen/Erms
Nadine Boguslawski* Stuttgart	Principal Authorized Representative of IG Metall Stuttgart, Stuttgart (since January 1, 2019), Secretary for the metal and electrical industry of the IG Metall trade union, Baden-Württemberg district administration, Stuttgart (until December 31, 2018) **Governance roles:** a) Robert Bosch Automotive Steering GmbH, Schwäbisch Gmünd Robert Bosch GmbH, Gerlingen-Schillerhöhe b) n/a
Armin Diez* Lenningen	Vice president of the Battery Technology/E-Mobility Division at ElringKlinger AG, Dettingen/Erms **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) NORMA Group SE, Maintal 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	Chairman and CEO of Bizerba SE & Co. KG, Balingen
Gerald Müller* Reutlingen	Trade union secretary of IG Metall Reutlingen-Tübingen, Reutlingen
Paula Monteiro-Munz* Grabenstetten	Deputy chairwoman of the Works Council of ElringKlinger AG, Dettingen/Erms
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 **Governance roles:** a) n/a b) Verwaltungsrat TÜV Rheinland Berlin Brandenburg Pfalz e.V., Cologne
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 Sec. 125 AktG
b) Membership in comparable domestic and foreign control bodies as defined by Sec. 125 AktG

Remuneration of the Supervisory Board

Total remuneration of the Supervisory Board of ElringKlinger AG amounted to EUR 672 k (2017: EUR 702 k) in the reporting period. In addition, travel expenses in the amount of EUR 4 k (2017: EUR 1 k) were reimbursed. The remuneration of the employee representatives in the Supervisory Board amounted to EUR 719 k in 2018 (2017: EUR 667 k) for their activities as employees.

Management Board

Dr. Stefan Wolf, Bad Urach, 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 E-Mobility, New Business Areas, Tooling Technology Divisions as well as the corporate functions Purchasing and Real Estate and Facility Management and the Thale plant.
Reiner Drews, Dettingen/Erms	From April 1, 2018, responsible for the business divisions Cylinder-head Gaskets, Special Gaskets, Plastic Housing Modules/Elastomer Technology/Lightweighting, Shielding Technology as well as the corporate functions Production Management, Quality and Environment.
Thomas Jessulat, Stuttgart	Responsible for the corporate functions Finance, Controlling, IT, Logistics, Business Area Development and the Industrial Parks division

Governance roles in supervisory boards and other supervisory bodies

Dr. Stefan Wolf, Bad Urach, Chairman	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	Chairman of the Supervisory Board of hofer AG, Nürtingen

Remuneration of the Management Board

The remuneration of the Management Board amounted to:

EUR k	2018	2017
Short-term fixed remuneration	1,655	1,391
Short-term variable performance-based remuneration	2,576	2,474
Long-term variable performance-based remuneration	-66	-230
Long-term variable share-based remuneration	0	-19
Severance payments	0	0
Expenses from post-employment benefits	812	638
Total	**4,977**	**4,254**

In the financial year, total Management Board remuneration pursuant to Sec. 314 (1) no. 6a sentence 1 to 4 HGB came to EUR 4,231 k (2017: EUR 3,940 k). The present value (DBO) of the pension provisions amounted to EUR 10,425 k (2017: EUR 10,098 k).

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

Provisions of EUR 15,449 k (2017: EUR 16,916 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 869 k (2018: EUR 861 k) during financial year 2018.

The auditor fees amounted to:

EUR k	2018	2017
Audit of the annual financial statements	732	642
Other assurance services	29	33
Tax advisory	0	40
Total	**761**	**715**

The audit services include fees for mandatory and voluntary audits of financial statements as well as fees for the mandatory audit of the consolidated financial statements. Furthermore, they contain fees for the audit of financial statements for a specific purpose.

Declaration of compliance with the German Corporate Governance Code

The Management Board and Supervisory Board issued a declaration of compliance pursuant to Sec. 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, 2018. This declaration of compliance will be available on the ElringKlinger AG website and therewith made permanently available to shareholders.

Dettingen/Erms, March 21, 2019
Management Board

Dr. Stefan Wolf CEO	Theo Becker	Thomas Jessulat	Reiner Drews

Audit Opinion

Independent auditor's report

To ElringKlinger AG

Report on the audit of the consolidated financial statements and of the group management report

Opinions

We have audited the consolidated financial statements of ElringKlinger AG and its subsidiaries (the Group), which comprise the consolidated income statement, and the consolidated statement of comprehensive income for the financial year from January 1 to December 31, 2018, the consolidated statement of financial position as of December 31, 2018, the consolidated statement of cash flows and the consolidated statement of changes in equity for the financial year from January 1 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of ElringKlinger AG, which is combined with the management report of the Company, for the financial year from January 1, to 31 December 2018.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ("Handelsgesetzbuch": German Commercial Code) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of 31 December 2018, and of its financial performance for the fiscal year from 1 January to 31 December 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated 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 consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group 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 consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities 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 consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated 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 testing of goodwill

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

According to IFRS standards, goodwill is not subject to amortization, however, the Management Board tests the capitalized goodwill annually in accordance with IAS 36 on its recoverability for the cash-generating unit. This involves comparing the recoverable amount of the cash-generating unit with its carrying amount. The recoverable amount is the value in use. As a rule, the basis of these measurements is the present value of future cash flows of cash-generating units to be measured to which goodwill was allocated. Measurements are based on internal budgets, which in turn are based on the budgets approved by the Management Board and Supervisory Board. The result of these measurements depends chiefly on the executive directors' estimates of the future cash flows of the respective cash-generating units as well as the discount rate applied and is thus subject to judgment. In addition, the reporting year was marked by a general weakening in the economic environment in the automotive sector. The manifestations of this weakening in geographic regions, in which the Group entities operate, were varied. Against this backdrop, the measurement of goodwill is a key audit matter.

Auditor's response:

With regard to the value in use determined by the executive directors, we examined the underlying processes used to calculate the value in use. We included our valuation specialists in the audit to assess the valuation model and the calculation inputs. 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 and investigated whether these were calculated using the relevant financial reporting standards in accordance with IAS 36. We examined whether the valuation models were applied consistently. We also examined whether the underlying medium-term budget planning reflects general and industry-specific market expectations. We compared the budget values used for the measurement with the medium-term planning approved by the Management Board and the Supervisory Board. We performed a target-actual comparison of the historical forecast data and the actual results on a sample test basis to assess forecast accuracy by comparing the medium-term planning of the previous years with the actual values of the financial year. We examined the inputs used to measure value in use, such as the applied growth rates and the weighted average cost of capital were compared with publicly available market data and assessed taking into consideration the change in significant assumptions, including future market conditions. In addition, we performed our own sensitivity analyses for the cash-generating units in order to estimate the influence of certain parameters on the valuation model and any potential impairment risk.

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

Reference to related disclosures:

For disclosures on the recognition and measurement policies applied for goodwill impairment, please refer to the sections "Recognition and measurement policies" and "Goodwill" in the notes to the consolidated financial statements.

Revenue recognition taking into account the effects from the first-time application of the new standard IFRS 15

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

The business activities of the Group mainly comprise manufacturing of series parts for the automotive industry, development and manufacturing of tools as well as contract-related work. In financial year 2018, the first-time application of the new financial reporting standard for revenue recognition "International Financial Reporting Standard 15 - Revenue from Contracts with Customers (IFRS 15)" resulted in effects on the presentation of individual cash flows in the consolidated financial statements. The first-time application of the new standard IFRS 15 required a new assessment of the existing customer contracts in the entire Group. Particularly on the basis of the cash flows identified by the parent company, the assessment included existence of prerequisites for revenue recognition related to the period, the treatment of contract costs and the accompanying changes in the disclosure in the statement of financial position by the parent company. Considering the diversity of different contractual customer relationships taking into account customer-specific general business conditions and the application of different delivery terms (incoterms) and the related complexity, this was subject to a higher risk. Furthermore, the first-time application of IFRS 15 led to an extension of the information presented in the consolidated financial statements.

Revenue recognition in this context, due to the materiality of revenue and the related effects on earnings as well as the situation that revenue and earnings before interest and taxes (EBIT) represent key financial performance indicators for corporate governance and corporate planning, is a key audit matter.

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 contractual arrangements governing the time of transfer of risk, as well as the arrangements regarding the billing procedure. Against this background, we assessed the processes established by the executive directors for the implementation of the new standard with regard to the first-time application of IFRS 15. As part of the assessment of the first-time application of IFRS 15, we evaluated the contract analysis performed by the executive directors. In assessing executive directors' analysis of group-wide contracts, we observed the clauses which we expect to have an effect on the accounting in view of the Group's business model.

We examined the assessment of the parent company related to the effect of the new standard IFRS 15 on the individual cash flows and the resulting implications for the consolidated financial statements. We examined on a sample basis the contracts of the Group entities, whether requirements for revenue recognition at a point in time or over time are met. We verified the requirements for revenue recognition over time for performing series deliveries by particularly assessing to what extent there is no alternative use for the series parts and the entity has an enforceable right to payment.

Using the contractual basis, we verified to what extent the incurred costs fulfill the capitalization criteria as costs to fulfill a contract and which method is used for the depreciation of these contract costs. For the cash flow for revenue of development services, on the basis of contracts and internal calculations, we assessed the time of revenue recognition as well the amount of income realized and the related contract assets using internal project budgets. Further, we reviewed the disclosures on the effects of the first-time application of IFRS 15 in the notes to the consolidated financial statements.

Our audit procedures did not lead to any reservations relating to revenue recognition, particularly taking into account the first-time application of the new standard IFRS 15.

Reference to related disclosures:

For recognition and measurement policies applied in the course of revenue recognition taking into account the effects from the first-time application of the new standard IFRS 15 , please refer to the disclosures in the notes to the consolidated financial statements in “Financial reporting” and “(1) Sales revenue”.

Other information

The Supervisory Board is responsible for the Report by the Supervisory Board. In all other respects, the executive directors are responsible for the other information. Other information comprises the other components of the annual report, with the exception of the audited consolidated financial statements and the consolidated management report as well as our independent auditor’s report, especially the “Responsibility Statement” pursuant to Section 297 (2) Sentence 4 HGB, the Section “Foreword of the Chairman of the Management Board” of the annual report and the Report by the Supervisory Board pursuant to Section 171 (2) AktG. We received a copy of this ‘Other information’ by the time this auditor’s report was issued.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the executive directors and the Supervisory Board for the consolidated financial statements and the group management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group'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 unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated 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 group management report.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated 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 consolidated financial statements and on the group 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 consolidated financial statements and this group 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 consolidated financial statements and of the group 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 consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group 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.
- 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 Group'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 consolidated financial statements and in the group 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 Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group 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 consolidated 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, 2018. We were engaged by the Supervisory Board on August 8, 2018. 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 21, 2019
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

Responsibility Statement

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

Dettingen/Erms, March 21, 2019
Management Board

Dr. Stefan Wolf
CEO

Theo Becker

Thomas Jessulat

Reiner Drews

Glossary

Financials

C — Cash flow

Figure used to determine a company's financial strength. It measures the extent to which cash received as a result of the company's operating activities exceeds its cash outflows and shows the amount of cash generated by the company itself. For the purpose of determining cash flow, an entity's profit for the annual period is adjusted for items that do not produce an inflow or outflow of cash, such as depreciation or changes in provisions. Net cash from operating activities is the surplus of cash generated by operating activities.

Corporate Governance

Includes the entirety of rules, regulations, and values for corporate management and supervision that should be as responsible as possible and focused on sustainability and value generation over the long term.

Countervailing duties

Countervailing duties are trade import duties imposed under World Trade Organization rules to neutralize the adverse effects of state subsidies.

E — Earnings per share

Earnings per share (EPS) are calculated by dividing the profit attributable to shareholders of a stock corporation by the number of shares outstanding. It is used for the purpose of analyzing profitability and – at a cross-sector level – for evaluating a company.

EBIT/Operating result

Abbreviation for earnings before interest and taxes. EBIT corresponds to the operating result before taking into account net finance costs. At an international level, this figure is commonly used to compare companies' operating earnings power.

EBIT margin

EBIT expressed as a percentage of total Group sales revenue. The EBIT margin shows the profitability of a company's operating business over a specific period of time.

EBITDA

Abbreviation for earnings before interest, taxes, depreciation, and amortization. EBITDA is a financial indicator used for the purpose of measuring the profitability of a company at the operating level, as the indicator does not include any elements influencing profit, for example, in terms of the financing structure, national jurisdiction, or reporting standards applicable to the entity.

F — Financial covenants

Refer to contractual clauses in loan agreements. Under these terms, companies obligate themselves to meet specific financial requirements.

H — HGB

Abbreviation for Handelsgesetzbuch (German Commercial Code). The financial statements of the parent company, ElringKlinger AG, are prepared in accordance with HGB.

I — IFRS

Abbreviation for International Financial Reporting Standards. They contain accounting provisions for exchange-listed entities. The application of IFRS has been mandatory in the EU since January 2005. ElringKlinger has been reporting in accordance with IFRS since 2004.

M — M&A

Abbreviation for "Mergers & Acquisitions." The term generally refers to a legal consolidation or amalgamation of two entities into one entity (merger), whereas an acquisition occurs when one entity takes ownership of another entity's stock, equity interests, or assets (acquisition). M&A encompasses all activities relating to the transfer and encumbrance of ownership rights in entities, including the formation of groups of companies, the restructuring of groups of companies, mergers and conversions in the legal sense, squeeze-outs, the financing of corporate acquisitions, the formation of joint ventures, and the acquisition of entities.

N — NAFTA

Abbreviation for "North American Free Trade Agreement." NAFTA came into force on January 1, 1994, and is expected to be replaced by the new United States-Mexico-Canada Agreement (USMCA) signed on November 30, 2018. The latter, however, has yet to be ratified by the respective countries at a parliamentary level. The original agreement primarily focuses on customs arrangements, while USMCA also covers environmental and labor regulations, issues relating to vehicle production, and aspects regarding intellectual property protection.

Natural hedging

For the purpose of reducing transaction costs and risk, transactions leading to income and expenses of a foreign subsidiary can be made in the same currency, usually the local currency, as a form of natural hedge.

Net debt

Figure that describes the level of indebtedness of a company if all current assets were taken into account for the purpose of repaying its liabilities. Net debt is calculated on the basis of interest-bearing liabilities (primarily bank borrowings) less cash and cash equivalents.

Net finance income/cost

Profit or loss arising from financial transactions, e.g., interest income and expenses, income and expenses attributable to investments, or income and expenses attributable to exchange rate differences. Net finance income or cost is a component of pre-tax earnings presented in the income statement.

Net Working Capital

Indicator used for the purpose of monitoring changes in liquidity. It is calculated on the basis of inventories, current contract assets and trade receivables less trade payables and current contract liabilities.

O — Operating free cash flow (before acquisitions)

Operating free cash flow represents the funds freely available to the company for distribution. It is calculated by subtracting capital expenditure payments from net cash from operating activities. Operating free cash flow does not include cash payments in respect of acquisitions, cash payments for investments in financial assets and incoming payments from divestments.

P — Purchase price allocation

Purchase price allocation (PPA) refers to the allocation of the price paid in the purchase of a company or an interest in a company to the individual identifiable assets and liabilities acquired as part of this transaction. As part of the formal procedure of consolidation within the Group, for example, it is possible to capitalize assets of an acquired entity, such as the customer base and order backlog, which would not otherwise qualify for capitalization in normal business. This leads to write-downs that have a dilutive effect on operating profit at Group level.

R — ROCE

Abbreviation for return on capital employed. ROCE measures a company's profitability and the efficiency with which its capital is employed. In this context, EBIT is divided by average capital employed. At ElringKlinger, capital employed includes shareholders' equity, financial liabilities, provisions for pensions, and interest-bearing non-current provisions such as anniversary and partial-retirement provisions. The average value is calculated as the aggregate of the carrying amounts at the end of the reporting period of the previous year and the current year, divided by two.

S — Statement of cash flows

The statement of cash flows shows the calculations for the flow of funds generated by a company from operating, investing, and financing activities during the reporting period. The statement of cash flows helps determine the company's ability to generate cash and cash equivalents.

Syndicated loan

A syndicated loan, also known as a syndicated bank facility, is financing offered by at least two lenders – referred to as a syndicate – who work together to provide funds for a single borrower. The focus of syndicated loans tends to be on large-scale financing. At the same time, syndicating the loan allows lenders to spread risk.

W — Working Capital

Indicator used for the purpose of monitoring changes in liquidity. It is calculated on the basis of inventories, current contract assets and trade receivables.

WpHG

Abbreviation for Wertpapierhandelsgesetz (Securities Trading Act).

Technology

B — Battery cells

The designs of larger batteries can be divided into three categories: round cells, prismatic cells, and coffee-bag cells. Round cells and prismatic cells have a (stable) sheet metal housing, whereas flat cells (= coffee-bag or pouch cells) have a casing made of foil. Round cells and prismatic cells differ in terms of the way the foil packets, i.e., the foils in which the energy is actually stored, are designed. The cells also have different exterior shapes: a round cell is similar to a cylinder and has a circular base, whereas a prismatic cell has a square base.

Bipolar plates

The key mechanical components in fuel cell stacks. Their function is to create an electrical interconnection between two cells. In other words, they transmit the electricity generated, supply the cells with hydrogen and oxygen, and distribute the coolant. ElringKlinger develops and manufactures metal bipolar plates. Among the technical requirements for these components are high-precision metal-forming within the contact area (in the micrometer range), accurate, low-distortion laser welding of the cathode and anode plates, and suitable conductive and anti-corrosion coatings.

C — Cell contact system

The cell contact systems developed by ElringKlinger for lithium-ion batteries consist of cell connectors and a cell carrier in which the connectors are integrated as a robust laser-welded construction. Via the cell connectors, the individual battery cells are connected both in a row and parallel to one another. They act as conductors, absorb cell energy and contain sensors. The system consists of a control interface with thermal and electric monitoring.

Cockpit cross-car beam

Structural component located behind the interior panel of the vehicle's cockpit; it supports elements such as the dashboard, steering column, heating modules, glove compartment, etc. Applying HFH technology (hydroformed hybrids), ElringKlinger manufactures cockpit cross-car beams as lightweight components. This involves producing so-called hybrid parts from polymer and metal materials by means of the hydroforming method and plastic injection molding in a single step. Similar structural components include front-end carriers, to which the headlights or other vehicle parts are fitted.

Cryogenic application

Cryogenic applications use liquefied gas at extremely low temperatures. Fields of application include flash freezing in the food industry or in the area of food preservation. Cryogenic systems are engineered, among other things, from products made of high-performance plastics. Due to the material properties and functional specifications of these products, they can be deployed at temperatures below -200°C.

D — Downsizing

In the automotive industry, downsizing is a concept that refers to a reduction in engine capacity while improving the engine's efficiency. One of the most common ways of achieving this is to feed in air under increased pressure (compressor/turbocharger). A reduction in engine size means lower fuel consumption and therefore lower emissions. At the same time, higher injection pressures generate greater thermal and mechanical stress in the engine compartment. In turn, this makes greater demands in terms of gasket design and thermal management.

E — Elastomer

Plastics/polymers can be divided into three main categories depending on their processing properties: thermoplasts, duroplasts, and elastomers. The distinctive feature of elastomers is that their shape can be changed temporarily through the application of pressure or stretching before they return to their original form (rubber). The final material varies depending on the raw materials, manufacturing process, and additives used. In the field of sealing technology, ElringKlinger utilizes its own elastomers that have been specially developed and optimized to meet individual customer requirements.

Electromagnetic compatibility (EMC)

The ability of electrical equipment to operate in an electromagnetic environment without causing interference with the environment or other equipment.

F — Front-end carrier

cf. Cockpit cross-car beam

Fuel cell

Converts chemical fuel energy into electrical energy to a highly effective degree. In order to perform this reaction, the cell requires oxygen and hydrogen. The hydrogen can also be obtained from a hydrocarbon-based fuel. This involves a so-called reformer providing the cell with hydrogen gas derived from diesel or natural gas, for example. Unlike batteries, fuel cells do not store energy, but rather convert it. ElringKlinger focuses on the development and production of components for PEM low-temperature fuel cells (cf. PEM fuel cell), which are of relevance to mobile applications.

Fuel cell stack

In a fuel cell context, the term "stack" refers to a complete stack of individual fuel cells, including bipolar plates and retaining and connecting devices. To boost performance, the individual fuel cells are connected in series.

H — Hybrid drive

In the automotive industry, the term refers to the use of two different energy sources to drive a vehicle. This usually involves combining a combustion engine with an electric motor. Vehicles can be categorized according to the level of hybridization:

- Micro hybrids feature an automatic start-stop system and, additionally, a brake energy regeneration system to charge the starter battery.
- Mild hybrids have an electric drive that supports the combustion engine for more performance.
- Full hybrids deliver an output of 20 kW/t, which makes them capable of being propelled solely by an electric engine.
- Plug-in hybrids are comparable to full hybrids. In addition, the accumulator (i.e., the rechargeable battery) can be charged via the combustion engine or the electrical grid.

L — Lithium-ion battery

Lithium-based batteries are rechargeable, durable, high-energy batteries with high energy density. They are primarily used in electric and hybrid vehicles. ElringKlinger develops and produces, among other products, modular cell contact systems for such batteries.

N — New Energy Vehicle

In China, the term "New Energy Vehicle" (NEV) refers to vehicles that are powered either partly or entirely by an electric drive, e.g., battery electric vehicles (BEV) or plug-in hybrids (PHEV). In 2009, the Chinese government launched its NEV program for the purpose of promoting the development and introduction of New Energy Vehicles.

Nitrogen oxides (NO_X)

The internationally recognized abbreviation NO_X is used for compounds of nitrogen and oxygen. These gases, which form in the exhausts of combustion engines, are harmful to humans and the environment. Emissions standards are becoming increasingly stringent worldwide and prescribe strict limits for NO_X.

O — Organo sheet

Planar semi-finished parts that have been reinforced with a material made of glass, carbon, aramid or mixed fibers. The mechanical performance of components made of organo sheet materials is particularly high. Lightweight, fiber-reinforced organo sheets can partially replace sheet steel or aluminum in vehicles.

P — PEM fuel cell

PEM stands for "Proton Exchange Membrane." PEM fuel cells work at low temperatures of around 90°C and have a polymer membrane as their central element. In the synthetic reaction known as cold combustion, oxygen and hydrogen react with one another, aided by a catalyst, releasing electricity and causing water to form. For PEM fuel cells used in passenger cars, ElringKlinger has developed metal bipolar plates. Several hundred such plates are incorporated within a single cell stack.

Polyamide

Polyamides are polymers (plastics) and usually refer to synthetic thermoplastics. ElringKlinger uses polyamides in the production of lightweight plastic housing modules.

Prismatic battery cells

See "battery cells"

PTFE

Abbreviation for "polytetrafluoroethylene". PTFE is a thermoplastic high-performance plastic – commonly known by the trade name Teflon – that has a very low coefficient of friction and is particularly resistant to most aggressive chemicals and external influences such as moisture and UV radiation. PTFE is resistant to temperatures as low as 200°C and only melts at over 320°C. With its modified material Moldflon®, which is registered as a trademark, ElringKlinger has an injection-moldable PTFE high-performance material with a wide range of potential applications, for instance in the field of medical technology.

R — Range extender

Range extenders are auxiliary power units fitted to electric vehicles, the purpose of which is to increase the range of such vehicles. Among the range extenders frequently used are combustion engines that drive a generator, which in turn supplies electricity to the rechargeable battery and electric motor.

Rightsizing

A concept in the automotive industry that – in contrast to downsizing – focuses not just on the use of smaller power units but also on the optimized interaction of various elements, such as engine capacity, torque, and consumption, for the engine in question.

S — SOFC (Solid Oxide Fuel Cell)

Solid oxide fuel cells are also known as "high-temperature fuel cells" owing to their high operating temperatures (approx. 800°C). This type of fuel cell can be operated with a wide range of fossil fuels, from which hydrogen gas is obtained using a reformer.

T — Tier 1/Tier 2

Automotive companies that supply vehicle manufacturers (OEMs) directly are known as Tier 1 suppliers. These generally source some of their products from their own suppliers, which are then referred to as Tier 2 suppliers, Tier 3, and so on, reflecting their position in the supply chain. Most of ElringKlinger's products go directly to vehicle manufacturers, making it a Tier 1 supplier. With regard to exhaust gas purification technology and transmission components, ElringKlinger mostly acts as a Tier 2 supplier.

Turbocharger

Turbochargers increase the air flow rate in engines by compressing the air that is necessary for combustion. The turbocharger is one of the key factors in engine downsizing, as it allows for equivalent or even better performance with a reduced engine capacity. In turn, this results in fuel savings.

V — V ring

Extremely elastic sealing element for the high-temperature range, used for the purpose of sealing challenging dynamic sealing gaps in exhaust gas applications. V rings are used primarily in modern exhaust gas turbocharger variants.

W — WLTP

Abbreviation for "Worldwide Harmonized Light Duty Test Procedure." Test method for vehicles to measure data such as fuel consumption or exhaust gas limits. From September 1, 2018 on, all newly registered passenger cars and light commercial vehicles in the EU have to comply with exhaust emission standards measured according to WLTP. The new test cycle replaces the NEDC standard (New European Driving Cycle), which had been in force since 1992, and is intended to deliver more realistic results.

Imprint

ElringKlinger AG
Max-Eyth-Straße 2
72581 Dettingen/Erms
Germany
Phone +49 (0) 71 23 / 724-0
Fax +49 (0) 71 23 / 724-90 06
www.elringklinger.com

IR Contact
Dr. Jens Winter
Phone +49 (0) 71 23 / 724-88 335
Fax +49 (0) 71 23 / 724-85 8335
jens.winter@elringklinger.com

Conception & Design
3st kommunikation GmbH, Mainz

Picture Credits
Gaby Höss, Matthias Schmiedel

ElringKlinger AG assumes no responsibility for data and statistics originating from third-party publications.

If you would like to receive our interim reports by e-mail, please send your details to: jens.winter@elringklinger.com or give us a call at phone +49 (0) 71 23 / 724-88 335

Further information is available at www.elringklinger.com

Disclaimer – Forward-looking Statements and Forecasts
This report contains forward-looking statements. These statements are based on expectations, market evaluations and forecasts by the Management Board and on information currently available to them. In particular, the forward-looking statements shall not be interpreted as a guarantee that the future events and results to which they refer will actually materialize. Whilst the Management Board is confident that the statements as well as the opinions and expectations on which they are based are realistic, the aforementioned statements rely on assumptions that may conceivably prove to be incorrect. Future results and circumstances depend on a multitude of factors, risks and imponderables that can alter the expectations and judgments that have been expressed. These factors include, for example, changes to the general economic and business situation, variations of exchange rates and interest rates, poor acceptance of new products and services, and changes to business strategy.

Supplementary Notes
Due to rounding, some of the numbers and percentage figures specified in this document may differ from the actual values, particularly in the case of summation and percentage calculations. Unless otherwise stated, figures in parantheses refer to the comparative prior-year period. For the purpose of readability, we have not used both forms of grammatical gender (masculine and feminine) simultaneously when referring to specific terms. General designations referring to people relate to all people irrespective of gender.

This report was published on March 27, 2019, and is available in German and English. Only the German version shall be legally binding.

Financial Calendar 2019

MARCH

27

Annual Press Conference, Stuttgart
Analysts' Meeting, Frankfurt/Main

MAY

07

Interim Report
on the 1st Quarter of 2019

MAY

16

114th Annual General Shareholders' Meeting, Stuttgart, Cultural and Congress Center Liederhalle, 10:00 a.m. CEST

AUGUST

08

Interim Report
on the 2nd Quarter
and 1st Half of 2019

NOVEMBER

06

Interim Report
on the 3rd Quarter and
1st Nine Months of 2019

MAY 2020

19

115th Annual General Shareholders' Meeting, International Congress Center Stuttgart

---

Changes to the above dates cannot be ruled out.
We therefore recommend visiting our website to check specific financial dates at **www.elringklinger.de/en/investor-relations/financial-calendar**

For trade fairs please visit our websites:
www.elringklinger.de/en/press/dates-events
www.elringklinger-engineered-plastics.com/service/trade-fair-dates
www.elring.de/en/press-events/dates-events

ElringKlinger worldwide

Operating at 45 sites, the ElringKlinger Group has established a corporate presence in 21 countries. The company supplies almost all of the world's vehicle and engine manufacturers from 39 production sites located around the globe.

NAFTA

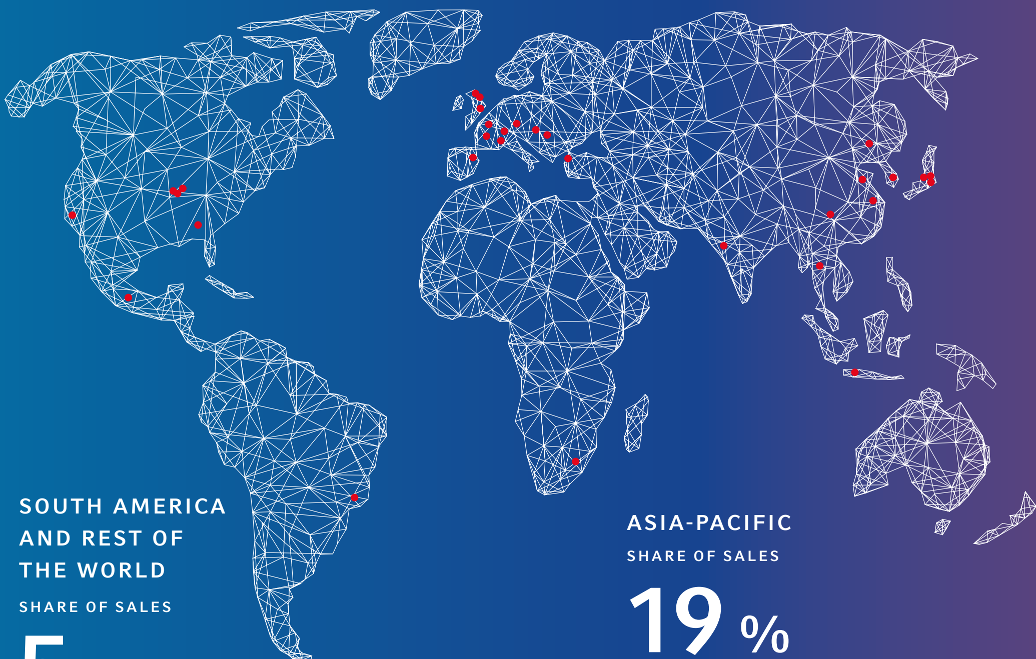
SHARE OF SALES

21 %

EUROPE (excluding Germany)

SHARE OF SALES

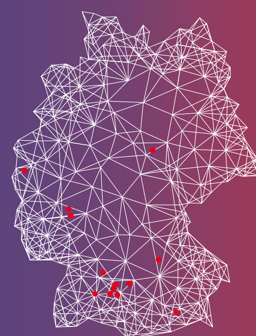
30 %



GERMANY

SHARE OF SALES

25 %



SOUTH AMERICA AND REST OF THE WORLD

SHARE OF SALES

5 %

ASIA-PACIFIC

SHARE OF SALES

19 %

EUROPE (excluding Germany)

- Redcar (GB)
- Gateshead (GB)
- Warwick (GB)
- Nantiat/Chamborêt (France)
- Poissy (France)
- Reus (Spain)
- Sevelen (Switzerland)
- Wels (Austria)
- Turin (Italy)
- Kecskemét-K. (Hungary)
- Timisoara (Romania)
- Bursa (Turkey)

ASIA-PACIFIC

- Changchun (China)
- Suzhou (China)
- Chongqing (China)
- Qingdao (China)
- Tokyo (Japan)
- Saitama (Japan)
- Takasaki (Japan)
- Gumi (South Korea)
- Ranjangaon (India)
- Bangkok (Thailand)
- Karawang (Indonesia)

NAFTA

- Leamington (Canada)
- Buford (Georgia, USA)
- Plymouth (Michigan, USA)
- Southfield (Michigan, USA)
- Fort Wayne (Indiana, USA)
- Fremont (California, USA)
- Toluca (Mexico)

SOUTH AMERICA AND REST OF THE WORLD

- Piracicaba (Brazil)
- Alberton (South Africa)

GERMANY

- Dettingen/Erms
- Bietigheim-Bissingen
- Bissingen/Teck
- Geretsried-Gelting
- Heidenheim
- Idstein
- Langenzenn
- Lenningen
- Mönchengladbach
- Nürtingen
- Rottenburg/Neckar
- Runkel
- Thale

As at December 31, 2018

Key Figures

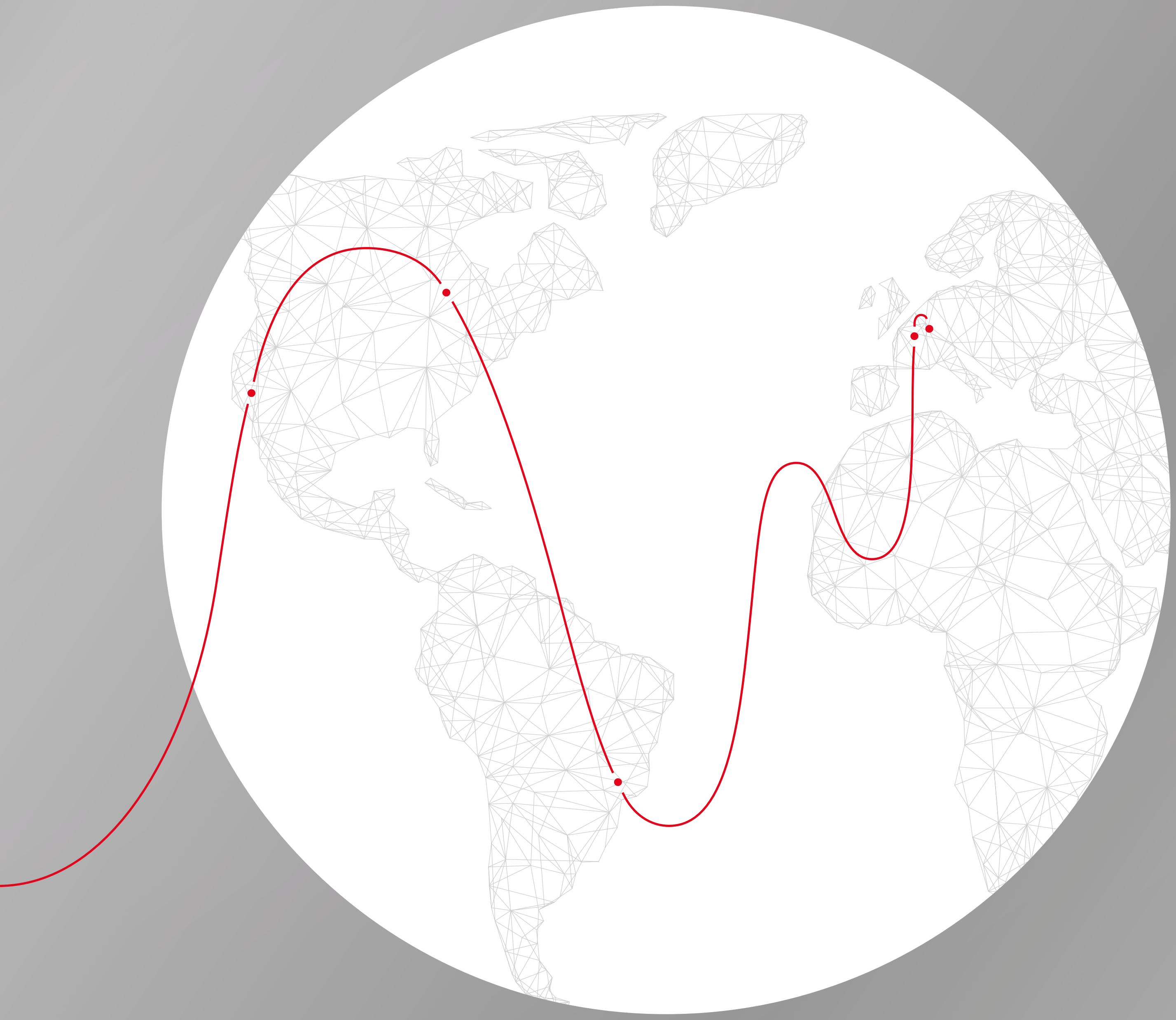
ElringKlinger Group at a glance

		2018	2017	2016	2015	2014	2013	2012
Order Situation								
Order intake	€ million	1,735.3	1,732.0	1,693.7	1,615.3	1,418.6	1,284.4	1,134.8
Order backlog	€ million	1,020.1	1,000.6	932.5	796.2	688.2	595.4	456.0
Sales/Earnings								
Sales revenue	€ million	1,699.0	1,664.0	1,557.4	1,507.3	1,325.8	1,150.1	1,127.2
Cost of sales	€ million	1,328.9	1,255.6	1,161.5	1,133.0	967.4	824.5	815.0
Gross profit margin		21.8%	24.5%	25.4%	24.8%	27.0%	28.3%	27.7%
EBITDA	€ million	196.6	238.4	231.2	222.8	233.4	238.6[3]	218.0
EBIT/Operating result	€ million	96.2	137.3	135.6	135.2	154.0	164.2[3]	138.6
EBIT margin		5.7%	8.3%	8.7%	9.0%	11.6%	14.3%[3]	12.3%
Adjusted EBIT, pre ppa[1]	€ million	100.2	141.8	140.4	140.4	162.3	149.8	140.9
Adjusted EBIT margin, pre ppa[1]		5.9%	8.5%	9.0%	9.3%	12.2%	13.0%	12.5%
Earnings before taxes	€ million	81.4	110.1	124.1	128.8	153.1	148.9[3]	123.6
Net income	€ million	47.9	73.8	82.6	95.8	110.6	111.2[3]	89.2
Net income attributable to shareholders of ElringKlinger AG	€ million	43.8	69.9	78.6	91.6	105.7	105.4[3]	85.7
Cash Flow								
Net cash from operating activities	€ million	91.6	95.5	175.7	123.3	149.9	119.0	112.3
Net cash from investing activities	€ million	-120.7	-193.2	-189.7	-212.7	-168.0	-126.4	-108.2
Net cash from financing activities	€ million	30.0	109.3	4.5	65.3	20.1	14.7	-13.3
Operating free cash flow[2]	€ million	-86.2	-66.6	-3.8	-65.2	-12.4	-4.2	8.2
Balance Sheet								
Balance sheet total	€ million	2,079.7	2,022.4	1,878.2	1,765.8	1,558.8	1,392.1	1,268.6
Equity	€ million	890.1	889.7	886.4	855.7	775.2	701.3	642.2
Equity ratio		42.8%	44.0%	47.2%	48.5%	49.7%	50.4%	50.6%
Net Debt	€ million	723.5	655.3	538.8	486.8	348.3	295.3	260.4
Returns								
Return on equity after taxes		5.4 %	8.3%	9.5%	11.7%	15.0%	16.6%[3]	14.2%
Return on total assets after taxes		3.1 %	4.5%	5.3%	6.5%	8.2%	9.2%[3]	8.2%
Return on Capital Employed (ROCE)		5.5 %	8.2%	8.7%	9.5%	12.4%	14.4%[3]	13.3%
Human Resources								
Employees (as at Dec. 31)		10,429	9,611	8,591	7,912	7,255	6,716	6,263
Stock								
Earnings per share	€	0.69	1.10	1.24	1.45	1.67	1.66[3]	1.35
Dividends paid	€ million	0.0	31.7	31.7	34.8	34.8	31.7	28.5
Dividend per share	€	0.00	0.50	0.50	0.55	0.55	0.50	0.45

[1] EBIT adjusted for one-time effects and amortization resulting from purchase price allocation

[2] Net cash from operating activities minus net cash from investing activities (excluding acquisitions/divestments and investments in financial assets)

[3] Including one-time gain from assumption of control of ElringKlinger Marusan Corporation (EUR 17.6 million before taxes; EUR 12.7 million after taxes)



ElringKlinger AG
Max-Eyth-Straße 2
D-72581 Dettingen/Erms
(Germany)