

ANNUAL REPORT 2016

pure mobility



elringklinger

KEY FIGURES

ELRINGKLINGER GROUP AT A GLANCE

		2016	2015	2014	2013	2012	2011	2010
ORDER SITUATION								
Order intake	€ million	1,693.7	1,615.3	1,418.6	1,284.4	1,134.8	1,089.0	886.6
Order backlog	€ million	932.5	796.2	688.2	595.4	456.0	448.4	333.1
SALES/EARNINGS								
Sales revenue	€ million	1,557.4	1,507.3	1,325.8	1,150.1	1,127.2	1,032.8	795.7
Cost of sales	€ million	1,161.5	1,133.0	967.4	824.5	815.0	744.2	557.0
Gross profit margin		25.4%	24.8%	27.0%	28.3%	27.7%	27.9%	30.0%
EBITDA	€ million	231.2	222.8	233.4	238.6 ⁴	218.0	247.9 ⁵	198.2
EBIT/Operating result	€ million	135.6	135.2	154.0	164.2 ⁴	138.6	151.1 ⁵	116.0
EBIT margin		8.7%	9.0%	11.6%	14.3% ⁴	12.3%	14.6% ⁵	14.6%
Adjusted EBIT, pre ppa ¹	€ million	140.4	140.4	162.3	149.8	140.9	130.6	116.0
Adjusted EBIT margin, pre ppa ¹		9.0%	9.3%	12.2%	13.0%	12.5%	12.6%	14.6%
Earnings before taxes	€ million	124.1	128.8	153.1	148.9 ⁴	123.6	136.6 ⁵	94.0
Net income	€ million	82.6	95.8	110.6	111.2 ⁴	89.2	97.6 ⁵	68.6
Net income attributable to shareholders of ElringKlinger AG	€ million	78.6	91.6	105.7	105.4 ⁴	85.7	94.9 ⁵	65.6
CASH FLOW								
Net cash from operating activities	€ million	175.7	123.3	149.9	119.0	112.3	74.5	126.2
Net cash from investing activities	€ million	-189.7	-212.7	-168.0	-126.4	-108.2	-147.4	-128.1
Net cash from financing activities	€ million	4.5	65.3	20.1	14.7	-13.3	35.4	74.0
Operating free cash flow ²	€ million	-3.8	-65.2	-12.4	-4.2	8.2	-10.5	-1.9
BALANCE SHEET								
Balance sheet total	€ million	1,878.2	1,765.8	1,558.8	1,392.1	1,268.6	1,217.6	991.3
Equity	€ million	886.4	855.7	775.2	701.3	642.2	610.1	522.3
Equity ratio		47.2%	48.5%	49.7%	50.4%	50.6%	50.1%	52.7%
RETURNS								
Return on equity after taxes		9.5%	11.7%	15.0%	16.6% ⁴	14.2%	17.2% ⁵	16.3%
Return on total assets after taxes		5.3%	6.5%	8.2%	9.2% ⁴	8.2%	9.9% ⁵	9.2%
Return on Capital Employed (ROCE)		8.7%	9.5%	12.4%	14.4% ⁴	13.3%	16.7% ⁵	15.2%
HUMAN RESOURCES								
Employees as of Dec. 31		8,591	7,912	7,255	6,716	6,263	6,075	4,676
Average number of employees		8,322	7,653	7,081	6,543	6,314	5,729	4,453
STOCK								
Earnings per share	in €	1.24	1.45	1.67	1.66 ⁴	1.35	1.50 ⁵	1.11
Dividends paid	€ million	31.7 ³	34.8	34.8	31.7	28.5	36.7	22.2
Dividend per share	in €	0.50 ³	0.55	0.55	0.50	0.45	0.58	0.35

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 and investments in financial assets)

³ Proposal to the Annual General Shareholders' Meeting 2017

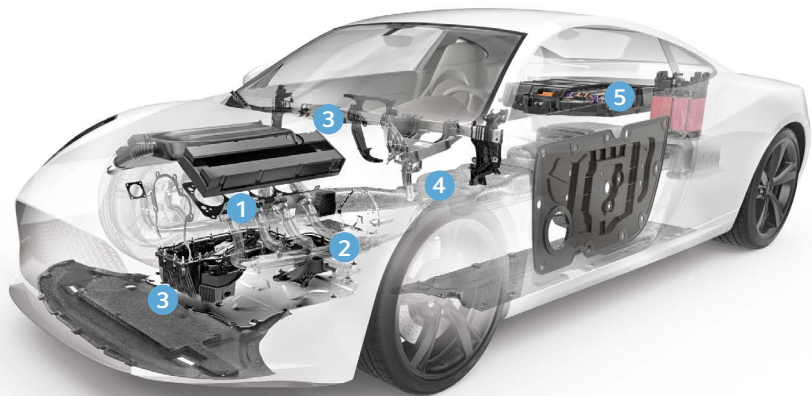
⁴ Including one-time gain from assumption of control of ElringKlinger Marusan Corporation (EUR 17.6 million before taxes; EUR 12.7 million after taxes)

⁵ Including one-time gain from sale of Ludwigsburg industrial park (EUR 22.7 million before taxes; EUR 16.5 million after taxes)

COMPANY PORTFOLIO

As an automotive supplier, ElringKlinger has become a trusted partner to vehicle manufacturers – with a firm commitment to shaping the future of mobility. Be it optimized combustion engines, high-performance hybrids, or environmentally-friendly battery and fuel cell technology, ElringKlinger provides innovative solutions for all types of drive systems. ElringKlinger’s lightweighting concepts help to reduce the overall weight of vehicles. As a result, vehicles powered by combustion engines consume less fuel and emit less CO₂, while those equipped with alternative propulsion systems benefit from an extended range. In response to increasingly complex combustion engine technology, the Group also continues to make refinements with regard to gaskets in order to meet the highest possible standards. Additional solutions include thermal and acoustic shielding components as well as particulate filters and end-to-end exhaust gas purification systems for engines used in stationary and mobile applications. The Group’s portfolio is complemented by products made of the high-performance plastic PTFE which are also marketed to industries beyond the automotive sector. These efforts are supported by a dedicated workforce of more than 8,500 people at 47 ElringKlinger Group locations around the globe.

KEY AREAS OF BUSINESS



ENGINEERED PLASTICS 7%

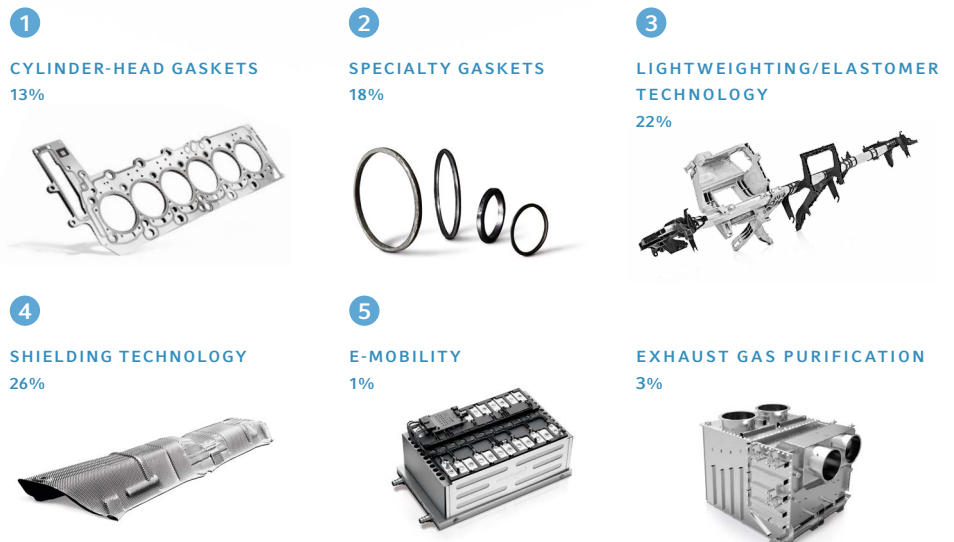


AFTERMARKET 9%



ElringKlinger is the world’s leading supplier of cylinder-head gaskets. The company also holds a premier position in the other well-established areas of its business.

ORIGINAL EQUIPMENT SEGMENT



PURE MOBILITY



FOCUSING ON SUSTAINABLE MOBILITY

Mobility is a basic human need. Indeed, it is seen as an essential prerequisite for freedom, independence, and human interaction across borders. People are taking advantage of the opportunities associated with globalization. They are constantly on the move – on the way to work, during business travel, or in their leisure time.

But what does the future hold for mobility? Mobility has to be comfortable in order to make travel a pleasurable experience. At the same time, it should be tailored to individual requirements. To be truly progressive, however, mobility must above all be sustainable so that we can tackle the challenge of climate change. The onus is on all of us to make it as environmentally friendly as possible.

Mobility takes center stage.

pure mobility

Climate change and the resulting emissions legislation are to be seen as the key drivers behind technological advancement in the automotive industry. Against this backdrop, manufacturers have been stepping up their efforts to increase the proportion of alternative-drive vehicles within their fleets in the foreseeable future. This is motivated by the fact that ever-stricter CO₂ standards can ultimately only be met with the help of more efficient combustion engines or alternative powertrain technology. ElringKlinger was quick off the mark when it came to embracing the idea of next-generation mobility. For more than a decade, the company has been focusing closely on areas that are of particular significance to the future of the industry, such as battery systems, fuel cell technology, and lightweight design. ElringKlinger provides innovative solutions for all types of drive systems. Building on its extensive portfolio of products, it is actively shaping the path that leads to tomorrow's mobility.



#1
PURE MOBILITY

As a supplier focused on pioneering concepts and sustainable mobility, ElringKlinger is continuously evolving and contributing to advances in technology. The Group is committed to relentlessly driving innovation in order to create added value – for its customers as much as for ElringKlinger itself. This is demonstrated in the reports below, which take readers on a tour through various idea hotspots in the company.





228

employees work in the Research & Development departments at Group headquarters in Dettingen/Erms.

ElringKlinger has firmly embraced the words of Apple founder Steve Jobs: “Innovation distinguishes between a leader and a follower.” After all, ElringKlinger is an innovator in its markets. The Group actively promotes forward thinking as a way of making new ideas a reality. The principle of engaging in dialogue with customers at an early stage or being the first to describe and pursue a vision is part of ElringKlinger’s DNA and can be found throughout the company, including at its Group headquarters in Dettingen an der Erms.

CREATING NEW THINGS

Let’s look first at the development underway in the area of lightweight components, a division that only came into being two decades ago. Back then, ElringKlinger had just discovered that metal engine components could be replaced by lighter high-performance plastics. “Less weight, greater functionality, and greater scope in design” ran the short, snappy claim that summed up how the customer stood to benefit – successfully, as it turned out: the division is now responsible for over 20 percent of Group revenue.

And this figure is set to keep on rising, because the division has now launched its next major leap forward by industrializing innovative lightweight components in partnership with a premium German manufacturer: “With a unique technology, we combine the hydro-forming of metal with plastic injection molding, enabling us to design complex customized geometries with ultra-small tolerances and impressive structural strength in the event of a crash,” explains Klaus Bendl, the head of the division. All of this adds value for the customer, who is thus able to integrate significantly more applications and achieve tangible reductions in weight – an extremely valuable option in order either to better comply with the stringent emis-

sions regulations governing combustion engines or to increase the range of electric drives. “The main reason we can come up with innovations like this is the fact that, as well as our knowledge of materials and our process expertise, we also have the ability to develop highly sophisticated tools in-house,” says COO Theo Becker, underlining ElringKlinger’s strengths.

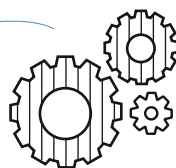
By combining organo sheets with plastic injection molding, the Group has in the meantime won a major order involving yet another method of this kind, this time producing door module carriers for a global manufacturer’s compact car.

ENHANCING WHAT ALREADY WORKS

Changing places. Cylinder-head and specialty gaskets are ElringKlinger’s bread and butter. This business formed the foundations of the Group, before it made the far-sighted decision 20 years ago to diversify its operations. ElringKlinger is the leader in this particular market, as it is in virtually all its others. Its share of its home market of Europe is well over 50 percent, with nearly every other cylinder-head gasket in the world likely to have come from ElringKlinger.

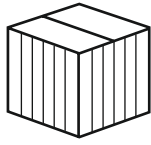
One can only defend a position of this strength with any success by keeping on developing rather than resting on one’s laurels. Whereas the Group’s multilayer technology used to be regarded as a groundbreaking innovation, the past few years have seen developers tinkering around with coatings and stopper geometries. These steps have been necessary in order to ensure that the ever-smaller engines brought about by the downsizing trend can continue to be sealed reliably. And ElringKlinger has enjoyed success here too, remaining in constant demand as a professional partner





»A strong culture of innovation is partly about having the entrepreneurial willingness to make your investment in advance if your idea is a good one.«

DR. STEFAN WOLF — CEO of the Management Board



Up to **1,000 °C**
is the temperature that ElringKlinger's newly
developed gasket coatings can withstand.

8,103 metric tons
of raw materials and semi-finished products
were shipped by ElringKlinger from Germany
to America and Asia in 2016.



Dettingen/Erms

Group headquarters is where all the various strands from the Research & Development departments come together.

and recording full order books. “Without the process expertise that we’ve built up over decades, however, we simply wouldn’t be able to exploit these benefits of the product characteristics that we’ve kept on improving,” adds Reiner Drews, who heads this division. At ElringKlinger, product knowledge and process expertise dovetail perfectly to shape successful innovations.

STRATEGIC PLANNING

Let’s now cross over into Plant 2 at the company’s main premises in Dettingen/Erms. It is home to, among other things, the aftermarket business, which has carved out a commanding position throughout the European and Middle Eastern markets for gaskets, gasket sets, and service products over many years. Yet the division has much more potential than that. “We want to expand into more key markets,” says divisional manager Dirk Willers, outlining the strategy. Maintenance cycles usually begin six to seven years after buying a vehicle. In that respect, the task now facing ElringKlinger’s aftermarket business is to enter the Chinese market and expand its presence in North America and thus exploit the structural growth that both regions have enjoyed over the past few years.

But that’s not all. Willers is also working systematically to drive his portfolio forward: “Our aftermarket business involving cylinder-head gaskets gives us a very successful base. But even now, we want to be thinking about tomorrow,” he says. So the division is already weighing up which of its products would lend themselves to the aftermarket business further down the line in the transformation process that the industry is undergoing. “Combustion engines are still going to need repairing for the next few decades, maybe even to a greater extent,” Willers says, explaining his division’s thought processes. “This is why we’re really targeting new products to add to this business. We’ve also started to prepare ourselves and our strategy for the requirements that electromobility will bring.” After all, the rule is a simple one: Today’s new business is tomorrow’s aftermarket business.

OPERATING GLOBALLY

Another scene change – back to Plant 1 and the Global Logistics department. It is here more so than anywhere else that you can sense the heavy demands brought over the past few years by the company’s rapid growth and global reach. New approaches are needed in order to have the capacity to operate successfully around the world. It’s all about “joined-up thinking”: Suppliers’ and customers’ processes as well as internal information are being adapted in order to standardize how data is exchanged. Although it may sound simple, it’s actually rather complicated. Delivery schedules, delivery notes, invoices, and all other documents and processes have to be made to match, on both the purchasing and sales sides.

In addition, the inventory analyses reveal which products regularly enter and leave the warehouse and which production and storage processes merit closer investigation. This segmentation is part of the implementation of new dispatch strategies developed as part of a global project during the last fiscal year. Inventory levels and batch sizes for delivery and production are the corresponding variables used to guide these optimization measures – not just locally, but also globally across the entire Group. “We need to have the same standards that are met across the world. It’s the only way to leverage economies of scale in logistics,” underlines Head of Global Logistics Jorin Preuß. “That’s what we’re working flat out toward.”

FORWARD THINKING

Four examples from Group headquarters that demonstrate how innovations form the main building block for ElringKlinger’s success. Forward thinking provides the methodological approach, prompt dialogue with customers the essential tool, and leading the development field the inevitable outcome. ElringKlinger’s goal and incentive expand on this further in equal measure.

#2
PURE MOBILITY

DRIVING CHANGE



As the birthplace of the automobile and the home of automotive supplier ElringKlinger, the federal state of Baden-Württemberg in Germany is heavily dependent on the combustion engine in terms of industrial value added by enterprises within the region. At the same time, however, it is eager to project itself as a model for the future of mobility. State Premier Winfried Kretschmann and ElringKlinger CEO Stefan Wolf discussed how best to achieve this goal.

WOLF — According to the coalition agreement on which the federal state government is based, you intend to speed up the move towards e-mobility and other alternative drive systems. What kind of time frame are we looking at?

KRETSCHMANN — That's a difficult question to answer. Ultimately, the level of demand for electric cars depends not just on policy decisions but on the extent to which they are accepted by consumers. The fact that electric vehicles have had a rather sluggish start is partly due to the price, but the main factor is the limited range of most models. I am convinced that demand will increase rapidly once our car makers release their new range of electric models. Bear in mind, too, that China is probably about to introduce a minimum quota system for electric cars.

WOLF — The momentum has certainly been there across every social group since autumn 2015. We need to build on it within the automotive and supplier industry and come up with faster solutions to those issues of range and battery capacity. At ElringKlinger, we have spent the last 15 years working on groundbreaking projects to develop new battery, fuel cell, and lightweight vehicle body components. Consistent lightweighting helps to extend the range of electric vehicles and is therefore becoming increasingly important.

KRETSCHMANN — Besides the shift towards electric drives, we have the prospect of autonomous driving, digital networks covering all transport providers, and the so-called platform economy, all of which are changing the way consumers behave. These are radical

transformations, and yet here in Baden-Württemberg our value chains still depend very much on the combustion engine. It will be a monumental challenge to shape the transition in such a way as to preserve those value chains and the associated jobs. To do so, we need to establish a strategic partnership that allows policymakers and industry players to work together and continuously influence the process of change.

WOLF — You're right, although it's also up to each company to decide for itself how it responds to change in a way that enables it to remain competitive and retain or even create jobs. Ten years ago, for example, we were still generating 80 percent of our revenue from sales of gaskets for combustion engines. Today, that figure is around 20 percent. To bring about that change, we had to invest early in new technology, and we had to wait for that investment to pay off. Today, however, if the industry were to flip a switch and only produce electric cars from now on – admittedly an unrealistic scenario –, then we can at least be confident that our content per car would increase. Having said that, I think it's right for car makers and industry suppliers to sit down with politicians to work out the best way forward together. We can only maintain our technological edge if we join forces.

KRETSCHMANN — We are at a crossover point towards a new technology. However, that also means our existing technology needs to keep on generating the revenue needed to finance investment in new technology. That is a challenging proposition, in particular for small and medium-sized companies, especially given that we can't yet say for certain which technology is



»We can only maintain our technological edge if we join forces.«

DR. STEFAN WOLF — CEO of ElringKlinger AG

going to emerge as the winner. There are several possibilities: batteries, fuel cells, third-generation fuels, and the hybrid as a transition technology. However, disruptive developments such as these are always associated with considerable risks. That's why we need to avoid making new policies which generate even greater disruption on top of that created by those disruptive technologies.

WOLF — So, will Baden-Württemberg remain the Silicon Valley of the automotive industry?

KRETSCHMANN — Our strength lies in the fact that here in Baden-Württemberg we have everything we need to continue playing a leading role in a very broad sense. Our businesses and their employees know what their customers want, and they are very familiar with the industrial processes involved. Of course, it's worth mentioning that we don't just do cars! Along the middle stretch of the Neckar region, we also have one of the best-developed transport systems. It all has to be coor-

ordinated. There are environmental issues at stake here, too. We can expect to see hundreds of millions of new cars being produced in the years ahead. If they are all based on the same technology that we are using at the moment, the effect on our planet would be disastrous.

WOLF — I am certain that we can continue to build on our strengths in the face of international competition. At the end of last year, for example, we acquired a stake in hofer, which had developed a complete electric drive. When hofer needed to ramp up its output to an industrial scale, it looked for a partner with the required production know-how. That is where we came in, and we have acquired a majority holding in the production company. We are supplying 3,000 drives as part of an initial small-scale order. Incidentally, we have opened a development office in Silicon Valley and have seen for ourselves how difficult it can be for pure software companies to move into production. We can form partnerships with companies like that to help them scale up to an industrial level.

»Our existing technology needs to keep on generating the revenue needed to finance investment in new technology.«

WINFRIED KRETSCHMANN — Premier of the Federal State of Baden-Württemberg



KRETSCHMANN — Here in Baden-Württemberg, we set up our own Cyber Valley in December last year, based on Silicon Valley in the United States. Research organizations, universities, large companies, and some SMEs are already there working on subjects such as artificial intelligence. We want to ensure that our knowledge and development base remains competitive at an international level. On the one hand, that involves attracting the best minds, those with creative skills. At the same time, we have to ensure that knowledge is transferred rapidly from the field of research to the businesses in question, including SMEs. We need to provide more support for start-ups, too. Of course, we can't copy Silicon Valley, but it's important that we strengthen our culture of innovation rather than become a culture that merely wants to avoid mistakes. Progress is simply not possible if you try and rule out every potential risk.

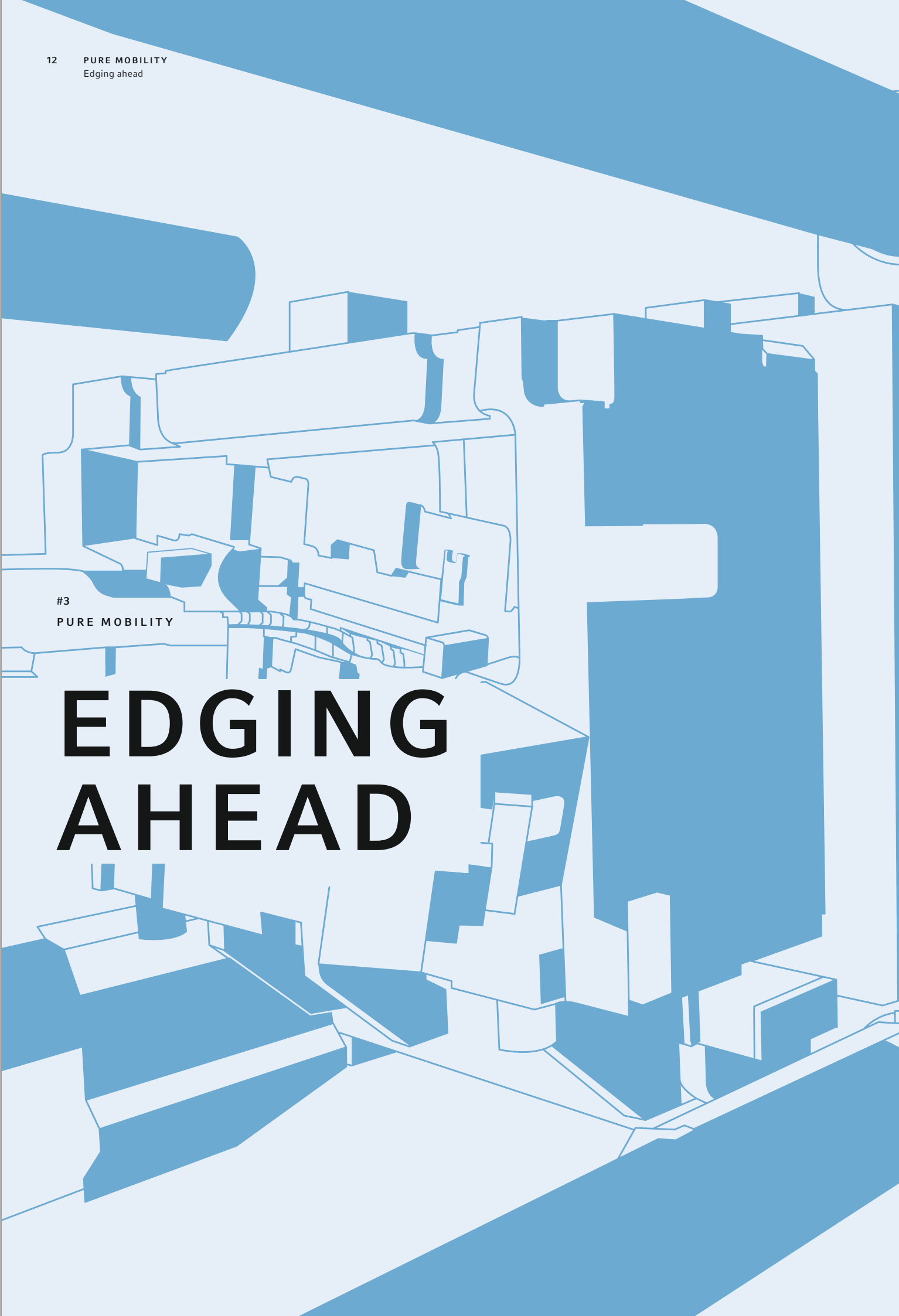
WOLF — Thank you, State Premier.

WINFRIED KRETSCHMANN
PREMIER OF THE FEDERAL STATE
OF BADEN-WÜRTTEMBERG

A former biology and chemistry teacher, Winfried Kretschmann (born 1948) was one of the founders of the Grünen (Green Party) in Baden-Württemberg. He was first elected to the Landtag (federal state parliament) in 1980 and has remained a member ever since, with only a brief gap in the 1980s. In 2011, he became the first member of the Green Party to be elected to the office of State Premier. He was re-elected in May 2016.

#3
PURE MOBILITY

EDGING AHEAD



If you are going to manufacture pioneering products, you always need to be a step ahead in toolmaking technology as well. This can rightly be regarded as one of ElringKlinger's core areas of expertise. After all, its in-house toolmakers manufacture nearly all the necessary production tools themselves. Innovations and investments make sure that this competitive edge is maintained.

Its in-house toolmakers play a key role in ElringKlinger's success, as they are behind nearly every high-performance tool used in production. The tools are planned, designed, and produced within the company to defined specifications, resulting in unique custom-made solutions that cannot be obtained anywhere on the market. The toolmaking department is therefore much more than just a service provider for ElringKlinger's individual divisions and plants. It specializes in implementing technically complex 3D product geometries with ultra-precise shapes and dimensions as well as in continuously developing existing technologies and making them more efficient. Smart solutions enable ElringKlinger's toolmakers to combine several sophisticated manufacturing processes with one another. The best example is the hybrid hydroforming method, which melts plastic injection molding and internal high-pressure forming into a single process step. Jürgen Weingärtner, Head of Technical Service at ElringKlinger AG, has the following to say about the importance of in-house toolmakers: "In a nutshell, having in-depth tooling expertise determines whether new developments or new techniques can even get put into practice in the first place. ElringKlinger spotted this at an early stage and has made the most of it."

Integrating toolmaking operations within the Group means that the entire process chain – from the product idea through to series production – can be covered under one roof, delivering three key benefits. First, product development and toolmaking are brought closer together. The individual requirements that new product-specific developments pose to toolmaking can be clearly defined in regular consultation meetings

between the engineers from the two specialist departments and are easy to fine-tune if required without the need for any red tape. Second, each newly constructed tool serves as a learning experience that the team members immediately involved in the next project can benefit from. In other words, a process of continuous improvement sets in automatically. Third, production cannot run completely smoothly until the production line, the raw materials, and the process expertise are all in synch. "Once the toolmakers and the various interfaces at ElringKlinger are perfectly aligned, we can achieve a significantly higher output with our series production. You don't usually get that if you outsource your tool work," says Weingärtner, underlining the differences.

ElringKlinger's toolmakers are responsible for developing and manufacturing tools for four different divisions – Cylinder-head Gaskets, Specialty Gaskets, Shielding Technology, and, in particular, the highly promising Lightweighting division. This latter is working on replacing metal parts with high-performance plastics to save weight in vehicles. For the series production of cockpit cross-car beams for a premium German manufacturer, which began in early 2015, ElringKlinger's toolmakers developed the corresponding tools and supplied them to the Group's sites in Leamington, Canada, and Suzhou, China. And two other major international lightweighting projects that ElringKlinger launched in 2017 are also underpinned by the successful work of the Group's in-house toolmakers. Both the order for door module carriers made from organo sheets received from a German automotive supplier and the supply of cockpit cross-car beams for a US

»Quality and speed are the key to success in toolmaking.«

JÜRGEN WEINGÄRTNER — Head of Technical Service
at ElringKlinger AG



car manufacturer used tools that were developed and manufactured in-house – they are currently still being tested. “For the door module carrier project, the sites in Hungary, Mexico, and China are each to receive two production lines plus corresponding toolsets,” Weingärtner adds. At the newly built production facility in the Californian city of Fremont, the first stage envisages the construction of a line to manufacture the cockpit cross-car beams.

“There are essentially two things that make ElringKlinger’s toolmakers so special and different from their frequently cheaper Asian counterparts: speed and quality,” Weingärtner explains. To ensure that its technological edge can continue to be maintained, the necessary operational and strategic measures are already being put in place for the future. For instance, the acquisition of the business activities of Maier Formenbau GmbH was completed in June 2016, further adding to ElringKlinger’s toolmaking skills and capacity. Purchasing the Bissingen/Teck-based mold-building and toolmaking company will bring the Group additional expertise in the form of some 40 toolmakers. The extra resources will mainly be used to accelerate the development and production of tools for the Shielding Technology division. Alongside this acquisition, expanding existing infrastructure is another key factor in the Group’s strategy for the future. The beating heart of toolmaking for lightweighting activities is in Lenningen, at the

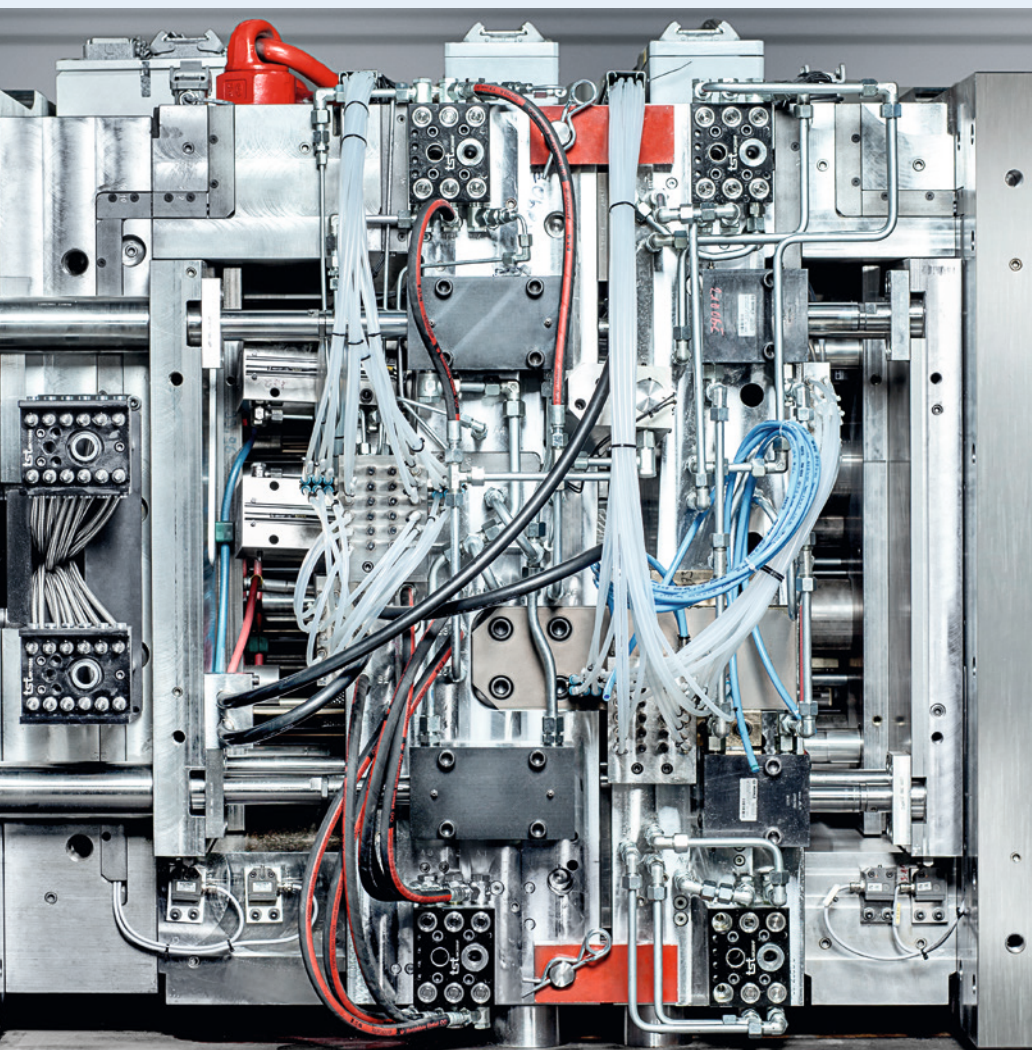
site of the former Hummel-Formen GmbH, which became part of the ElringKlinger Group in 2011. Over the past two years, the specialist for plastic injection molding and the processing of fiber-reinforced composites has seen a few changes – the site has been made fit for the future, in other words. With space having been at a premium for some time, the offices that had previously been housed inside the production hall were hived off to a new administrative complex that melds seamlessly onto the production facilities. This enabled the space that had become free to be used initially to expand production capacity. Investment was also made in new, state-of-the-art milling and processing machinery. In other words, the Group is investing in the future to preserve its competitive edge.



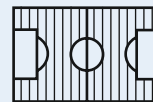


Heavyweight

The tool weighs over 24 metric tons.



The illustration shows a combined forming and injection molding tool for producing hybrid components from organo sheets, i.e. fiber-reinforced plastic parts that boast maximum strength but have an ultra-low weight.



10,500 m²

is how much production space is available at the Lenningen plant, about the same size as two soccer pitches.



Size

The tool has the following dimensions: 2.31 x 1.35 x 1.53 m.



786 km

is the distance between the site in Lenningen where the tool was manufactured and the production facility in the Hungarian city of Kecskemét.

#4
PURE MOBILITY

DOOR OPENER

ElringKlinger is stepping up its activities involving innovative lightweight bodywork components: Late 2017 will see the large-scale series production of door module carriers made from so-called organo sheets, developed by the customer in its capacity as a systems supplier, get under way at its newly built plant in the Hungarian city of Kecskemét. The Group will then be expanding its production capacity even further with production facilities in Mexico and China.



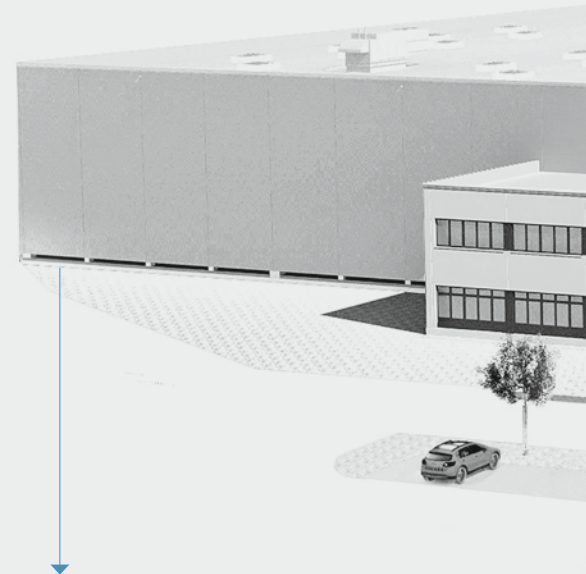


It is a project on a truly stupendous scale, taking up 13,000 hours from the time the order was received until the start of production at a brand new plant in Hungary. The tight schedule means there is no room for delays and requires maximum flexibility, optimum efficiency, and top quality.

Claudia Dabberger is responsible for bringing it all together as the overall coordinator of this major project, which is worth over EUR 100 million and which will run until 2024. With its innovative process, international focus, and the need to build three new plants in virtually no time at all, the project is an extremely complex one to coordinate, as well as being a truly unique undertaking.

As a first step, ElringKlinger is constructing a new, highly automated production site in Hungary that will house all its systems for manufacturing the innovative door module carriers. The project will then be rolled out on two more continents more or less in parallel. The Group will thus be leading the field in 2017 as one of the first automotive suppliers to process the fiber-reinforced composites known as organo sheets in large-scale series production.

Ten months before production commences, the major project is now well into its implementation phase. The design and planning stages for the new building, including the systems for manufacturing the door module carriers, have been completed successfully, the plot of land in Hungary has been acquired, and the relevant permits have been obtained. The initial excavation work has already begun.



100

employees by late 2017



~240

days of construction period

400
storage bins

8,000 kW
power supply



12 ha
plot area

144 THSD m³
gross building volume

1 ha
production area

3,000 m²
common rooms and offices



»Industrializing global projects – that’s where our strength lies.«

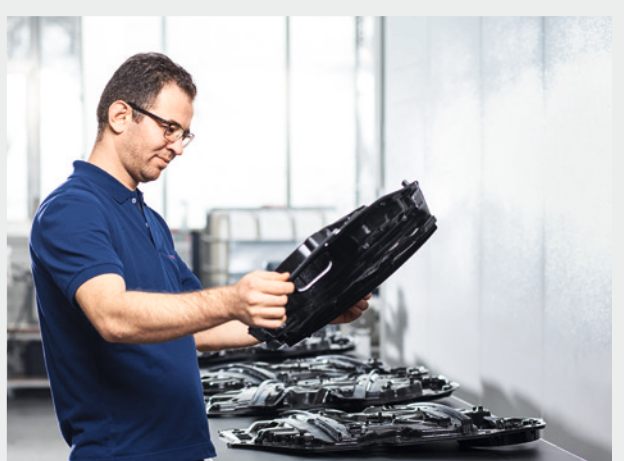
CLAUDIA DABERGER — In overall charge of the major project

There are clearly defined responsibilities within the project team. Each and every member is a proven expert in their field and can fully rely on their colleagues. Nevertheless, regular coordination meetings are absolutely essential as the tight schedule requires several project phases to run simultaneously.

“If you want success on a global scale, you need to recognize regional differences, generate synergy effects, create networks, and, above all, utilize the knowledge of local experts.” This is the motto of Jochen Schweizer, who is responsible for all construction activity as well as setting up the infrastructure in Kecskemét. In Hungary in particular, a raft of environmental regulations meant that a significant amount of time was taken up seeking the necessary permits even before construction began, which required close consultation with the local authorities. “Laying the foundation stone for our new building will be our first landmark achievement. And then we’ll move straight into the project phase, during which we’ll implement our plans and create the necessary infrastructure,” Site Manager Schweizer continues.

Matthias Wurst, the Project Manager responsible for factory planning, made maximum flexibility and sustainability a key priority when planning the new plant. A ceiling height of over 13 meters and a 50-metric-ton crane mean that the production areas can be used in a variety of ways and even larger systems can be installed. The structure of the building has been designed to be just as smart and versatile: alongside high-performance presses for manufacturing products from fiber-reinforced composites and plastics, production lines for thermal shielding systems can also be set up.

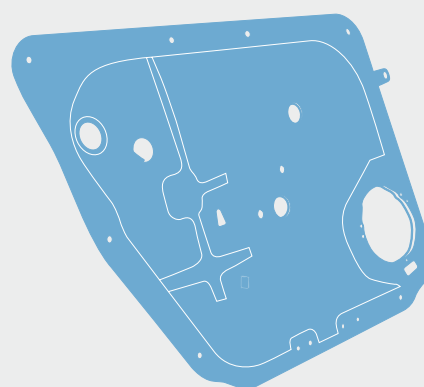
As the Product Manager in charge of technology, Mateus Vertu is also responsible for purchasing all the systems and equipment required to make the door module carriers. Working closely with several machinery and system manufacturers, ElringKlinger will be installing a highly automated production system as early as the second quarter of 2017 that will be perfectly aligned to its innovative door module carriers. Having the matching robotics ensures a fully automatic process flow. At the heart of the new system will



At their regular weekly meetings, the team of experts shares its latest findings and coordinates the project's next steps.

be the 25.5-metric-ton tool that ElringKlinger's expert toolmakers have designed and built specifically for this job. It combines two processes – reshaping the organo sheets and traditional plastic injection molding – into a single step. Unlike the two-stage solutions common in the industry, this facilitates a production process with shorter manufacturing times and more accurate shapes and dimensions.

In delivering this project, ElringKlinger is once again demonstrating its strength in industrializing global projects. "Every project proceeds differently. Having the right amount of detail in our planning is key to our success because each country has its own local challenges in store for us that we won't know about until we get there. But it is precisely this variety that we love about our work," stresses Project Manager Claudia Dabberger. The trick essentially lies in being able to adapt quickly to changes in your circumstances. Streamlined decision-making processes like those at ElringKlinger also allow people to focus their work on finding solutions and achieving their targets. Ultimately, every job revolves around being able to deliver the right end products to the customer on time.

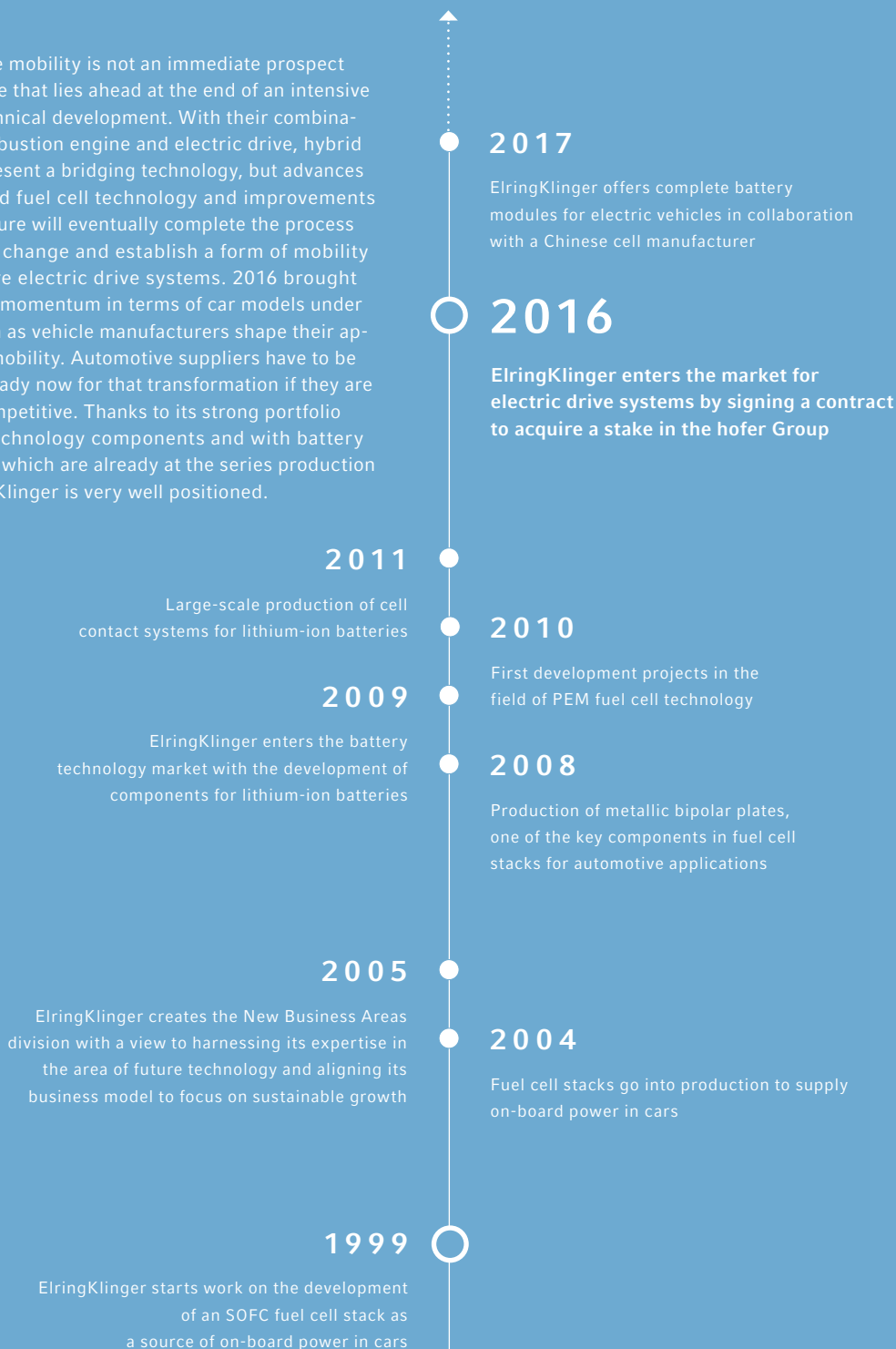


The door module carrier is mounted to the vehicle's door frame; functional elements such as the window winder and the locking system are attached to it.

#5
PURE MOBILITY

E-VOLUTION

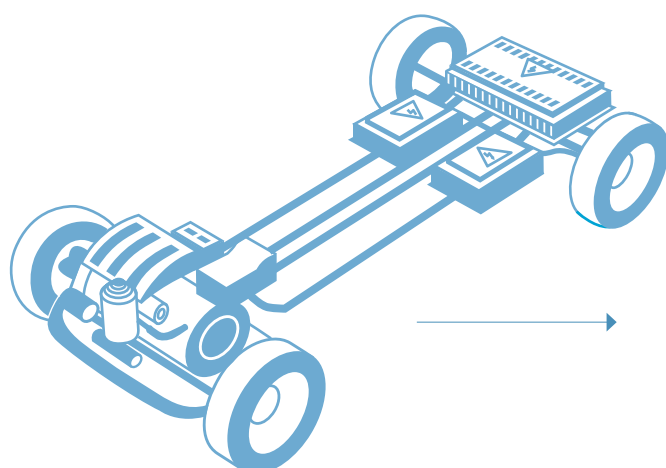
Emission-free mobility is not an immediate prospect but rather one that lies ahead at the end of an intensive period of technical development. With their combination of a combustion engine and electric drive, hybrid vehicles represent a bridging technology, but advances in battery and fuel cell technology and improvements in infrastructure will eventually complete the process of disruptive change and establish a form of mobility based on pure electric drive systems. 2016 brought considerable momentum in terms of car models under consideration as vehicle manufacturers shape their approach to e-mobility. Automotive suppliers have to be prepared already now for that transformation if they are to remain competitive. Thanks to its strong portfolio of fuel cell technology components and with battery components, which are already at the series production stage, ElringKlinger is very well positioned.



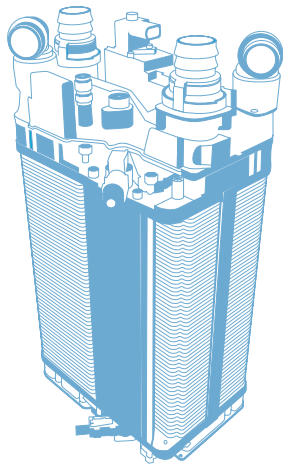
ElringKlinger decisively expanded its e-mobility portfolio in fiscal year 2016. Having acquired a strategically important holding in the systems specialist hofer, ElringKlinger now has access to additional development expertise and a greater capacity to innovate with regard to vehicle transmissions, electric motors, electronics, and software for the entire electric drivetrain. ElringKlinger and hofer will jointly supply drive systems, especially transmissions, electric drives, and battery systems for exclusive small-scale series production.

The hofer group of companies has built up over ten years of experience in the market for high-end solutions for the sports and luxury car segment, as a system developer for all types of drive technology. Today, the company's Powertrain Management solutions cover highly complex aspects of hybrid and electric drives with a focus on efficient driving performance combined with high safety standards. Previously the company manufactured components on a small scale itself. From now on, ElringKlinger will take over the industrialization of new projects. Together, ElringKlinger's process know-how and the development expertise of the hofer team with its 600 engineers have created a strong partnership.

ElringKlinger began investing in research and development for alternative drive systems at a very early stage. It has established an excellent market position since launching its first fuel cell technology project 18 years ago in response to an order from a premium car maker. ElringKlinger went on to apply its core expertise in metal working, coating technology, plastic injection molding, and high-performance plastics to develop and produce a growing number of its own components. Today, apart from the electrochemical cell, ElringKlinger's portfolio covers a large part of the value chain for the components of lithium-ion batteries, which are used in both hybrid vehicles and pure electric vehicles.

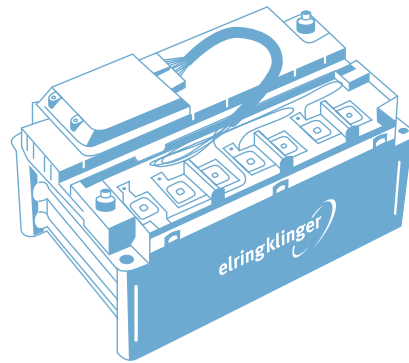


Electric drive system developed by hofer comprising the following main components: a high-voltage battery system, transmission with electric motor, power management electronics, and software.



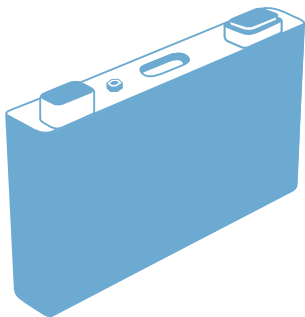
PEM fuel cell stack

features metallic bipolar plates as well as a casing and end/media modules for use in cars and industrial applications.



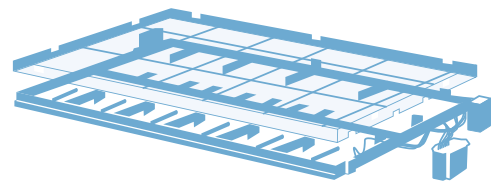
24 V lithium-ion battery module

for use in stationary and mobile applications. Thanks to high-quality connection technology and integral monitoring, the energy stored in the cells can be used to the best-possible effect. Another key benefit of the battery module is its operational safety.



Prismatic cell housing

for lithium-ion batteries with encapsulated material transition to combine the benefits of high output and low weight. The protection features are tailored to the electrochemical constituents of the cell in order to ensure maximum operational safety.



Cell contact system

for current feed in a battery module with integrated sensors for voltage and temperature monitoring. Cell connectors with integral compensation elements provide the basis for high power output and help to protect the cells against damage.

»ElringKlinger is superbly equipped to benefit from the technology revolution with its own fuel cell stacks, patented designs for metallic bipolar plates, and plastic media modules.«

ARMIN DIEZ — Head of the Battery Technology and New Business Areas divisions

The shift towards electric vehicles is now unstoppable. One of the factors driving this transformation is new legislation on emissions based on the long-term objective of zero-emission mobility. The benefits for future car owners are even greater, however, in terms of financial savings and other “soft” factors such as the way the vehicle responds and the level of comfort. Within the foreseeable future, battery-powered electric vehicles will be able to compete on both price and technology with combustion engines. For the moment, the main obstacle to be overcome is that of battery storage capacity. Cars powered by fuel cells will

prove attractive on account of their range and fast refueling, but greater investment is needed in refueling infrastructure to ensure that they are more widely accepted.

Both fuel cells and batteries, each with their particular characteristics and advantages, will be needed to power the vehicles of the future. Depending on the way the vehicle is to be used, they can also complement each other, e.g. in the form of a zero-emissions truck with a battery-powered electric drive and a fuel cell to extend the vehicle’s range.

BATTERY TECHNOLOGY



Thanks to its portfolio of components in the area of battery technology, ElringKlinger is now a recognized system partner in the e-mobility sector. It has completely automated the production of cell contact systems, one of the vital components of the lithium-ion batteries used in both hybrid and pure electric vehicles. Another key element of the battery is the cell housing. As this is where the chemical reactions take place, it must be designed with a high degree of electrolytic resistance and excellent insulating and sealing properties. Very few manufacturers are able to produce this safety-critical product cost-efficiently in large volumes and in the required quality. For ElringKlinger, it was a natural step to include this component in its portfolio, and the company has now teamed up with a cell manufacturer so that it can offer complete high-voltage battery systems for automotive applications.

ElringKlinger is in the process of developing energy storage solutions for numerous applications outside the automotive industry, too. These include stationary storage systems, forklift trucks, electrified road maintenance vehicles, commercial vehicles, mobile equipment, e-scooters, and marine applications.

FUEL CELL TECHNOLOGY

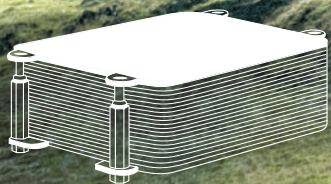


ElringKlinger is involved in development projects with almost every single European car maker currently working on fuel cell drives. ElringKlinger’s particular area of expertise lies in the development and production of metallic bipolar plates, although the company has also designed other key stack components that can be configured for specific applications as part of the overall system.

The company has built up its expertise in the area of fuel cell technology through many projects and partnerships involving a wide range of applications. By way of example, ElringKlinger has developed PEM (polymer electrolyte membrane) fuel cell stacks for forklift trucks up to the series production stage in collaboration with a strategic partner. The company has also teamed up with a truck manufacturer and is currently developing an electric truck that combines a high-voltage battery and a PEM fuel cell stack for inner city and regional transportation. Another EU-funded project involves pure electric city buses. ElringKlinger now has the expertise and the technical capacity to expand its series production of fuel cell components.

#6

PURE MOBILITY



FREEDOM

Personal mobility is synonymous with individual freedom. One of society's key responsibilities is to shape this freedom in such a way as to ensure that it remains intact for future generations. The automotive industry has been contributing to these efforts by developing drive systems that are as close to zero-emission solutions as possible. In pursuit of this goal, ElringKlinger has been steadily evolving battery and fuel cell technology. Given the multifaceted nature of personal mobility, both approaches have their merits. While the city of the future is more likely to feature battery-powered vehicles, rural areas will see the emergence of cars equipped with fuel cell technology. At the same time, restrictions governing emission limits will become obsolete. In addition, longer distances and higher speeds will be possible with the help of more powerful electric drives and fuel cells – without exhaust gas emissions. Hydrogen as the fuel, oxygen as the oxidizing agent, and water vapor as the sole reaction product: We are of the firm belief that fuel cell technology offers tremendous potential in the long term when it comes to combining economic benefits with the aspect of environmental sustainability.



#7

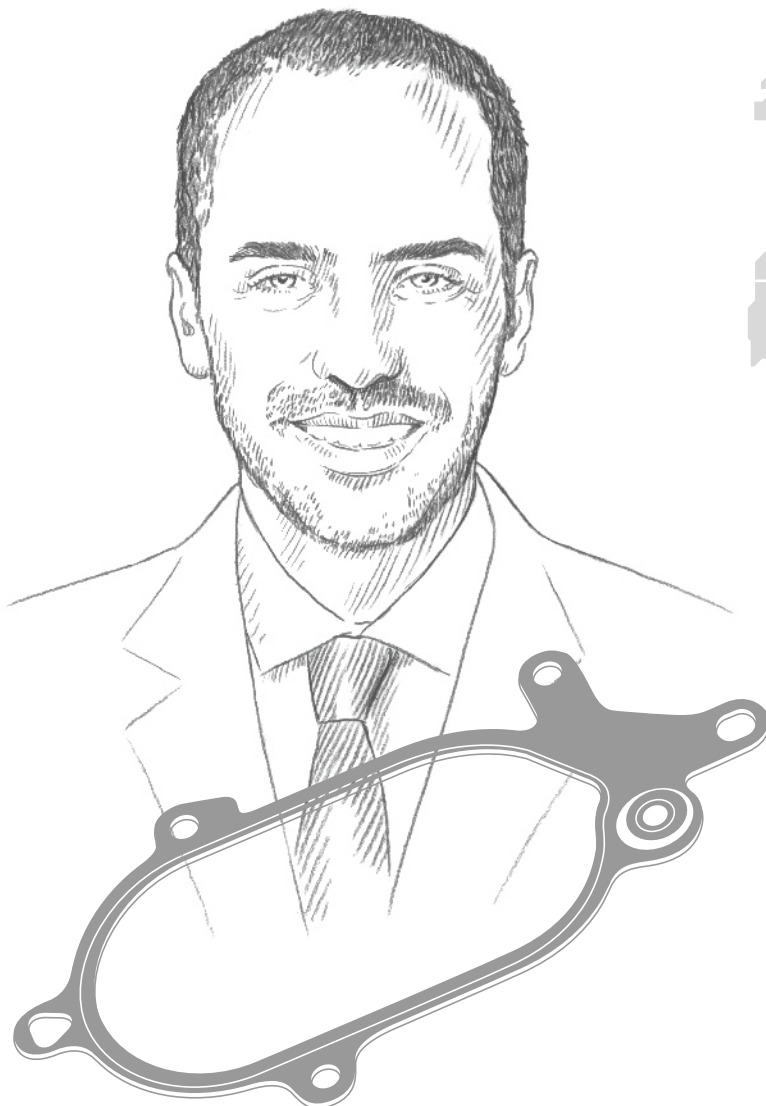
PURE MOBILITY

MOBILIZERS

Technical expertise, international networks, and proximity to customers are an integral part of ElringKlinger's DNA. Our employees play a pivotal role in shaping the world of mobility – today and for the future. Without them, there would be no forward momentum.



EUROPE



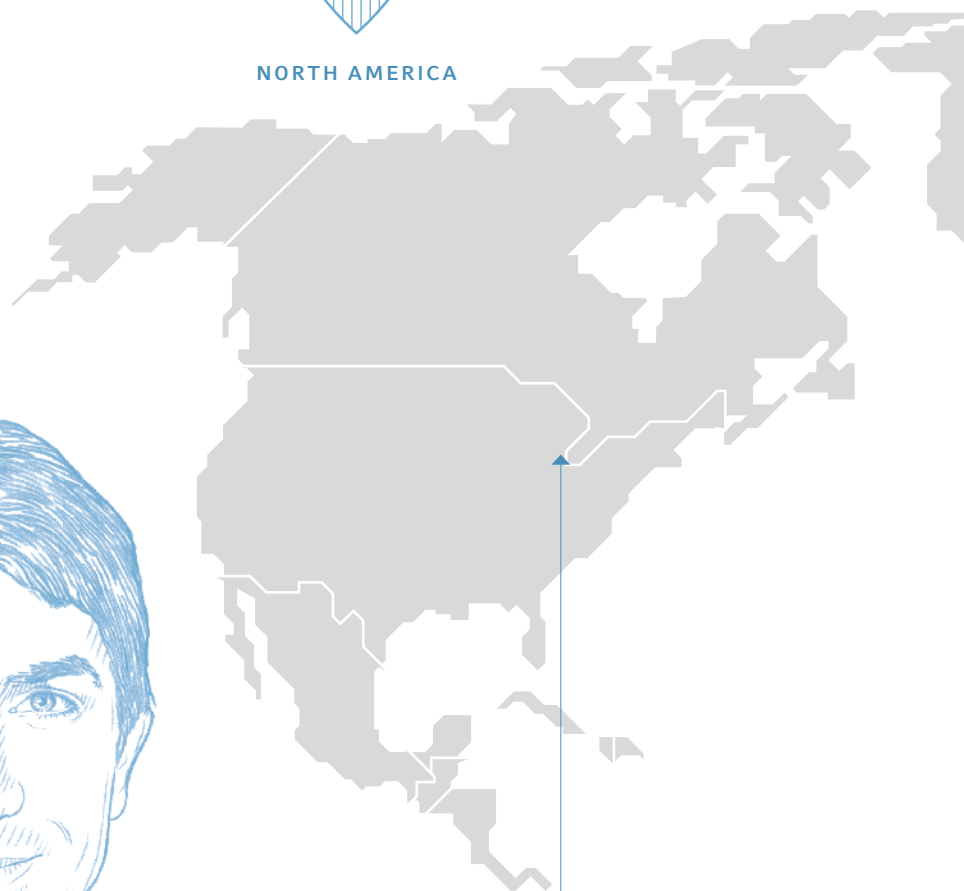
NICOLAS DAVY

**Regional Head of Sales, Italy
ElringKlinger Italia Srl,
Settimo Torinese (Italy)**

Based near Turin, Nicolas Davy leads a sales team serving the Italian automobile industry. Local business activities cover the entire product portfolio marketed by ElringKlinger. Alongside his day-to-day tasks as Regional Head of Sales, he is also responsible for evolving the company's customer network at a strategic level.

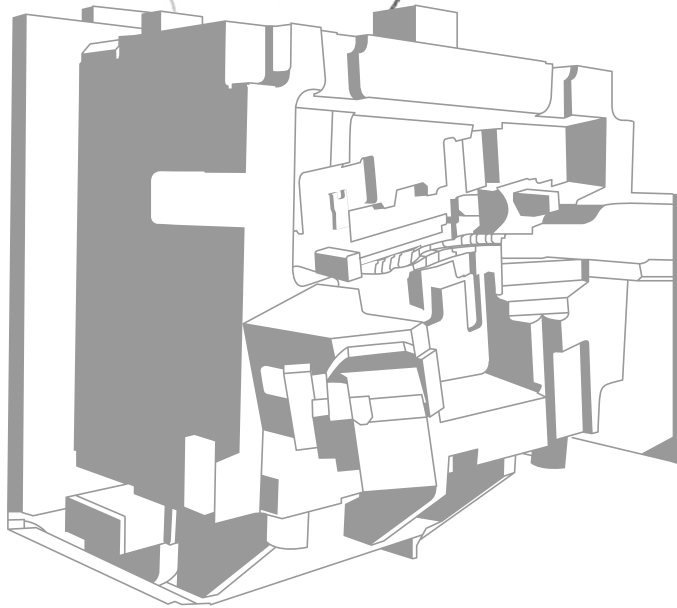


NORTH AMERICA



STEPHAN MAIER
General Manager
ElringKlinger Automotive
Manufacturing, Inc.,
Southfield/Michigan (USA)

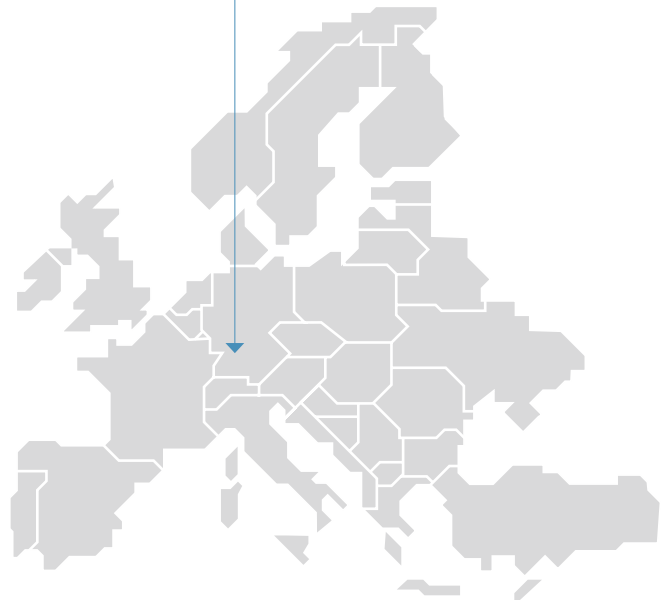
Stephan Maier is responsible for the strategic positioning and operational management of the production site in Detroit. ElringKlinger produces specialty gaskets at the plant – both paper-bonded and screen-printed control plates used in automatic transmission systems. At present, he is overseeing the start of production for the latest generation of eight-, nine-, and ten-speed transmission separator plates.



EUROPE

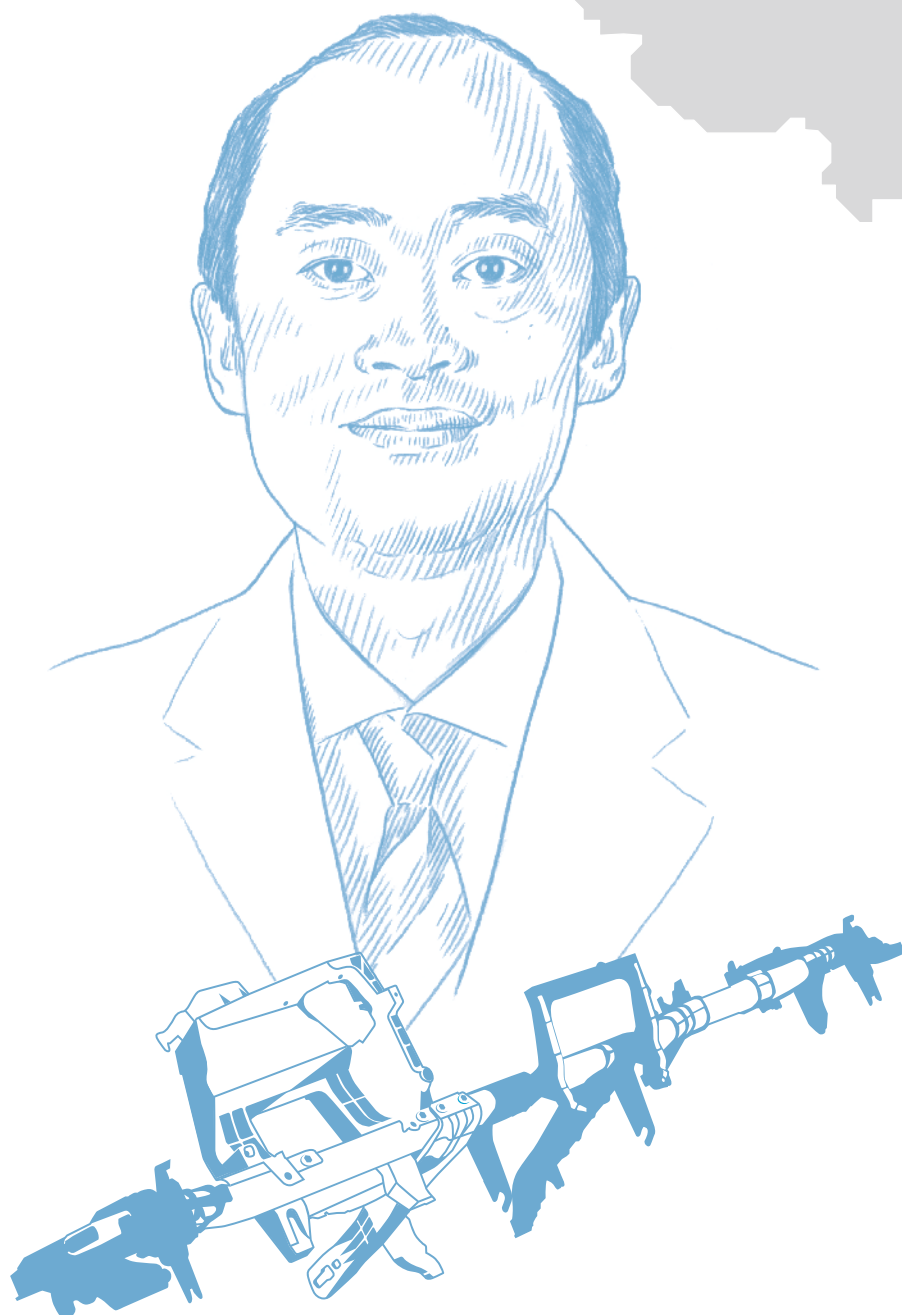
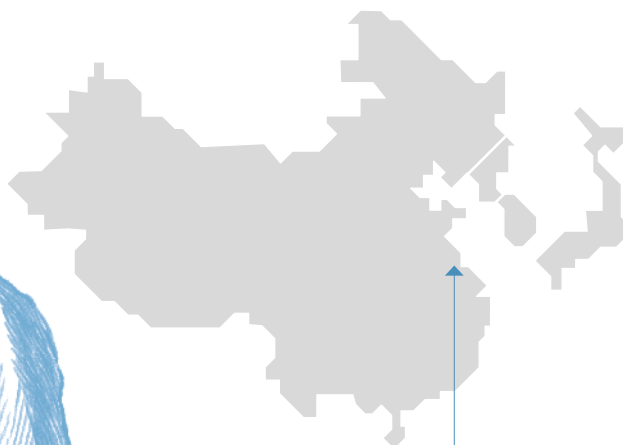
ANETTE SCHOPP
Processing Clerk
Tool Dispatch
ElringKlinger AG,
Lenningen (Germany)

Anette Schopp helps to ensure the on-time dispatch of tools to ElringKlinger production sites. This requires a close dialogue with various departments such as Technical and Commercial Sales as well as Production. Her responsibilities also include placing orders with freight forwarders and preparing dispatch and customs documents for various countries as part of overseas shipments.





EAST ASIA



HAILUN ZHAO
Tooling Engineer
ElringKlinger China Ltd.,
Suzhou (China)

In Suzhou, ElringKlinger produces lightweight vehicle body components using hybrid hydroforming technology. Hailun Zhao helps to ensure that production runs smoothly by servicing and maintaining the required tools on a daily basis. As an expert in all tool-related production processes, including metal hydroforming and plastics injection molding, he is also instrumental in spearheading on-going improvements.

#8

PURE MOBILITY

HIGHLIGHTS

of the year 2016

02 February

Small talk with The Prince of Wales: As part of his visit to Elring Klinger (Great Britain) Ltd., Redcar, His Royal Highness was given a first-hand account of what it is like to work for ElringKlinger. The local vocational training program is at least as impressive as the shielding components and specialty gaskets produced at the site.



04 April

ElringKlinger is honored with the “Supplier of the Year” award from key account GM for the sixth time. Alongside quality and on-time delivery, the award acknowledges a supplier’s top-level performance as a development partner for customized solutions and product innovations.



11 November

ElringKlinger opens a new plant in Bursa, a city in the west of Turkey that has become a key hub for the domestic automotive industry. Some 200 Group employees work at the site. The export-driven Turkish market grew by 9% in 2016, taking production output to a new record level of 1.5 million vehicles.



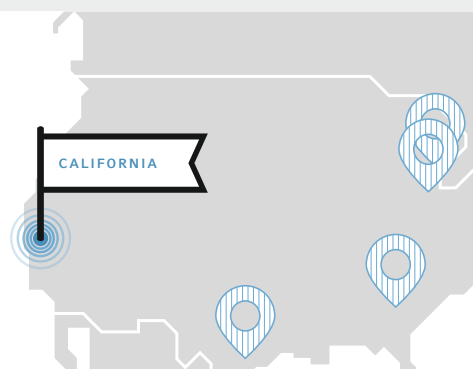
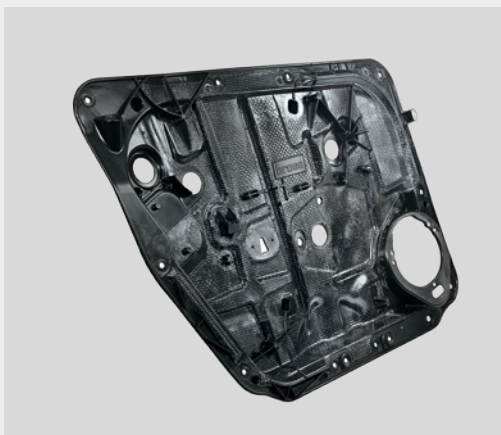
06 June

ElringKlinger opens a brand new, state-of-the-art facility spanning 67,000 square meters in Suzhou near Shanghai. Growth within China, the world's largest car market, continues...



06 June

As from 2018, ElringKlinger door module carriers will be fitted to compact-class vehicles manufactured by a global car maker. The high-volume contract covering these bodywork components is another milestone for ElringKlinger within the area of lightweight construction.



07 July

Official groundbreaking ceremony for a new logistics center at the company's headquarters in Dettingen/Erms: The relocation of Logistics to the new facility frees up production space for the rapidly expanding Lightweighting/Elastomer Technology division.

11 November

High-tech goes west: ElringKlinger establishes its fifth site in the United States. New subsidiary ElringKlinger Silicon Valley, Inc. will be producing cockpit cross-car beams from 2017 onward.

10 October

ElringKlinger agrees to take a stake in engineering company hofer. The systems developer will provide ElringKlinger with additional expertise in the field of innovation, particularly with regard to transmissions, electric motors, and software used in hybrid and electric vehicles.

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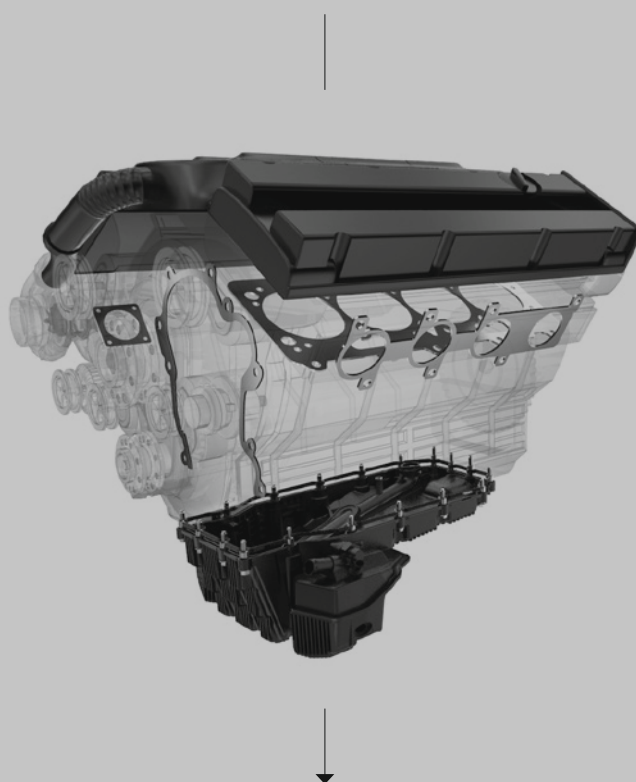
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ENGINE

- Cylinder-head gaskets: Metaloflex™, metal-elastomer
- Sealing systems: Metaloseal™, metal-elastomer, elastomer and Volumesoftseal
- Thermal and acoustic shielding systems: ElroTherm™, ElroCoustic™
- Lightweight plastic components: e.g. cam cover modules, oil pans
- Topseal deep-drawn and topographic housing components
- Plastic components (PTFE, PTFE compounds/composites, PEEK, Moldflon™)
- Development services



DR. STEFAN WOLF
Chairman/CEO

responsible for Group companies, the corporate functions Legal Affairs, Human Resources, Investor Relations and Corporate Communications, the Aftermarket division as well as Original Equipment Sales

(from left to right)

THEO BECKER

responsible for the Cylinder-head Gaskets, Specialty Gaskets, Light-weighting/Elastomer Technology, Shielding Technology, Exhaust Gas Purification Technology, E-Mobility and Tooling Technology divisions, New Business Areas as well as the corporate functions Quality and Environment, Materials Management and ElringKlinger AG plants

THOMAS JESSULAT

responsible for the corporate functions Finance, Controlling as well as IT and the Industrial Parks division

THE MANAGEMENT BOARD OF ELRINGKLINGER AG



»These are dynamic times for the automotive industry as a whole. ElringKlinger is very well placed when it comes to responding to the transition this industry faces.«

DR. STEFAN WOLF — CEO of ElringKlinger AG

LETTER TO SHAREHOLDERS

Dear Shareholders,
Ladies and gentlemen,

Looking back, 2016 was a year with highs and lows for the ElringKlinger Group. Against the backdrop of continued growth within the global vehicle markets, we managed to increase Group revenue by 3.3% to EUR 1,557 million, despite negative currency effects. At EUR 140.4 million, our earnings before interest and taxes were on par with the prior-year figure. This was attributable primarily to the substantial fixed operating costs recorded by the Swiss entity faced with capacity constraints. Contrary to our original plans, the visible accomplishments seen during the first months of 2016 lost their momentum as the year progressed, particularly as the process of migrating specific sections of local production to Hungary took longer than anticipated. Having said that, the return to stable earnings towards the end of the year proves that we chose the right course of action in support of a definitive solution to this problem.

Despite the strain on earnings, we remain committed to our dividend policy of providing our shareholders with a sustainable return on their investment. Therefore, the Management Board and Supervisory Board have decided to submit a proposal to the Annual General Meeting for a dividend of EUR 0.50 per share. We will be looking to increase the level of dividends consistently in the medium to long term.

These are dynamic times for the automotive industry as a whole. The fundamental need for mobility is becoming more pronounced as we move forward. Megatrends such as technological progress, climate change, and globalization have prompted a process of transformation that is enveloping the entire industry. Car makers and suppliers alike are working on solutions to deliver greater driver comfort while also meeting stricter environmental standards – with the help of autonomous cars, sophisticated safety systems, and efficient drivetrains.

ElringKlinger is very well placed when it comes to responding to this dynamic change. Indeed, our achievements in the fiscal year just ended with regard to incoming orders and development efforts serve as compelling evidence. In June, for instance, we secured a high-volume order from a German automotive supplier covering the serial production and supply of door module carriers made of fiber-reinforced composites, so-called organo sheets. They are destined for use in a compact-class vehicle produced by a global car company. In November, a US car maker placed an order with our company for the supply of cockpit cross-car beams to be fitted to a new generation of vehicle. The volume of this order is also within the triple-digit million euro range.

Both of the aforementioned contracts point to the popularity of our lightweighting solutions, as they are not dependent on or restricted to a specific drive system. On the one hand, they help to meet ever-stricter CO₂ standards for vehicles with conventional combustion engines and, on the other hand, they are instrumental in extending the range of hybrid and pure electric vehicles.

What is more, our accomplishments in this area prove that we were right to invest at an early stage in a global network of production sites. Promising deals such as these can only be secured if one has estab-

lished a truly global presence as a company. We further expanded our operating sites – we now have 47 – in the period under review by making some key additions.

In June, for example, we opened a new plant in Suzhou, China, which is responsible for producing innovative cockpit cross-car beams, alongside other components. Spanning some 30,000 square meters, the new site includes a state-of-the-art operating facility and also provides suitable resources for research and development. For ElringKlinger, Suzhou is much more than a production plant – it is actually a center of innovation.

November saw the official inauguration of our plant in Bursa, Turkey. Turkey is acknowledged as an important production hub for large parts of the automotive industry. The new plant will help us in our efforts to meet the high demand for thermal shielding systems and specialty gaskets.

We want to play an active part in shaping the automotive future, in addition to retaining our position as a reliable partner to this industry as it enters a new era of mobility. With this in mind, we have been busy in October charting another important route for the future by taking a strategic stake of 27% in the engineering company hofer AG. The transaction also includes a 53% majority interest in the subsidiary hofer powertrain products GmbH. The rewards for both partners are substantial: the highly esteemed hofer Group offers systems expertise in the field of powertrain development and in the area of measuring, testing, and assembly technology, while ElringKlinger has demonstrable skills when it comes to refining and implementing innovative ideas and seeing them through to series production. Building on this collaboration, the two partners will ultimately be in a position to supply end-to-end drive systems for hybrid and all-electric vehicles. This is a clear illustration of our approach: alongside lightweighting, electromobility represents a central pillar of our Group's business.

ElringKlinger's success would not be possible without its employees. We as the Management Board greatly appreciate this commitment and would like to thank the entire team for their efforts over the course of 2016. Their innovatory skills, their reliability, and their drive are the lifeblood of ElringKlinger. Together, we will guide our company toward a successful future – with courage, passion, and fresh ideas.

At the beginning I mentioned that people's fundamental need for mobility is becoming stronger. At the same time, our industry has been gaining tremendous technological momentum. It is against this backdrop that we chose "pure mobility" as the central theme of this year's annual report. Getting from A to B in an efficient way will remain an essential part of our lives. ElringKlinger supplies tailored solutions for all types of drive systems – from the well-established combustion engine to hybrids and electric vehicles powered by batteries or fuel cells.

Exciting times lie ahead for the automotive industry. In spite of this, or rather because of this, we look forward to what awaits us. As John F. Kennedy once said: "Change is the law of life. And those who look only to the past or the present are certain to miss the future."

With this in mind, my fellow Board members and I hope you enjoy reading our latest annual report.

Dettingen/Erms, March, 2017

Yours sincerely,



DR. STEFAN WOLF

REPORT BY THE SUPERVISORY BOARD 2016

The fiscal year just ended again proved to be an eventful period for the ElringKlinger Group. The company charted an important course for the future development of its business. This includes, in particular, major projects in the area of lightweighting and ElringKlinger's investment in the hofer Group, an enterprise specializing in electric powertrain solutions. This deal was closed at the beginning of 2017. In the opinion of the Supervisory Board, ElringKlinger is very well positioned when it comes to responding to the challenges associated with technological change in the automobile industry – thanks not only to its profitability but also to its expertise as an innovator. Unfortunately, the Group was unable to address specific issues surrounding shielding component production at its site in Switzerland as quickly as it had initially hoped. However, from the Supervisory Board's perspective, all requisite measures were taken by the company, as a result of which we can now look forward to the future with confidence.

During fiscal year 2016, the Supervisory Board of ElringKlinger AG again discharged the duties incumbent on 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 and supported it in an advisory capacity, particularly with regard to 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. The Management Board sought the approval of the Supervisory Board concerning transactions requiring prior authorization. The Supervisory Board was kept informed about key performance indicators, occurrences, and circumstances as part of monthly written reports issued by the Management Board.

The Supervisory Board convened for four scheduled meetings over the course of the reporting period. At these meetings, the Management Board provided a detailed overview of business developments on the basis of suitable performance indicators as well as comparisons with prior-year figures and targets for the Group and for 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, regular reporting encompassed strategic projects as well as acquisitions and their integration. The issues were presented and discussed during the sessions of the full Supervisory Board. The members of the Supervisory Board were also informed extensively and in writing of the respective points on the agenda in good time prior to the meetings.

Aside from the regular reports and topics outlined above, the Supervisory Board addressed the following subjects at its scheduled meetings:

- The Supervisory Board meeting on March 24, 2016, was devoted to the Management Board's explanation of the 2015 annual financial statements of ElringKlinger AG and the Group. This meeting also dealt with the report of the auditing firm Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The financial statements of ElringKlinger AG and the consolidated financial statements of the Group as well as the resolution on the Management Board's proposal for the appropriation of profit were authorized and approved. At this meeting, it also agreed on the items on the agenda for the Annual General Meeting.
- At the Supervisory Board meeting on May 31, 2016, which took place immediately after the Annual General Meeting, Mr. Walter H. Lechler and Mr. Markus Siegers were re-elected to the positions of Chairman and Deputy Chairman respectively. Additionally, various strategic projects were discussed at the meeting, in particular with regard to potential acquisitions.
- One of the key items on the agenda of the Supervisory Board meeting on September 23, 2016, related to the strategic positioning and future business development of the ElringKlinger Group. The analysis presented by the Management Board and the measures derived from this assessment were discussed extensively by the full Supervisory Board.



WALTER HERWARTH LECHLER
Chairman of the Supervisory Board

- Besides the budget for 2017 and medium-term business plans, the agenda for the meeting held on December 9, 2016, included the issue of ElringKlinger Abschirmtechnik in Switzerland and the latest situation at that site. Other key topics discussed in length included a report on results relating to the internal audits conducted in 2016, plans regarding internal audits scheduled for 2017, and the current risk assessment together with preventive measures drawn up by the Management Board. In addition, the Supervisory Board was informed about the findings of an audit conducted on the compliance management system of ElringKlinger AG.

The scheduled meetings were attended by all of the Supervisory Board members.

On February 23, 2016, an extraordinary meeting of the Supervisory Board was convened following the resignation of Mr. Karl Schmauder from the Management Board for the purpose of discussing and approving, among other things, the allocation of responsibilities among the remaining three Management Board members.

The Audit Committee convened on three occasions during the year under review. The meeting in March 2016 was devoted to an in-depth discussion regarding the auditor's report on the 2015 annual financial statements. At the September meeting, the Supervisory Board focused on the results of the first half and on new statutory provisions with regard to consulting services rendered by the auditor. The agenda of the December meeting convened by the Audit Committee included the task of defining the focal points of the audit for fiscal year 2016 and the supervision of financial reporting processes as well as the internal control and compliance system. Furthermore, the CEO reported regularly to the Chairman of the Audit Committee on the results of internal audits.

The Personnel Committee convened on one occasion, in February 2016. This was in response to Mr. Schmauder's resignation from the Management Board.

No meetings of the Mediation Committee were necessary in the reporting period.

There were no conflicts of interest in 2016 between Supervisory Board members and the company.

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 May 5, 2015, was approved unanimously and published on the company's website on December 4, 2016.

In addition to the monthly written reports and the four scheduled 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 by email or by telephone.

At the end of 2016, the Supervisory Board, as stipulated by the provisions set out in the German Corporate Governance Code, again evaluated the effectiveness of its work relating to the previous fiscal year on the basis of a questionnaire issued to all members. This covered issues such as the openness of communication at Supervisory Board meetings and the involvement of all members in discussions. In this context, there were no significant observations with regard to the work of the Supervisory Board in the reporting period.

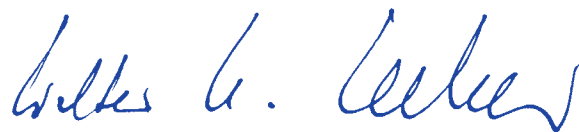
The annual financial statements of ElringKlinger AG and the corresponding consolidated financial statements with the combined management report for fiscal year 2016, as presented by the Management Board, were audited by the auditors Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The audit mandate was issued by the Supervisory Board in accordance with the appointment of the auditor by the Annual General Meeting on May 31, 2016. In accordance with Section

315a 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 fiscal year 2016. 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 responsible. The Supervisory Board concurred with the outcome of the audit. No objections were raised. At its meeting on March 24, 2017, 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 investees in Germany and abroad for their tremendous commitment and successful efforts.

Stuttgart, March 24, 2017

On behalf of the Supervisory Board



Walter Herwarth Lechler
Chairman of the Supervisory Board

ELRINGKLINGER AND THE CAPITAL MARKETS

Stock markets end year with positive turnaround

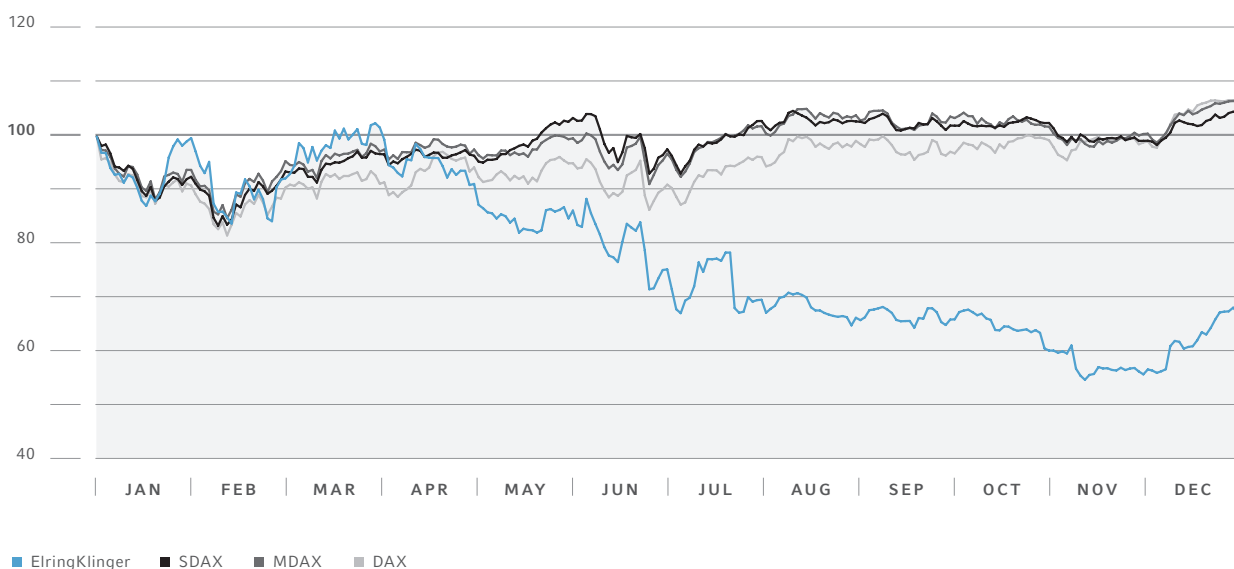
Overall, the first half of 2016 proved to be an indifferent period of trading for international equity markets, while the second six months saw a marked upturn. Stock markets around the globe came under significant pressure during the first quarter of 2016. By then, the price of oil had plunged to a twelve-year low. What is more, against the backdrop of weak economic data and the depreciation of the yuan, China's equity market was suddenly languishing in the doldrums. These factors in combination produced a disappointing start to the year for investors.

The surprising result of the British referendum in favor of leaving the European Union ("Brexit") prompted a further slide in European stock prices. Increasing concerns over the state of Europe's banking sector and the significant appreciation of the Japanese yen following the decision by the Central Bank of Japan not to loosen its monetary policy any further despite low inflation exerted additional pressure on international equity markets.

Moving into the third quarter of 2016, the market as a whole showed more tangible signs of a turnaround in the second half of the year. Benefiting from trading gains, some of which were substantial, the world's key stock markets in Germany and abroad managed to offset losses incurred over the course of the previous months. This recovery was driven mainly by subsiding skepticism over the long-term negative impact of the Brexit referendum together with an improvement in economic indicators in China and robust labor market figures in the United States.

Donald Trump's victory in the US presidential elections provided an unexpected boost to stock markets in the fourth quarter of 2016. Capital markets benefited from significant buoyancy towards the end of the year, spurred on by the hope that policies introduced by the new government would be conducive to economic growth. The announcement by the European Central Bank (ECB) of its plans to extend its bond-buying program until the end of 2017, together with a rise in so-called leading indicators to the highest level in several years, provided additional impetus.

ELRINGKLINGER'S SHARE PRICE PERFORMANCE (XETRA) SINCE JANUARY 1, 2016 (INDEXED, DEC, 30, 2015 = 100%) compared with DAX, MDAX, and SDAX



The German stock market proved similarly volatile in 2016. Stock market indices were under immense pressure until mid-February, with Germany's blue chip index, the DAX, retreating to a level below 9,000 points and thus losing almost 20% in value since the beginning of the year. Thanks to a marked improvement in performance, the DAX closed the year with a gain of 6.9%. Following a mixed first half, the MDAX managed to gain 6.8% by the end of the year, thus recording a new all-time high. The SDAX was up 4.6% on its prior-year figure.

ElringKlinger shares at EUR 15.88 at end of year

Having completed the year 2015 at EUR 23.50, ElringKlinger's share price took a slight turn for the worse at the beginning of the first quarter of 2016, thus trending in line with the market as a whole. Emerging from its temporary dip in mid-February, the company's stock performance saw the first signs of improvement in the subsequent period. The announcement of ElringKlinger's preliminary results for the 2015 financial year towards the end of February produced a favorable response within the capital markets, which in turn provided additional stimulus for growth. The change in index membership for ElringKlinger shares agreed by Deutsche Börse – from the MDAX* to the SDAX* – came into effect in March 2016. The company's stock recorded an annual high of EUR 24.09 towards the end of the first quarter of 2016.

During the second quarter of 2016, macroeconomic influences such as the result of the Brexit referendum and industry-specific factors such as the ongoing debate surrounding the diesel emissions scandal had a negative impact on share prices, particularly in respect of ElringKlinger's stock and shares of other automotive companies. Against this backdrop of polarized forces, ElringKlinger's share price fell by 24.9% in the first half of 2016. Even positive news from the company, such as the presentation in May of solid financial results for the first quarter of 2016 and the announcement of a major serial-production contract for lightweight door module carriers, failed to provide any lasting impetus in terms of stock performance.

At the end of July, the publication of ElringKlinger's preliminary financial results for the second quarter of 2016 together with the adjustment of the Group's earnings guidance for the annual period as a whole exerted downward pressure on the company's stock. As a result, the share price fell by more than ten percent. The effects of this severe correction in price lingered on over the remainder of the third quarter, with ElringKlinger's share price trending sideways between the EUR 15 and 16 mark.

The company's results for the third quarter of 2016 published at the beginning of November failed to provide buoyancy for the stock. During this period

KEY INDICATORS FOR ELRINGKLINGER'S STOCK

	2016	2015
Earnings per share IFRS (after non-controlling interests, in EUR)	1.24	1.45
Shareholders' equity per share (in EUR) ¹	13.44	12.97
High (in EUR) ²	24.09	32.18
Low (in EUR) ²	12.82	16.87
Closing price as of December 31 (in EUR) ²	15.88	23.50
Price-earnings ratio (P/E ratio) ¹	12.81	16.21
Dividend per share (in EUR)	0.50 ³	0.55
Average daily trading volume (German stock exchanges; no. of shares traded)	257,800	204,800
Average daily trading value (German stock exchanges; in EUR)	4,710,400	5,039,300
Market capitalization as of December 31 (EUR millions) ²	1,006.2	1,489.0

¹ As of December 31

² Xetra trading

³ Proposal to 2017 AGM

ElringKlinger's share price fell to an annual low of EUR 12.82. Benefiting from the announcement of a second large-scale contract for lightweight components – in the form of cockpit cross-car beams to be supplied to a US car maker – and a more favorable trading climate in general, the company's stock made a steady recovery in December. ElringKlinger shares closed the 2016 year of trading at a price of EUR 15.88.

Trading value slightly down on German stock exchanges

Recording an average figure of EUR 4.7 (5.0) million, the daily trading value of ElringKlinger shares on German stock exchanges was marginally lower compared to the previous financial year. However, the stock still displays a comparatively high level of liquidity within the small caps segment and is sufficient for institutional investors to conduct the required share transactions. The average volume of shares traded per day during the same period rose to 257,800 (204,800) units.

Intensive dialogue with capital markets at home and on tour

ElringKlinger is thoroughly committed to a proactive and ongoing form of communication with representatives of the capital markets. The company intensified its dialogue with the capital markets in 2016. This included a further year-on-year increase in the number of road shows and capital market conferences organized or attended by ElringKlinger – both in Germany and abroad. ElringKlinger took part in 13 conferences over the course of the year and completed the same number of road shows during that period at venues in Germany, Europe, and overseas.

Within Germany, the company attended meetings in Frankfurt/Main, Berlin, Baden-Baden, and Munich, the focus here being on an audience mainly consisting of international and institutional investors. In Europe, the Investor Relations program included events in the Netherlands, Sweden, and Norway as well as in the key financial centers of Zurich, Brussels, and Paris. Other destinations for the Investor Relations team over the course of 2016 included London, Dublin, and Edinburgh. In addition, investors showed a keen interest in ElringKlinger as part of the road show organized in the United States and Canada.

ElringKlinger also has a rich tradition of engaging in direct dialogue with capital market representatives as part of meetings held at its corporate headquarters. Demand for company visits, which are mainly targeted at financial analysts and institutional investors, for the purpose of finding out first-hand about the company's latest technology and production processes remains strong. ElringKlinger conducted more than 20 tours of the plant at its Group headquarters in Dettingen/Erms over the course of 2016. Additionally, investor groups were given the chance to familiarize themselves with ElringKlinger's specialist expertise during tours of the production facility and technology-related presentations at sites in Runkel, Idstein, and Bietigheim-Bissingen.

The Management Board of ElringKlinger AG holds regular telephone conferences in order to maintain direct contact with representatives of the capital markets. These are generally arranged to coincide with the publication of quarterly and annual results and other significant business developments such as acquisitions, major new orders, and important technical breakthroughs. The telephone conferences are broadcast live on the internet and are therefore accessible to the general public. This approach is based on the principle of timely, simultaneous, and transparent communication for all groups of investors and others with an interest in the company.

Extensive analyst coverage illustrates continued interest in ElringKlinger

During the fiscal year 2016, ElringKlinger was regularly covered by 22 financial analysts from various banks and research organizations. This figure was unchanged on the previous year and reflects continued strong interest in the company's stock. As of December 31, 2016, five analysts (23%) rated the shares as a "buy." Eleven analysts (50%) issued "hold" recommendations. Six analysts (27%) recommended selling the stock, in most cases for market valuation reasons. An overview of banks and research organizations providing coverage of ElringKlinger on a regular basis, including their current recommendations in respect of the company's shares, can be found in the Investor Relations section of our website under the heading Shares -> Analysts.

* Cf. glossary

Wide range of information and communication channels for private investors

With regard to its capital market communications, ElringKlinger is committed to a policy of continuous, prompt, and transparent reporting on current and future company and market developments. In this context, the Investor Relations unit is keen to ensure that it meets the information and communication needs of all stakeholders in equal measure. This applies particularly to private investors, whose holdings have grown considerably over the last few years as a proportion of the total stock. ElringKlinger offers this group a wide range of communication channels to ensure that they have the information they require, while giving them a direct opportunity to request information and provide feedback.

ElringKlinger's official website at www.elringklinger.com is the main source of up-to-date information about the company's stock. It can also be used to access the latest company announcements, financial reports, and details of future events. As the website has been programmed in a responsive design, it is also suitable for access by mobile devices such as smartphones and tablets. This means that users can easily find the information they want even if they are not at home or in the office.

ElringKlinger also has an active social media presence on Facebook (www.facebook.com/elringklinger) and

Twitter (www.twitter.com/elringklingerAG) with a growing number of followers. We publish interesting news items about the company on our social media pages at regular intervals.

Our telephone hotline (+49 7123 724 137) is also available to private investors who wish to make direct contact with the company about financial matters. A member of the Investor Relations team is on hand to answer any questions relating to the company and its share performance. Written inquiries can be sent to investor-relations@elringklinger.com.

ElringKlinger offers a variety of services to all its private investors and others with an interest in the company. Hard copies of the latest financial reports can be requested free of charge. The company also recommends subscribing to the Investor Relations newsletter to ensure that those interested do not miss any of the financial publications and other news from across the ElringKlinger Group. Financial reports can be ordered through the website or via the telephone hotline or by email. The same applies to the Investor Relations newsletter.

Multiple awards for ElringKlinger's 2015 annual report

ElringKlinger AG's 2015 annual report won several awards in prestigious communication and design competitions.

ELRINGKLINGER AG STOCK MARKET DATA

ISIN	DE 0007856023
German Securities Identification Code (WKN)	785 602
Bloomberg	ZIL2
Reuters	ZILGn.DE
Capital stock	EUR 63,359,990
Number of shares outstanding	63,359,990
Stock exchanges	Official trading: XETRA, Frankfurt/Main, Stuttgart, Munich, Düsseldorf, Hamburg, Hanover, Berlin
Market segment	Prime Standard
Index	SDAX

At the Vision Awards, it received a silver medal from the League of American Communications Professionals (LACP) in the Automobiles & Components category. With over a thousand submissions every year from all over the world, the LACP Vision Awards are among the most highly coveted in the field of international financial reporting.

At the Annual Report Competition (ARC) coordinated by US awards organization MerComm, Inc. ElringKlinger came out ahead of its international competitors to receive a “Gold” in the category “Automotive Parts.” Every year, the ARC Awards recognize outstanding content and original design. The ARC ranks among the top international design competitions in the world.

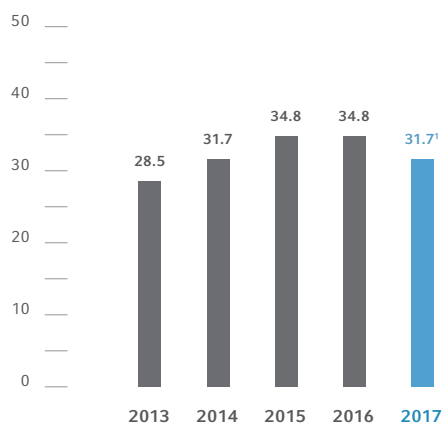
The company’s annual report also excelled at the Fox Finance Award, where it gained “Silver” in the “Automotive” category in recognition of its efficient communications. The competition rates the efficiency of corporate reporting from every angle, particularly those areas of communication that go beyond the boundaries of conventional annual reports.

ElringKlinger AG’s annual report also impressed the jury at the Good Design Award to win the “Graphic Design” category. This award is presented annually by the Chicago Athenaeum Museum of Architecture and Design and the European Centre of Architecture Art Design in recognition of excellence across a variety of categories.

2016 AGM approves dividend proposal of EUR 0.55

Addressing an audience of around 800 shareholders, shareholder representatives, and guests attending the 111th Annual General Meeting of ElringKlinger AG, which was held at the Liederhalle Cultural and Congress Center in Stuttgart on May 31, 2016, CEO Dr. Stefan Wolf looked back over the financial year 2015. He focused on the increase in the Group’s sales to over EUR 1.5 billion for the first time and gave further details of the Group’s earnings.

TOTAL DIVIDEND PAYMENTS
in EUR million



¹ Proposal to 2017 AGM

The AGM approved by a large majority the proposal put forward by the Management Board and Supervisory Board for an unchanged dividend of EUR 0.55 per share for the fiscal year 2015. At EUR 34.8 (34.8) million, the total amount distributed by the company was therefore equal to the previous year despite exceptional charges in the Original Equipment segment. Calculated on the basis of ElringKlinger AG’s applicable net income, amounting to EUR 54.8 (58.9) million, the dividend ratio for the financial year 2015 rose to 63.5% (59.1%).

The company’s dividend policy stipulates that shareholders should receive an appropriate and sustainable return on their investment, the aim being to distribute between 40% and 60% of ElringKlinger AG’s annual net income as a dividend. At the next AGM due to be held on May 16, 2017, the Management Board and Supervisory Board intend to propose a dividend of EUR 0.50 per share in respect of the financial year 2016.

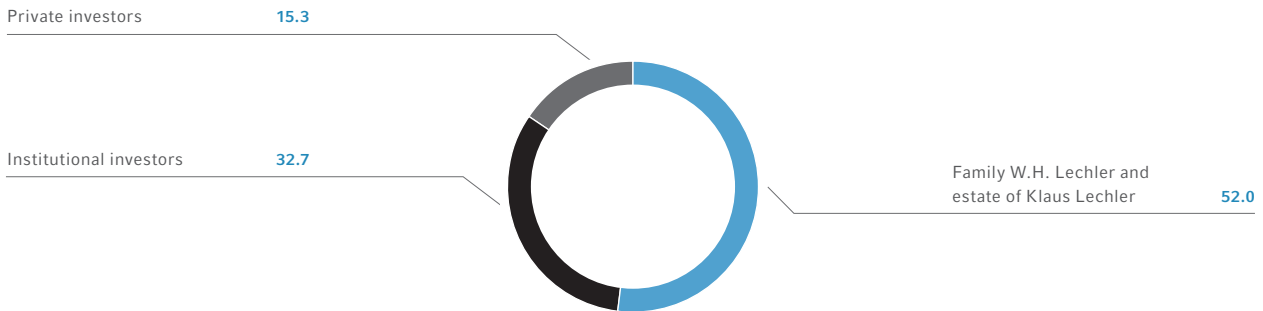
Shareholder structure 2016 – large increase in proportion of private investors

As of December 31, 2016, the proportion of ElringKlinger AG shares in free float* remained unchanged at 48.0% (48.0%). The Walter H. Lechler Family and the Klaus Lechler Estate held a majority interest of 52.0% (52.0%) in ElringKlinger AG. As such, there was no change in the ratio of shares in free float to those in family ownership.

* Cf. glossary

SHAREHOLDER STRUCTURE*

in %



* As of December 31, 2016

Within the free float, the largest group of shareholders was again made up of institutional investors such as banks, insurance companies, and pension funds. Additionally, ElringKlinger shares form part of the portfolios of smaller and mid-size asset managers. At the end of 2016, these groups of investors held 32.7% (38.4%) of ElringKlinger AG's total capital stock. While the number of institutional investors grew over the last twelve months, the size of the average holding fell. This could be due to the company's relatively low share price attracting a large number of new investors. Equally, in response to macroeconomic factors such as the refugee debate, the Brexit referendum, the election of President Trump, and other industry-specific developments such as Dieselgate, it is possible that investors have deliberately reduced their exposure to individual assets as a way of diversifying their risk position.

By contrast, the number of private investors rose significantly year on year to reach 15,448 (10,360) at the end of 2016. This group holds 15.3% (9.6%) of the capital stock. One reason for this increase could be that the shares were regarded as relatively inexpensive. It should also be noted that during periods of

historically low interest rates there is generally a greater willingness to invest in equities. This could be another reason for the increase in the overall number of private investors.

ElringKlinger targeted by sustainability funds

In recent years, ElringKlinger has generated growing interest among sustainability fund managers. The investment decisions taken by those managers are based not only on economic factors but also on environmental and social criteria. Reflecting this approach, they will only invest fund assets in companies with a proven track record of sustainable business activity. With its forward-looking portfolio covering major issues such as CO₂ reduction, exhaust gas purification, and alternative drive technology, ElringKlinger offers an interesting investment proposition for these groups of investors.

For more detailed information on ElringKlinger's efforts in the area of sustainability, please refer to the Sustainability section on the company's website, where you will also find the company's latest sustainability report entitled "pure commitment".

Schedule for 2017

Looking ahead to 2017, ElringKlinger will continue to extend its Investor Relations activities at national and international level. As well as capital market conferences in Germany and Europe's main financial centers, ElringKlinger plans to attend a number of international road shows. The company will also be represented at regional events organized for private investors. For further details of current events, please visit the company's website or call the Investor Relations hotline.

In response to the positive feedback received in the last few years, ElringKlinger will again be offering guided tours of the company's booth at the International Motor Show (IAA) in September 2017 for institutional investors and analysts to give them a picture of the latest trends in automotive technology and the future prospects for ElringKlinger's product portfolio. To coincide with the IAA, the company will also take part in an on-site event in Frankfurt/Main for analysts and investors interested in automotive industry stocks.

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, 2016, in respect of the Code, has been published online at

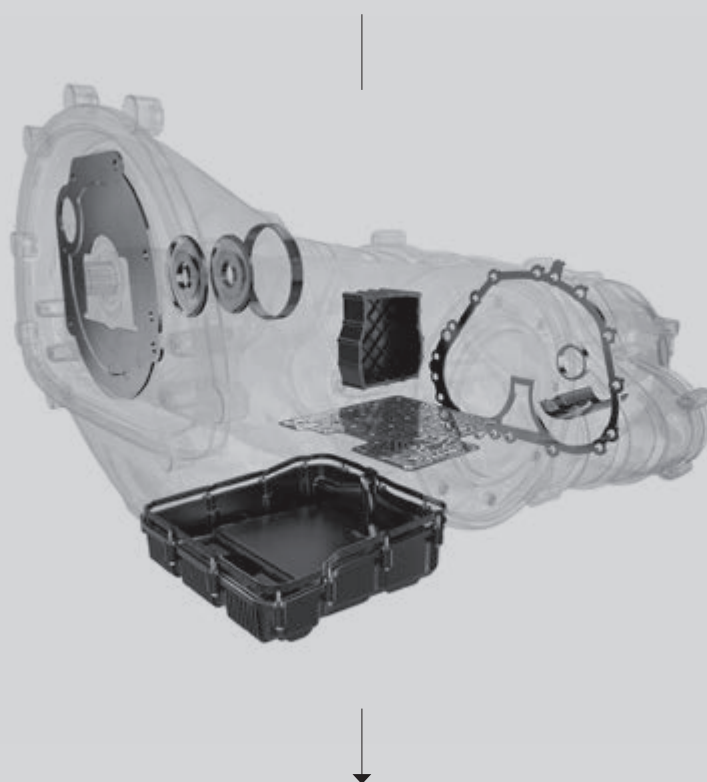
www.elringklinger.de/en/company/corporate-governance in accordance with Section 3.10 of the German Corporate Governance Code in connection with the Corporate Governance Statement.

* Cf. glossary

COMBINED MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2016

02

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TRANSMISSION SYSTEM

- Sealing systems: Metaloseal™, metal-elastomer, elastomer, Metaloprint™, control plates in Metaloseal™ and metal/soft material sandwich design
- Thermal and acoustic shielding systems: ElroTherm™, ElroCoustic™
- Lightweight plastic components, e.g. end-shield covers, oil pans
- Topseal deep-drawn and topographic housing components
- Plastic components (PTFE, PTFE compounds/composites, PEEK, Moldflon™)

OVERVIEW OF ELRINGKLINGER'S ACTIVITIES AND STRUCTURE

ElringKlinger develops and manufactures high-tech products for current and future vehicle generations. Building on powerful innovations, the Group is committed to shaping the future of mobility and maintaining its position as a technology leader within the automotive supply industry.

Profile

ElringKlinger AG can look back on a corporate history spanning 137 years, during which time the Group has gradually evolved into an independent development partner and original equipment manufacturer with a global footprint. The Group generates around 90% of its revenue from sales to the automotive industry and within the independent aftermarket. In this field, ElringKlinger develops, produces, and markets parts and assemblies for engines, transmissions, exhaust systems, vehicle bodies, lithium-ion batteries*, and fuel cells*. The Group's portfolio includes products for all types of drive technology – from conventional combustion engines to hybrid units* and electric systems. Also serving sectors outside the automotive industry, ElringKlinger manufactures exhaust gas purification systems deployed in ships, buses, trucks, construction and agricultural machinery, locomotives, and power stations. Additionally, the Group supplies products made of the high-performance plastic PTFE, which is used in a wide range of industries. These products are tailored to individual specifications depending on the field of application and customer requirements.

As of December 31, 2016, the ElringKlinger Group was operating with 47 sites around the globe. It employed more than 8,500 people worldwide (cf. "Sustainability").

Business model and core competencies

Global megatrends such as the steady growth in population, the focus on environmental protection, and the emergence of globalization herald a new era of social interaction and create new challenges that also have an impact on the automotive industry. It is precisely these trends that are shaping the market for efficient drive systems, with the rapid growth in population and

more pronounced levels of globalization prompting a surge in demand for personal mobility and the introduction of ever-stricter emission standards. This is where ElringKlinger's product portfolio comes to the fore. State-of-the-art concepts for lightweighting, downsized combustion engines, exhaust gas purification systems, and alternative drive technologies all help to reduce carbon dioxides, nitrogen oxides*, hydrocarbons, and soot particulates. ElringKlinger is playing an active part in the transition of the automobile industry towards zero-emissions mobility – with products used in battery and fuel cell systems.

The Group is committed to cementing its success in the business arena by drawing on its financial strength together with its demonstrable abilities in research and development as well as its far-reaching expertise with regard to materials and processes. ElringKlinger designs and produces the majority of tools required for high-precision metal processing (stamping, embossing, and forming) and injection-molding operations within the company itself. Deployed within extensively automated production plants, they provide the basis for products manufactured to the highest possible technological standards. Thanks to the cutting-edge design of these tools and the production methods applied by ElringKlinger, the company has also raised the bar with regard to market entry by potential competitors.

Economic and legal factors

ElringKlinger operates as a global supplier to the automotive industry. Against this background, demand for its products is driven to a certain extent by macroeconomic developments and the employment situation in the country in question. Other factors, such as movements

in the price of fuel and changes in consumer behavior, interest rates, or regulatory arrangements in different countries, can also have an adverse effect on demand within the automobile market. As experience has shown, the sale of ElringKlinger products tends to be dependent on market developments within the area of global vehicle manufacturing. Cyclical fluctuations in individual countries can usually be offset by exploiting the more favorable performance of other sales markets.

As regards the legislative environment, ever-stricter regulations in relation to applicable emission standards (Euro standard*, CAFE standard*) are to be seen as key influencing factors. They exert greater pressure on vehicle manufacturers to develop energy-efficient solutions for lower- or zero-emissions mobility. Other industries, such as the shipping sector, are also having to contend with more far-reaching regulations. Since January 2016, newly built ships have been subject to stricter standards governing nitrogen oxide emissions. Legislation governing various industries provides additional impetus for ElringKlinger's business, as the use of ElringKlinger products in specific applications can help to scale back emissions.

Group structure and organization

Headquartered in Dettingen/Erms, Germany, ElringKlinger AG is the parent company of the ElringKlinger Group. It assumes responsibility for Group-wide management tasks as well as central functions such as purchasing, information technology, communication, legal affairs, and human resources. Additionally, it oversees the strategic management of business activities.

As a result of the formation of companies in 2016 and due to the acquisitions transacted in the same period, the Group structure changed as outlined below:

- Effective from April 11, 2016, Hug Engineering AG, a 93.7% subsidiary of ElringKlinger AG, acquired a further 80.0% of the interests in COdiNOx Beheer B.V., Enschede, Netherlands, and now holds a 90.0% interest in that entity.
- Effective from June 1, 2016, ElringKlinger AG took over the business operations of tool specialist Maier Formenbau GmbH, with its registered office in Bissingen/Teck, Germany, as part of an asset deal.

- On October 31, 2016, ElringKlinger AG established the new production enterprise ElringKlinger Silicon Valley, Inc., Fremont, USA.

In total, the ElringKlinger Group comprised 43 companies as of December 31, 2016.

Additionally, on October 26, 2016, ElringKlinger AG signed a certified contract covering a strategic investment of 27.0% in the engineering company hofer AG, Nürtingen, Germany, as well as a 53.0% majority interest in the subsidiary hofer powertrain products GmbH, Nürtingen, Germany. The closing is scheduled for 2017.

Sales markets and company sites

ElringKlinger operates a global network of strategically located production sites and sales offices. From there, first and foremost, the Group supplies the three largest economic areas – Europe, NAFTA, and industrialized Asia (China and Japan) – with innovative products. Additionally, the Group is also active in the emerging markets of Asia and South America. In total, the Group has more than 36 production facilities, nine sales offices, one logistics center, and one company that operates solely within the area of aftermarket sales. Almost all of the world's major vehicle and engine manufacturers are ElringKlinger customers. Therefore, in the majority of cases the Group holds a so-called Tier 1 position* within the value chain. ElringKlinger products are also marketed to automotive suppliers, particularly with regard to turbocharger systems*, exhaust technology, and transmission engineering.

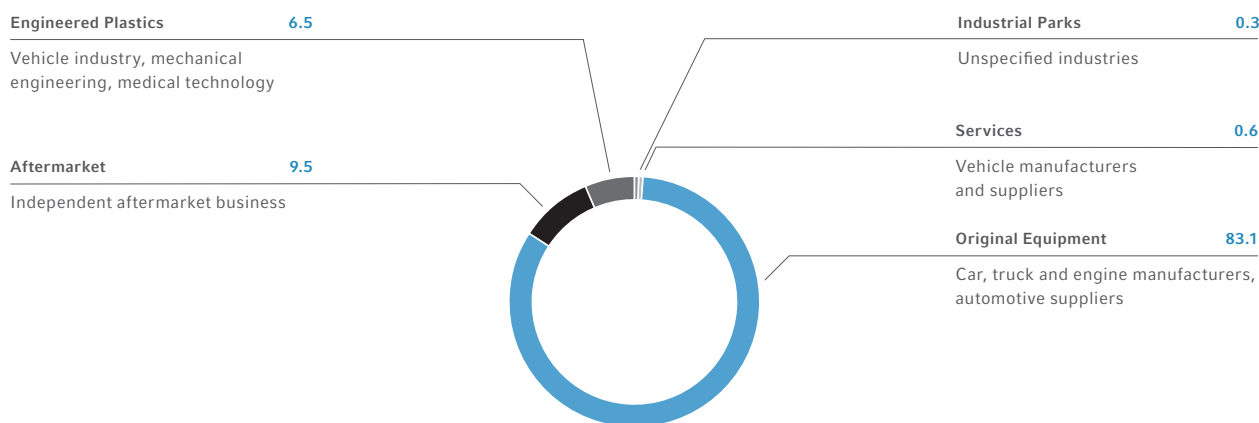


WORLDWIDE

Overall, the Group operates with 36 production and 11 sales and services sites.

* Cf. glossary

ELRINGKLINGER GROUP SEGMENTS
(on the basis of sales revenue 2016) in %



Segments and divisions

The business activities of the ElringKlinger Group are divided into five segments. These also constitute the reportable segments under IFRS*.

The **Original Equipment** segment develops, manufactures, and sells products destined for the automotive industry. These include cylinder-head and specialty gaskets, lightweight plastic components and housing modules for the powertrain and the vehicle body, thermal and acoustic shielding parts for engine, transmission, and exhaust tract applications, and components for lithium-ion batteries and fuel cell systems. In addition, one of the divisions within this segment develops and produces complete exhaust gas purification systems, predominantly for applications in trucks, buses, ships, construction and agricultural machinery, and power stations.

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

America and China, where ElringKlinger is currently in the process of developing its business.

The **Engineered Plastics** segment develops, manufactures, and markets customized solutions made of high-performance plastics. Around one-third of segment revenue is attributable to sales within the automotive market, while approximately two-thirds are generated mainly in the area of mechanical engineering and from sales to the medical, chemical, and energy industries. While business is focused largely on Europe, the segment is currently targeting other regions, such as Asia and the Americas, for the purpose of driving forward expansion.

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

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

Additionally, the segments outlined above are subdivided into eleven divisions. Seven of these divisions are assigned to the Original Equipment segment. Each

of the four remaining segments (Aftermarket, Engineered Plastics, Services, and Industrial Parks) also constitutes a separate division.

Metallic **cylinder-head gaskets** represent one of the traditional fields of business for ElringKlinger. Due to the technological maturity of these gaskets, the Group has held the position of market leader for many years now. This specific market is characterized by an oligopoly. Among the principal competitors are two corporations based in the United States. Some of the local markets include smaller regional players.

The **Specialty Gaskets** division develops and produces a number of tailor-made products, the focus being on metallic flat gaskets for various high-temperature applications relating to engines, turbochargers, transmissions, and exhaust systems. ElringKlinger ranks as one of the three leading suppliers worldwide. Competition within this field is extensive due to the extremely high level of product diversity.

The **Shielding Technology** division encompasses thermal and acoustic shielding systems that handle a wide range of tasks relating to temperature management in modern motor vehicles. Various material compositions are used for the purpose of ensuring the best-possible management of energy flows, e.g., heat and air flow. ElringKlinger is one of the few suppliers in the world

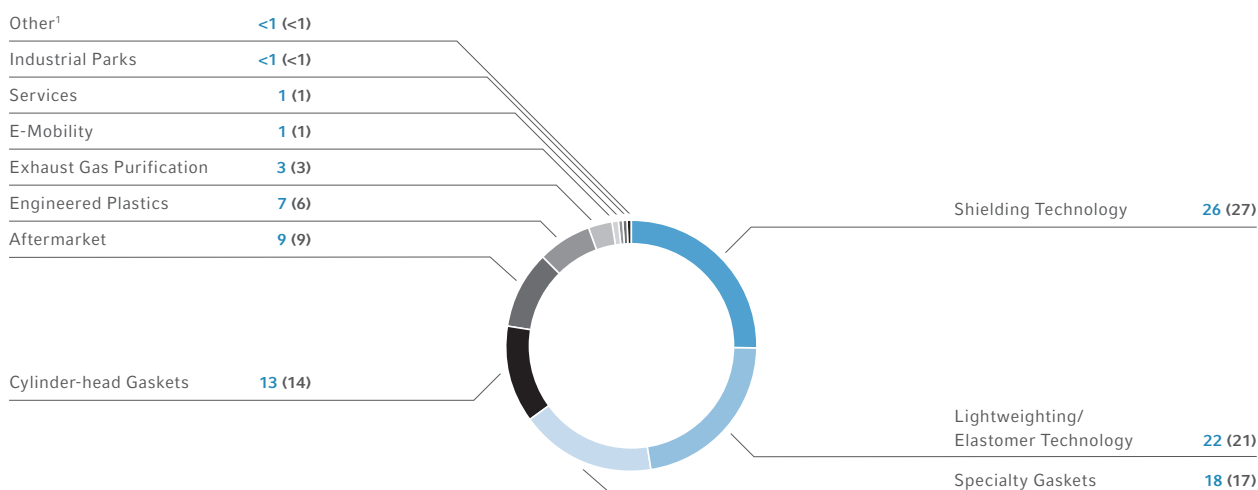
to offer complete shielding packages for both the engine as well as the underbody and the exhaust tract. In this division, too, the Group ranks as one of the top three suppliers at an international level.

The division formerly referred to as Plastic Housing Modules/Elastomer Technology is now called **Lightweighting/Elastomer Technology**. The decision to rename this area of the business was prompted mainly by the focus on newly developed lightweight products made of composite materials that are used as vehicle body components. The vehicle industry can achieve significant weight savings by replacing metal with lightweight components, e.g., made of high-performance plastic or organo sheets. In contrast to the other divisions mentioned above, the market within the area of high-performance plastics is much more fragmented.

ElringKlinger's **E-Mobility** division reflects the transition within the automotive industry toward alternative drive systems. Its focus is on cell contact systems for lithium-ion batteries, which are used in both pure electric and hybrid vehicles and are mass-produced by the company. Growth within this division is heavily dependent on demand for electric vehicles. Cell contact systems are available only from a small group of suppliers.

The **Exhaust Gas Purification** division develops and produces exhaust gas purification systems for the catalytic *

GROUP EXTERNAL SALES BY DIVISION 2016
(prior year) in %



¹ HURO Supermold S.R.L., Timisoara, Romania, and New Business Areas

* Cf. glossary

aftertreatment of mobile and stationary combustion engines as well as off-road applications. The portfolio comprises products for a number of different industries, including the commercial vehicle, shipping, and rail sector. Building on this product range, the division is well positioned in the respective target industries.

The division referred to as **Others** brings together activities relating to Tooling Technology and New Business Areas. The latter currently include ongoing projects focusing on fuel cell technology (cf. "Research and Development").

INTERNAL CONTROL CRITERIA

The Management Board of ElringKlinger AG mainly utilizes financial indicators for the purpose of governing the Group. Additionally, company-specific leading indicators and non-financial performance indicators form an important basis for key decision-making processes relating to corporate management. The aforementioned indicators are also to be seen as a foundation for the overall assessment of issues and developments that need to be evaluated within the company.

Financial control criteria

The most important financial control criteria applied within the ElringKlinger Group are sales and earnings performance as well as the Group's financial position. The key financial indicators used are sales revenue, earnings before interest and taxes (EBIT*), and return on capital employed (ROCE*). ROCE measures a company's profitability and the efficiency with which its capital is employed. These internal control criteria are planned, 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.

For the purpose of calculating ROCE, EBIT is divided by average capital employed. At ElringKlinger, capital employed includes shareholders' equity, financial liabilities, provisions for pensions, and non-current provisions such as anniversary and partial-retirement provisions. The target defined by the Group is to achieve a return on capital employed of at least 15% in the medium to long term. Variable remuneration for the managerial level directly below the Management Board is generally linked to the level of ROCE achieved.

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

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

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

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

SELECTED FINANCIAL CONTROL CRITERIA OF THE ELRINGKLINGER GROUP

		Guidance 2016 ¹	Actual 2016	2015	2014	2013	2012	2011	2010
Sales revenue	(in EUR million)	1,583 to 1,613 ²	1,557.4 ³	1,507.3	1,325.8	1,150.1	1,127.2	1,032.8	795.7
EBIT before PPA ⁴	(in EUR million)	140 to 150 ("more likely at the lower end")	140.4	140.4	162.3 ⁵	149.8 ⁵	140.9	130.6 ⁶	116.0
ROCE		At best, slight year-on-year improvement	8.7%	9.5%	12.4%	14.4%	13.3%	14.2% ⁶	15.2%
Operating free cash flow	(in EUR million)	Slightly within negative territory (low to mid-double-digit figure in the million euro range)	-3.8	-65.2	-12.4	-4.2	8.2	-10.5	-1.9
Equity ratio		40 to 50%	47.2%	48.5%	49.7%	50.4%	50.6%	50.1%	52.7%

¹ In accordance with last quarterly financial statements of November 8, 2016; original guidance for 2016: EBIT before PPA: EUR 160 to 170 million; ROCE: "slight year-on-year improvement"; operating free cash flow: "no longer negative or only slightly within negative territory"; other target figures unchanged

² Equals 5 to 7% organic revenue growth (adjusted for effects of currencies and acquisitions)

³ Revenue reported; revenue adjusted for effects of currencies and acquisitions (organic): EUR 1,578.4 million (+4.7%)

⁴ PPA (write-downs from purchase price allocation) EUR 4.8 (5.2) million (accounted for in various functional categories of the income statement); calculation method applies similarly to FY 2010 to 2014

⁵ Financial years adjusted for non-recurring exceptional items: 2013 by EUR -15.7 million, 2014 by EUR 4.9 million

⁶ Adjusted for one-time gain from sale of Ludwigsburg industrial park (EUR 22.7 million)

Non-financial control criteria

The following HR- and quality-related indicators, which are of less significance in the context of corporate governance, are also monitored regularly and are used by management in support of its decision-making processes:

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

For further details, please refer to the chapter entitled "Sustainability" or visit the corresponding section on the Group's website. The sustainability report for the 2016 financial year will be published on the Group's website (www.elringklinger.de/en/sustainability) in 2017.

Company-specific leading indicators

Information relating to order intake and backlog is reported on a regular basis and provides reliable indications of likely capacity utilization and revenue performance for the months ahead. As a leading (i.e.,

early) indicator that is specific to the company, this data is also seen as an important control parameter for management.

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

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

RESEARCH AND DEVELOPMENT

ElringKlinger focused its research and development activities primarily on lightweight designs and innovative drive technologies in the past fiscal year. The company's move to develop extensive expertise in these areas – in breadth and depth – is paying dividends, especially given the current dynamics of the automotive industry. This is one of the many reasons why ElringKlinger is now a sought-after partner when it comes to finding solutions that save weight or use alternative drives. At the same time, ElringKlinger is further expanding its existing skill sets in everything to do with combustion engines, the aim being to reinforce its leading position in its various markets.

Automotive – a fast-paced industry

Much is currently afoot in the automotive sector. Drive technology in particular is undergoing a transformation fueled by stringent emission regulations already in place as well as by the introduction of new testing techniques and test cycles. This major change is also being accelerated by the high levels of emissions polluting city centers, for which traffic is largely seen as a culprit.

New testing methods are primarily being brought in because the established ones are failing to supply values that reflect real-life driving situations on the road. It used to be possible to optimize engines within a specific range of characteristics that were relevant to the cycle and thus meet the requirements. This prompted trends such as engine downsizing*, which, despite delivering positive results on the chassis dynamometer, failed to bring any such positive impact on the road.

Having introduced the new tests, manufacturers are now leaning more so toward a "rightsizing**" strategy when developing their engines.

Although any more tinkering with the fleet CO₂ thresholds already set by policymakers (an average of 95 g/km from 2021 for Europe) is unlikely, sticking to these limits is certainly not going to be possible with conventional combustion engine power. This is piling more pressure on the manufacturers, who are having to introduce new drive technologies to ensure that their fleets meet the CO₂ limit and to avoid costly fines.

Manufacturers are therefore turning increasingly to alternative types of drive system and have set themselves some ambitious targets for launching hybrid and electric vehicle models over the next ten years.

KEY FIGURES R&D

	2016	2015	2014	2013	2012 ¹
R&D costs (incl. capitalized development costs) (in EUR million)	74.8	71.2	66.5	65.7	65.7
R&D ratio (incl. capitalized development costs)	4.8%	4.7%	5.0%	5.7%	5.8%
Capitalization ratio ²	9.9%	13.8%	13.8%	13.7%	12.7%

¹ Including amortization of capitalized R&D expenses – recognized in cost of sales since 2013

² Capitalized development costs in relation to R&D costs, including capitalized development costs



is the maximum that vehicle manufacturers' fleets will be allowed to emit from 2021 onward under EU regulations.

(For the purposes of comparison, the automobiles sold in Germany emitted 127 g CO₂/km in 2016.)

Given this, the general assumption for the next few years is that the demand for combustion engines will continue to rise slightly until around 2021, when hybrid and electric vehicles will take over as the growth drivers.

Talking to manufacturers from an early stage

Readying itself for the technological challenges of the industry and helping to shape trends through innovation is part of ElringKlinger's corporate philosophy. The Group's decision to invest in lightweight technology and battery components years ago is now paying off: Among its lightweighting activities, ElringKlinger's large share of the cylinder-head cover and oil sump markets is just as much a sign of successful product developments as the large-scale contracts won recently for cockpit cross-car beams and door module carriers. The Group would not be fielding as many inquiries for e-mobility products either had it not already proven its innovative and competitive strength in developing and manufacturing cell contact systems*.

The company's strong culture of innovation as well as sustainable, targeted investments are vital to ElringKlinger's sales success. In the past few years, the Group has ploughed between 5 and 6% of its revenue back into its research and development activities, with a similar figure expected for the next few years as well. The Group is thus laying the necessary foundations to keep on honing its competitive edge.

* Cf. glossary

Healthy research and development ratio

R&D costs amounted to EUR 74.8 (71.2) million in the past fiscal year. At 4.8% (4.7%), the ratio was slightly below the long-term trend trajectory. Alongside the Group's long-established divisions – Cylinder-head Gaskets, Specialty Gaskets, Lightweighting/Elastomer Technology, and Shielding Technology – its New Business Areas and E-Mobility divisions also benefited. However, the amortization of capitalized R&D expenses recognized in cost of sales was higher year on year at EUR 8.4 (8.2) million.

Employees represent the most significant success factor for R&D activities. The Group employed 570 (562) R&D staff at ElringKlinger AG sites and at 18 (17) subsidiaries. Its development activities were focused mainly at the German sites forming part of the Original Equipment and Engineered Plastics segments, the Exhaust Gas Purification division's Swiss site, and the US sites near Detroit, Michigan. The other locations witnessed mainly minor development steps and modifications.

As well as pooling its organizational resources to prevent technology transfer and a "brain drain," ElringKlinger always seeks legal protection for its successful developments on both a product and a process level. Its patent unit monitors the protection of technological knowledge and intellectual property rights, in addition to applying for patents in Germany and abroad. At 68 (67), the number of patents newly applied for in 2016 was once again high.

Lightweighting – every ounce counts

When developing engine and structural components in new models, automotive manufacturers are guided by one principle above all others: The vehicle has to weigh less. This maxim applies to vehicles fitted with a combustion engine, as it facilitates compliance with the stringent emission regulations. However, the weight issue is also of crucial importance to all-electric vehicles, as it enables their range to be increased.

With ElringKlinger having begun replacing conventional metal engine components with high-performance plastics more than 15 years ago, the Group has joined forces over the past few years with a premium German manufacturer to develop innovative polymer/metal hybrid parts for vehicle bodywork. This involves combining hydroforming* with plastic injection-molding so that extremely lightweight components can be made in just a single step. To this end, ElringKlinger has designed a combination tool that makes the end product just as unique as the production method. Lightweight parts such as these hydroformed products can reduce overall weight by up to 40 percent compared with standard structural components, depending on the applications being integrated. Hydroforming technology is currently being used for cockpit cross-car beams, front-end carriers, and front-end adapters. More potential vehicle-based applications are being considered in order to leverage the sizeable market potential that this technology offers.

ElringKlinger has devised a similarly innovative concept that involves combining organo sheets* with plastic injection-molding and that enables substantial improvements in resilience and rigidity compared with conventional plastics. A high-volume order for door module carriers using this technology was won in the past fiscal year, with series production scheduled to commence in 2017. This combination could conceivably also suit other vehicle-based applications such as battery mountings, seat pans, and spare tire recesses.

Shielding technology – thermal, acoustic, and aerodynamic

Underbody paneling made using innovative pressed textiles can also help to reduce a vehicle's weight compared with earlier models, in addition to insulating noise and vibrations and improving handling by cutting air resistance. Development projects under way in these areas are utilizing the properties of the material. For instance, various semi-finished parts made of plastic can be thermoformed and lined with metallic surfaces to create heat protection components. Some major projects were launched during the past fiscal year for premium manufacturers in the NAFTA region.

Alongside thermal and aerodynamic functionality, the aspect of acoustics is also becoming increasingly important in the field of shielding technology. Manufacturers are striving to integrate acoustic functions into shielding parts that have a thermal effect. ElringKlinger has carried out development work in this area to actively control a vehicle's acoustics. This includes, for instance, modifying hole sizes or the percentage of the surface area given over to perforations in line with the customer's requirements in order to prevent or support certain vibrations and frequencies. This, together with the growing number of customer inquiries worldwide, has been one of the motives behind realigning the development organization in this division and expanding it worldwide.

Battery systems enabling emission-free power

The current transformation in the automotive sector has seen manufacturers gradually adopt quantifiable targets for developing and marketing new models of electric vehicle. These moves and the extensive support being afforded to the electric drive system in China are increasingly translating into new inquiries for ElringKlinger.

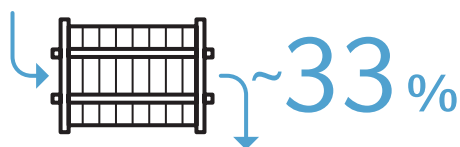
Although the E-Mobility division has not yet put in a satisfactory performance, with consumers reluctant to embrace electric vehicles, ElringKlinger has nevertheless carved out a good reputation in this area as a development partner and supplier of battery components. Development experience gained over nearly eight years has been poured into projects to develop cell contact systems for lithium-ion batteries and battery modules for European and North American customers. From a technical perspective, an innovative design for cell voltage taps was successfully brought to series production, making the systems' fully automatic production process even more efficient.

Another main focus of R&D activities in the past financial year lay on expanding the product range: Working together with a Chinese partner on battery cells, the company will now be in a position to offer a battery module for electric vehicles. In view of the increased demand for e-mobility solutions anticipated over the next few years, ElringKlinger can look forward to some very attractive market opportunities.

Efficient energy from fuel cells

ElringKlinger has been investing in fuel cell technology for nearly 20 years now, working on long-term projects involving the PEMFC * low-temperature fuel cell as well as its high-temperature counterpart, the SOFC. * While the latter delivers significant benefits in combination with hydrocarbon-based fuels, the former is primarily suited to applications that use hydrogen. Development work in this area continued over the past fiscal year in a bid to accelerate the system compatibility of both types of cell.

SOFC systems boast higher electrical efficiency than diesel generators, for instance, and are easy to control via integrated routers. They are suited to a wide range of applications, including cogeneration * in houses and apartment blocks. They can also be used when setting up mobile telecommunications systems, wind turbines, or pipelines, not requiring any maintenance all year round – including in continuous operation. In other words, they have a role to play wherever there is no conventional electricity infrastructure in place. They can also serve a purpose on boats or in motorhomes, as their compact design makes them easy to integrate. Improving these systems through software upgrades and getting the series-manufactured product certified for biogas applications as well were two key R&D priorities during the past fiscal year.



is the electrical efficiency of SOFC fuel cells with a power output of less than 1 kW. (For the purposes of comparison, diesel generators in this power range achieve 15% at best.)

PEMFC systems require a hydrogen supply, something that is only now being developed gradually. In principle, however, the PEMFC could potentially be an ideal enhancement to all-electric vehicles in the future. Particularly on long journeys or in commercial vehicles, all-electric batteries are at a disadvantage because of their long charging times and heavy weight. An automobile powered by fuel cells can be filled up with hydrogen in three minutes, for example. Depending on the running requirements, therefore, the future will see standard electric vehicles joined by fuel-cell vehicles as well as electric vehicles fitted with fuel-cell range extenders. The first vehicles from some Korean and Japanese manufacturers are already in series production, with one of their German counterparts set to follow suit late this year. However, it will be eight to ten years at the earliest before the technology enjoys widespread use across the board.

With its patented designs for metallic bipolar plates *, its plastic media modules, and its own fuel cell stacks *, ElringKlinger is ideally placed to meet the major technological change expected in the PEMFC segment. The company's PEM fuel cells are already being used in applications including forklifts and municipal vehicles.

Refining gaskets and sealing systems

Despite the transformation process that is producing hybrid and electric drives, the level of performance required of cylinder-head and specialty gaskets remains high. Frequent load changes, elevated temperatures, and high pressures continue to dictate the requirements made of combustion engines.

Manufacturers are increasingly turning to EGR * systems to better meet emission regulations, creating a need for sophisticated filter gaskets to protect turbochargers from damage. This is where ElringKlinger's expertise in gaskets comes in. Alongside insulating turbochargers with shielding components, therefore, the company has focused its development activities on sealing systems with a valve function for EGR and CO₂

* Cf. glossary

compressor applications and on an improved methodology for simulating the sealing assembly in order to optimize the design of the cylinder-head gasket in light of changing load spectra. A key product innovation in this field is the stamped folded stopper*, which was launched in 2016 and which is set to be used in the latest-generation engines from a global vehicle manufacturer.

Both hybrid and all-electric vehicles will continue to contain automatic transmissions that will require the Specialty Gaskets division to come up with solutions of varying complexity, something that the products developed in 2016 clearly illustrate. For instance, ElringKlinger utilized its product expertise to develop internal and external clutch plate carriers for the automatic transmission in a new electric vehicle produced by a premium German manufacturer. In addition, coating solutions are currently in development that will also enable sealing systems for IP protection classes* as required in electric drives.

Exhaust gas purification – driven by emission regulations

ElringKlinger's Swiss subsidiary Hug Engineering AG (Hug) develops and sells solutions for reducing exhaust emissions from combustion engines, concentrating on attractive niche markets. Its activities focus on retrofitting solutions for commercial vehicles and construction machinery as well as mobile off-road applications for locomotives and ships and stationary applications for power plants and greenhouses. They are being guided by new standards for exhaust emissions or by innovative products that are accelerating the introduction of new standards – again, in the off-road segment in particular.

This includes, for instance, heavy-oil engines, whose particulate emissions have never been regulated because no corresponding technology has yet made it onto the market. Hug is in a position to close this gap by developing a system that enables the removal of soot and ash particles from the exhaust gases emitted by engines of this kind. The corresponding development work is being undertaken as part of a project

funded by the Horizon 2020 initiative. Horizon 2020 is an EU funding program aimed at fostering scientific excellence, driving forward innovation, and strengthening Europe's industrial competitiveness.

The mobiclean™ R Dynamic is an innovative exhaust gas purification system fitted with a fully automatic, actively regenerating filter system that helps to reduce soot emissions. The system comprises a diesel particulate filter, a burner, control components, and data loggers*, and has a compact design that makes it easy to integrate in vehicles. Although ideally suited to machinery with high soot emissions that spend long periods idling or on standby, this innovative product could also be used in vehicles in developing countries that use fuels with a high sulfur content.

In the shipbuilding and rail sector, the focus in the past fiscal year was on developing high-temperature-resistant SCR* catalytic converters for high-speed, high-performance engines. The dosing concept used in urea dosing systems in stationary power plant engines was developed further in order to meet the most stringent NO_x conversion requirements under variable loads.

Similar to the Group's other divisions, Hug makes use of government and institutional funding to undertake high-risk development projects. Working together with two partners, for instance, it is developing exhaust gas purification systems that reduce both noise and emissions in a single solution.

Plastics expertise

The first main focus of R&D activities in the Engineered Plastics segment was on developing new materials based on fully fluorinated substances, especially high-performance plastics that can be thermoplastically processed and used in thermal management systems, transmissions, or gears. The second involved launching the new Speedflon rotary shaft seal, which improves leak-tightness and minimizes friction in applications that rotate extremely fast, such as turbochargers or electric motors.

MACROECONOMIC CONDITIONS AND SECTOR ENVIRONMENT

The world economy showed subdued growth in 2016. According to preliminary estimates issued by the International Monetary Fund (IMF), the gross domestic product (GDP) rose by 3.1% at a global level, which represents a slight slowdown in growth compared to the prior-year figure (3.2%). This less pronounced rate of expansion was attributable primarily to developments in the United States and Western Europe, whereas the emerging and developing countries as a whole showed forward momentum. Recording global growth of around 4% in terms of sales volume, the automobile industry put in an encouraging performance in 2016. In this context, Western Europe, China, and India were among the key growth regions. Operating from a position of strength, the US market experienced a slight lull during the period under review. At present, the market segment covering vehicles equipped with alternative drive systems is still very small.

Multiple economic influences

The global economy was exposed to a number of influencing factors over the course of 2016, some which were conducive to growth while others proved less favorable. Among the key elements were oil and energy prices, which, while edging up slightly in the period under review, nevertheless remained relatively low. At the same time, the world's major central banks continued to pursue an expansionary monetary policy. China's economy showed signs of a slowdown, which had repercussions for other regions, while geopolitical hotspots in the Middle East also caused some turbulence. The outcome of the Brexit referendum in the United Kingdom in June 2016 and the presidential election in the United States in November 2016, two key political events in the period under review, caused a degree of uncertainty but initially had little impact on the wider economy. Emerging countries with a strong focus on raw material exports benefited from the fact that the majority of commodity prices trended slightly higher in 2016 after years of languishing in the doldrums.

While GDP growth in the eurozone ended up being slightly lower than in the previous year, it remained stable over the course of the twelve-month period at an annual rate of change of 1.7%. This was underpinned by low interest rates and an improvement within the labor market as well as the value of the euro, which remained relatively low in relation to other currencies.

Recording above-average growth compared to other European economies, Germany again cemented its position as an anchor of stability. In this context, the main impetus came from continued buoyancy with regard to private and public-sector consumption. Having initially lost some of their momentum, German exports ultimately managed to reach a new annual high.

After a sluggish first half, the US economy gathered pace over the remainder of the year. The domestic economy in the United States benefited in particular from strong consumer demand, which was attributable in no small part to solid employment figures and favorable financing. By contrast, the processing industry came under pressure, with the energy sector bearing the brunt due to its dependence on commodity prices.

Returning to a position of stability in 2016, the Chinese economy ended up precisely within the range of 6.5 to 7.0% targeted by the central government. India also put in an encouraging performance, although growth was driven primarily by private and government spending. In Japan, by contrast, torpid domestic demand stifled any visible form of economic upturn.

Economic performance in the emerging countries dependent on commodity exports improved slightly. However, the larger economies of Brazil and Russia again fell short of their prior-year figures.

* Cf. glossary

GDP GROWTH RATES

Year-on-year change in %	2015 ¹	2016
World	3.2	3.1
Germany	1.5	1.7
Eurozone	2.0	1.7
USA	2.6	1.6
Brazil	-3.8	-3.5
China	6.9	6.7
India	7.6	6.6
Japan	1.2	0.9

Source: International Monetary Fund (January 2017)

¹Prior-year figure changed in accordance with data applicable as of publication date of January 16, 2017

Automobile market exceeds expectations in 2016

According to data published by the VDA (Association of the Automotive Industry, Germany), the global car market expanded by around 4% to 81.6 million units in 2016, thereby moving beyond the mark of 80 million for the very first time. Thus, the overall performance of the automobile industry was encouraging, not only when viewed against the backdrop of original VDA estimates that had pointed to growth of around 2% in terms of sales volume.

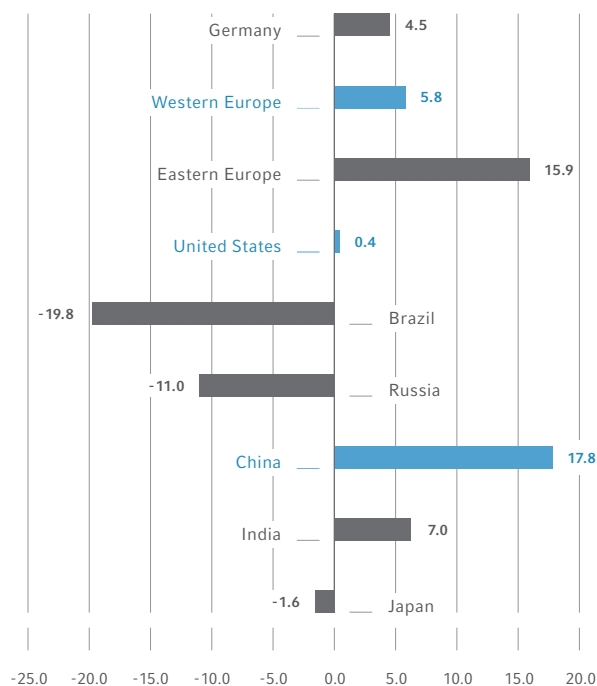
Market studies suggest that global production output of passenger cars and light commercial vehicles (“light vehicles”) expanded at a slightly faster rate than vehicle sales. Growth was supported primarily by Europe, China, and India, while the US market showed signs of faltering, as anticipated.

The level of demand for new cars in Western and Eastern Europe came as a welcome surprise, particularly in the first half of 2016, which in some cases saw sales expand by double figures year on year. By the end of the year 14.0 million new passenger cars had been registered in Western Europe alone. Led by Italy and Spain, all of the top-five markets – accounting for around 80% of the Western European vehicle market – were in positive territory. In last place, the United Kingdom recorded growth of 2.3%. Buoyed by the solid performance of its economy as a whole, Germany recorded strong demand for new cars in the year under review. Here, new car registrations stood at

3.4 million units in 2016, the highest level since 2010. Due to stagnant exports, domestic production output was up only marginally on the prior-year figure. In total, 4.4 million of the 5.7 million cars produced in Germany were destined for export markets in 2016.

NEW CAR REGISTRATIONS 2016

Year-on-year change (in %)



Source: VDA (January 2017)

In the United States, the light vehicle market – encompassing passenger cars, SUVs, and pickup trucks – retained much of its buoyancy in 2016. SUVs and pickups, which tend to be equipped with more powerful engines, again proved to be more popular among buyers than conventional passenger cars. Boasting a figure of 17.5 million new registrations, the US market just managed to exceed its previous record of 17.4 million vehicles achieved in 2015.

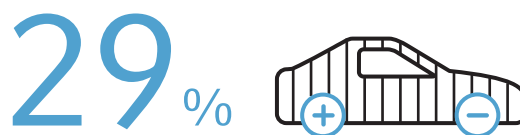
China, the world’s largest individual car market, saw sales expand at a surprisingly dynamic rate, particularly in the second half of the year. Sales were underpinned to some extent by tax breaks for those buying small vehicles. Vehicle sales rose sharply in India, too, whereas Japan was yet again faced with a downturn. On a slightly more positive note, the malaise affecting Brazil and Russia in recent years was not quite as severe in 2016.

Electromobility – market share still negligible in 2016

2016 saw a change in strategy within the automotive industry. Car makers began to focus more closely on hybrid- and e-mobility, which included the medium-term prospect of a number of new models being launched onto the market. In the year under review, however, sales of such vehicles remained insignificant. Electric vehicles (all-electric and plug-in hybrids) account for less than 2% of new car sales in the key automobile markets. At 336,000 units, the majority of new electric vehicles were sold in China, followed by Europe with around 212,000 cars. The United States recorded electric vehicle sales of approx. 157,000 units in 2016. In Germany, meanwhile, no more than 25,200 new electric cars made their way onto the road, despite a purchase incentive of up to 4,000 euros having been introduced in July 2016.

Truck market with significant regional variations

The world’s major commercial vehicle markets developed along radically different lines in 2016. Western Europe displayed the highest level of growth, with market volume expanding by 10.1% in 2016 and new registrations of mid-sized and heavy trucks (>3.5 t) reaching a figure of approx. 545,000. Having said that, the market lost some of its forward momentum in 2016 compared to the surge in demand witnessed in 2015 as a result of catch-up effects. The percentage increase in Eastern Europe was more pronounced. However, this was based on a lower absolute sales volume (2016: 129.9 thousand new registrations).

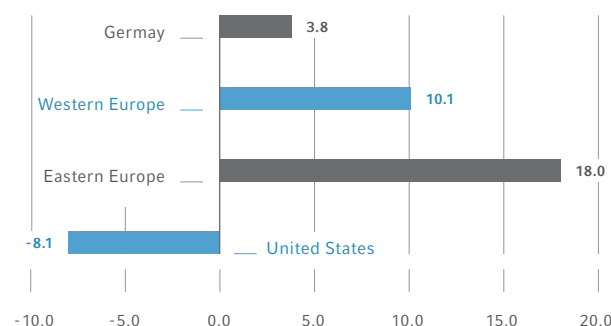


ELECTRIC VEHICLES

In Norway, electric cars accounted for 29% of new vehicle registrations in 2016 – by far the highest rate compared to other countries: China 1.8%, USA 0.9%, Germany 0.8% (Source: CAM)

As expected, the US truck market showed signs of cooling on the back of significant sales figures recorded in the previous years. The lower propensity to invest was attributable to market saturation and the weakness of the industrial sector. The segment covering Class 8 trucks was down 22.5% on the prior year, a particularly dire performance. Contracting even further, Brazil’s commercial vehicle market was also faced with difficulties in 2016.

NEW REGISTRATIONS OF MEDIUM AND HEAVY TRUCKS IN 2016
Year-on-year change (in %)



Source: ACEA, Automotive News Data Center (January 2017)

SIGNIFICANT EVENTS

Among the significant events for the ElringKlinger Group in the 2016 financial year were the acquisition of additional ownership interests by the ElringKlinger subsidiary Hug Engineering in COdiNOx Beheer B.V., Enschede, Netherlands, and the takeover of business operations of Maier Formenbau GmbH, Bissingen/Teck, Germany. Additionally, the 2016 financial year saw the acquisition of further interests in the subsidiary new enerday GmbH, Neubrandenburg, Germany, the establishment of a subsidiary by the name of ElringKlinger Silicon Valley, Inc., Fremont, USA, the resignation of Management Board member Karl Schmauder, and the change in index membership of ElringKlinger's stock.

ElringKlinger increases stake in new enerday

Effective from February 18, 2016, ElringKlinger AG acquired an additional 5.0% of the ownership interests in its subsidiary new enerday GmbH, Neubrandenburg, Germany. Since then, it holds 80.0% of the interests in the fuel cell system specialist. This is in keeping with ElringKlinger AG's continued strategy of scaling back non-controlling interests within the Group to the largest extent possible.

Karl Schmauder resigns from Management Board

Effective from February 23, 2016, Karl Schmauder, member of the Management Board of ElringKlinger AG, stepped down from his role as a Management Board executive. Mr. Schmauder was appointed to the Management Board of ElringKlinger AG in 2005. Up to the date of resignation, he was responsible for Original Equipment Sales and New Business Areas. The Management Board of ElringKlinger currently consists of three members: Alongside Dr. Stefan Wolf in the role of CEO, Theo Becker as COO responsible for Production and Technology and Thomas Jessulat in his capacity as CFO remain as members of the Group's highest governing body. Dr. Stefan Wolf has taken over the area of Original Equipment Sales. New Business Areas is overseen by Theo Becker.

New index membership for ElringKlinger stock

At its meeting on March 3, 2016, Deutsche Börse resolved on changes to the composition of its stock market indices. Formerly listed in the MDAX, ElringKlinger AG had to leave the aforementioned index and joined

the SDAX effective from March 21, 2016. The composition of indices for the German stock market is governed by two key criteria: market capitalization of free float and average trading volume of the shares in question.

Hug Engineering expands ownership interest in COdiNOx

Hug Engineering AG, a 93.7% subsidiary of ElringKlinger AG based in Elsau, Switzerland, acquired a further 80.0% of the interests in COdiNOx Beheer B.V., Enschede, Netherlands, effective from April 11, 2016, and now holds a 90.0% interest in that entity.

The acquisition of the aforementioned interests was concluded after the subsidiaries of COdiNOx Beheer B.V. had been merged into the parent company. The company now trades as Hug Engineering B.V. The acquisition of the distribution and service company is aimed at exploiting synergies and leveraging growth potential for Hug exhaust gas purification systems, in addition to unlocking new markets.

ElringKlinger takes over business operations of Maier Formenbau

Effective from June 1, 2016, ElringKlinger AG took over the business operations of tool specialist Maier Formenbau GmbH, with its registered office in Bissingen/Teck, Germany, as part of an asset deal.

Maier Formenbau specializes in the production and repair of technically complex injection-molding tools. In completing this takeover, ElringKlinger extended its

existing competencies and capacity levels within the area of tooling. The additional resources are to be used primarily for the purpose of developing and producing tools for the Shielding Technology division.

Establishment of ElringKlinger Silicon Valley

ElringKlinger Silicon Valley, Inc., Fremont, USA, was founded effective from October 31, 2016. ElringKlinger AG holds 100.0% of the ownership interests.

SALES AND EARNINGS PERFORMANCE

Over the course of 2016, the ElringKlinger Group generated strong growth in many of the regions covered by its business, with sales revenue expanding by 3.3% in total to EUR 1,557.4 (1,507.3) million. Benefiting from solid market conditions and steady improvements at a Swiss subsidiary, ElringKlinger was able to emulate its prior-year performance in respect of earnings before interest and taxes (EBIT).

Buoyant sales in final quarter

The 2016 financial year saw Group sales revenue expand by EUR 50.1 million, or 3.3%, to EUR 1,557.4 (1,507.3) million. Taking into account the effects of currencies and acquisitions, revenue grew by EUR 71.1 million or 4.7% organically. In this context, Group sales revenue was diluted by EUR 33.4 million, i.e., -2.2%, as a result of exchange rate movements. Contraction in this area was attributable primarily to the direction taken by the Mexican peso, Chinese yuan, and British pound. The acquisition-related effects on revenue from the first-time inclusion of ElringKlinger Automotive Manufacturing, Inc., Southfield, USA, as of February 14, 2015, were equivalent to EUR 4.9 million. The Dutch sales company CODiNOx Beheer B.V., Enschede, Netherlands, was fully consolidated within the Group having been renamed Hug Engineering B.V. effective from April 11, 2016. In addition, ElringKlinger took over the business operations of tool specialist Maier Formenbau GmbH, Bissingen/Teck, Germany, as part of an asset deal that came into effect on June 1, 2016. In total, the acquired entities contributed EUR 12.4 million, or 0.8%, to sales revenue.

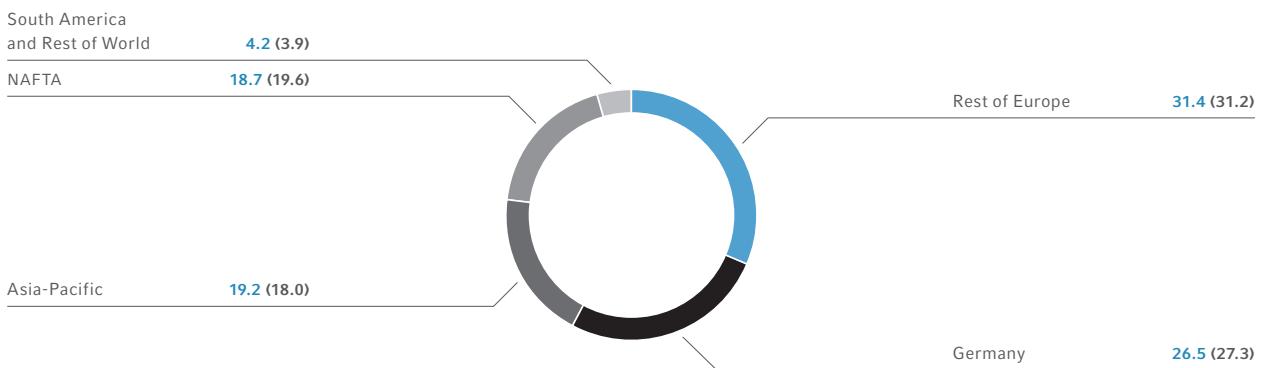
The first half of 2016 saw sales perform well at an organic level, while the final quarter produced decent revenue growth of 5.1%. By contrast, the weaker third quarter (+2.5% organic revenue growth), which was

impacted by factors of a temporary nature, had a dampening effect on annual growth as a whole. ElringKlinger recorded organic revenue growth of close to 5% in 2016. In relation to the guidance figure of projected revenue growth of between 5 and 7% (rounded) annually, ElringKlinger thus managed to reach the lower end of the target range.

In 2016, the revenue contribution from tool-related billings was down by EUR 10.7 million year on year. Compared to serial production business, revenue associated with tools tends to generate lower earnings for the Group.

Originally, the Group's EBIT forecast for the year as a whole (before purchase price allocation) had stood at EUR 160 to 170 million. Due to capacity constraints within one of the Group's divisions and delays in efforts to migrate production to Hungary, the guidance figure was revised downward over the course of the year to between EUR 140 and 150 million. On publishing its report for the first nine months of the financial year, the Group then put in more precise terms its earnings forecast for the annual period, projecting a figure at the lower end of the aforementioned target range. Recording EBIT, before purchase price allocation, of EUR 140.4 (140.4) million, the Group completed the financial year within the projected earnings corridor.

GROUP SALES BY REGION 2016
(prior year) in %



Sales revenue for the Group underpinned by favorable market conditions

Excluding currency effects, the ElringKlinger Group made further gains in all of its sales regions over the course of the 2016 financial year and thus managed to exceed its prior-year figures. Annual growth was driven primarily by the regions encompassing Asia-Pacific and the Rest of Europe.

The final quarter of the financial year in particular saw a sizeable increase in ElringKlinger’s sales revenue. The momentum of growth was more pronounced in the Asia-Pacific region, while the German market also improved visibly. In total, sales revenue generated in the fourth quarter of 2016 was up 4.4% on the figure recorded in the same period a year ago. From an organic perspective growth stood at 5.1%.

In 2016, ElringKlinger recorded 31.4% (31.2%) of Group revenue within its key sales market in the region comprising the Rest of Europe. Although this proportion of revenue generated in Europe (excluding Germany) increased only marginally in percentage terms as a result of stronger expansion within other growth markets, the region nevertheless developed very well during the period under review. Revenue from sales in this region rose by 4.0% to EUR 489.1 (470.3) million. For the first time, this figure includes Hug Engineering B.V., Enschede, Netherlands, an entity which was fully consolidated in April 2016. The increase in revenue was also attributable to the strong performance seen within vehicle markets throughout Western Europe.

Germany’s vehicle market also continued to expand during 2016. Reflecting this upward trend, ElringKlinger’s revenue from domestic sales rose by EUR 0.8 million to EUR 412.3 (411.5) million. Some of the ElringKlinger components supplied to German customers are fitted to vehicles or engines destined for foreign markets. The percentage share of domestic sales in relation to Group revenue declined to 26.5% (27.3%).

With sales revenue standing at EUR 292.0 (296.4) million, the region encompassing NAFTA was down slightly year on year. This was in line with expectations, given the strong rates of growth seen in previous years. Excluding currency effects, however, the region saw sales revenue expand by 3.0%, despite stagnation within the US vehicle market over the course of 2016. After two buoyant quarters in the first half of the year, sales revenue in the second half was down 5.2% on the strong figure posted for the same period a year ago. However, it should be noted that the prior-year figure had included substantial tool-related revenue from the sale of hydroforming tools. This region accounted for 18.7% (19.6%) of Group revenue in 2016.

The region encompassing South America and the Rest of the World developed very well in the second half of 2016. With the economic recession in Brazil showing no signs of relenting, car owners were less willing to invest in new vehicles, instead opting for repairs. This had a positive impact on ElringKlinger’s aftermarket sales at a Group level, which had already been performing well. Furthermore, the South African subsidiary was also able to lift its sales. In total, revenues

in the 2016 financial year increased by 11.7% to EUR 65.1 (58.3) million. Excluding currency effects, revenue was up by as much as 14.6% on the prior-year figure. This region's share of total Group revenue rose to 4.2% (3.9%).

The most pronounced level of revenue growth was recorded in the region covering Asia-Pacific, where ElringKlinger saw the share of sales in total Group revenue increase by 1.2 percentage points to 19.2% (18.0%). With a substantial increase of 10.5%, this region generated revenue of EUR 299.0 (270.7) million for ElringKlinger in 2016. Demand in the world's largest automobile market has reached a very high level, although China's automotive sector did lose some of its forward momentum in 2016. The calmer pace seen within the car market did not apply to the fourth quarter of 2016, however, which saw ElringKlinger lift its sales revenue by 16.4% compared to the fourth quarter of 2015. This surge in business was attributable to a visible pre-emptive effect in China. Here, the rate of value-added tax (a form of sales tax) on small-engine vehicles, which had been lowered in October 2015, was raised again effective from the beginning of 2017. Additionally, the fourth quarter included relatively high tool-related revenues.

The percentage share of foreign sales in relation to Group revenue rose yet again in 2016, with the figure increasing to 73.5% (72.7%). ElringKlinger was quick off the mark when it came to investing in its global infrastructure. As a result, business within the international markets is becoming increasingly important.

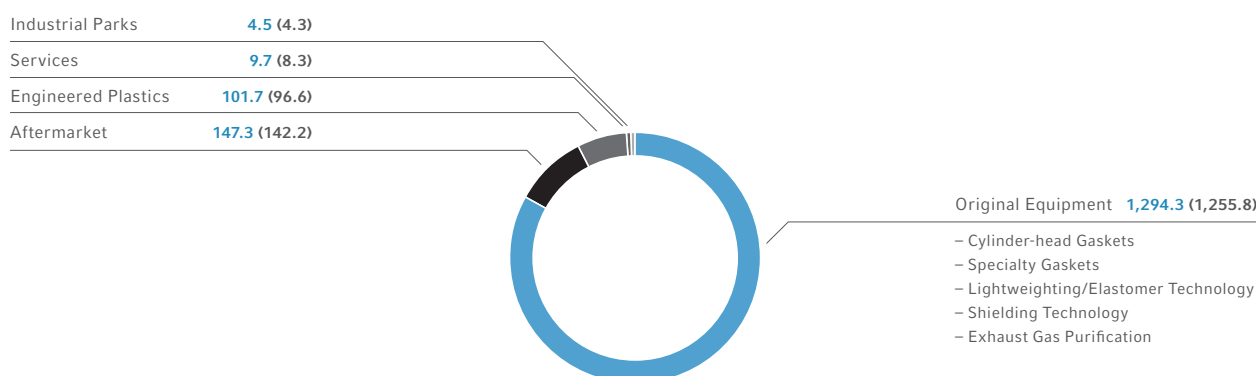
Mixed performance in Original Equipment segment

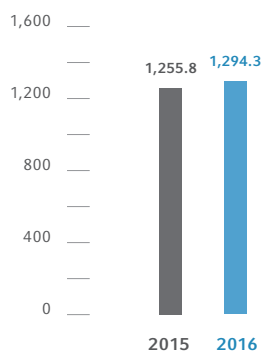
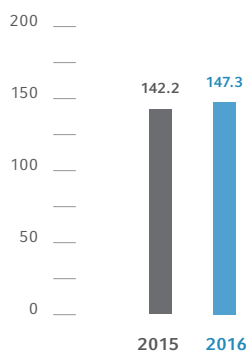
ElringKlinger expanded its Original Equipment sales revenue by 3.1% to EUR 1,294.3 (1,255.8) million in the period under review. In structural terms, the Original Equipment segment benefited from growing demand among customers for lightweight products made of high-performance plastic. This is illustrated clearly by the sales performance of the Lightweighting/Elastomer Technology division, which exceeded the previous year's figure by 7.1%. The Group saw further growth in the Specialty Gaskets division, fueled by the downsizing of current generations of engine, which requires a larger number of specialty gaskets. Only the Cylinder-head Gaskets division was unable to match its performance of the previous year, as a relatively large amount of blanket agreements came to an end. In the majority of cases, new follow-on business within this area was still in its infancy.

Substantial fixed operating costs for Shielding Technology

Within the Shielding Technology division capacity constraints experienced back in 2015 again produced exceptional charges in the first half of 2016 – totaling around EUR 11 (34) million. As a result of the trailing effects associated with measures to expand capacity levels and delays in the process of migrating products to a manufacturing facility in Hungary, the Swiss-based company involved in these measures again had to operate with substantial fixed costs in the second half of 2016. This was due to the fact that action plans aimed at raising efficiency levels, e.g., by scaling back storage space rented from third parties, had not yet been

GROUP SALES BY SEGMENT 2016
(prior year) in EUR million



SALES IN THE ORIGINAL EQUIPMENT SEGMENT
in € millionSALES IN THE AFTERMARKET SEGMENT
in € million

executed to the extent originally planned. The fourth quarter of 2016 produced the first visibly positive effects for ElringKlinger with regard to this issue. In this context, the majority of machines transferred to the site in Hungary were put into operation. What is more, two-shift operations commenced at the site, thus producing the first revenue streams in this area. At the same time, the Group received further approvals from customers for the relocation of manufacturing for specific products. Over the coming three years, these measures will lead to a significant reduction in the substantial fixed operating costs incurred by this division.

E-Mobility gains further momentum

The transition towards all-electric vehicles gathered pace in 2016. Although sales figures fell short of expectations, there was a clear commitment among car makers in 2016 to the idea of emission-free mobility. This included strategic decisions with regard to the future routes to be taken.

ElringKlinger generated revenue of EUR 12.4 (11.0) million in 2016 from the sale of components for energy storage systems. Thanks to the measures implemented for the purpose of cost streamlining, the Group managed to scale back its loss before interest and taxes to EUR 4.1 (-5.1) million.

Project-driven business in Exhaust Gas Purification division

Within the Exhaust Gas Purification division, which produces exhaust treatment systems mainly for industrial applications and ships, revenues and earnings

tend to fluctuate more noticeably than in the case of ElringKlinger's conventional series production business. After a sustained dip in demand with regard to exhaust gas purification systems used in natural gas power plants as well as in respect of projects centered around inland waterway vessels and construction machinery, the division managed to complete the 2016 financial year not only with a gain in revenue but also with growth in earnings. This was fueled by a particularly strong performance in the fourth quarter.

Due to the various dilutive effects on earnings within the Shielding Technology and E-Mobility divisions as well as the year-on-year decline in earnings contributed by the Cylinder-head Gaskets division, earnings before interest and taxes fell to EUR 88.9 (91.2) million in the 2016 financial year.

Sustained success for Aftermarket business in Eastern Europe

The Aftermarket segment, which mainly comprises the company's spare parts portfolio consisting of cylinder-head gaskets and gasket sets, saw sales revenue increase by 3.6% to EUR 147.3 (142.2) million. Among the regions generating the highest sales revenue were Germany as well as Eastern and Western Europe together with the Middle East.

In Western Europe, the Aftermarket segment benefited from its strong market presence across the entire region. As in the past, circumstances in the regions affected by geopolitical turbulence were anything but consistent. On the one hand, limited access to refinancing often

translated into consumer reticence. On the other hand, the segment benefited from an ageing vehicle stock in all regions covered – with growing demand for replacement parts. While Eastern Europe and Africa recorded double-digit growth rates, sales in the Middle East fell short of the prior-year figure. Elsewhere, ElringKlinger succeeded in boosting its revenues in the South American vehicle market amid a languishing economy.

Asia-Pacific is to be seen as a key market for the future. With revenues expanding by a double-digit figure, business in this segment continued to flourish in fiscal 2016. The higher volume of vehicles in the Asian market again proved to be a major growth driver, as this fuels demand for spare parts in the medium term. ElringKlinger is strengthening its regional presence and investing in storage facilities required at a local level. Thus, the company is pursuing its strategy of establishing a distribution network in Asia as rapidly as possible.

ElringKlinger maintained the strong position held within its domestic market and expanded its business at a steady rate on the back of marginal growth in the previous year. In total, around 13% (approx. 13%) of sales revenue generated within the Aftermarket segment was attributable to Germany.

Outpacing revenue growth in 2016, the Aftermarket segment made a positive contribution to Group earnings. Earnings before interest and taxes rose by 8.2% overall to EUR 30.5 (28.2) million.

Significant growth in Engineered Plastics segment

The Engineered Plastics segment specializes in processing the high-performance plastic PTFE* (polytetrafluoroethylene). It also focuses on the associated application technology. Alongside its business dealings with the automotive industry, this segment also has a strong focus on sectors such as mechanical and plant engineering, medical devices, and chemical technology.

In fiscal 2016, the Engineered Plastics segment recorded revenue growth of 5.3%, taking the figure to EUR 101.7 (96.6) million. By cultivating major new PTFE markets, ElringKlinger widened the scope of its sales activities, which had previously been focused heavily on the Central European region. Asia produced

the first success stories, where the sales company in Qingdao, China, made a major contribution to the surge in revenue. The NAFTA region, by contrast, was unable to emulate the previous year's solid performance in 2016. Revenue from domestic sales, however, continued to expand.

Standards of cleanliness with regard to sensitive products are becoming increasingly strict in a wide range of industrial sectors. Having introduced a Class 8 cleanroom, ElringKlinger is now in a position to manufacture components under controlled conditions and in accordance with stringent cleanliness standards. In achieving the certification needed for the manufacture of medical products in 2016, the company has paved the way for an expansion of this segment's portfolio of products used in medical devices. The move to a newly built facility led to a corresponding increase in expenses in 2016. On completion, the new production premises also prompted a rise in depreciation. Despite growth in revenues, material expenses were scaled back year on year, primarily as a result of low commodity prices.

The Engineered Plastics segment recorded earnings before interest and taxes of EUR 14.9 million, up from EUR 13.2 million in the previous year. Correspondingly, the EBIT margin rose to 14.7% (13.7%).

Industrial Parks

ElringKlinger's rental income from the industrial parks in Idstein, Germany, and Kecskemét-Kadafalva, Hungary, amounted to EUR 4.5 (4.3) million. As part of the industrial park in Hungary is currently being used by the Group itself and the industrial park in Idstein underwent a refurbishment, the Industrial Parks segment posted a slight loss of EUR 0.3 (previous year: profit of 0.7) million in 2016.

Revenue growth in Services segment

This segment encompasses services provided by Elring Klinger Motortechnik GmbH, Idstein, Germany, KOCHWERK Catering GmbH, Dettingen/Erms, Germany, and ElringKlinger Logistic Service GmbH, Ergenzingen, Germany. Sales revenue generated in this segment rose year on year to a total of EUR 9.7 (8.3) million. Elring Klinger Motortechnik GmbH achieved double-digit growth rates in revenues and earnings. However, this only partially offset the contraction in

* Cf. glossary

earnings recorded by the other two companies within this segment. What is more, the bottom-line result posted by ElringKlinger Logistic Service GmbH also included charges relating to higher rental expense.

Gross profit margin up slightly

The cost of sales rose at a slower rate than revenue growth in fiscal 2016, up by 2.5% to EUR 1,161.5 (1,133.0) million. This includes a large proportion of the exceptional charges of around EUR 11 million attributable to the Original Equipment segment in the first half of 2016. On this basis, gross profit grew by EUR 21.6 million, or 5.8%, in the financial year 2016 as a whole. This is reflected in a higher gross profit margin of 25.4% (24.8%) compared to the previous year.

The cost of materials was accounted for in full within the cost of sales. Material-related expenses were down 2.0% year on year at EUR 630.1 (643.2) million, primarily as a result of lower tool costs. Correspondingly, the cost-of-materials ratio (materials expense as a proportion of Group sales revenue) fell to 40.5% (42.7%).

The month of June saw a one-time increase in wages and salaries of EUR 150 for each staff member employed under collective agreements, while as from July 2016 collective wages and salaries rose by 2.8%. Additionally, the employee headcount was up by 8.6%. These factors in combination took staff costs to EUR 446.0 million, up from the figure recorded in the previous year (EUR 416.7 million). On a per capita basis, the staff bonus for personnel at ElringKlinger AG, ElringKlinger Kunststofftechnik GmbH, and ElringKlinger Motortechnik GmbH, remained unchanged year on year at EUR 1,600 (1,600). However, due to the higher headcount, the overall bonus payment was slightly higher at EUR 5.7 (5.6) million, which had a corresponding impact on total staff costs. Staff costs were distributed across all operational expense items within the income statement.

Selling expenses amounted to EUR 120.4 (116.0) million. The slight year-on-year increase of 3.8% is attributable largely to the expansion in business and the higher headcount. The Group also recorded an increase

in its general and administrative expenses in 2016, up by 7.1% to EUR 74.2 (69.3) million. As discussed in detail in the compensation report, this item included outstanding salary payments for former member of the Management Board Karl Schmauder, which were recognized in profit and loss as early as the first quarter. Additionally, ElringKlinger made a point of expanding its staffing levels in central administrative and control functions in order to be able to exploit synergies more effectively.

Expansion in research and development activities

Research and development (R&D) provides the basis for the Group's future success. Expenses associated with this area of activity rose to EUR 67.4 (61.4) million in the 2016 financial year. Taking capitalized development costs into account, ElringKlinger spent a total of EUR 74.8 (71.2) million on development projects. This corresponds to an R&D ratio of 4.8% (4.7%). Alongside investments in technology and innovation, the high level of R&D expenses is necessary, in the opinion of the Group's management, in order to be able to play an active role in the automotive industry as it evolves. While capitalized development costs amounted to EUR 7.4 (9.8) million, systematic amortization totaled EUR 8.4 (8.2) million. The resulting negative effect on earnings was equivalent to EUR -1.0 (+1.6) million. Government grants were used for research projects in the field of battery technology and also, for example, in the area of fuel cell technology. In 2016, they totaled EUR 6.8 (7.8) million. In parallel, the company incurred project-related expenses at a comparable level for development work and prototyping.

At EUR 20.0 (20.1) million, other operating income was comparable to the figure recorded a year ago. This item includes the sale of real estate for an amount at the lower end of the single-digit million range. By contrast, the prior-year figure had included a one-off payment received from an insurer, counterbalanced by corresponding expenses accounted for in the cost of sales. Other operating expenses rose by EUR 6.0 million to EUR 18.4 (12.4) million. Alongside an increase in other taxes (not taxes on income), this was attributable to higher expenses in respect of damage events.

EBIT within most recent guidance range

Revenue growth was sufficiently high to cover total costs (cost of sales, selling expenses, general and administrative expenses, and R&D costs as well as other operating expenses less depreciation, amortization, and write-downs) in full in fiscal 2016. They rose by EUR 41.6 million in the period under review, up from EUR 1,304.6 million to EUR 1,346.2 million. On this basis, earnings before interest, taxes, depreciation, and amortization (EBITDA*) rose by 3.8% to EUR 231.2 (222.8) million.

The increase in depreciation and amortization in the reporting period was attributable to the extensive expansion measures put in place during the previous years. Additionally, the higher figure reflects wide-ranging replacement investments implemented for the purpose of raising efficiency levels in production. In total, depreciation and amortization rose by 9.4% to EUR 95.7 (87.5) million in the 2016 financial year. Depreciation/amortization and write-downs of property, plant, and equipment increased by EUR 6.7 million to EUR 76.6 (69.9) million.

Group EBIT before purchase price allocation was on a par with the previous year at EUR 140.4 (140.4) million. The percentage share of earnings before interest and taxes in sales revenue (EBIT margin*) was 9.0% (9.3%). In summary, the decline in ElringKlinger's EBIT margin was attributable to several factors. Alongside capacity constraints affecting one of the business units, higher staff costs and R&D expenses were the key drivers in the financial year under review.

Foreign exchange gains down markedly

Net finance costs* rose by EUR 5.0 million in the 2016 financial year, taking the figure to EUR 11.5 (6.5) million. Viewed individually, foreign exchange gains were substantially lower in the period under review. At the same time, foreign exchange losses were down on the prior-year figure. Against this backdrop, the net result of currency translation fell to EUR 0.5 (3.2) million. As regards the net interest loss of EUR 13.9 (11.6) million, higher net debt* in particular resulted in more sizeable interest expenses.

Consequently, Group earnings before taxes totaled EUR 124.1 (128.8) million.

Higher tax expense impacts on net income

Income tax expenses rose by EUR 8.5 million to EUR 41.5 (33.0) million in the 2016 financial year. In this context, the effective tax rate increased from 25.6% in 2015 to 33.4% in the period under review. This sizeable increase was driven by a number of factors. They included current taxes attributable to other accounting periods, which were the result of a retrospective adjustment to, among other things, carrying amounts of items in the statement of financial position (EUR 3.1 million). Additionally, the Group recorded deferred tax expenses of EUR 1.7 million attributable to other accounting periods, which were due, for example, to changes to the tax rate compared to the previous year. Finally, tax loss carryforwards not recognized as assets were higher in the period under review; by contrast, the previous financial year had included loss carryforwards eligible for recognition as assets.

After the deduction of taxes, the ElringKlinger Group saw its net income for the 2016 financial year fall to EUR 82.6 (95.8) million. The earnings improvements recorded in the Exhaust Gas Purification division and the Engineered Plastics segment in the fourth quarter of 2016 meant that non-controlling interests remained largely unchanged year on year at EUR 4.1 (4.2) million. Without these interests, net income totaled EUR 78.6 (91.6) million. On this basis, earnings per share* for the 2016 financial year stood at EUR 1.24 (1.45). As of December 31, 2016, the number of shares outstanding that were entitled to a dividend remained unchanged at 63,359,990.

Dividend proposal of EUR 0.50 per share

The Management Board and the Supervisory Board of the ElringKlinger Group will propose to the Annual General Meeting on May 16, 2017, a dividend of EUR 0.50 (0.55) per share for the 2016 financial year. This corresponds to a dividend distribution of EUR 31.7 (34.8) million in total. The dividend ratio stands at 40.3%, compared to 38.0% in the previous year. This dividend ratio is at the upper end of the range specified in the Group's dividend policy, as part of which between 30 and 40% of Group net income after non-controlling interests shall be distributed to shareholders, depending on the company's operating performance.

* Cf. glossary

FINANCIAL POSITION

With an equity ratio of 47.2%, the ElringKlinger Group was again very solid as of December 31, 2016, in terms of its financial position. In response to the organic growth in business, the Group expanded its investments in property, plant, and equipment over the course of the 2016 financial year. This led to an increase in non-current assets in particular. They accounted for 62% of the balance sheet total. Net working capital (inventories and trade receivables less trade payables) remained stable at EUR 524.6 million.

Total assets expand to EUR 1,878 million

Total assets rose by 6.4% to reach EUR 1,878.2 (1,765.8) million as of December 31, 2016. In this area, the increase in property, plant, and equipment made the most sizeable impact. Driven by more expansive investments within the Group, this item rose by EUR 90.0 million year on year to EUR 917.3 (827.3) million (cf. "Cash Flows" section).

The carrying amount of intangible assets fell slightly to EUR 212.4 (213.5) million. Based on the outcome of impairment testing carried out at the end of the reporting period with regard to goodwill, no adjustments to carrying amounts were required.

Inventory levels remain stable

Compared to the figure recorded at the end of fiscal 2015, working capital (inventories and trade receivables) rose by 3.1% to EUR 627.9 (609.1) million. On a positive note, with the exception of items relating to tools to be sold on, other inventories and trade receivables changed only marginally in total. Generally, tool-related stock accounted for in inventories continues to be recognized in this item until tools have been sold on to the customer. There is a direct correlation between the volume of such tool-related stock and growth in business dealings or the number of new ramp-ups planned. Excluding tools, as of December 31, 2016, inventories were just 1.2% up on the figure recorded at the end of 2015. When also eliminating the acquisition-induced increase (EUR 2.4 million), the overall volume of inventories was stable.

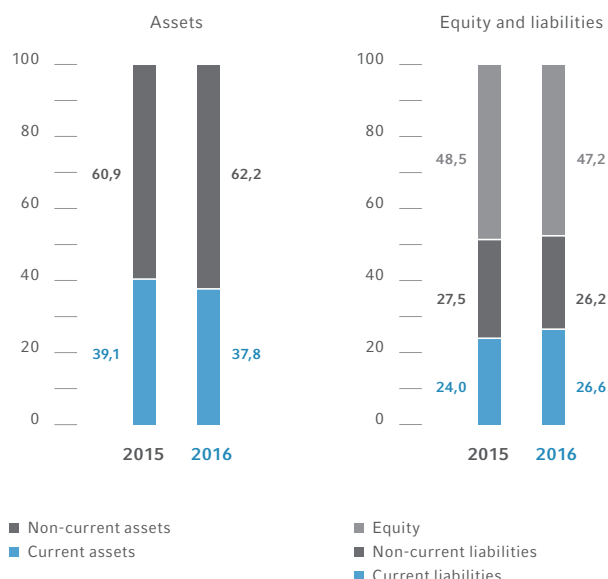
Trade receivables rose by 4.3% to EUR 299.5 (287.2) million as of December 31, 2016. At EUR 524.6 (523.2) million, net working capital (trade receivables and inventories less trade payables) remained largely unchanged year on year. ElringKlinger was unable to meet its original target of reducing this figure by EUR 20 to 30 million. Here, too, the relatively high level of tool-related inventories as of December 31, 2016, as discussed earlier, proved to be an influencing factor.

At the end of the financial year, other current assets totaled EUR 39.2 (30.7) million. The year-on-year increase was attributable primarily to current taxes, particularly sales tax, as well as short-term time deposits. Cash and cash equivalents moved in the opposite direction, totaling EUR 39.4 (48.9) million at the end of the year.

Total assets were up only marginally by EUR 10.7 million as a result of acquisitions. These acquisitions consisted of the purchase, effective from April 2016, of interests in COdiNOx Beheer B.V., a Dutch subsidiary of Swiss-based Group entity Hug, as well as the takeover, effective from June 1, 2016, of the business operations of tool specialist Maier Formenbau GmbH, Bissingen/Teck, Germany, as part of an asset deal.

Likewise, currency translation had no significant impact on the statement of financial position.

BALANCE SHEET STRUCTURE OF THE ELRINGKLINGER GROUP
in %



Equity ratio at 47.2%

As of December 31, 2016, equity accounted for by the ElringKlinger Group rose to EUR 886.4 (855.7) million. At 47.2% (48.5%) it continued to represent a high proportion of the balance sheet total and was within the range of 40 to 50% targeted by the Group.

The allocation of EUR 82.6 (95.8) million from net income for 2016 led to an increase in equity by an equivalent amount. The dividend distribution accounted for by the Group in respect of fiscal 2015, totaling EUR 37.7 (35.9) million, had a contrary effect. In this context, revenue reserves saw an inflow from net income attributable to the shareholders of ElringKlinger AG of EUR 78.6 (91.6) million and an outflow for dividend payments of EUR 34.8 (34.8) million.

Other reserves included actuarial losses in connection with the remeasurement of pension provisions as well as foreign exchange translation differences. In total, they diluted equity by EUR -14.1 million in the financial

year under review (previous year: increase by EUR 24.9 million). The lower equity ratio was attributable in part to this dilutive effect.

Pension provisions up following remeasurement

Provisions for pensions were higher as of December 31, 2016, mainly due to a fall in discount rates and the thus resulting actuarial present value of future Group obligations. They rose by EUR 17.9 million to EUR 136.6 (118.7) million. To a large extent this allocation was accounted for in other comprehensive income and thus directly in equity without affecting profit or loss.

The slight increase in other non-current and current provisions to a figure of EUR 13.6 (12.3) million and EUR 17.3 (16.4) million respectively is attributable largely to personnel-related obligations, e.g., partial retirement.

Net debt rises to EUR 539 million

Company growth was funded to a large extent by cash flow from operating activities in 2016. For most of the additional funds needed, the Group took out short term bank loans. As a result, the Group’s net debt (current and non-current financial liabilities less cash) rose by EUR 52.0 million to EUR 538.8 (486.8) million. Overall, non-current financial liabilities fell slightly to EUR 320.8 (326.1) million, whereas current financial liabilities increased to EUR 257.4 (209.6) million.

Trade payables amounted to EUR 103.2 (85.9) million as of December 31, 2016. The year-on-year increase was attributable to more expansive business and a rise in payables due to more extensive investment activities.

As of December 31, 2016, other current liabilities amounted to EUR 96.5 (93.3) million. As in the previous year, the largest item (EUR 32.9 million) accounted for in other current liabilities is a put option for non-controlling interests in ElringKlinger Marusan Corporation.

Current and non-current liabilities accounted for 52.8% (51.5%) of total Group equity and liabilities.

CASH FLOWS

The ElringKlinger Group's financial situation in terms of liquidity is very solid. The Group expanded net cash from operating activities substantially in the 2016 financial year, up by EUR 52.4 million to EUR 175.7 million. While operating free cash flow also improved significantly, it was still slightly within negative territory as a result of the high outflow of cash for investing activities. In addition, the Group has sufficient reserves in the form of cash and open lines of credit.

Cash flow from operating activities up substantially

In the 2016 financial year, the ElringKlinger Group managed to improve its net cash from operating activities by a substantial margin, up from EUR 123.3 million a year ago to EUR 175.7 million. In this context, earnings before taxes, which form the basis for the generation of cash, were down year on year at EUR 124.1 (128.8) million.

The positive direction taken in terms of liquidity was attributable mainly to the year-on-year improvement regarding funds tied up within net working capital (inventories and trade receivables less trade payables). This was also due to a strong focus by the company's management on efforts to optimize inventories and trade receivables. At the same time, it should be noted that some of the inventories of finished goods were up temporarily at the end of 2015 due to technology change-overs in production. These inventory levels were scaled back to a normal level in 2016.

Within the statement of cash flows*, cash absorbed or released in respect of net working capital is reflected in the items presented as "Change in inventories, trade receivables, and other assets not attributable to investing or financing activities" and "Change in trade payables and other liabilities not attributable to investing or financing activities." Overall, this produced a cash outflow of EUR 3.7 million, which was considerably less than in the previous financial year (EUR 45.9 million).

In the previous year, the change in provisions, amounting to EUR -7.8 million, had had a dilutive effect. At EUR 0.01 million in fiscal 2016, the effect of this item was negligible in the period under review.

In 2016, income taxes paid amounted to EUR 43.6 (39.4) million. At EUR -11.3 (-9.2) million, the net amount of interest paid and received was also up year on year. The item comprising "other non-cash expenses and income" is influenced primarily by currency effects and stood at EUR 1.7 (-2.2) million.

High level of investment

Payments made in connection with investments in property, plant, and equipment as well as investment property amounted to EUR 171.3 (176.1) million in 2016. The Group's investment ratio (payments for property, plant, and equipment, and investment property relative to Group sales revenue) was 11.0% (11.7%).

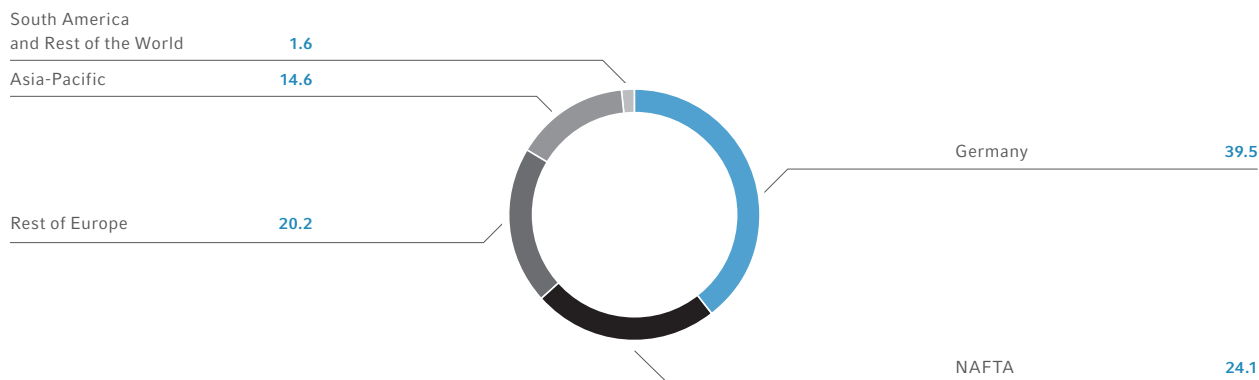
As regards investment spending, therefore, the ElringKlinger Group recorded a figure that was slightly better than the target projected for the 2016 financial year. Management had estimated capital expenditure comparable to the high level seen in the previous year, i.e., above the medium-term range of 7 to 9% of revenue targeted by the company.

The increase in investment spending in line with corporate planning was prompted by organic growth and the associated ramp-ups required for new products as well as expansion measures. Capital expenditure also reflects efforts to align the product portfolio with current trends seen in the automotive industry, such as lightweighting and alternative drive systems. Around 90% of investment spending was thus directed at the Original Equipment segment.

The proportion of expenditure relating to projects at sites in Germany was around 40%, which corresponds to EUR 72.2 (69.0) million. Investment around the globe was as follows:

INVESTMENT * SPENDING BY REGION

in %



* Investments in property, plant, and equipment, investment property, and intangible assets

Among the largest projects within the domestic market is the construction of a new logistics center for the Lightweighting/Elastomer Technology division at the site in Dettingen/Erms, Germany. Building work for this facility commenced in July 2016. ElringKlinger AG also purchased additional production machinery within all the divisions. The focus was on the production of plastic housing modules, for which several injection molding machines and assembly lines were bought by the company, as well as specialty gaskets, where purchases included a new system for the manufacture of heat-resistant V-ring gaskets. Alongside investments at the main site, larger purchases were also directed at the facilities in Gelting (Specialty Gaskets division), Ergenzingen (ElringKlinger Logistic Service GmbH, i.e., Services division), and Langenzenn (Shielding Technology division). At ElringKlinger Kunststofftechnik GmbH in Bietigheim-Bissingen, Germany, further payments were made in 2016 for production equipment needed in connection with the move to a new building.

Initial payments were made in fiscal 2016 with regard to a new plant in Kecskemét, Hungary, construction work on which is to commence in 2017. Other key investments in the region covering the "Rest of Europe" related to building work completed in November 2016 on a new

plant in Turkey as well as capital expenditure aimed at expanding operations at ElringKlinger Meillor SAS in Nantiat, France. The investments and measures implemented for the purpose of rectifying capacity bottlenecks at a subsidiary in Switzerland were also sizeable.

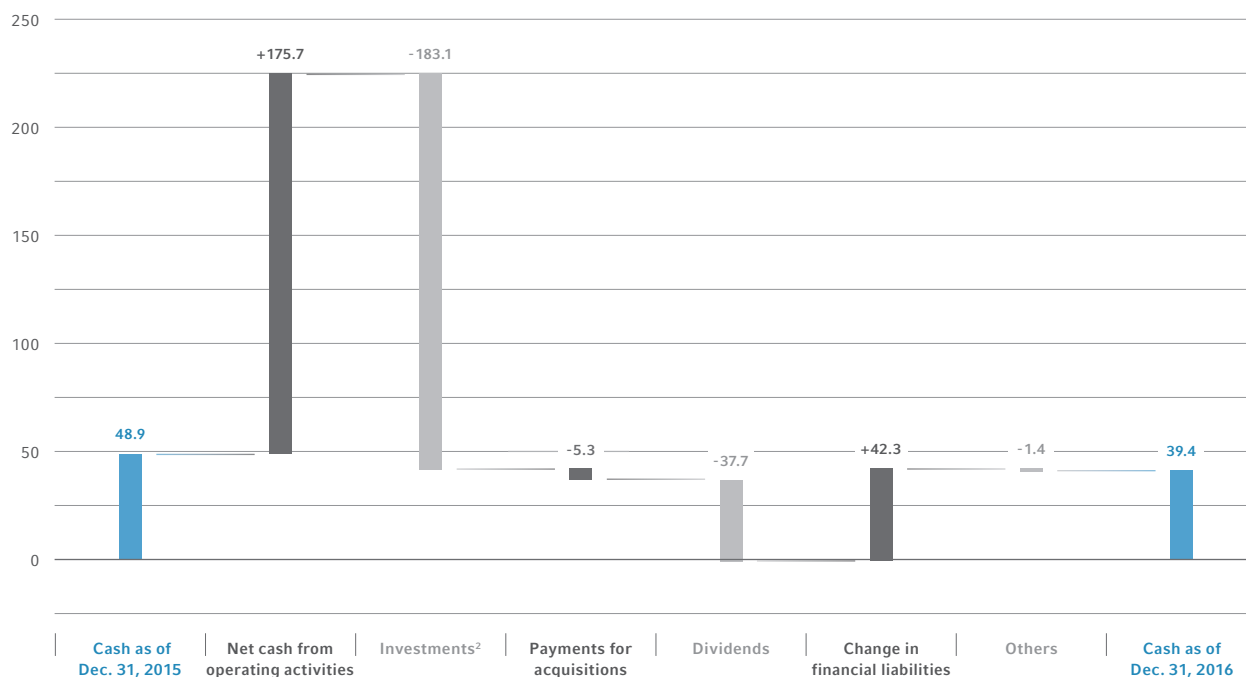
The focus of major purchases in the NAFTA region was on the sites in Buford, USA, and Toluca, Mexico. These Investments included production machinery for newly developed lightweight underbody components made of glass-fiber-reinforced thermoplastics. At ElringKlinger Automotive Manufacturing, Inc., Southfield, USA, further funds were invested in the optimization and start-up of production following the company's move to the new site in Southfield.

The Chinese subsidiary ElringKlinger China, Ltd., Suzhou, China, opened a new, state-of-the-art plant in 2016. Alongside cockpit cross-car beams manufactured on the basis of hybrid technology (lightweight components made of polymer and metal), the site also mass-produces, among other things, thermal shielding parts and lightweight plastic modules. The second Chinese production plant, located in Changchun, also saw a number of large-scale investments in new production machinery.

* Cf. glossary

CHANGES IN CASH 2016¹

in € million

¹ Does not correspond to IAS 7 presentation² Investments in property, plant and equipment, investment property, and intangible assets

Capital expenditure on intangible assets amounted to EUR 11.8 (13.7) million within the ElringKlinger Group. This figure includes capitalized R&D costs of EUR 7.4 (9.8) million.

The acquisition of a further ownership interest in COdiNOx Beheer B.V., Enschede, Netherlands, as well as the takeover of business operations at Maier Formenbau GmbH, Bissingen/Teck, Germany, as part of an asset deal accounted for payments totaling EUR 5.3 million. In the previous year, by contrast, payments of EUR 24.2 million had been made for the acquisition of the entity now known as ElringKlinger Automotive Manufacturing, Inc., Southfield, USA.

The proceeds from the disposal of non-current assets were attributable to a number of measures at various Group companies. In total, they (excluding disposals of financial assets amounting to EUR 0.5 million) stood at EUR 3.1 (0.8) million.

Overall, net cash used in investing activities amounted to EUR 189.7 (212.7) million in 2014.

Operating free cash flow (cash flow from operating activities less cash flow from investing activities, adjusted for payments in respect of acquisitions and investments in financial assets) improved markedly to reach EUR -3.8 (-65.2) million. Thus, the Group met its original forecast, which had been specified as “no longer negative or only slightly within negative territory” and had subsequently been defined more precisely as “slightly within negative territory” on publication of the financial results for the second quarter of 2016.

Cash flow from financing activities

Distributions made to shareholders and non-controlling interests amounted to EUR 37.7 (35.9) million in 2016 and were attributable to the dividend of EUR 0.55 (0.55) per share payable in respect of the preceding financial year. Due to changes relating to the non-controlling interests in equity (i.e., minority interests), the aggregate distributions for 2015 and 2016 differed.

The ElringKlinger Group recorded a net cash inflow of EUR 42.3 (105.4) million from financial loans taken out and financial loans repaid as well as the change in short-term loans and monies invested.

In total, cash flow from financing activities amounted to EUR 4.5 (65.3) million.

At the end of the reporting period cash and cash equivalents stood at EUR 39.4 (48.9) million.

As of December 31, 2016, the Group also had at its disposal approved yet undrawn lines of credit totaling around EUR 122.2 (98.9) million.

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

In summary, the Management Board considers the financial position, financial performance, and cash flows of both the parent company ElringKlinger AG and the Group as satisfactory in respect of the 2016 financial year. The Group managed to achieve a new all-time high in respect of sales. Despite the above-mentioned capacity constraints and the thus result-

ing expenses incurred by a business unit in Switzerland, the Group recorded an EBIT margin (before purchase price allocation) of 9.0%. Yet again, this figure can be considered high – also in comparison with levels recorded in the industry as a whole.

In the opinion of Group management, the Group's assets structure and its equity ratio of 47.2% provide a good basis when it comes to financing further growth. This is complemented by solid earnings power at an operating level and an improvement in operating free cash flow.

The Group has a broad customer structure and is planning a number of new product launches. To an increasing extent, it has also been aligning its product portfolio with the megatrends currently seen in the automotive industry. Taken together, this provides a good basis for sustained business development in the future.

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

FINANCIAL PERFORMANCE, NET ASSETS, AND CASH FLOWS OF ELRINGKLINGER AG

As in previous years, the management report of ElringKlinger AG and the Group management report have been brought together in a combined format. The business performance for ElringKlinger AG, as outlined below, is based on its annual financial statements, which have been prepared in accordance with the provisions set out in the Commercial Code (Handelsgesetzbuch) and the additional requirements of the Stock Corporation Act (Aktiengesetz). Changes attributable to the Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz – BilRUG*) that came into force in July 2015 have been taken into account in the 2016 financial statements for the first time. This has no impact on the prior-year figures.

Sales and Earnings Performance of ElringKlinger AG

Revenue growth continues

ElringKlinger AG managed to lift its sales revenue by 5.0% to EUR 622.2 (592.4) million in the 2016 financial year. In this context, 2.2 percentage points of growth were attributable to the positive direction taken by ElringKlinger AG at an operating level and favorable developments in the associated sales markets. By contrast, 2.8 percentage points of growth were due to the first-time application of the Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz – BilRUG), which extends the definition of sales revenue. Among other aspects, this includes the recategorization of revenues that had previously been accounted for in other operating income. Thus, ElringKlinger AG slightly exceeded the upper threshold for revenue growth (range of between 0 and 2%) projected in its 2015 annual report.

Foreign sales rose by 6.1% to EUR 398.8 (376.0) million in 2016. ElringKlinger AG's performance within the European sales market (excluding Germany) deserves special mention. Here, the company generated growth of 7.1% (+8.5%) in the period under review. While Asia-Pacific and South America managed to maintain the solid levels recorded a year ago, revenues generated in the NAFTA region fell short of the strong sales figures achieved in the previous annual period. The percentage share of foreign sales in relation to total revenue grew to 64.1% (63.5%).

Revenue growth was also fueled by domestic business in 2016. Here, ElringKlinger generated revenue of EUR 223.4 (216.4) million, which represents an increase of 3.2%. Domestic business usually also includes revenues associated with the supply of components for vehicles and engines that are manufactured in Germany but subsequently exported.

Growing sales volumes for Original Equipment

The Original Equipment segment recorded growth of 4.8% in the financial year under review. Revenue increased to EUR 484.8 (462.4) million and accounted for around 77.9% (78.1%) of total sales at ElringKlinger AG. Looking at the individual divisions within the area of Original Equipment segment, the most visible revenue growth in absolute terms came from sales in the areas of Specialty Gaskets and Shielding Technology.

Aftermarket business remains growth driver

The Aftermarket segment put in another strong performance during the period under review. Recording growth of 5.8%, taking revenue to EUR 137.0 (129.5) million, this segment accounted for 22.0% (21.9%) of total sales at ElringKlinger AG. Markets in Eastern Europe and Africa developed particularly well. The growing number of German-made vehicles owned in these regions are serviced with spare parts supplied by ElringKlinger. At the same time, revenues generated in South America were up substantially year on year.

Further improvement in total operating revenue

In response to the overall volume of business, inventories of finished goods and work in progress had to be expanded slightly in 2016, up by 0.9 (1.8) million. Work performed by the enterprise and capitalized rose to EUR 1.3 (0.6) million. Total operating revenue, i.e., revenue +/- inventory changes +/- work performed by the enterprise and capitalized, increased by 5.0% to EUR 624.3 (594.7) million.

Due in part to the first-time application of the Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz – BilRUG), other operating income fell by 59.5% to EUR 18.5 (45.7) million in the reporting period. This figure includes write-ups of EUR 6.5 (2.8) million in respect of financial assets. They were attributable to a tangible improvement in sales and earnings performance at three subsidiaries of ElringKlinger AG.

Cost-of-materials ratio down markedly

The total cost of materials was EUR 272.6 (281.0) million in the 2016 financial year. Expenses relating to purchased services, which had risen in the previous year as part of efforts to counteract capacity constraints within the Shielding Technology division, were scaled back slightly in 2016. Commodity prices were low in general during 2016. At the same time, measures aimed at inventory streamlining produced the first positive results. In combination, these factors contributed to the reduction in the cost-of-materials ratio (cost of materials in relation to total operating revenue). It fell by 3.6 percentage points to 43.7% (47.3%).

Actuarial interest rate up again

Personnel expenses rose by 4.4% to EUR 180.6 (173.0) million in the 2016 financial year. This was attributable to a number of factors. As of December 31, 2016, the company's headcount was up by 4.3% to 2,682 (2,572). This, in turn, also resulted in slightly higher payments in respect of the staff profit-sharing bonus, despite the fact that the per capita bonus was unchanged year on year at EUR 1,600. Furthermore, the one-off payment in June 2016 of EUR 150 for all employees in Germany covered by the collective bargaining agreement and the collective wage increase of 2.8% that came into effect on July 1, 2016, led to higher wages and salaries. This, in turn, prompted a rise in personnel expenses.

Contrary to the effects associated with the increase in expenses outlined above, the market saw a rise in the actuarial interest rate. After an adjustment to the basis of calculation from an average figure of seven years to an average figure of ten years, it is based on the interest rate spectrum of federal bonds. After a significant increase in expenses for retirement benefits in 2015, this expense item was thus scaled back by EUR 5.1 million in total in the period under review. Overall, the corresponding line item referred to in the income statement as "social security and other benefit costs" fell to EUR 28.5 (31.6) million. In conjunction with the accretive effects that the Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz – BilRUG) had on sales revenue, this meant that the figure representing personnel expenses in relation to total operating revenue decreased to 28.9% (29.1%) despite higher personnel expenses.

Other operating expenses amounted to EUR 83.6 (87.0) million. The prior-year figure had included higher expenses relating to warranty incidents, which had been counterbalanced by corresponding income.

Depreciation and amortization higher after investments

Infrastructure and automation projects completed in 2016 prompted an increase in amortization and depreciation of intangible fixed assets and tangible fixed assets to EUR 31.2 (28.2) million.

Improvement in earnings before interest and taxes

In 2016, ElringKlinger managed to exceed the profitability figure (earnings before interest and taxes) that had been projected in its 2015 annual report as likely to remain stable or decline slightly year on year. ElringKlinger AG was able to more than offset higher personnel expenses with growth in revenue and savings achieved with regard to material expenses. In the 2016 financial year, earnings before interest and taxes rose by 4.9% to EUR 74.8 (71.3) million.

Marked increase in income from equity investments

Current income from subsidiaries rose by EUR 3.4 million to EUR 18.9 (15.5) million. Engineered Plastics and Exhaust Gas Purification, in particular, proved to be solid growth drivers in 2016. The net effect on earnings of write-ups and write-downs of financial assets was positive (previous year: negative) at EUR 0.5 (-4.0) million.

* Cf. glossary

In total, income from equity investments improved significantly year on year and stood at EUR 19.4 (11.5) million.

Net interest loss slightly up year on year

Due to the favorable level of interest rates, the negative net interest result rose just slightly to EUR -7.3 (-6.9) million despite higher net debt.

Net income grows by 7%

Income taxes amounted to EUR 21.4 (18.1) million in 2016. Correspondingly, the tax rate (income taxes in relation to earnings before taxes) rose to 26.6% (24.8%).

Due to the higher level of income from equity investments, the rise in post-tax profit, up by 7.7% to EUR 59.0 (54.8) million, was more pronounced than in the case of earnings before interest and taxes. Having deducted other taxes, ElringKlinger AG posted net income of EUR 58.8 (54.8) million for the 2016 financial year.

Proposed dividend of EUR 0.50

After allocating EUR 27.1 (19.9) million to other revenue reserves, the net retained earnings (i.e., distributable profit) of ElringKlinger AG, from which dividend payments are distributed, were lower at EUR 31.7 (34.8) million.

In view of this, the Management Board and Supervisory Board will propose to the Annual General Meeting resolving on the 2016 financial year a dividend of EUR 0.50 (0.55) per share. Calculated on the basis of net income of ElringKlinger AG, the dividend ratio is 53.9% (63.5%).

Net Assets of ElringKlinger AG

When assessing ElringKlinger AG's net assets it should be noted that these are influenced by the company's operating activities as well as by its role as a holding company within the Group. The latter is reflected in particular in its financial assets, which primarily consist of interests in and loans to affiliated companies. Overall, with an equity ratio of around 50% and positive net cash from operating activities, ElringKlinger

AG remained solid in terms of its financial position and cash flows as of December 31, 2016.

Total assets increased by EUR 63.2 million to EUR 1,116.8 (1,053.6) million as of December 31, 2016. This was attributable mainly to an expansion in tangible fixed assets as well as interests in affiliated companies and receivables from affiliated companies. Adding EUR 2.4 million to assets, the business operations taken over as part of an asset deal relating to the tool specialist Maier Formenbau GmbH, Bissingen/Teck, Germany, had no sizeable effect on net assets.

The significant increase in tangible fixed assets by EUR 26.7 million is a reflection of more pronounced investment activity at ElringKlinger AG in response to its growth in business. This also includes the largest project initiated in 2016: a new logistics center to be created for the Lightweighting/Elastomer Technology division at the company's site in Dettingen/Erms. Among the additions to assets were also new production lines within various divisions and at a number of different sites of ElringKlinger AG. Investments in this area were centered on production ramp-ups or the creation of additional capacity as well as on further automation.

Interests in affiliated companies rose by EUR 13.8 million to EUR 415.8 (402.0) million as of December 31, 2016. This was attributable to capital increases at two subsidiaries: ElringKlinger USA, Inc., Buford, USA, and ElringKlinger Automotive Components (India) Pvt. Ltd., Ranjangaon, India. Additionally, write-ups and write-downs relating to interests in affiliated companies were accounted for in this item as part of annual impairment testing.

Loans to affiliated companies fell to EUR 31.7 (36.9) million as of December 31, 2016. By contrast, however, the company recorded an increase in short-term loans to Group subsidiaries, which are accounted for – under current assets – in the item referred to as receivables from affiliated companies. The latter rose to EUR 118.5 (90.3) million as of December 31, 2016.

At the end of the 2016 financial year inventories amounted to EUR 125.8 (125.6) million, a figure comparable to

that posted a year ago. With the exception of prepayments – amounting to EUR 6.5 (2.2) million – for machinery and equipment, the majority of which is to be sold on to Group subsidiaries, other inventories at ElringKlinger AG were scaled back slightly year on year.

Fixed assets and current assets accounted for 70.0% (71.0%) and 29.8% (28.9%) of total assets respectively at the end of the reporting period. Additionally, there was a small amount of prepaid expenses.

Equity ratio of ElringKlinger AG at 50%

Shareholders' equity at ElringKlinger AG was up at EUR 556.1 (532.1) million as of December 31, 2016. This encompassed an outflow of EUR 34.8 million attributable to the dividend payment in respect of the 2015 financial year as well as the posting of EUR 58.8 million in net income for 2016. At 49.8% (50.5%), the equity ratio remained at a high level.

Provisions rose to EUR 109.9 (104.2) million as of December 31, 2016. The year-on-year increase was mainly due to higher provisions for taxes. The largest item with regard to provisions relates to provisions for taxes and similar obligations, with a carrying amount of EUR 65.9 (65.8) million as of December 31, 2016.

Liabilities to banks were expanded, primarily for the purpose of financial transactions with affiliated companies. As of December 31, 2016, they totaled EUR 383.6 (342.1) million. Overall, liabilities attributable to ElringKlinger AG stood at EUR 447.2 (410.2) million. They accounted for 40.0% (38.9%) of the balance sheet total.

Cash Flows of ElringKlinger AG

Further improvement in cash flow

ElringKlinger AG saw its cash flow from operating activities improve by EUR 20.6 million to EUR 105.4 (84.8) million in the 2016 financial year. The year-on-year increase was driven in particular by pre-tax profit, which was up by EUR 7.4 million, as well as the reduction in funds tied up in inventories. Cash flow from operating activities was also boosted by the decline in trade receivables from affiliated companies. The statement of cash flows was again prepared according to the provisions set out in GAS 2.

Net cash used in investing activities amounted to EUR 65.4 (82.1) million in 2016. In this area, the majority of net cash used was for investments in tangible fixed assets amounting to EUR 54.5 (43.8) million. The above-mentioned capital increases at two subsidiaries were reflected in a cash outflow for investments in financial assets totaling EUR 13.7 (51.7) million. Among other things, the prior-year figure had included a cash outflow relating to the acquisition of the company now trading as ElringKlinger Automotive Manufacturing, Inc., Southfield, USA.

Net cash used in financing activities totaled EUR 40.1 (2.8) million as of December 31, 2016, and was dominated by the provision of short-term loans to affiliated companies. The borrowing/repayment of loans and time deposits relating to affiliated companies produced a net outflow of EUR 46.2 (22.4) million.

The full separate financial statements of ElringKlinger AG (in accordance with the German Commercial Code HGB*) have been published online at www.elringklinger.de/investor/2016-gbag-en.pdf.

* Cf. glossary

SUSTAINABILITY

ElringKlinger takes its responsibilities seriously with regard to sustainability, which forms an integral part of its corporate philosophy. This is why the Group decided in 2016 to remove much of the reporting content dealing with corporate social responsibility from its annual report and instead elaborate on the topic within the sustainability report it produces each year. The sustainability report for the 2016 financial year will be published on the Group’s website (www.elringklinger.de/en/sustainability) in 2017.

Workforce expanded further

As of December 31, 2016, ElringKlinger employed 8,591 (7,912) people worldwide. This represents an increase of 8.6% or 679 employees. As a result of the takeover of the business operations of toolmaking specialist Maier Formenbau GmbH in Bissingen/Teck, Germany, as part of an asset deal, 41 new employees joined the Group in June 2016. Overall, the proportion of the workforce based in Germany grew by 3.2%. This equated to 111 employees, giving a total headcount of 3,556 (3,445).

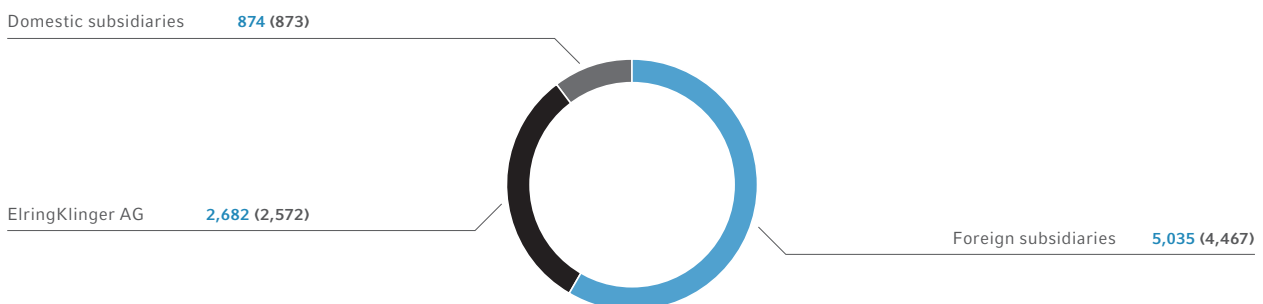
The Group expanded its headcount much more strongly outside of Germany. The largest increase in employee numbers in absolute terms was seen in the Rest of Europe and North America regions. In 2016, new positions were created predominantly at the production sites in Mexico, the United States, Switzerland, and Turkey. The expansion activities were due both to increased output volumes for existing products and new product ramp-ups. As a result of the takeover of the Dutch

distribution and service business COdiNOx Beheer B.V. by Hug Engineering AG, ElringKlinger’s subsidiary based in Elsau, Switzerland, 19 new employees joined the Group. At year end, a total of 28 employees were working at ElringKlinger Hungary Kft. in Kecskemét, Hungary, a company established in 2015. By December 31, 2016, the proportion of the workforce based outside Germany had grown to 58.6% (56.5%). This meant that the proportion of the workforce based outside the country had increased by 12.7% or 568 employees, giving a total headcount of 5,035 (4,467).

Workplace health and safety

ElringKlinger places great emphasis on a safe, healthy, and productive working environment. Regular preventive training courses help to foster an enhanced awareness of occupational safety issues within the Group. ElringKlinger conducts thorough investigations of every accident at work and adopts comprehensive improvement measures across the whole business. The Group is of the firm opinion that all workplace accidents and

ELRINGKLINGER GROUP EMPLOYEES WORLDWIDE
as of Dec. 31, 2016 (prior year)



occupational illnesses are avoidable and aspires to the clear objective of “zero accidents.” In 2016, the Group came a step closer to achieving that goal by reducing the number of job-related accidents that result in more than three days off work by 16.8% to 223 (268) accidents.

The focus of the company’s health and safety management program in 2016 was on implementing preventive measures aimed at creating as healthy a workplace

as possible. ElringKlinger ran training courses and seminars in which, for example, managers were given advice and ideas on “Managing Healthily.” They were made aware of ways to optimize employee workloads and to nurture their coworkers’ individual strengths. Good working conditions have a positive impact on both the health and motivation of team members. The average number of sickness days taken per Group employee thus remained constant at 10 (10).

THE ELRINGKLINGER GROUP – KEY HR INDICATORS

	2016	2015
Absolute number of employees	8,591	7,912
Of which men	72.1%	71.6%
Of which women	27.9%	28.4%
Absolute number of employees	8,591	7,912
Of which domestic	41.4%	43.5%
Of which abroad	58.6%	56.5%
Average number of employees	8,322	7,653
Work-related accidents leading to more than 3 days off work	223	268
Average number of sick days per employee	10	10

PROCUREMENT AND SUPPLIER MANAGEMENT

In order to manufacture its products, ElringKlinger purchases raw materials, goods, and services on a large scale every year. A Group-wide procurement management structure ensures that all relevant inputs are available at the right time and price and in the appropriate quantities. The company’s partnership-based cooperation with its suppliers is just as important as quality and Group-wide security of supply.

Organized on the basis of a centralized structure, Global Purchasing is located at ElringKlinger’s headquarters in Dettingen/Erms, Germany. It is responsible for assuring supplies to the various sites and businesses. Specialists with product and market experience deploy strategic requirement management techniques to support optimal procurement processes. In doing this, they make use of the close-knit international network that the Group has developed for itself.

Three Regional Purchasing Managers have exclusive responsibility for the Americas, Europe/Africa, and Asia territories. They collaborate closely with the strategic buyers and quality managers at a global level, in addition to assisting subsidiaries with the procurement of merchandise and raw materials, consumables, and supplies. The proactive management of global purchase volumes enables the Group to benefit from economies of scale.

Thanks to the high degree of integration that characterizes the purchasing organization, raw materials and services can be obtained at competitive prices. Alongside staff costs, materials represent the largest cost item for ElringKlinger. In 2016, materials accounted for 54.2% (56.8%) of the Group’s cost of sales, while the cost-of-materials ratio amounted to 40.5% (42.7%).

The most important raw materials used within the ElringKlinger Group in 2016 included alloyed high-grade steels (especially chromium-nickel alloys), carbon steel, aluminum, polyamide-based* plastic granulate, elastomers, and – in the Engineered Plastics segment – polytetrafluoroethylene (PTFE*). Also gaining importance is the purchase of components used for the manufacture of complete systems, e.g., in the Lightweighting/Elastomer Technology and Shielding Technology divisions.

Group-wide standardization and integration activities

In 2016, Materials Management was involved in a number of different projects aimed at integrating procurement operations more closely with global inventory management. For this purpose, a SAP-based purchasing project control system was implemented at almost all ElringKlinger plants.

The central team responsible for developing suppliers introduced a “knowledge store” in 2016, to which local quality managers could turn for supplier-related

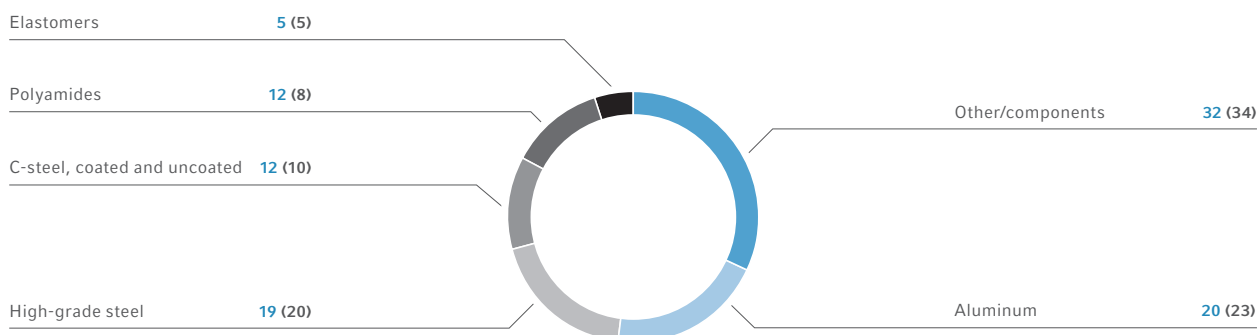
questions on ElringKlinger’s requirements globally. To support this approach, ElringKlinger appointed two Supplier Managers in Asia and the Americas with responsibility for the application of and compliance with ElringKlinger’s procurement standards at the local subsidiaries. The two managers also assist with the development of new suppliers.

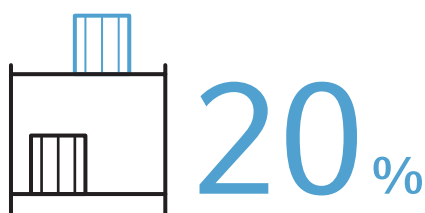
As a matter of principle, new suppliers are selected by the global purchasing team, validated in cooperation with the company’s worldwide supply-chain management, and audited on the basis of international ISO standards. At the same time, all suppliers are obliged to comply with company-specific quality and environmental guidelines as well as the ElringKlinger Code of Ethics. The central purchasing and supplier management team conducts regular quality and cost analyses at existing suppliers.

ElringKlinger endeavors to avoid becoming overdependent on individual suppliers as far as possible, notwithstanding its policy of bundling multiple requirements. In 2016, the company’s top 30 suppliers accounted for 19% (20%) of total volumes purchased.

The company-wide standardization process was also rolled out to goods inwards inspections and complaints management. Clear process descriptions ensure that the raw materials, consumables, and supplies used across the Group for production purposes are delivered free of defects in every case.

BREAKDOWN OF RAW MATERIALS USED IN 2016
(prior year) in %





INVENTORY LEVELS REDUCED

In 2016, ElringKlinger made substantial progress in optimizing inventory levels for its Aftermarket division, despite the increase in sales revenue.

Scheduling strategy shows its first results

The Group has set itself the goal of keeping inventory levels as low as possible in all material categories and at all company sites. To facilitate this, ElringKlinger is increasingly using just-in-time deliveries and Kanban systems. As early as 2016, the new scheduling and planning strategy allowed some initial locations to benefit from improved inventory levels. The strategy relies on optimized parameters such as a standardized intelligent system for classifying procurement and production materials and the cost-efficient specification of batch sizes.

Growth in production volumes leads to increased demand for raw materials, consumables, and supplies

At year end, purchase volumes amounted to EUR 1,030.3 (1,029.3) million. This includes raw materials, consumables, and supplies, as well as merchandise for the independent Aftermarket segment and investments in land, real estate, and property, plant, and equipment. The increase is primarily due to the expansion of production capacity as a result of increased revenues.

Blanket agreements secure price frameworks and material supplies

ElringKlinger bundles its requirements internationally so that it can negotiate framework (i.e., blanket) agreements with suppliers for its main material groups. This enables the Group to protect itself to the maximum degree from volatile raw material prices, to guarantee security of supply, and to limit foreign exchange risks. In most cases, such agreements have terms of at least

one year. Exceptions to this are the frequently shorter contract durations that apply to C-steel and plastic granulate.

Purchase prices increase in 2016

In 2016, there was evidence of an upward trend in the price of many raw materials. For instance, the market saw an increase in the global price of precision stainless steel, which is used for the manufacture of cylinder-head and specialty gaskets. This increase was primarily due to the antidumping measures imposed by the EU on steel imports from China and Russia and the associated constraints on supply. In fiscal 2016 this led to temporarily longer procurement schedules. Group Purchasing covered any peaks in demand by using additional suppliers that were able to provide the raw material in the short term at generally higher prices. In addition, the year also saw an increase in the related alloy surcharge for high-grade steels. This is exclusively traded on the stock exchange and cannot be fixed in framework agreements. For aluminum, which is used for products in the Shielding Technology segment, prices rose by close to 12% between January and December 2016. This was, however, counterbalanced by a substantial reduction over the same period in the premium payable for processing of the raw material. In respect of polyamide, an engineering plastic that ElringKlinger requires to an increasing degree for the production of lightweight components, higher oil prices did not have an excessive impact, as oil is only one of the many components used in the manufacture of polyamide.

Raw material prices affect scrap sales positively

Using a centralized waste metal management system, ElringKlinger recovers and sells off metal residues that are the by-product of its various manufacturing processes. In 2016, the Group's proceeds from scrap sales amounted to EUR 27.7 (28.8) million.

Energy requirement contracted up to 2019

ElringKlinger fulfills most of its electricity and gas needs by means of long-term supply agreements. In 2016, the Group was able to agree longer-term contracts with its existing suppliers that will last up to and including 2019 for both electricity and gas. The Group can draw on the energy it needs in flexible tranches depending on the energy prices currently prevailing in the market.

* Cf. glossary

The Group fulfills some of its electricity needs by operating its own combined heat and power (CHP) units. At its Dettingen/Erms and Bietigheim-Bissingen sites, for example, the excess heat produced is used for the

purpose of process cooling and for air-conditioning systems. In 2016, the CHP units at Dettingen/Erms and Bietigheim-Bissingen produced 9,323.9 (8,838.8) MWh of electricity.

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 as they arise. The efficiency and suitability of the risk management system itself is continually adapted and optimized in accordance with new requirements as they arise (cf. page 91 in this chapter).

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

Officer is responsible for coordinating these activities. This approach is designed to ensure that risks are identified at an even earlier stage and measures aimed at avoiding or mitigating such risks can be implemented even faster.

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

Alongside regular reporting, internal audits are an important control mechanism and thus an essential element of the risk management system. Audits are carried out in the business and service divisions of ElringKlinger AG as well as at the Group companies. These audits are conducted by accountancy firms commissioned by ElringKlinger AG. The rationale behind the appointment of 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. Execution of these measures is controlled by the Management Board member whose remit covers this area. All relevant findings are discussed with the areas concerned in order to bring

about improvements or rectify any weaknesses. During the 2016 financial year audits were conducted at eight subsidiaries as well as four business and service divisions of ElringKlinger AG. None of the audits conducted within this context gave rise to any significant objectives. 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. Additionally, more staff members were assigned to the Internal Audit department in order to ensure the continuous development of this function as an integral element within the risk management and governance system.

In accordance with the existing compliance system, the Chief Compliance Officer reports directly to the Chief Executive Officer. Additional Compliance Officers have been appointed for individual regions in which ElringKlinger is active; they report to the Chief Compliance Officer. The code of conduct forms an important part of the compliance system. It sets out binding rules for all employees of the ElringKlinger Group. Among other aspects, the code covers issues such as fair competition, corruption, discrimination, and the protection of confidential data. The code is distributed to all employees in the language of the country in which they are based. Staff members, and particularly management personnel, receive training relating to these issues. As part of training events conducted over the course of 2016 employees from Sales and Purchasing were instructed extensively on the legal requirements relating to the granting and acceptance of gifts/gratuities as well as on competition and anti-trust laws. These training seminars will be continued in 2017, particularly for personnel at foreign investees. Additionally, in 2016 the management of ElringKlinger AG received training with regard to statutory provisions governing insider dealing in particular. This is to be seen in the context of the enactment of the Market Abuse Regulation. The Chief Compliance Officer responded to all indications of compliance-related infringements in order to investigate the circumstances and initiate requisite measures. Where evidence suggested that an infringement may have occurred, the Management Board was informed accordingly. However, no significant infringements were reportable for 2016. Beyond this, the Management Board is committed

to adapting the existing compliance system to changing circumstances and the possibility of evolving risk exposure. For instance, a status analysis was conducted by an auditing firm with regard to the compliance system, which also included an evaluation. Recommendations for action resulting from this assessment have been or are being implemented.

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

Control and risk management system with regard to accounting

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

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

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

All Group companies are obliged to comply with a pre-defined schedule for preparation of the Group financial statements. The same applies to the annual financial statements of ElringKlinger AG. Each Group company is responsible for drawing up its separate financial statements in accordance with local accounting rules and the reporting packages pursuant to IFRS, with the exception of the German Group companies, whose financial statements are prepared by the Accounts department at ElringKlinger AG. A reconciliation of balances is conducted in respect of internal Group clearing accounts. Financial reporting by the Group companies is conducted via a separate database containing not only financial data but also information that is of importance to the notes to the consolidated financial statements and the combined management report of the ElringKlinger Group and ElringKlinger AG. The data and information are checked prior to release and consolidation in the respective centralized departments.

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

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

As is the case with the other areas and functions of the company, accounting is also subject to the investigations conducted as part of internal auditing; these are performed by 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 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. Reporting in respect of opportunities and risks is always based on a period of one year.

OPPORTUNITY AND RISK PROFILE OF THE ELRINGKLINGER GROUP

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

Economic risks

Economic and industry risks

The performance of global vehicle markets tends to be closely correlated with the prevailing economic situation. This applies to the truck segment even more so than to business within the area of passenger cars. Against this background, weaker economic performance always carries the risk that demand for vehicles – and therefore in the short to medium term also vehicle production – will decline. This, in turn, would result in lower demand for ElringKlinger components.

Based on the latest assessment, risks relating to economic performance lie particularly in the protracted weakness in growth experienced by Brazil and Japan. Russia, whose vehicle market is of little significance to ElringKlinger's business, may see a return to economic stability in 2017. Even when considering factors such as the consolidation of growth in China, the prospect of Brexit, and the lengthy recession in some parts of Latin America, a marked downturn in the world economy would on the whole appear unlikely. The International Monetary Fund has forecast global economic growth of 3.4% for 2017.

Based on general projections, the automobile industry as a whole can look forward to a positive performance in 2017. While markets in North America and Europe are expected to remain stable at a high level, China in particular, but also the other emerging markets, should provide impetus for growth. Fundamentally, growth will shift away from the established markets to the emerging and developing countries. Given its global presence with production and sales locations in the growth regions of the future, the Group is well placed to handle potential stagnation or waning demand in the traditional vehicle markets.

From today's perspective, a severe slump in vehicle production – comparable to the one seen in the crisis years of 2008/2009 – would not appear to be very likely. As regards global vehicle sales in 2017, ElringKlinger is working on the assumption of projected growth in the region of approx. 2% (cf. "Report on Expected Developments," page 114 et seqq.).

ElringKlinger has established a global presence. Benefiting from a broad customer base, it is not dependent

on specific markets or individual manufacturers. Thanks to its global positioning with a diversified customer base, the effects of an economic slump in a particular region can be offset at least in part. Due to its flexible cost structures, ElringKlinger would be able to respond immediately to market conditions in the event of more severe economic turbulence. Instruments available to the company include flexitime accounts and flexible shift models as well as the option of issuing an application for short-time work. Furthermore, the company can react to changing market conditions by adjusting its staffing levels to demand patterns and by pooling the production quantities of individual plants. The central purchasing department would work in close cooperation with suppliers for the purpose of assessing and adjusting procurement volumes in a timely manner.

ElringKlinger factors in economic risks to an appropriate extent at the forward planning stage. When drawing up budgets, ElringKlinger takes a cautious view of the underlying macroeconomic scenario.

Political risks

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

The political situation in wide parts of the Middle East and North Africa as well as in some regions on the border to Russia remains extremely uncertain. Sales regions in these crisis hotspots are among those associated with risk in respect of ElringKlinger's business dealings. As regards the Original Equipment segment, these regions are of no particular direct relevance to business activities. By contrast, the Aftermarket segment is exposed to the risk of a loss in revenue; revenue from sales in the aforementioned regions in 2016 was a figure in the middle of the double-digit million euro range. As sales in these regions are usually billed in US dollars or euros, customers' restricted access to foreign currency could result in delayed payments or, in the worst-case scenario, to default on such payments.

Following Britain's referendum vote in June 2016 to leave the European Union (Brexit) and the decision by

the House of Commons in February 2017 to trigger the Article 50 clause for formal Brexit negotiations with the EU, the political risks with regard to unity within Europe have become more pronounced. Given the importance of the UK vehicle market, the second-largest European sales market in 2016, the referendum in favor of Brexit will also have an impact on large parts of the automotive industry. However, ElringKlinger does not anticipate any significant repercussions for its own business. Based in Redcar, United Kingdom, the subsidiary Elring Klinger (Great Britain) Ltd. produces almost entirely for the local market. Its revenue share, calculated in relation to Group revenue for the 2016 financial year, was around 2%. Additionally, Elring Parts Ltd., based in Gateshead, United Kingdom, operates as a sales location for the company's aftermarket business in Britain.

The change in government in the United States, coinciding with policy announcements touching on a number of issues, has caused widespread uncertainty. Given the importance of the United States, the political stance taken by the new administration has global ramifications. The new policy adopted by the US government with a view to strengthening its own industry and its domestic market could have a direct impact on Germany's export-driven economy and in particular on vehicle manufacturers and automotive suppliers. In the first few weeks following his inauguration the newly elected president announced the possibility of an import tariff on cars produced outside of the United States. This policy is aimed at protecting the domestic market against Mexican imports. Addressing the country's leading representatives of the business community, he has frequently suggested that new production sites should be established in the United States rather than locating such plants in Mexico. Alongside three production sites in the United States, the ElringKlinger Group also operates a plant in Mexico. The subsidiary ElringKlinger México, S.A. de C.V. is based in Toluca and produces components mainly destined for the local market. At around 2.4%, the share of Group revenue from the sale of products imported from Mexico to the United States in 2016 is relatively small. Another positive aspect is that the terms of delivery specified in the majority of sales agreements are "ex works."

Thanks to its global presence, the Group is in the favorable position of being able to serve local markets and react with a certain degree of flexibility to changes in legislation and other political decisions. In its overall assessment, therefore, ElringKlinger is of the opinion that risk emanating from the political environment remains moderate as regards the possible financial impact on the Group.

General internal risks

General internal risks, work-related accidents, fire

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

By applying 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 an accident does occur, however, the reasons and circumstances are investigated in depth and existing safety standards are adjusted accordingly in order to maintain a consistently high level of protection.

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

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 accordingly.

Based on the information presented above, on the whole ElringKlinger considers the probability of occurrence of general internal risks emanating from work-related accidents or fire to be low.

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. Therefore, intense pressure on prices is to be seen as one of the largest individual risks to which the company is exposed. In the wake of Dieselgate this aspect has become even more pronounced.

In view of its exceptional abilities as an innovator and its strong position within the market, ElringKlinger is relatively well placed as a supplier. However, requests for price reductions have become customary within this industry, and ElringKlinger is not completely immune to such demands. In order to relieve price-related pressures to the largest extent possible, ElringKlinger develops products with technological USPs and focuses on niche markets. The remaining downward pressure on prices has to be offset by efficiency gains in production.

The competitive forces within the automotive supply industry are extremely pronounced. The barriers to market entry for new competitors are relatively high, as the business model applied by the ElringKlinger Group is based on a number of special core competencies relating to materials processing, tool production, and process management (cf. "Overview of ElringKlinger's Activities and Structure," page 52 et seqq.). What is more, 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, however, that initial orders placed with new suppliers tend to be relatively small in scale; these volumes are not sufficiently high to cover costs.

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

Additionally, through its international manufacturing network the Group is able at any time to supply from plants with lower proportions of labor cost such as Brazil, India, Mexico, or Turkey to the extent that this is required in view of product composition or is requested by the customer. At the end of 2016, for instance, ElringKlinger inaugurated a new plant located in the Turkish city of Bursa. The company has been represented in Turkey since 2009. The new facility was required because of the steady expansion in production output. At the same time, it is to be seen as a response by ElringKlinger to the growing importance of Turkey as a production site for the automotive industry.

Material risks/Supplier risks

At 54.2%, material-related expense accounts for the largest proportion of cost of sales within the ElringKlinger Group. Therefore, the direction taken by material prices is of particular significance to the company.

The raw materials primarily used within the ElringKlinger Group include alloyed high-grade steels, C-steel, aluminum, and polymer granules (cf. "Procurement and supplier management," page 85 et seqq.). Prices relating to alloy surcharges (nickel, chromium, molybdenum) are subject to extreme volatility. They are added to the price of high-grade steel and cannot be fixed by contractual agreements.

In its negotiations with its raw material suppliers ElringKlinger generally concludes agreements that are as long term as possible. Any additional quantities required are procured at prevailing market prices.

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

Looking ahead to 2017, ElringKlinger anticipates that prices payable for commodities will increase. The steel market is expected to see prices rise as a result of reductions in supply due to duties imposed on steel imports from China and Russia. The increase is also evident in the rising prices relating to alloy surcharges for high-grade steels. Over the course of the year, prices for aluminum and plastic granules, by contrast, are likely to be at a level that is comparable to that seen in the preceding year. On the whole, however, the risk of substantial price increases can be considered manageable, particularly in view of the fact that many raw material suppliers have seen an expansion in procurement volumes.

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

ElringKlinger collects metal-based waste produced throughout the Group as part of its stamping processes and sells this waste via its own scrap metal trading unit. Potential cost increases can be offset, at least in part, by the proceeds from scrap sold in this way.

As part of a regular process of risk assessment, ElringKlinger monitors not only trends relating to material prices but also the actual availability of materials. In order to limit associated 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 pursues a multi-supplier strategy. It qualifies and approves at least two suppliers with regard to significant materials and bought-in parts. Medium-sized and smaller suppliers are thoroughly assessed and monitored with regard

to their financial strength, liquidity, and insurance cover; they also have to undergo extensive audits at regular intervals. In fiscal 2016, the 30 principal suppliers used by the Group accounted for over 19% (around 20%) of its purchasing volume. 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.

In summary, the probability of occurrence in respect of material and supplier risks can be considered as being low. By contrast, the associated financial impact would be significant.

Customer risks

A sudden decline in demand faced by individual customers of particular importance to the company may pose the risk, in turn, of a substantial reduction in the scheduled quantities of ElringKlinger components to be installed in their vehicles and/or engines.

In view of the Dieselgate, the aspect of customer risk has fundamentally become more significant. Due to ElringKlinger's extensive product portfolio, which is not generally restricted to a specific type of drive system, and its diversified customer base, this is not expected to have a material impact on the Group.

In order to limit the company's dependence on individual customers, but also with a view to alleviating potential pricing pressure, the ElringKlinger Group has continuously extended its customer base in recent years. In the 2016 financial year, the company's top three customers accounted for around 27% (around 27%) of Group revenue. The largest individual customer contributed 11.0% (11.7%) to sales revenue.

Labor cost risks

Alongside cost of materials, labor costs constitute the largest expense item for the ElringKlinger Group. In the 2016 financial year, they accounted for 26.1% (25.2%) of the cost of sales.

At 41.4% (43.5%), a significant proportion of the Group's overall workforce is employed at sites in Germany. Persistent wage increases at a domestic level 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.

Collective wage negotiations between employers and the trade union have resulted in relatively substantial wage agreements in recent years. These costs represent an increasing burden on Germany as an industrial location. The collective wage increases agreed in Germany over the last three years were 2.2% from May 2014, 3.4% from April 2015, and 2.8% from July 2016. Effective from April 1, 2017, wages will increase by a further 2.0%.

By contrast, the level of labor costs in emerging countries such as China, South Korea, India or Turkey, where almost 16% (almost 15%) of ElringKlinger's workforce is employed, continues to be below the Group average. On a positive note, sales revenue and staffing levels in the aforementioned regions are expanding at a more pronounced rate than in Germany. In these markets too, however, the dynamics of wage development remain a latent risk to the company's financial performance.

If customer demand were to decline sharply and unexpectedly, the staff cost ratio may increase dramatically. 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 in an emergency. Within the ElringKlinger Group, the proportion of employees with temporary contracts as of December 31, 2016, was 18.2% (19.9%).

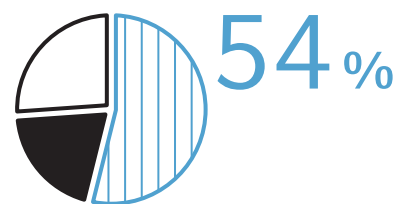
Taking all factors into account, the direction taken by labor costs is to be seen as a moderate risk to which the ElringKlinger Group is exposed. The Group offsets higher wage costs by making substantial capital investments and implementing continuous measures aimed at raising efficiency levels in production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

Personnel risks

The employees of ElringKlinger are a key source of expertise and a significant factor in the Group's success. Therefore, it is of importance to the Group that any

risk of losing expertise through staff exits is mitigated to the greatest extent possible. Staff turnover rates, which have been hovering at a percentage level in the mid-single digit range in recent years, are to be kept low by creating a socially balanced and motivating working environment. In order to counteract the effects of staff exits, specialist expertise and skills are developed, wherever possible, within the respective teams, rather than concentrating such knowledge among individual staff members.

The age structure of the Group's workforce reveals a balanced mix: Approximately 54% of employees are aged between 30 and 50, while around 26% are younger than 30. Therefore, the risk of overaging is comparatively small.



WELL-BALANCED AGE STRUCTURE

At approx. 54%, the majority of the workforce at the ElringKlinger Group is aged between 30 and 50. The proportion of employees aged under 30 is around 26%. The 50+ age group accounts for 20% of the workforce.

The growing lack of specialist staff within the labor market as a whole also affects ElringKlinger. Some of the sites operating within the Group are now finding it more difficult to attract qualified personnel with specialized skills. In order to address this issue in a proactive manner, ElringKlinger follows a systematic program of university/college marketing for the purpose of HR recruitment. 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. With a view to nurturing talent for the future, the Group also takes on young people as technical and

commercial apprentices. In order to retain skilled personnel and managers within the company in the long term, ElringKlinger offers training courses and programs for personal advancement.

The probability of occurrence with regard to the personnel risks outlined above is considered to be medium; ElringKlinger has classified the associated financial impact as immaterial.

IT risks

In the digital age, companies' IT infrastructure is constantly exposed to potential risks such as data loss, hacking, or virus 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 visible process-related delays in order handling, in production control, and in the supply chain. This would have an adverse effect on revenue as well as costs.

ElringKlinger is committed to mitigating these risks to the largest extent possible. For instance, data that are of importance to operational processes are always stored twice or redundant systems are deployed. Where specific projects or processes are associated with potential risks, the company introduces additional backup systems or transitional solutions for the purpose of risk mitigation.

Additionally, the company's headquarters in Dettingen/Erms has two data centers operating independently of each other. They are accommodated at physically separate locations. This approach offers the best possible protection 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.

Overall, the risks relating to information technology are classified as low. The associated financial impact would be moderate.

Quality/Warranty risks

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

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

Legal risks

Legal risks/Compliance risks

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

The structure of the compliance system was outlined earlier in the description of the risk management system. Risks can occur at both the parent company and the subsidiaries as a result of unlawful actions. In view of the compliance system instruments put in place and the ElringKlinger culture applied and embraced by the company, the probability of occurrence in respect of significant infringements can be classified as low but cannot be ruled out entirely. The financial effects on Group earnings are difficult to specify; depending on the respective case, they may reach a scale that could be considered significant. For instance, one of the Group's foreign subsidiaries is likely to face a fine at the lower end of the single-digit million range following investigations into an isolated issue dating back several years in connection with regulations governing market competition. Appropriate provisions have been made in the balance sheet.

Strategic risks

Technology risks

The business model of the ElringKlinger Group is based on a culture of excellence in innovation and 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. Over the long term it has recorded growth rates that are above the industry average (cf. "Overview of ElringKlinger's Activities and Structure," page 52 et seqq.).

If ElringKlinger were to fail to identify and pursue significant technological developments in good time, the Group may 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. In turn, this would have a detrimental effect on the Group's sales and earnings performance in the medium to long term. Annually, ElringKlinger invests around 5% (around 5%) of Group sales revenue in research and development – a figure that exceeds the industry average by a considerable margin. 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 an area that is of particular importance to the automotive industry, i.e., optimization of the conventional combustion engine and the development of alternative drive technologies. ElringKlinger is one of just a few suppliers worldwide to have taken the lead in positioning itself within the market with a range of new products tailored to the requirements of e-mobility – be it in the area of battery or fuel cell technology. However, as the revenue contribution made by these new divisions is relatively low at present, rapid and extensive technological change within this area poses the risk of substantial loss of revenue in its classic areas of business; this would lead to heightened pressure on prices.

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

External growth/Acquisitions

The automotive supply industry is still in a process of consolidation. For ElringKlinger, essentially, this opens up the possibility of complementary acquisitions with a focus on technology as well as targeted corporate

takeovers, the aim being to enter regional markets and penetrate new fields of technology faster.

In the case of acquisitions, fundamentally, ElringKlinger faces 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, which – 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. Additionally, technology purchases pose the fundamental risk that the performance originally expected by the company may not be fully achievable. 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 thoroughly for plausibility and are evaluated accordingly.

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.

ElringKlinger considers as predominantly low the probability of risks occurring in connection with acquisitions. The associated financial impact is categorized as moderate.

Financial risks

Bad debt loss

On balance, the risk of Original Equipment customers defaulting on payments is considered relatively low for

ElringKlinger, given the solid performance of the industry as a whole in North America, Western Europe, and large parts of Asia. The risk of substantial bad debt losses attributable to individual customers is mitigated by a broadly diversified customer base. In the event of an insolvency of one of the three single biggest customers, which at present is considered unlikely, the default risk in respect of accounts receivable would have amounted to between EUR 11.9 and 27.2 million (between EUR 14.8 and 28.1 million) as of December 31, 2016.

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

Liquidity and financing risks

Since the financial crisis – and against the backdrop of more stringent directives governing capital requirements – banks have imposed tighter restrictions on lending. At the same time, corporate expansion and the development of new technologies necessitate sizeable investments, generally leading to more substantial funding requirements. If rating agencies were to downgrade the automotive industry as a whole in response to a less favorable risk profile, credit terms for the sector and ultimately also for ElringKlinger may be adversely affected.

Despite improved earnings in the industry as a whole and extremely low interest rates, the latent risks associated with financing remain. 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 very solid equity ratio of 47.2% (48.5%), the refinancing situation of the ElringKlinger Group is considered to be non-critical. The Group's debt factor (net debt in relation to EBITDA) stands at 2.3 (2.2). In the financial year 2016, the Group generated cash flow from operating activities of EUR 175.7 (123.3) million. This largely covered the company's financing requirements for higher working capital as well as for investments in property, plant, and equipment. Additionally, the Group has access to undrawn credit lines totaling EUR 122.2 (98.8) million. As of December 31, 2016, no

circumstances were present that would have justified the exercise of unilateral termination rights by banks.

There are currently no identifiable risks that might jeopardize the financing of planned major projects 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. This applies to the exchange rate between the euro and the US dollar (USD) as well as between the euro and the majority of currencies of the emerging markets and the Swiss franc (CHF).

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

Currency risks also exist when translating revenue, earnings, and expenses of the international subsidiaries into the Group currency, i.e., the euro. Therefore, changes in the average exchange rates can have an accretive or dilutive effect on the Group's revenue and earnings. Overall, the negative effect of foreign currency translation on revenue in the financial year 2016 was equivalent to EUR 33.4 million. On balance, the opportunities for more expansive revenues and earnings as a result of foreign currency translation should outweigh the downside risks in 2017.

Exchange rate movements also have an impact on the net finance result. They 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 2016 financial year, the Group recorded a net foreign exchange gain of EUR 0.5 (3.2) million.

A summary of the quantitative impact of an appreciation or a depreciation of the euro against the key Group currencies can be found in the sensitivity

analysis contained in the notes to the consolidated financial statements.

As a result of the currency-related change in competitive factors underlying the Swiss operations of Hug Engineering AG, Elsau, as well as ElringKlinger Abschirmtechnik (Schweiz) AG, Sevelen, projects may alternatively be awarded to ElringKlinger Group sites located in the eurozone. However, as key competitors of ElringKlinger Abschirmtechnik (Schweiz) AG have production facilities in Switzerland, this risk is currently still considered to be negligible. Currency risk has been further reduced due to the fact that the purchasing volumes of Hug Engineering AG were changed over to euro in the majority of cases.

In its overall assessment, ElringKlinger essentially considers the probability of occurrence of currency risks as being high; the possible financial impact on the Group would be moderate.

Interest-rate risks

The ElringKlinger Group funds itself through cash flow generated from operating activities as well as through borrowings from banks. A detailed overview of current and non-current financial liabilities categorized by maturity as of December 31, 2016, can be found in the notes to the consolidated financial statements.

The current level of interest rates within the market is low when viewed over an extended period of time. A marked increase in interest rates would feed into variable rate loans and would ultimately also have an impact on the net financial result of the ElringKlinger Group. To a large extent, however, fixed interest rates have been agreed in respect of the financing liabilities of the ElringKlinger Group (cf. Notes: "Non-current and current financial liabilities").

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

Use of derivative financial instruments

ElringKlinger only uses derivative financial instruments in isolated cases, e.g., for the purpose of 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.

Operating on a rolling basis, ElringKlinger again hedged some of its requirements of alloyed high-grade steels in the 2016 financial year. This was done by means of nickel forward contracts.

Opportunities

Climate change/Emission laws

The main objective currently being pursued by the automotive industry is to cut emissions. This applies not only to CO₂ but also to other harmful components such as soot particles, nitrogen oxides, and hydrocarbons. The European Union is known to have some of the strictest emission standards worldwide. According to legislation passed by the EU Commission, the level of CO₂ emitted by new vehicles must be reduced from 130 g/km at present to 95 g/km by 2021. This limit will have to be met by 90% of each manufacturer's vehicle fleet as early as 2020 and by the whole fleet from 2021 onwards. What is more, emission levels are to be scaled back further in future, with Brussels discussing even lower thresholds of between 75 and 65 g/km for the year 2025. The United States and the People's Republic of China have also seen increasingly ambitious emissions targets. In the United States, the aim is to reduce CO₂ emissions to 132 g/km by 2021. The Chinese government has stipulated a reduction in CO₂ emissions to 117 g/km by 2020. Furthermore, emerging countries such as India tend to look at the strict Euro standards as a basis for their own policy making.

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 electric motor, are gaining market share. Many car makers are extending their product portfolio to include hybrids, the aim being to achieve the strict CO₂ limits applied to their vehicle fleets. For ElringKlinger, hybrid concepts open up the opportunity to generate higher revenue per vehicle. Alongside components installed in combustion engines, hybrids provide the company with the chance to market pressure equalization modules or cell contact systems for the battery unit of the powertrain.

4,000 € 

SUBSIDY

In July 2016 the German government launched a program offering a EUR 4,000 subsidy to buyers of electric cars. The subsidy available for cars with hybrid or fuel cell drives is EUR 3,000.

In May 2016 a state-funded incentive scheme was introduced in Germany with a view to meeting the federal government's stated goal of one million new electric vehicles on the road by 2020. The subsidy available for pure electric vehicles is EUR 4,000 (from 2018: EUR 3,000), while buyers of cars equipped with hybrid or fuel cell technology can save EUR 3,000 (from 2018: EUR 2,000). The subsidy will remain in place up to 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 is to invest EUR 300 million over the next four years on the installation of 15,000 recharging points throughout Germany. These financial incentives could prompt many consumers to rethink their purchasing behavior and therefore boost sales of electrically powered cars. Further advances in battery technology could increase the range of electric vehicles and make them more attractive to potential buyers. ElringKlinger would benefit directly from higher sales

* Cf. glossary

volumes in the electric vehicle market, as the company's E-Mobility division supplies various car makers.

Outside the automotive industry, too, there is a growing focus on the issue of emissions reduction. Stationary and marine engines as well as construction machinery are subject to stricter emissions regulations. These niche markets hold significant potential for the systems produced by ElringKlinger's Exhaust Gas Purification division.

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

Technology trends/New emissions regulations

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 meeting the ambitious CO₂ 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.

Extension of product and service portfolio

The majority of the divisions within the Group are well placed 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 specific opportunities available to the Group have already been discussed extensively in the chapter on Research and Development. At this point, it is worth highlighting ElringKlinger's expertise centered around new material concepts in the area of lightweighting as

well as alternative drive and power supply technologies relating to battery technology and fuel cells. Emissions standards have also become stricter beyond the automotive industry, which increasingly is opening up interesting niche markets in the area of exhaust gas purification. New opportunities are also presenting themselves continuously for the Engineered Plastics division and its PTFE components used in the industrial sector as a whole as well as in the area of medical technology.

All the Group's divisions are working proactively on the expansion of their product and service portfolios with a view to meeting the organic growth target of between 2 and 4 percentage points above the global increase in automobile production.

New sales markets

In the coming years, moving into new regional sales markets with existing ElringKlinger products may present opportunities for significant revenue and earnings growth. In this context, the ASEAN region may be cited as a prime example. In most of the BRIC states, the Group still has the opportunity to expand its sales volumes by manufacturing all product groups locally and selling them in the regional markets.

There are opportunities for further growth in the Aftermarket business by widening the product range and harnessing the potential of new sales regions. Trading under the "Elring – Das Original" brand, the Aftermarket segment within the ElringKlinger Group is ratcheting up its activities in Asia. 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 is also systematically expanding its Aftermarket business in North America.

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 be driven primarily by Asia and North America. Looking ahead, 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. Against this backdrop, the market will be faced with the possible risk of insolvencies. The present wave of consolidation within the automotive supply industry therefore looks set to persist over the coming years.

For the ElringKlinger Group, this scenario offers additional opportunities to extend its technology portfolio through targeted acquisitions. 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. Over the next few years, it is quite likely that ElringKlinger will exploit further growth opportunities through acquisitions. The associated financial impact of such acquisitions is difficult to quantify in advance. It may range from insignificant to indeed significant when measured on the basis of revenue and earnings contributions to the Group.

Overall assessment of risks and opportunities

The conclusion drawn by the Management Board from scrutinizing the opportunities and risks in their entirety is that the situation of the ElringKlinger Group in respect of risk exposure is similar to that seen in the previous year. Some of the risks to which the Group is exposed are of a geopolitical or external nature, and ElringKlinger's capacity to control these risks in an active manner is extremely limited. When weighing the relevance of risk in respect of the possible impact on Group earnings, the principal risks to which the ElringKlinger Group is exposed are a sudden global slump in the market, rapid technological change in drive systems, and a dramatic surge in commodity prices.

Macroeconomic conditions in Western Europe, North America, and China are currently stable. By contrast,

the political and economic situation in Russia and the Middle East as well as the economic situation in Brazil continue to be a source of risk. The strategic risks remain unchanged. The financial opportunities and risks due to foreign exchange fluctuations remain at an elevated level.

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 company makes a point of deliberately 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 47.2% (48.5%) and the ability to obtain new financing, 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 Group relate to the technological trend towards vehicle drive systems with greater fuel efficiency and lower emissions. In turn, this trend is inextricably linked to the issue of climate change and a global drive towards stricter emission laws. Benefiting from products targeted at alternative drive systems and power supply as well as a number of new concepts in the field of lightweight construction, the Group can look forward to opportunities for growth around the globe.

There are currently no identifiable risks that might jeopardize the future existence of the company as a going concern, either in isolation or in conjunction with other factors. The Group is well positioned to actively seize any opportunities arising from long-term technology trends and ongoing industry consolidation. Against the backdrop of a manageable risk profile, the ElringKlinger Group remains well positioned to continue outpacing global automobile production by 2 to 4 percentage points in the coming years.

COMPENSATION REPORT

Compensation structure for members of the Management Board

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

Management Board compensation for the 2016 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 May 5, 2015.

Compensation system up to December 31, 2013

The compensation system applicable up to December 31, 2013, was replaced as of January 1, 2014. Only the stock appreciation rights allocated to members of the Management Board as part of long-term variable compensation remain in place until the end of the vesting or exercise periods. Holders of stock appreciation rights were entitled to a cash-settled payment. Stock appreciation rights were not furnished with any entitlements to shares in ElringKlinger AG. On February 1 of each year –

commencing in 2013 – 30,000 stock appreciation rights were to be allocated to each member of the Management Board. The grant price is computed as the arithmetic mean of the market price of ElringKlinger shares in the last sixty stock exchange trading days prior to the grant date. An essential precondition for the allocation of stock appreciation rights was the personal investment by the Management Board members, in shares of ElringKlinger AG, of one-tenth of the overall number of stock appreciation rights granted. The vesting period of the stock appreciation rights is four years. On completion of the vesting period, the Management Board member is entitled to request redemption of the stock appreciation rights within another two years. The redemption price is determined on the basis of the average market price of ElringKlinger AG shares over the last sixty stock exchange trading days prior to the request for redemption. Redemption of the stock appreciation rights can only be requested if the redemption price is 25% higher than the grant price. The redemption price as a whole is limited per tranche to the amount of two fixed annual salaries at the time of redemption. Provisions are recognized in consideration of expected future obligations.

Compensation system as from January 1, 2014

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

1. Annual fixed 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. The long-term incentive I corresponds to the principles previously applied to the annual management bonus and is granted as compensation for services performed in respect of one financial year. 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 occurs on approval of the separate and consolidated financial statements by the Supervisory Board in the subsequent year. On termination of the appointment as a Board member either at the request of the Management Board member in question or for good cause, entitlements to the variable compensation components of LTI I shall lapse as soon as the termination of said Board appointment comes into legal effect.

ILLUSTRATIVE CALCULATION LTI I

in EUR		EBIT average	193,000,000
		Variable compensation	Cap Fixed salary 2016 *3
Dr. Wolf	0.80%	1,544,000	1,521,000
Becker	0.60%	1,158,000	1,179,000
Jessulat	0.40%	772,000	864,000
Total		3,474,000	3,564,000

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 corresponds to the percentage of average economic value added in respect of three financial years. The annual economic value added is calculated according to the following formula:

$$\text{EVA} = (\text{EBIT} \times (1 - T)) - (\text{WACC} \times \text{Capital Invested})$$

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.

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 in the subsequent year. Using the remaining 10% of the LTI II amount, the company purchases shares in ElringKlinger AG on behalf and account of the Management Board member in question. The Management Board member is prohibited from accessing these shares for a period of 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 and is not in employment for the company for a full twelve-month period, LTI II is reduced pro rata temporis.

On termination of a contract of service, the Management Board member in question may access the shares only after a period of twelve months subsequent to said termination. On termination of the appointment as a

Board member either at the request of the Management Board member in question or for good cause, entitlements becoming applicable in the future in respect of the variable compensation components of LTI II shall lapse.

ILLUSTRATIVE CALCULATION LTI II

in EUR		EVA mean value 79,500,000	Variable compensation	Cap Fixed salary 2016 *2
Dr. Wolf	1.25%		993,750	1,014,000
Becker	1.00%		795,000	786,000
Jessulat	0.40%		318,000	576,000
Total			2,106,750	2,376,000

Fringe benefits

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

D&O insurance

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

Retirement pension

The contracts of the Management Board members of ElringKlinger AG include commitments in respect of an annual retirement pension that is measured as a percentage of pensionable income. The entitlement to a retirement pension becomes applicable as soon as the contract of service has ended, but not before the individual has reached the age of 63. This entitlement also becomes applicable as soon as the Management Board member has reached the age that entitles him to receive full statutory pension benefits as well as in the event of occupational disability. The percentage is dependent on the number of years of service as a Management Board member. Existing entitlements in respect of time spent as a salaried employee of the company

are not factored in to this calculation and continue to apply. The percentage rate is between 2.5% and 3.2% of the last monthly fixed salary prior to leaving the company in respect of each full year of service. This percentage rate can rise to a maximum of 45%.

If a member of the Management Board acts in a manner that is grossly negligent or displays gross negligence in his failure to act in specific instances and such actions or failures to act would result in significant damages to the Group, all entitlements to a retirement pension shall lapse; the same shall apply if the member of the Management Board enters the service of an entity that is in direct competition with the company.

The contracts include provisions governing surviving dependents' benefits. If a member of the Management Board dies during the period in which the employment contract is applicable or once the retirement benefits become due, his widow or dependent children shall receive a widow's or orphan's pension. The widow's pension amounts to 50% of the retirement pension of the deceased. The orphan's pension amounts to 20% of the widow's pension to the extent that a widow's pension is payable simultaneously and 40% of the widow's pension to the extent that no widow's pension is payable.

The widow's or orphan's pensions shall not exceed 60% of the amount to which the deceased would have

been entitled if he had entered into retirement on the day of his death.

Review and adjustment of compensation

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

Severance pay cap

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

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

Loans to Management Board members

No advances or loans were granted to members of the Management Board of ElringKlinger AG in 2015 or 2016. Likewise, the company provided no guarantees or similar commitments.

Management Board compensation 2016

Management Board compensation for the 2016 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 May 5, 2015.

Management Board compensation 2016 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. The amounts specified in respect of Karl Schmauder relate to the period up to the discontinuation of his services as a Management Board member on February 23, 2016. For further details, please refer to "Resignation of Management Board member."

in EUR k	Dr. Stefan Wolf		Theo Becker		Thomas Jessulat		Karl Schmauder		Total	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Short-term compensation										
Fixed compensation	556	554	418	418	0	313	413	69	1,387	1,354
Variable performance-related compensation	1,182	1,127	888	845	0	562	888	141	2,958	2,675
Total	1,738	1,681	1,306	1,263	0	875	1,301	210	4,345	4,029
Long-term compensation										
Long-term performance-related compensation	452	253	362	202	0	81	362	0	1,176	536
Total	452	253	362	202	0	81	362	0	1,176	536
Total compensation	2,190	1,934	1,668	1,465	0	956	1,663	210	5,521	4,565

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		Theo Becker		Thomas Jessulat		Karl Schmauder		Total	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Current service cost	238	218	153	144	0	150	132	20	523	532
Present value (DBO)	3,995	5,023	3,025	3,720	0	150	4,007	–	11,027	8,893

The present value of the pension provision for Mr. Schmauder as of December 31, 2016, was included in the disclosures relating to pension provisions for former members of the Management Board.

Management Board compensation pursuant to the German Corporate Governance Code

The following presentation of compensation granted to and received by the Management Board members in respect of the 2016 financial year is based on the

recommendations of the German Corporate Governance Code in the version dated May 5, 2015. The presentation uses the “model tables” recommended by the Code. The amounts specified in the table in respect of Karl Schmauder relate to the period up to the discontinuation of his services as a Management Board member on February 23, 2016.

The following table presents benefits granted to the members of the Management Board in respect of the 2016 financial year, as disclosable under the provisions of the German Corporate Governance Code:

BENEFITS GRANTED (PURSUANT TO GCGC)

in EUR k	Dr. Stefan Wolf				Theo Becker			
	2015	2016	Min. 2016	Max. 2016	2015	2016	Min. 2016	Max. 2016
Non-performance-based compensation								
Fixed annual salary	507	507	507	507	393	393	393	393
Fringe benefits	49	47	47	47	25	25	25	25
Total	556	554	554	554	418	418	418	418
Performance-based compensation								
One-year variable compensation	1,182	1,127	0	1,521	888	845	0	1,179
Multi-year variable share-based compensation 2013–2017	0	0	0	0	0	0	0	0
Multi-year variable compensation 2014–2016	0	0	0	0	0	0	0	0
Multi-year variable compensation 2015–2017	447	0	0	0	357	0	0	0
Multi-year variable compensation 2016–2018	0	110	0	1,014	0	88	0	786
Total	1,629	1,237	0	2,535	1,245	933	0	1,965
Service cost	238	218	218	218	153	144	144	144
Total compensation	2,423	2,009	772	3,307	1,816	1,495	562	2,527

In contrast to GAS 17, the table presents long-term compensation granted in 2016 for LTI II. In addition, the minimum and maximum amounts achievable

have been listed. The benefit expense, which is presented in the form of the current service cost in the above table, has been included in total compensation.

	Thomas Jessulat				Karl Schmauder				Total			
	2015	2016	Min.2016	Max.2016	2015	2016	Min.2016	Max.2016	2015	2016	Min.2016	Max.2016
	0	288	288	288	393	66	66	66	1,293	1,254	1,254	1,254
	0	25	25	25	20	3	3	3	94	100	100	100
	0	313	313	313	413	69	69	69	1,387	1,354	1,354	1,354
	0	562	0	864	888	141	0	198	2,958	2,675	0	3,762
	0	0	0	0	0	0	0	0	0	0	0	0
	0	81	0	576	0	0	0	0	0	81	0	576
	0	41	0	576	357	0	0	0	1,161	41	0	576
	0	35	0	576	0	0	0	132	0	233	0	2,508
	0	719	0	2,592	1,245	141	0	330	4,119	3,030	0	7,422
	0	150	150	150	132	20	20	20	523	532	532	532
	0	1,182	463	3,055	1,790	230	89	419	6,029	4,916	1,886	9,308

The following table presents the allocation in/for the 2016 financial year. As regards fixed annual salary, fringe benefits, annual management bonus, and

LTI II 2016, the table presents the allocation for the 2016 financial year.

ALLOCATION PURSUANT TO GCGC

in EUR k	Dr. Stefan Wolf		Theo Becker	
	2015	2016	2015	2016
Non-performance-based compensation				
Fixed annual salary	507	507	393	393
Fringe benefits	49	47	25	25
Total	556	554	418	418
Performance-based compensation				
One-year variable compensation	1,182	1,127	888	845
Multi-year variable compensation 2013–2015	452	0	362	0
Multi-year variable compensation 2014–2016	0	253	0	202
Total	1,634	1,380	1,250	1,047
Service cost	238	218	153	144
Total compensation	2,428	2,152	1,821	1,609

Resignation of Management Board member

Management Board member Karl Schmauder stepped down from his post with immediate effect on February 23, 2016. The separation agreement (“Aufhebungsvereinbarung” governed by German law) reached between the respective parties includes the immediate suspension of Mr. Schmauder, with ongoing compensation being payable up to the regular expiration of his contract of service on January 31, 2018. Entitlements in respect of LTI I for the financial years 2016 to 2017 were granted in full, while entitlements in respect of LTI I for the financial year 2018 were granted on a pro-rata basis.

Entitlements in respect of LTI II for the tranches 2014–2016 and 2015–2017 were granted in full. LTI II for the tranche 2016–2018 shall be granted on a pro-rata basis. Retirement benefit rights granted to Mr. Schmauder shall remain valid. Remuneration payable subsequent to February 23, 2016, pursuant to Section 314 (1) no. 6a sentence 6 dd of the German Commercial Code (Handelsgesetzbuch – HGB), amounting to EUR 2,743k, comprises non-performance-based compensation (EUR 788k, of which EUR 343k paid in 2016) and performance-based compensation (EUR 1,955k, of which EUR 917k in respect of the 2016 financial year).

Thomas Jessulat		Karl Schmauder		Total	
2015	2016	2015	2016	2015	2016
0	288	393	66	1,293	1,254
0	25	20	3	94	100
0	313	413	69	1,387	1,354
0	562	888	141	2,958	2,675
0	0	362	0	1,176	0
0	81	0	0	0	536
0	643	1,250	141	4,134	3,211
0	150	132	20	523	532
0	1,106	1,795	230	6,044	5,097

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 compensation structure relating to the Supervisory Board was adjusted in the reporting period. The level of compensation is determined by the Annual General Meeting. Within this context, the most recent resolution was passed on May 13, 2015. In accordance with the requirements of the German Corporate Governance Code, compensation is divided into a fixed and a variable component. The members of the Supervisory Board receive fixed compensation of EUR 20k (prev. year: EUR 20k) for each full financial year they have served on the Supervisory Board. Additionally, the members of the Supervisory Board receive a lump-sum payment of EUR 1k for each Supervisory Board meeting they attend as well as

fixed compensation of EUR 4k for membership of a committee. The variable component of compensation is based on average IFRS Group earnings before taxes in respect of the last three financial years and is calculated as 0.02% of the aforementioned amount. As of the 2015 financial year, it is limited to EUR 40k per member of the Supervisory Board.

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

Supervisory Board compensation 2016

In the period under review, total compensation for the Supervisory Board of ElringKlinger AG was EUR 741k (2015: EUR 774k). Additionally, travel expenses totaling

EUR 2k (2015: EUR 0k) were reimbursed. Compensation payable to the individual members of the Supervisory Board was as follows:

in EUR k	Fixed compensation		Variable compensation		Total compensation	
	2016	2015	2016	2015	2016	2015
Walter Herwarth Lechler	68	68	54	57	122	125
Markus Siegers	44	41	41	43	85	84
Gert Bauer	0	10	0	10	0	20
Ernst Blinzinger	24	16	27	18	51	34
Nadine Boguslawski	24	16	27	18	51	34
Armin Diez	28	28	27	29	55	57
Klaus Eberhardt	32	32	27	29	59	61
Pasquale Formisano	24	24	27	29	51	53
Rita Forst	24	16	27	18	51	34
Dr. Margarete Haase	0	8	0	10	0	18
Paula Monteiro-Munz	28	28	27	29	55	57
Prof. Hans-Ulrich Sachs	24	24	27	29	51	53
Gabriele Sons	32	32	27	41	59	73
Manfred Strauß	24	24	27	29	51	53
Gerhard Wick	0	8	0	10	0	18
Total	376	375	365	399	741	774

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

DETAILS ACCORDING TO SECTION 289 (4) AND SECTION 315 (4) OF THE GERMAN COMMERCIAL CODE (HGB), PARTICULARLY WITH REGARD TO SHARE CAPITAL AND DISCLOSURE OF POTENTIAL TAKEOVER OBSTACLES

As of December 31, 2016, 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 Management Board is not aware of any restrictions or agreements between shareholders concerning voting rights or the transfer of shares.

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, 2016, are presented in the table below. These relate solely to interests attributable to family ownership.

Walter H. Lechler, Stuttgart, Germany	Total of 22.059% (of which 10.013% is attributable to him under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG*))
Lechler Beteiligungs-GmbH, Stuttgart, Germany	10.031%
Eroca AG, Basel, Switzerland	Total of 19.930% (of which 9.928% 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.

* Cf. glossary

CORPORATE GOVERNANCE STATEMENT PURSUANT TO SECTION 289A HGB

The Corporate Governance Statement pursuant to Section 289a of the German Commercial Code (Handelsgesetzbuch – HGB) is part of the combined management

report and has been published on the ElringKlinger website at www.elringklinger.de/en/company/corporate-governance/declaration-of-conformity.

REPORT ON EXPECTED DEVELOPMENTS

Outlook – Market and Sector

Despite a number of uncertainties, economists have presented an optimistic outlook for business in 2017. According to estimates issued by the International Monetary Fund (IMF), the world economy is set to expand by 3.4% – a moderate but nevertheless slightly more dynamic rate of growth. The global car market is also expected to continue growth. Based on data published by Germany's VDA, the Association of the Automotive Industry, global sales are likely to rise by 2% to around 84 million vehicles. The wind of change sweeping through the automotive industry has gathered pace. While the number of vehicles equipped with a combustion engine looks set to increase in the medium term, from 2020 onward the market for electric cars is expected to become increasingly buoyant.

Data presented by the IMF suggests that the emerging countries and the United States will form the main driving force behind global economic development. With estimated growth of 4.5% in GDP, the combined rate of expansion of the emerging economies is again expected to be higher than that of the industrialized nations (1.9%). Alongside geopolitical uncertainties, the associated risks include a potential widening of global imbalances, sharp exchange rate movements, and inadequate progress on reforms in heavily indebted advanced economies and some of the emerging countries, with the latter also having to contend with an outflow of capital and high corporate debt. At present, the policy stance of the incoming US administration and its global ramifications are less predictable.

The economy of the euro area as a whole will continue to be supported by an expansive monetary policy

adopted by the European Central Bank, but also by an upturn in global demand. This is likely to counteract to some extent the challenges associated with the planned exit of the United Kingdom from the European Union, high levels of debt, and uncertainty as to the outcome of upcoming elections in some Member States. Domestic demand in Germany is expected to lose some of its momentum, but the German economy will nevertheless remain on track.

Following the change in government in the United States, the US economy is likely to see a more pronounced upturn on the back of investment programs announced by the new administration. Additionally, it would appear likely that oil prices will rise and that US monetary policy will continue to pursue a route leading toward normalization. In Brazil, meanwhile, after years of growth reversal there are first, albeit as yet weak, signs of an upturn in 2017.

The most substantial contribution to growth for the global economy as a whole is expected to come from the large emerging countries in Asia. Bolstered by government measures to stimulate the economy, China

will again see an expansion in economic output. India, too, is expected to maintain its trajectory of growth. After years of malaise, Japan's economy is again unlikely to produce any signs of improvement.

GDP GROWTH PROJECTIONS

Year-on-year change in %	2016	Projections 2017	Projections 2018
World	3.1	3.4	3.6
Germany	1.7	1.5	1.5
Eurozone	1.7	1.6	1.6
USA	1.6	2.3	2.5
Brazil	-3.5	0.2	1.5
China	6.7	6.5	6.0
India	6.6	7.2	7.7
Japan	0.9	0.8	0.5

Source: International Monetary Fund (January 2017)

Vehicle market in 2017: slower but steady growth

After a good performance in 2016 the overall outlook for the global car market remains positive for 2017. According to market experts, the global volume of newly sold cars will exceed the prior-year figure by approx. 1 to 2%. Germany's automotive industry association (VDA) has predicted growth of about 2%, taking the overall volume to around 84 million new vehicles. ElringKlinger is also working on the assumption of slight growth in the region of 1 to 2%.

With new vehicle registrations estimated at 14 million units, Western Europe is expected to remain stable at a level comparable to that seen in 2016. Southern Europe is said to have the greatest growth potential with regard to new vehicle sales. By contrast, the first repercussions of the Brexit referendum may produce a marked downturn in the UK car market, with the VDA predicting a contraction of around 8%. Germany is expected to see its market volume reach heights similar to those recorded in 2016. Domestic production output is also likely to match the solid levels already achieved in this area. According to VDA forecasts, German exports may decline marginally by 2%, while foreign production output by German car makers is likely to grow by 3% – having exceeded the mark of 10 million units in 2016 for the very first time.

The US market, which boasted recorded sales of around 17.5 million light vehicles (cars and light commercial vehicles) for the second year in succession in 2016, is expected to put in an equally good performance in 2017. Potentially stimulating measures introduced by the US government could provide greater buoyancy for demand, but this is likely to be counterbalanced by the decelerating effects of higher interest rates and firmer oil prices. Having said that, optimistic forecasts suggest that further market growth is possible.

The world's largest individual market, China, which now accounts for almost 30% of the global market as a whole, will continue to expand in 2017, albeit at a less pronounced rate of growth. The VDA has predicted growth of 5%, taking the total figure to 24.2 million vehicles. The tax incentives that have been in place since October 2015 with regard to small-engine cars will continue to apply in a downscaled form in 2017. The thriving car market in India is expected to perform more sluggishly in the first half of 2017. This, however, is likely to be followed by a more substantial upturn in the second six months of the year. The forecast for Japan suggests, at most, a marginal increase in sales volumes for 2017.

The protracted recession experienced by the car markets in Brazil and Russia is gradually coming to an end. Russia is expected to see a slight upturn. After a contraction of around 20% in 2016, Brazil should at the very least be able to emulate its prior-year performance.

As regards alternative drive systems, ElringKlinger anticipates that the automobile industry will initially focus in particular on further efficiency gains for combustion engines as well as on hybridization, while at the same time driving forward R&D relating to all-electric vehicles or ones powered by fuel cells. Research within the area of CO₂-neutral fuels, whose production only requires as much CO₂ as is subsequently emitted, may provide a long-term solution for the combustion engine. According to market studies, demand for vehicles fitted with a combustion engine will continue to rise in the short term – reaching an apex of an estimated 90 million engines in the year 2020/21. Germany's Center of Automotive Management (CAM) predicts that the global number of new electric vehicles (pure electric and plug-in hybrids) will have grown by between 2.5 and 6.0% by the same time. CAM forecasts that the electric vehicle market will expand visibly from 2020 onward, fueled by a product offensive by global car makers as well as by the technical innovations achieved by then and the prevailing market conditions. By 2025, their share of global vehicle sales is expected to have grown to a level of 12 to 25%. In this context, the various markets are likely to progress along different lines. China, already the largest single market for electric vehicles, is well placed to retain its leading role, particularly in view of measures planned by the country's central government.



AROUND 100 E-CAR MODELS

are to be launched by German manufacturers by 2020 according to current plans – at present 30 different models are on sale. From 2019, an electric drive will feature in virtually all model ranges (source: VDA).

No impetus within major truck markets in 2017

The key commercial vehicle markets in Western Europe and the United States are likely to be faced with a challenging year. Having lost more and more of its momentum in 2016, the Western European truck market is likely to see a further slowdown. This forecast is underpinned by the fact that demand for replacements has now been satisfied after years of solid growth and the first adverse effects of the UK's planned exit from the European Union are soon likely to be felt. For Germany, the VDA has predicted a further slight growth in truck sales on the back of the record levels seen in 2016.

Despite a return to stability in terms of order intake towards the end of 2016, the North American truck market will have to contend with a further downturn in business in 2017. The segment covering heavy Class 8 trucks is expected to decline by 10 to 15%, whereas demand for mid-sized trucks (Class 5–7) may remain stable.

Outlook – Group

Significant dynamism in automotive industry

Developments over the course of the financial year just ended, such as the outcome of the Brexit referendum and economic policy announcements made by the newly elected US administration, have led to heightened uncertainty within the wider economy. Added to this are structural dynamics caused by external factors in the form of ever-stricter emissions standards, new measuring methods, or technological advancement. They have enveloped the entire automotive industry. According to studies, the market will see not only a further rise in the number of vehicles produced around the globe but also a shift in focus towards vehicles powered by alternative drive systems, such as hybrids and all-electric vehicles. There remains uncertainty as to the extent and speed of this transition. Therefore, deriving projections for the company itself is difficult. Fundamentally, however, ElringKlinger predicts that growth within the global vehicle markets will remain solid, without being accompanied by any particularly significant factors that may impact on the world economy.

Sustained efforts in research and development

Drawing on its broad portfolio of innovative products, ElringKlinger is very well positioned when it comes to embracing the inevitable transition of drive technologies. In order to be able to defend this vantage point in profitable niche markets well into the future, the Group remains committed to channeling around 5 to 6% of its revenue (having accounted for capitalization) into efforts within the field of research and development.

Revenue growth fueled by buoyant orders

Brimming order books prove that ElringKlinger is a sought-after partner and supplier. In the financial year just ended order intake, i.e., the unit volumes requested by customers as part of their production scheduling, was expanded by EUR 78.4 million, or 4.9%, to EUR 1,693.7 million. Excluding currency effects, the growth figure within this area was as high as EUR 126.0 million or 7.8%. As a result, order backlog at the end of the year was up by EUR 136.3 million, or 17.1%, taking the figure to EUR 932.5 million (FX-adjusted: by EUR 143.8 million, or 18.1%, to EUR 940.0 million).

With expectations underpinned by this substantial order backlog, the Management Board of ElringKlinger

anticipates that it will be in a position to further expand sales revenue, depending on the direction taken by the global automobile markets. This is supported above all by planned ramp-ups in connection with high-volume orders within the Lightweighting/Elastomer Technology division, sustained buoyancy in orders within the Shielding Technology division, and a robust performance within the other areas of business. Overall, therefore, the Group is expecting to exceed by 2 to 4 percentage points the projected rate of expansion in global vehicle production, calculated on the basis of the Group's annual organic revenue growth in the short and medium term. ElringKlinger's forecast for 2017 suggests that the global automobile market will expand by 1 to 2% year on year. Based on medium-term market projections of 2% p.a. on average, the Management Board predicts that this upward trend could help to drive ElringKlinger's annual revenue, for the first time, to a figure in the region of EUR 2 billion by the year 2020.

Given the complexity of influencing factors, the effects associated with foreign exchange rates are difficult to predict. In the financial year just ended the direction taken by exchange rates had an adverse effect on sales revenues as a result of factors relating to currency translation. Given the geopolitical and economic challenges ahead, e.g., Brexit negotiations, a more protectionist stance worldwide, or a greater risk of terrorist attacks, it is conceivable that the same may occur in 2017.

Acquisitions are again a possibility in the 2017 financial year, with management reviewing its options on a continual basis. The focus here is on enterprises that underpin ElringKlinger's positioning particularly in the area of new drive technologies. Essentially, corporate targets should either suitably complement the existing product portfolio or facilitate improved market entry. It is unlikely that the scope of such transactions will exceed that of previous activities by a considerable extent.

Higher prices on commodity markets

Among the key determinants of the cost of sales are expenses relating to materials and personnel. While ElringKlinger enters into long-term supply agreements as a fundamental hedge against short-term market fluctuations, it is not completely immune to sustained price trends in particular. Due to the reductions in

supply resulting from the duties imposed on steel imports from China and Russia, rising prices are again expected in the steel market in 2017. The increase is also evident in the rising prices of the alloy surcharges for high-grade steels. As far as aluminum is concerned, ElringKlinger expects prices to remain stable in 2017. As regards the procurement of plastic granules, which are used in the Lightweighting/Elastomer Technology division, the Group also anticipates that prices will increase in the second half of 2017 in the wake of a potential rise in oil prices. Therefore, compared to 2016, the overall cost of materials is expected to rise during the current financial year.

Headcount up as a result of sustained growth

The level of revenue growth targeted by ElringKlinger will necessitate an expansion in the personnel base. In this context, the Group is committed to ensuring that any increase in staffing levels is handled in such a way as to ensure that costs are streamlined and processes are optimized. The aim here is to keep the percentage increase in the Group's headcount below its percentage growth in revenue. Given the production ramp-ups planned for the new sites in the United States, Hungary, and China, these countries in particular are expected to see an expansion in staffing levels.

Striving for earnings improvement

ElringKlinger is expecting to see an improvement in earnings before interest and taxes (EBIT) for the current financial year. This will be driven by two key factors in particular. First, the higher levels of revenue anticipated by the company should have a positive impact on earnings. Secondly, it would appear likely that the measures introduced by the Management Board have brought stability to the earnings performance of the Swiss subsidiary affected by capacity constraints. In particular, the decision to transfer certain areas of production from Switzerland to Hungary should provide the Swiss site with the necessary room for maneuver when it comes to optimizing gradually its level of fixed operating costs over the coming three years. The Group estimates that the positive effect on earnings will be around EUR 10 million in the current financial year, with this projection being dependent on customer approvals that have yet to be obtained and the thus resulting speed of migration. In total, the EBIT margin (before purchase price allocation) is expected to be around 9 to 10% in 2017.

Supported by an improvement in earnings at the Swiss subsidiary, the steady increase in revenue anticipated by the company, and an evolving product mix, the Group will see its earnings performance strengthen further in the years ahead. With this in mind, the Group is targeting an EBIT margin (before purchase price allocation) of around 13% in the medium term.

Targeted investments

ElringKlinger has been expanding its global production network in recent years, the aim being to exploit as rapidly as possible any opportunities arising from globalization within the automotive supply sector. Against this backdrop, the investment ratio (investments in property, plant, and equipment and in investment property relative to Group sales revenue) was relatively high again in 2016, reaching a level of 11.0% (11.7%). As for the 2017 financial year, ElringKlinger will be looking to scale back this ratio slightly. In this context, the company is committed to a thorough assessment of all measures as regards their necessity, the timing of execution, and the funding required. In the medium term, the Group plans to reduce its investment ratio to around 9%.

In 2016, work commenced on the construction of a new logistics facility at the Group headquarters in Dettingen/Erms, Germany, for the purpose of freeing up space for additional production lines in the existing buildings. Operations at the new facility are scheduled to begin in mid-2017. At the same time, the Group is expanding its production capacity in Kecskemét, Hungary. Alongside shielding parts, a new factory to be established at this site will manufacture, from the end of 2017 onward, door module carriers for the compact-class vehicle produced by a global car company. To meet the requirements of this large-scale order, a production plant will also be established in central China, while the site in Mexico is to be expanded.

In the NAFTA region, the Group established a new site in Fremont, USA, during the financial year just ended. Production of cross-car beams, the focus of a second large-volume contract, will commence at this site in mid-2017. Thanks to its diversified network covering a total of five production sites in the NAFTA region, the Group is also able to respond with a certain degree of flexibility to protectionist developments in North America and any repercussions that may result.

Optimized working capital

The strategic decision to integrate tool engineering within the Group is to be seen as an important factor in ElringKlinger's success. As a result, the company is in a position to implement innovative methods of process engineering in a manner that is cost-effective and tailored precisely to its requirements. At the same time, this competitive advantage has an impact on the Group's working capital insofar as tools that have been produced and deployed for the first time but have yet to be billed have an accretive effect on inventory levels. In terms of industry comparisons, this produces a relatively high ratio with regard to working capital. Irrespective of this, the company has initiated measures aimed at optimizing its procurement processes and stock volumes. This program, in conjunction with consistent receivables management, will have a positive impact on net working capital (inventories and trade receivables less trade payables) in 2017 and will produce a slight improvement in the corresponding ratio (as a percentage of Group sales revenue). In the medium term the Group plans to improve this ratio by 1 to 2 percentage points compared to fiscal 2016.

Positive free cash flow in sight

Against the backdrop of relatively large investments and the strain on earnings at the Swiss subsidiary, in particular, operating free cash flow has had little chance of gathering momentum in recent years, although the financial year just ended did produce a tangible improvement within this area. The Group is confident that measures implemented for the purpose of optimizing the structure of fixed costs at the Swiss subsidiary, together with its projections for profitable revenue growth, will pave the way for a sustained improvement in earnings. At the same time, the company anticipates that the financial efficiency programs put in place will lead to a reduction in its net working capital ratio. Therefore, operating free cash flow is expected to increase further. Taking these factors into account, ElringKlinger expects operating free cash flow to be just within positive territory in 2017.

Slight improvement in ROCE likely

Due to revenue growth, capital employed will be higher in the current financial year. As the Group also anticipates an improvement in earnings, there is every

chance that its return on capital employed (ROCE*) will increase slightly compared to 2016. ElringKlinger continues to have its sights set on a level of 15% in the medium to long term.

Growth-induced debt

As regards its funding policy, the Group applies the principle of operating with a range of different maturities in respect of its liabilities in order to be able to react flexibly to interest rate changes or to financing requirements. As a result of growth, net financial liabilities, which stood at EUR 538.8 million as of December 31, 2016, will again expand slightly (before acquisitions) in the current financial year.

Ultimately, the Group anticipates that its equity ratio, which amounted to 47.2% at the end of 2016, will not change significantly in 2017. The Group assumes that it will remain well within the short- and medium-term target range of 40 to 50%.

Original Equipment segment: further revenue growth

More than 80% of Group sales revenue is generated within the Original Equipment segment. While the Cylinder-head Gaskets division is likely to stagnate somewhat in terms of revenue in 2017, the Lightweighting/Elastomer Technology division is expected to produce structural revenue growth that should be visibly higher than that estimated for the Group, with ramp-ups for new large-volume orders alone providing a noticeable boost. In the medium term, too, this division will expand at an above-average rate. The Specialty Gaskets division should see a moderate increase in revenue, while the Shielding Technology division is expected to grow at a rate comparable more or less to that estimated for the Group as a whole.

Overall, therefore, the Original Equipment segment is likely to see its revenue expand – both in the current financial year and in the medium term – by a figure that is 2 to 4 percentage points higher than the rate of growth in global vehicle production. As the individual divisions contribute to segment earnings to varying degrees, the company anticipates that the margin within this segment as a whole will be slightly below the Group average.

* Cf. glossary

Engineered Plastics segment: growth in various markets

Operating with a broad portfolio of products, the Engineered Plastics segment serves a wide range of industries. Alongside the automotive sector, it also supplies customers in the area of medical technology, mechanical engineering, chemicals, and aerospace. Therefore, the revenue forecast for this segment is based on projections for a wide range of target markets. In a fundamentally volatile market environment the segment will be targeting growth at a level comparable to that estimated for the Group as a whole. In this context, the Group anticipates that the European markets will provide the greatest forward momentum in terms of absolute figures, while the Chinese and US markets are likely to generate strong percentage growth. The thus resulting earnings contribution in particular should lead to a slight improvement in EBIT for 2017.

Aftermarket segment: expansion into new markets

Within the Aftermarket segment, the regions of Germany, the Rest of Europe, and the Middle East account for the largest share of revenue. Over the course of many years, the company has worked hard at establishing a strong position in its home market of Germany by driving forward the "Elring – Das Original" brand. The aim is to expand further not only at a domestic level but also in other European countries. Efforts to implement this strategy, however, are being hampered to some extent by the steady rise in competition.

In Eastern Europe the segment is benefiting from the higher average age of vehicle fleets as well as subdued consumer spending on new cars, particularly with Russia and the neighboring countries having suffered a period of economic malaise in the wake of regional conflicts. A further depreciation of the local currencies in Russia and Ukraine could have an additional impact on revenue, whereas the large proportion of models sold by Western car makers may act as a supportive element when it comes to aftermarket business in the other Eastern European countries.

Aftermarket sales in the Middle East are being driven by the relatively high average age of vehicles and the severe stresses and strains to which such vehicles are

exposed. However, geopolitical challenges and the relatively low price of oil are slightly detrimental to business in a market environment that, essentially, can be considered favorable. Indeed, the economic performance of this region as a whole is being dampened by the two factors outlined above.

Expansion in the Asian markets – particularly in China – and in North America offers significant short- and medium potential for growth within the Aftermarket segment. Until now, ElringKlinger's aftermarket business has been represented only to a small extent or, indeed, not at all in these sales regions. At the same time, the automobile markets in these regions in particular have grown substantially in recent years. Therefore, market entry or expansion would allow the company to tap into nascent maintenance cycles that are associated with such structural growth.

Overall, the Aftermarket segment is targeting revenue growth of around 4% in 2017. In line with the trend seen in recent years, its EBIT margin is expected to lie above the Group average.

Parent company ElringKlinger AG: slight growth in revenue

The parent company ElringKlinger AG accounts for about one-third of Group sales revenue. As global growth is being supported mainly by the Asian automobile markets, while the North American market is consolidating its position at a high level, the Group looks set to expand primarily through its foreign subsidiaries. Revenue growth attributable to the parent company, by contrast, is likely to be 3 to 5 percentage points above global market growth in 2017. This growth is underpinned by solid order books. Order backlog as of December 31, 2016, stood at EUR 342.4 million, up on the prior-year figure of EUR 318.8 million.

Additional sales revenue as well as productivity gains are expected to have a positive impact on earnings, even though factors such as approved wage increases and projected increases in material-related costs will in turn have a dampening effect on earnings. Overall, the parent company's EBIT margin is likely to be at a level similar to that recorded in 2016.

GROUP GUIDANCE SUMMARY:

Outlook for 2017		Actual 2016
Significant financial control criteria:		
Sales revenue	Organic growth of 2 to 4 percentage points above global market growth	2 percentage points above market
EBIT	Margin before purchase price allocation of around 9 to 10%	9.0%
ROCE	Slight year-on-year improvement	8.7%
Other control criteria and indicators		
R&D costs	Around 5 to 6% of Group revenue when accounting for capitalization	4.8%
Investments*	Below prior-year level (as ratio in % of Group revenue)	11.0%
Net working capital	Below prior-year level (as ratio in % of Group revenue)	33.7%
Operating free cash flow	In slightly positive territory	EUR -3.8 million
Equity ratio	40 to 50% of total assets	47.2%
Medium-term targets		Actual 2016
Sales revenue	Organic growth of 2 to 4 percentage points above global market growth	2 percentage points above market
EBIT	Margin before purchase price allocation of around 13%	9.0%
ROCE	15%	8.7%
Investments*	Around 9% of Group revenue	11.0%
Net working capital	Improvement in ratio (in % of Group revenue) by 1 to 2 percentage points compared to 2016	33.7%
Equity ratio	40 to 50% of total assets	47.2%

* Investments in property, plant, and equipment and investment property

Dettingen/Erms, March 23, 2017
The Management Board



Dr. Stefan Wolf
CEO



Theo Becker

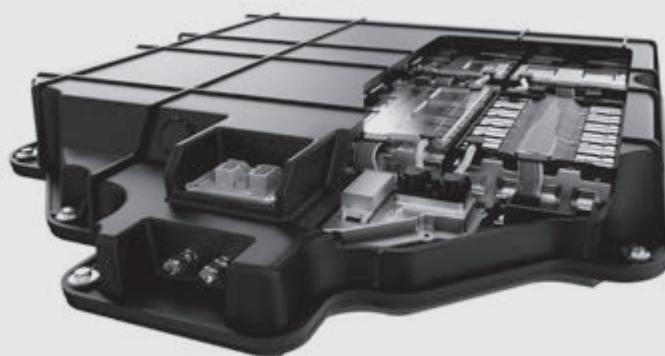


Thomas Jessulat

CONSOLIDATED FINANCIAL STATEMENTS OF ELRINGKLINGER AG FOR THE FINANCIAL YEAR 2016

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LITHIUM-ION BATTERIES AND FUEL CELLS

Products for lithium-ion batteries

- Cell contact systems
- Battery modules
- Module connectors
- Pressure equalizing elements
- Cell housings
- Plastic battery enclosures

Components for fuel cells

- For PEMFC: bipolar plates, end and media modules, sealing solutions, casings
- PEMFC stacks
- For SOFC: interconnectors, end modules, clamping system, thermal shielding/enclosure
- SOFC stacks

GROUP INCOME STATEMENT

of ElringKlinger AG, January 1 to December 31, 2016

EUR k	Note	2016	2015
Sales revenue	(1)	1,557,443	1,507,253
Cost of sales	(2)	-1,161,524	-1,132,973
Gross profit		395,919	374,280
Selling expenses	(3)	-120,370	-115,992
General and administrative expenses	(4)	-74,207	-69,343
Research and development costs	(5)	-67,383	-61,438
Other operating income	(6)	20,001	20,132
Other operating expenses	(7)	-18,366	-12,391
Operating result		135,594	135,248
Finance income		17,461	25,394
Finance costs		-28,961	-31,886
Net finance costs	(8)	-11,500	-6,492
Earnings before taxes		124,094	128,756
Income tax expense	(9)	-41,479	-32,969
Net income		82,615	95,787
of which: attributable to non-controlling interests	(19)	4,065	4,211
of which: attributable to shareholders of ElringKlinger AG	(19)	78,550	91,576
Basic and diluted earnings per share in EUR	(10)	1.24	1.45

GROUP STATEMENT OF COMPREHENSIVE INCOME

of ElringKlinger AG, January 1 to December 31, 2016

EUR k	2016	2015
Net income	82,615	95,787
Currency translation difference	-3,309	20,336
Gains and losses that can be reclassified to the income statement in future periods	-3,309	20,336
Remeasurement of defined benefit plans, net	-10,812	4,517
Gains and losses that cannot be reclassified to the income statement in future periods	-10,812	4,517
Other comprehensive income after taxes	-14,121	24,853
Total comprehensive income	68,494	120,640
of which: attributable to non-controlling interests	3,676	5,633
of which: attributable to shareholders of ElringKlinger AG	64,818	115,007

GROUP STATEMENT OF FINANCIAL POSITION

of ElringKlinger AG, as at December 31, 2016

EUR k	Note	Dec. 31, 2016	Dec. 31, 2015
ASSETS			
Intangible assets	(11)	212,440	213,542
Property, plant and equipment	(12)	917,318	827,259
Investment property	(13)	15,822	14,242
Financial assets	(14)	1,029	1,255
Non-current income tax assets	(15)	211	875
Other non-current assets	(15)	4,291	3,218
Deferred tax assets	(9)	16,808	14,108
Non-current assets		1,167,919	1,074,499
Inventories	(16)	328,334	321,902
Trade receivables	(17)	299,522	287,229
Current income tax assets	(17)	3,803	2,507
Other current assets	(17)	39,184	30,731
Cash and cash equivalents	(18)	39,407	48,925
Current assets		710,250	691,294
		1,878,169	1,765,793

EUR k	Note	Dec. 31, 2016	Dec. 31, 2015
LIABILITIES AND EQUITY			
Share capital		63,360	63,360
Capital reserves		118,238	118,238
Revenue reserves		672,635	628,933
Other reserves		-2,829	11,098
Equity attributable to the shareholders of ElringKlinger AG	(19)	851,404	821,629
Non-controlling interest in equity	(20)	34,963	34,102
Equity		886,367	855,731
Provisions for pensions	(21)	136,562	118,744
Non-current provisions	(22)	13,604	12,340
Non-current financial liabilities	(23)	320,813	326,092
Deferred tax liabilities	(9)	16,456	25,114
Other non-current liabilities	(24)	3,834	3,829
Non-current liabilities		491,269	486,119
Current provisions	(22)	17,279	16,423
Trade payables	(24)	103,228	85,939
Current financial liabilities	(23)	257,392	209,597
Tax payable	(9)	26,151	18,702
Other current liabilities	(24)	96,483	93,282
Current liabilities		500,533	423,943
		1,878,169	1,765,793

GROUP STATEMENT OF CHANGES IN EQUITY

of ElringKlinger AG, January 1 to December 31, 2016

EUR k	Share capital	Capital reserves	Revenue reserves
Balance as of Jan. 1, 2015	63,360	118,238	572,205
Dividend distribution			-34,848
Purchase of shares from non-controlling interests			
Total comprehensive income			91,576
Net income			91,576
Other comprehensive income			
Balance as of Dec. 31, 2015/ Balance as of Jan. 1, 2016	63,360	118,238	628,933
Dividend distribution			-34,848
Purchase of shares from non-controlling interests			
Total comprehensive income			78,550
Net income			78,550
Other comprehensive income			
Balance as of Dec. 31, 2016	63,360	118,238	672,635

Other reserves					
Remeasurement of defined benefit plans	Equity impact of controlling interests	Currency translation differences	Equity attributable to the shareholders of ElringKlinger AG	Non-controlling interests in equity	Group equity
-37,349	2,033	25,033	743,520	31,674	775,194
			-34,848	-1,055	-35,903
	-2,050		-2,050	-2,150	-4,200
4,364		19,067	115,007	5,633	120,640
			91,576	4,211	95,787
4,364		19,067	23,431	1,422	24,853
-32,985	-17	44,100	821,629	34,102	855,731
			-34,848	-2,848	-37,696
	-195		-195	33	-162
-10,631		-3,101	64,818	3,676	68,494
			78,550	4,065	82,615
-10,631		-3,101	-13,732	-389	-14,121
-43,616	-212	40,999	851,404	34,963	886,367

GROUP STATEMENT OF CASH FLOWS

of ElringKlinger AG, January 1 to December 31, 2016

EUR k	Note	2016	2015
Earnings before taxes		124,094	128,756
Depreciation/amortization (less write-ups) of non-current assets	(11) – (14)	95,652	87,514
Net interest	(8)	13,947	11,585
Change in provisions		12	-7,775
Gains/losses on disposal of non-current assets		-1,084	-1
Change in inventories, trade receivables and other assets not resulting from financing and investing activities		-26,496	-51,832
Change in trade payables and other liabilities not resulting from financing and investing activities		22,839	5,887
Income taxes paid	(9)	-43,574	-39,353
Interest paid		-11,574	-9,752
Interest received		258	521
Other non-cash expenses and income		1,668	-2,220
Net cash from operating activities		175,742	123,330
Proceeds from disposals of property, plant and equipment, intangible assets and investment property		3,084	753
Proceeds from disposals of financial assets		456	477
Payments for investments in intangible assets	(11)	-11,806	-13,663
Payments for investments in property, plant and equipment and investment property	(12), (13)	-171,281	-176,073
Payments for investments in financial assets	(14), (17)	-4,834	0
Payments for the acquisition of subsidiaries and other entities, less cash		-5,323	-24,151
Net cash from investing activities		-189,704	-212,657
Payments to non-controlling interests for the purchase of shares		-163	-4,200
Dividends paid to shareholders and to non-controlling interests		-37,696	-35,903
Proceeds from the addition of financial liabilities*	(23)	82,337	131,947
Payments from the repayment of financial liabilities	(23)	-63,135	-57,111
Change in current debts*		23,132	30,556
Net cash from financing activities		4,475	65,289
Changes in cash		-9,487	-24,038
Effects of currency exchange rates on cash		-31	4,230
Cash at beginning of period	(18)	48,925	68,733
Cash at end of period	(18)	39,407	48,925

* Change in presentation, see comments in the notes to the consolidated financial statements (29)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

of ElringKlinger AG for the 2016 Financial Year

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 June 13, 2012. 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, 2016, 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 (IFRIC), the supplementary commercial law regulations pursuant to § 315a (1) German Commercial Code (Handelsgesetzbuch, “HGB”) and the provisions of German commercial and stock corporation law. The Articles of Association contain regulations on profit appropriation. All IASs, IFRSs and IFRICs mandatory for the financial year 2016 have been observed.

On March 23, 2017, the Management Board of ElringKlinger AG submitted the consolidated financial statements to the Supervisory Board, which will meet on March 24, 2017 to approve them.

The consolidated financial statements have been prepared in euros. Unless otherwise stated, all amounts are in thousand EUR (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 the financial year 2016 for the first time:

Amendments to IAS 19 Employee Benefits: Employee Contributions

The amendments to IAS 19 modify the regulations relating to contributions linked to the period of service made by the employee or a third party to defined benefit plans. These amendments now permit contributions to be recognized, irrespective of the number of years of service, as a reduction in the current service cost of the period in which the work is performed.

If, however, an employee contribution is dependent on the length of service, the projected unit credit method has to be used. The amendment becomes effective for reporting periods beginning on or after February 1, 2015. The amendment is to be applied retrospectively. The adoption did not have any significant effects on the consolidated financial statements of the ElringKlinger Group.

Annual Improvements to IFRSs (2010 to 2012)

The pronouncement relates to smaller amendments to the standards IFRS 5, IFRS 7, IAS 19 and IAS 34. These did not have any significant effects on the consolidated financial statements of the ElringKlinger Group.

Amendments to IFRS 11: Joint Arrangements – Acquisition of Shares in a Joint Operation

The amendment to IFRS 11 clarifies that acquisitions of or increases in interests in joint operations in which the activity constitutes a business as defined by IFRS 3, require the acquirer to apply all of the principles on business combinations accounting in IFRS 3 and other applicable IFRSs except for those principles that conflict with the guidance in IFRS 11. The amendments do not apply if the reporting company and the parties to the joint arrangement are under common control of the same ultimate controlling entity. ElringKlinger currently does not hold any shares in joint ventures which means the amendment to the standard did not have any implications for the ElringKlinger Group.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization

In these amendments, the IASB provides additional guidance on acceptable methods of depreciation and amortization.

According to the amendments, a depreciation method of property, plant and equipment that is based on sales revenue is not appropriate. An amortization method of intangible assets that is based on revenue is only appropriate in limited circumstances. As the ElringKlinger Group does not perform any depreciation based on sales revenue, there were no consequences for the Group.

Annual improvements to IFRSs (2012 to 2014)

The pronouncement relates to minor changes to IFRS 5, IFRS 7, IAS 19 and IAS 34, which had no material implications on the ElringKlinger Group's financial performance, net assets and cash position.

The following standards, which have already been adopted by the EU, are not yet mandatory for the financial year 2016 and have not yet been applied by the ElringKlinger Group:

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, accounting for the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting in particular were revised completely. IFRS 9 is to be applied for the first time for financial years beginning on or after January 1, 2018. The first-time application is to be performed retrospectively, although there are various simplification options available. Earlier voluntary adoption of the standard is permitted. In particular, earlier recognition of expected impairment on the basis of the "expected loss" model as well as cases in which specific financial instruments are no longer recognized at amortized cost may impact the ElringKlinger Group. The Group aims to apply the new standard as of the date it is due to become effective. The extent of the impact on ElringKlinger Group's accounting is currently still being analyzed.

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. Earlier voluntary adoption is permitted. When transitioning to the new standard, entities can choose between a totally 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 adopt IFRS 15 early, but rather from January 1, 2018 using the adjusted retrospective approach.

In financial year 2016, the Group began a preliminary assessment of IFRS 15 which may change in the course of a more detailed analysis in 2017. The Group will also take into account the clarification published by the IASB in April 2016 and monitor further developments in the interpretation of IFRS 15.

The preliminary assessment initially involved an impact analysis on existing agreements. Key serial and tool agreements with OEM customers of the ElringKlinger Group were analyzed in the process. The next step planned for the first half of 2017 will involve a worldwide analysis. The provisional results of the impact analysis were discussed with various functional departments with regard to potential effects at group level. Based on the contract analysis performed in the first half of 2017 to date, a concept for reconciling revenue recognition to the IFRS 15 new provisions will be developed, which will also cover the need for modifications to the existing internal systems. Afterwards, the modification requirements will be implemented.

Based on the provisional results of the IFRS 15 impact analysis, the key potential effects are the following:

The separation of obligations and the resulting allocation of the transaction price required by IFRS 15 under certain conditions will possibly affect the timing of revenue recognition and earnings realization.

The presentation and disclosure requirement of IFRS 15 are much wider than the provisions of the current standard. The new presentation provisions differ substantially from current practice and will require much more extensive disclosure in the consolidated financial statements in the future. IFRS 15 has a large number of new disclosure provisions requiring quantitative and qualitative disclosures regarding sub-classification of the earnings by obligation and contract balances as well as significant use of judgment and recognized contract costs. In financial year 2016, the Group began investigating appropriate procedures that would be suitable for recording and disclosing the required information in the future.

The following standards, which have already been adopted by the EU but are not yet mandatory for the financial year 2016, have not yet been applied by the ElringKlinger Group:

IFRS 16 Leases

The standard on leases published in January 2016 requires all leases be recognized in the statement of financial position of the lessee. No distinction is made between finance and operating leases. Instead, a uniform lessee accounting model was introduced, which requires lessees to recognize assets (for the right of use) and lease liabilities for leases with a term of more than 12 months. The

revised standard is effective for the first time for financial years beginning on or after January 1, 2019. Early adoption is only permitted in conjunction with IFRS 15 Revenue from Contracts with Customers.

The ElringKlinger Group aims to apply the new standard as of the date it is due to become effective. The following effects were already identified in a preliminary analysis. However, the analysis had not yet been completed and the Group is constantly updating its findings in line with developments in the interpretation of IFRS 16.

To date, the Group has largely concluded operating leases for movable assets and business premises.

Currently, merely the payment obligations for operating leases are disclosed in the notes to the consolidated financial statements. In the future, the Group will be required to recognize the rights and obligations arising under these leases as an asset (right of use in the leased asset) and obligation (lease liability) in the statement of financial position. The Group expects that this will cause total assets to increase at the date of first-time application. Please also see our other notes on operating leases regarding the scope of the leases to be accounted for by the lessee.

In the income statement, prepared using the cost of sales method, the Group has to date recorded lease expenses by function. In the future, it will recognize write-downs on the right of use and interest expenses for the lease liabilities instead.

To date, the statement of cash flows has included payments for operating leases under the cash flow from operating activities. In the future, the payments for operating leases will be subdivided into interest and principal payments. While the interest payments will continue to be recognized under the cash flow from operating activities, the principal repayments will be allocated to the cash flow from financing activities.

Amendment to IAS 12: Recognition of Deferred Taxes for Unrealized Losses

The amendment to this standard aims to standardize accounting for deferred tax assets from unrealized losses that are related to assets measured at fair value. The amendment is effective for reporting periods beginning on or after January 1, 2017. Early adoption is permitted. The ElringKlinger Group will apply the new standard as of the date it is due to become effective. Based on analyses performed to date, the change is not expected to have a material impact on the Group.

Amendments to IAS 7: Statements of Cash Flows

The amendments to IAS 7 were published by the IASB as part of its disclosure initiative and contain requirements for additional disclosures on changes to liabilities from financing activities. The new provisions become effective for financial years beginning on or after January 1, 2017.

Clarifications of IFRS 15: Revenue from Contracts with Customers

In the middle of April 2016, the IASB published clarifications to IFRS 15 Revenue from Contracts with Customers. The clarifications include comments and additional remarks on the identification of obligations, application guidance for principal-agent agreements and licenses for intellectual property and transitional arrangements. The clarification is effective for reporting periods beginning on or after January 1, 2018. Early adoption is permitted.

Changes to IFRS 2: Classification and Measurement of Share-Based Payment Arrangements

The IASB published an amendment to IFRS 2 Share-Based Payment, which modifies the requirements for the following aspects: the impact of vesting conditions on the measurement of share-based payment transactions with cash settlement, the classification of share-based payments which are settled at the an amount net of taxes and accounting for share-based payment transactions with cash settlement in case where the amendment of their terms and conditions result in their classification as equity-settled share-based payment transactions. The amendment is effective for reporting periods beginning on or after January 1, 2018. Early adoption is permitted. No significant effects on the Group's financial performance, net assets and cash position are expected.

Changes to IFRS 4: Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

In September 2016, the IASB published an amendment to IFRS 4: Application of IFRS 9 Financial Instruments in conjunction with IFRS 4 Insurance Contracts. The changes address the reservations regarding the different points in time at which IFRS 9 Financial Instruments and the new standard governing the accounting for insurance contracts came into force. This amendment is not relevant to the ElringKlinger Group and will therefore not have any effect on its financial performance, net assets and cash position.

Scope of consolidated financial statements

The consolidated financial statements of ElringKlinger AG as of December 31, 2016, include the annual financial statements of eight (2015: 8) domestic and 34 (2015: 32) 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.

ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, made use of the exemption afforded by §264 (3) HGB with regard to the financial statements and management report as of December 31, 2016.

Furthermore, Elring Klinger (Great Britain) Ltd. made use of the exemption provisions under the UK Companies Act 2006 exemption provisions under s479A of the UK Companies Act 2006 regarding the audit of the financial statements with regard to its financial statements as of December 31, 2016.

An overview of the 42 entities included is provided as follows:

Schedule of Shareholdings and Scope of Consolidation

as of December 31, 2016

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/DE ³	Mönchengladbach	77.50
Hug Engineering GmbH ²	Magdeburg	93.67
new enerday GmbH/DE	Neubrandenburg	80.00
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
Hug Engineering AG	Elsau (Switzerland)	93.67
Elring Klinger (Great Britain) Ltd.	Redcar (UK)	100.00
ElringKlinger Italia Srl	Settimo Torinese (Italy)	100.00
Hug Engineering Italia S.p.A. ²	Milan (Italy)	93.67
Technik-Park Heliport Kft.	Kecskemét-Kadafalva (Hungary)	100.00
ElringKlinger Hungary Kft.	Kecskemét-Kadafalva (Hungary)	100.00
Elring Parts Ltd.	Gateshead (UK)	100.00
Elring Klinger, S.A.U.	Reus (Spain)	100.00
ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş.	Bursa (Turkey)	100.00
ElringKlinger Meillor SAS	Nantiat (France)	100.00
ElringKlinger Silicon Valley, Inc.	Fremont (USA)	100.00
HURO Supermold S.R.L.	Timisoara (Romania)	100.00
ElringKlinger Canada, Inc.	Leamington (Canada)	100.00
ElringKlinger North America, Inc.	Plymouth/Michigan (USA)	100.00
ElringKlinger USA, Inc.	Buford (USA)	100.00
ElringKlinger Automotive Manufacturing, Inc.	Southfield (USA)	100.00
Hug Engineering Inc. ²	Austin (USA)	93.67
Elring Klinger México, S.A. de C.V.	Toluca (Mexico)	100.00
EKASER, S.A. de C.V.	Toluca (Mexico)	100.00
Elring Klinger do Brasil Ltda.	Piracicaba (Brazil)	100.00
ElringKlinger South Africa (Pty) Ltd.	Johannesburg (South Africa)	100.00
ElringKlinger Automotive Components (India) Pvt. Ltd.	Ranjangaon (India)	100.00
Changchun ElringKlinger Ltd.	Changchun (China)	88.00
ElringKlinger Korea Co., Ltd.	Changwon (South Korea)	100.00
ElringKlinger China, Ltd.	Suzhou (China)	100.00
ElringKlinger Engineered Plastics North America, Inc. ³	Buford (USA)	77.50
ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd. ³	Qingdao (China)	77.50
ElringKlinger Marusan Corporation. ⁴	Tokyo (Japan)	50.00
Taiyo Jushi Kakoh Co., Ltd. ⁵	Tokyo (Japan)	50.00
Marusan Kogyo Co., Ltd. ⁶	Tokyo (Japan)	23.45
PT. ElringKlinger Indonesia ⁵	Karawang (Indonesia)	50.00
ElringKlinger (Thailand) Co., Ltd ⁵	Bangkok (Thailand)	50.00
Hug Engineering B.V. ⁷	Enschede (Netherlands)	84.30

¹ ElringKlinger AG prepares the consolidated financial statements for the largest and smallest group of consolidated subsidiaries

² Wholly owned subsidiary of Hug Engineering AG

³ Wholly owned subsidiary of ElringKlinger Kunststofftechnik GmbH

⁴ Consolidated due to contractual possibility of exercising control

⁵ Wholly owned subsidiary of ElringKlinger Marusan Corporation

⁶ 46.9% subsidiary of ElringKlinger Marusan Corporation, consolidated due to majority of voting rights

⁷ 90% subsidiary of Hug Engineering AG

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

The non-controlling interests amount to 22.5%.

The share in the earnings of this subgroup attributable to non-controlling interests for the financial year 2016 is EUR 2,394 k (2015: EUR 2,585 k).

A dividend of EUR 2,475 k was distributed to the non-controlling interests in the financial year 2016. The remaining EUR 8,525 k was distributed to the parent company ElringKlinger AG.

Cash flow of the subgroup: in EUR k	2016	2015
Operating activities	16,114	18,063
Investing activities	-7,215	-15,254
Financing activities	-9,630	-2,316
Changes in cash	-731	493
Effects of currency exchange rates on cash	-54	192
Summarized key financial information of the subgroup in EUR k	2016	2015
Non-current assets	65,892	63,490
Current assets	36,078	37,705
Non-current liabilities	15,162	14,841
Current liabilities	9,703	7,588
Sales revenue	98,775	96,621
Earnings before taxes (EBT)	14,776	14,262
Net income	10,476	10,227
Total comprehensive income	9,487	11,290

Further detailed information in EUR k	2016	2015
Cash and cash equivalents	2,488	3,998
Cash in hand	7	9
Bank deposits	2,481	3,989
Non-current financial liabilities	1,225	2,520
to banks	1,000	2,020
to affiliated companies	225	500
Current financial liabilities	1,000	1,163
to banks from loans	1,000	1,006
to banks from current accounts	0	0
from overdraft facilities (only IC)	0	157
Interest income	157	238
Interest expense	421	195
Depreciation and amortization	5,450	4,613

Business combinations in 2016

With effect as of April 11, 2016, Hug Engineering AG, with its registered office in Elsau, Switzerland, in which ElringKlinger AG holds a 93.67% share, acquired 80% of the shares in CODiNOx Beheer B.V., with its registered office in Enschede, Netherlands, after it had merged with its subsidiary CODiNOx Beheer B.V. Subsequently, CODiNOx Beheer B.V. was renamed Hug Engineering B.V. Hug Engineering AG now holds a 90% interest in the company.

Under this agreement, a put option was agreed with the non-controlling interest on its shares. The obligation resulting from this agreement is recognized as a financial liability and recorded at present value of the expected repurchase amount of EUR 870 k. Changes to the present value are recognized in the income statement in subsequent periods.

The goal of the acquisition is to bundle synergies, increase the growth potential of Hug exhaust purification systems and tap new markets.

A cash purchase price of EUR 4,500 k was agreed for the acquisition of the shares. Taking into account the abovementioned put option of EUR 870 k and the fair value of the equity interest held prior to this of EUR 563 k, the total consideration came to EUR 5,933 k. The transaction-related costs of EUR 124 k to date were recognized in general and administrative expenses.

In this context, an agreement was concluded with the minority shareholder of Hug Engineering B.V. on future management services to be provided by this party which are to be accounted for separately from the business combination. In addition to fixed monthly payments, ElringKlinger AG will calculate an amount to be paid annually based on an adjusted revenue amount. The deferred performance will be set aside as of the relevant cut-off date.

The assets and liabilities of the acquired shares were measured at acquisition cost as of the acquisition date. The difference of EUR 723 k remaining after taking into account deferred tax liabilities (EUR 960 k) on the hidden reserves identified (EUR 3,917 k) was recognized as goodwill. This was paid primarily for the positive forecasts as well as the expected synergies.

Goodwill is not tax deductible.

Effective as of April 11, 2016, the first-time full consolidation of the Company increased the Group's sales revenue by EUR 6,969 k in 2016 and earnings before taxes by EUR 645 k. Had the acquisition been completed as of January 1, 2016, Hug Engineering B.V. (formerly: CODiNOx Beheer B.V.) would have contributed EUR 8,781 k to group sales revenue and increased earnings before taxes by EUR 794 k. The shares accounted for at amortized cost as of the acquisition date were remeasured at a fair value of EUR 563 k upon acquisition of the outstanding shares. The transition to full consolidation resulted in non-cash income of EUR 561 k, which was recognized as other operating income.

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

in EUR k	IFRS carrying amount at the time of acquisition	Purchase price allocation	Acquisition date fair value
Intangible assets	11	3,917	3,928
Property, plant and equipment	297	–	297
Inventories	1,108	–	1,108
Trade receivables	1,179	–	1,179
Other current assets	112	–	112
Cash and cash equivalents	973	–	973
Total assets	3,680	3,917	7,597
Deferred tax liabilities	25	960	985
Current provisions	120	–	120
Trade payables	598	–	598
Tax payable	228	–	228
Other current liabilities	456	–	456
Total liabilities	1,427	960	2,387
Net assets	2,253	2,957	5,210
Goodwill			723
Fair value of the old shares 10%			-563
Fair value of liabilities to third parties 10%			-870
Purchase price			4,500

The intangible assets identified are the customer base (EUR 3,614 k), brand (EUR 149 k), technologies (EUR 78 k) and order backlog (EUR 76 k).

No contingent liabilities were identified in the course of the acquisition.

Effective as of June 1, 2016, ElringKlinger AG took over the business operations of the insolvent mold and tool manufacturing company Maier Formenbau GmbH with its registered office in Bissingen/Teck, Germany. To ensure Maier Formenbau GmbH's continuation on a going concern basis, all required assets were purchased and absorbed by ElringKlinger AG (asset deal).

With the takeover, ElringKlinger AG expanded its existing competency and capacities in the area of tool manufacturing. Maier Formenbau GmbH specializes in the production and maintenance of complex technical injection molding tools.

A cash purchase price of EUR 1,796 k was agreed for the acquisition of the company. Transaction-related costs of EUR 13 k to date were recognized in general and administrative expenses.

The assets and liabilities were measured at fair value as of the acquisition date. No hidden reserves were identified. The remaining difference of EUR 192 k was recognized as goodwill. This was paid primarily for the synergies. The goodwill was allocated to the OEM segment.

Goodwill is tax deductible.

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

in EUR k	IFRS carrying amount at the time of acquisition	Purchase price allocation	Acquisition date fair value
Property, plant and equipment	916	–	916
Inventories	1,244	–	1,244
Total assets	2,160	–	2,160
Other current liabilities	556	–	556
Total liabilities	556	–	556
Net assets	1,604	–	1,604
Goodwill			192
Purchase price			1,796

No contingent liabilities were identified in the course of the acquisition.

Acquisition of non-controlling interests

On February 18, 2016, ElringKlinger AG acquired the previously non-controlling shares of 5% in the subsidiary new enerday GmbH based in Neubrandenburg, Germany. The purchase price amounted to EUR 162 k. The resulting difference from the non-controlling interests accounted for was recognized directly in equity. ElringKlinger AG now holds a 80% interest in the company.

Newly formed company

ElringKlinger Silicon Valley, Inc., headquartered in Fremont, USA was formed effective October 31, 2016. ElringKlinger AG holds a 100% interest in the company.

Business combinations in 2015

Effective February 14, 2015, ElringKlinger AG acquired 100% of the shares in the US entity M&W Manufacturing Company, Inc., based in Warren, Michigan, USA (M&W).

M&W Manufacturing Company, Inc. was subsequently renamed ElringKlinger Automotive Manufacturing, Inc. (EKAM).

This acquisition will allow the Specialty Gaskets division to underpin its regional presence in North America and its production activities in the US market. Together with US market leader M&W, ElringKlinger has advanced to become the premier supplier of transmission spacer plates. In addition to supplying the North American market, EKAM has started to increasingly serve the Chinese market from its US production site.

A purchase price of EUR 24,276 k was agreed for the acquisition of the company. The transaction-related costs of EUR 246 k to date were recognized in general and administrative expenses.

The assets and liabilities of the acquired shares were measured at fair value as of the acquisition date. The difference of EUR 17,122 k remaining after taking into account deferred tax liabilities (EUR 2,757 k) on the hidden reserves identified (EUR 8,016 k) was recognized as goodwill. This was paid primarily for the positive forecasts as well as the expected synergies and allocated to the Original Equipment segment.

Goodwill is not tax deductible.

From the date of acquisition, EKAM has contributed EUR 32,151 k to the Group's sales revenue and EUR 969 k to the Group's earnings before tax in the financial year 2015. Had the acquisition been completed as of January 1, 2015, ElringKlinger Automotive Manufacturing, Inc. would have contributed EUR 36,294 k to group sales revenue and increased earnings before taxes by EUR 1,859 k in the financial year 2015.

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

in EUR k	IFRS carrying amount at the time of acquisition	Purchase price allocation	Acquisition date fair value
Intangible assets	–	8,016	8,016
Property, plant and equipment	3,294	–	3,294
Inventories	4,795	–	4,795
Trade receivables	4,500	–	4,500
Other current assets	259	–	259
Cash and cash equivalents	125	–	125
Total assets	12,973	8,016	20,989
Non-current provisions	104	–	104
Deferred tax liabilities	772	2,757	3,529
Current provisions	229	–	229
Trade payables	4,530	–	4,530
Current financial liabilities	4,715	–	4,715
Tax payable	56	–	56
Other current liabilities	672	–	672
Total liabilities	11,078	2,757	13,835
Net assets	1,895	5,259	7,154
Goodwill			17,122
Purchase price			24,276

The intangible assets identified are the customer base (EUR 6,960 k), technologies (EUR 890 k) and order backlog (EUR 166 k).

No contingent liabilities were identified in the course of the acquisition.

Acquisition of non-controlling interests

On July 17, 2015, ElringKlinger acquired the previously non-controlling shares of 3% in the subsidiary ElringKlinger Kunststofftechnik GmbH based in Bietigheim-Bissingen, Germany. The purchase price amounted to EUR 4,200 k, with the resulting difference from the non-controlling interests accounted for recognized directly in equity. ElringKlinger AG now holds a 77.5% interest in the company.

Newly formed company

ElringKlinger Hungary Kft., headquartered in Kecskemét-Kadafalva, Hungary was formed effective December 29, 2015. ElringKlinger AG holds a 100% interest in the company. This company will initially produce shielding products and will supply European customers with series parts as of 2016.

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 directly in equity.

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.

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 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:

Currency	Abbr.	Closing rate Dec. 31, 2016	Closing rate Dec. 31, 2015	Average rate 2016	Average rate 2015
US dollar (USA)	USD	1.05410	1.08870	1.10317	1.10455
Pound sterling (UK)	GBP	0.85618	0.73395	0.82269	0.72420
Franco (Switzerland)	CHF	1.07390	1.08350	1.09085	1.06458
Canadian dollar (Canada)	CAD	1.41880	1.51160	1.45892	1.42505
Real (Brazil)	BRL	3.43050	4.31170	3.81926	3.74256
Peso (Mexico)	MXN	21.77190	18.91450	20.68174	17.67058
RMB (China)	CNY	7.32020	7.06080	7.34151	6.94708
WON (South Korea)	KRW	1,269.36000	1,280.78000	1,279.91750	1,254.24583
Rand (South Africa)	ZAR	14.45700	16.95300	16.12887	14.28050
Yen (Japan)	JPY	123.40000	131.07000	120.440830	133.63083
Forint (Hungary)	HUF	309.83000	315.98000	311.90917	309.58667
Turkish lira (Turkey)	TRY	3.70720	3.17650	3.34263	3.03973
Leu (Romania)	RON	4.53900	4.52400	4.49330	4.44073
Indian rupee (India)	INR	71.59350	72.02150	74.20010	71.00952
Indonesian rupiah (Indonesia)	IDR	14,173.43000	15,039.99000	14,678.48083	14,890.80750
Bath (Thailand)	THB	37.72600	39.24800	38.86225	38.00325

Accounting policies

Goodwill

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

in EUR k	2016	2015
Original Equipment	158,864	157,072
Engineered Plastics	6,313	6,313
Aftermarket	1,658	1,658
Total	166,835	165,043

Goodwill is capitalized and subjected to impairment testing on an annual basis. If the value is no longer recoverable, impairment is recorded. Otherwise, the valuation of the previous year is retained. Impairment of goodwill is not reversed, even if the impairment has ceased to apply.

ElringKlinger conducts an impairment test of goodwill at least once annually. Annual impairment testing of goodwill is performed as of the closing date on December 31. During impairment tests, the recoverable amount of the cash-generating unit is compared to its carrying amount. Recoverable amount is measured at value in use.

The value in use of the cash-generating units is determined by discounting future cash flows. This calculation is based on the following key assumptions:

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.

The plan is based on expected future market developments taking into consideration the business development thus far. The material assumptions relate to the development of sales revenue and earnings after taxes.

Sales revenue planning at the ElringKlinger Group is performed at an individual component level.

With regard to short-term planning, the current order backlog, information on the respective manufacturer and information from independent sources, such as advisory firms or automobile associations, is drawn on. In the medium term, ElringKlinger, in performing its sales revenue planning, expects the global vehicle production to aim for slight growth of around 1 to 2%.

Costs are also budgeted at an individual component level within the ElringKlinger Group. This 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. Steel prices are set to rise in 2017. ElringKlinger expects stable aluminum prices in 2017. The Group also anticipates the procurement price for plastic pellets to go up in the second half of 2017 due to oil price hikes. For other costs, it is assumed that they will continue to develop in line with regional economic development and dependent on sales revenue.

The discount factor applied as of December 31, 2016 was the weighted average cost of capital (WACC) before taxes of 9.98% (2015: 9.32%). The WACC is determined on the basis of the risk-free rate according to the method of the IDW I "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.

As in the previous year, the discount rate was used without applying a growth discount to determine the terminal value.

The impairment test performed as of December 31, 2016 did not result in the impairment of goodwill. Even changes in key parameters, which management deemed to be possible would not result in impairment.

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.

Financial instruments

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.

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

Financial assets

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.

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.

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 “available for sale”, later reversals of impairment losses are, however, recognized directly in equity.

Changes to the fair value of financial assets classified as available for sale are recognized in equity under other comprehensive income after taking deferred taxes into account. Any arising foreign exchange gains or losses 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 instruments. 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. Within 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 until maturity.

Assets are allocated to **financial assets classified as available 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 above categories. This category does not contain securities held for trading, for example. They are measured at fair value.

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 and interest-bearing loans. They are measured at amortized cost using the effective interest method. Gains or losses are recognized in the income statement 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 in the income statement.

Derivative financial instruments and hedge accounting

Under IAS 39, 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 in 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 flows of the Group. As of the reporting date, there were forward contracts for electricity and gas.

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. Manufacturing cost of work in progress and finished goods are 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. Manufacturing cost does not include selling expenses and borrowing cost. Administrative expenses are included in manufacturing cost 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. Mark-downs are made for detectable impairment due to lack of marketability and quality defects, and to account for declining sales prices.

After a review of the existing markdowns for lack of marketability, these amounts were adjusted in 2016. Applying the discount for lack of marketability from 2015 would have resulted in an increase in impairment of EUR 3,611 k in 2016.

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. No cash equivalents are held. Cash is recognized at amortized cost.

Non-current assets held for sale

Non-current assets classified as held for sale are carried at the lower of their carrying amount and fair value less costs to sell.

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.

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. The leased object is capitalized at the time the contract is concluded at its fair value or, if lower, at the present value of the future minimum lease payments. Initial direct costs are accounted for as part of the asset. The lease obligations which correspond to the carrying amount of the leased object are shown under financial liabilities.

If beneficial ownership under a lease rests with the lessor (operating leases), the lessor recognizes the leased object 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 consideration 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 principal risks and rewards have passed to the purchaser and receipt of the payment can be reliably expected.

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

Income from services is recognized as soon as the services have been rendered.

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

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.

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 the financial year 2016 amounted to 1.87% (2015: 2.00%). In the financial year 2016 borrowing costs of EUR 360 k (2015: EUR 559 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 to the financial statements unless the probability of an outflow of resources embodying economic benefits 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

The development of the global vehicle markets is generally linked to the economic situation. This applies even more to the commercial vehicle segment than to the passenger vehicle segment. In light of this, a slump in economic development always poses the risk that the demand for vehicles drops and therefore also vehicle production in the short to medium term. This would result cause demand for ElringKlinger components to fall.

According to current assessments, there are risks to economic development from the ongoing poor growth in Brazil and Japan. The economic situation in Russia, which is of minor significance to ElringKlinger, could stabilize in 2017. All in all, it is currently deemed unlikely that there will be a slowdown in the world economy, even taking into account the slowing growth in China, the pending Brexit and the recession in certain parts of Latin America. The International Monetary Fund anticipates 3.4% growth in the global economy for 2017.

General forecasts for the automotive sector indicate a positive development for 2017 overall. While the markets in North America and Europe are expected to remain at a consistently high level, growth is anticipated in China in particular, but also in other emerging countries. Growth is generally anticipated to shift from the established markets to emerging and developing economies. 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.

The risk of a dramatic collapse in vehicle production – similar to the one observed in the 2008/2009 crisis – is not very likely from today's perspective. ElringKlinger expects growth in global vehicle sales of around 2%.

ElringKlinger has a global reach and, with its broad customer structure, is neither dependent on individual markets nor on individual manufacturers. This means that an economic downturn in one region can at least be partially offset by its global setup and diversified customer make-up. 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 flex-time 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

Sales revenue increased by EUR 50,190 k in comparison with 2015 to reach EUR 1,557,443 k.

Sales revenue of the Group are made up as follows:

in EUR k	2016	2015
Sale of goods	1,543,250	1,494,658
Proceeds from the rendering of services	9,674	8,322
Income from rental and leasehold	4,519	4,273
Total	1,557,443	1,507,253

Breakdown by geographical markets:

in EUR k	2016	2015
Domestic	412,254	411,491
Foreign	1,145,189	1,095,762
Total	1,557,443	1,507,253

The location of the customer is used to determine allocation of sales revenue. The division of group sales revenue by segment and region is presented in note (30) Segment reporting.

2 Cost of sales

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

Cost of sales includes:

in EUR k	2016	2015
Cost of materials	630,088	643,207
Personnel expenses	302,775	286,026
Depreciation and amortization	84,287	76,344
Other expenses	144,374	127,396
Total	1,161,524	1,132,973

3 Selling expenses

Selling expenses increased by EUR 4,378 k compared to 2015 to reach EUR 120,370 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 4,864 k compared to 2015 to reach EUR 74,207 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. Research and development costs increased by EUR 5,945 k compared to 2015 to reach EUR 67,383 k. Development costs of EUR 7,368 k (2015: EUR 9,841 k) were capitalized in the financial year 2016.

6 Other operating income

in EUR k	2016	2015
Government grants	6,823	7,787
Reimbursements from third parties	2,399	2,196
Income from disposals of non-current assets	1,591	322
Insurance reimbursements/claims reimbursements	967	4,488
Write-up of impaired receivables	929	1,361
Other taxes (excl. income tax)	708	157
Reversal of provisions/deferred liabilities	1,606	387
Other	4,978	3,434
Total	20,001	20,132

7 Other operating expenses

in EUR k	2016	2015
Other taxes (excl. income tax)	4,045	2,653
Expenditures for claims	1,833	928
Recognition of provisions/deferred liabilities	7,655	2,925
Defaults on receivables	1,104	1,175
Impairment of receivables	835	1,732
Other fees	825	1,225
Losses on disposal of non-current assets	502	322
Selling costs for machinery	354	111
Other	1,213	1,320
Total	18,366	12,391

8 Net finance costs

in EUR k	2016	2015
Financial income		
Income from currency differences	14,688	22,696
Interest income	551	782
Other	2,222	1,916
Finance income, total	17,461	25,394
Finance costs		
Expenses from currency difference	-14,240	-19,474
Interest expense	-14,498	-12,367
– thereof from derivative financial instruments	0	0
Other	-223	-45
Finance costs, total	-28,961	-31,886
Net finance costs	-11,500	6,492

Of the interest expenses, an amount of EUR 2,495 k (2015: EUR 2,763 k) relates to interest portions of pension plans and the remainder to bank interest and interest expense from the reversal of discounts on long-term provisions. Borrowing costs for qualifying assets in the amount of EUR 360 k were capitalized in the reporting year (2015: EUR 559 k); this represents a corresponding improvement in the result. Interest expenses for finance leases are immaterial.

9 Income taxes

Income taxes are composed as follows:

in EUR k	2016	2015
Current tax expense	48,259	42,919
Deferred taxes	-6,780	-9,950
Tax expense reported	41,479	32,969

Income taxes comprise corporate income tax and trade tax including the solidarity surcharge of the German Group companies as well as comparable income taxes of the foreign Group companies.

The income tax rate calculated for the German companies is 29.4% (2015: 27.9%). Foreign taxation is calculated at the rates applicable in the countries concerned and lies between 9.0% and 40.8% (2015: between 10.0% and 38.9%). The average foreign tax rate is 27.6% (2015: 28.0%).

Deferred taxes are calculated by applying the tax rates in force or expected to be in force in the different countries at the time of realization as the law presently stands.

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 27.9% (2015: 28.0%) and the income tax expense actually reported.

in EUR k	2016	2015
Earnings before taxes	124,094	128,756
Expected tax rate	27.9%	28.0%
Expected tax expenses	34,585	36,016
Change in the expected tax rate due to:		
– Permanent differences	51	83
– Difference in basis of assessment of local taxes	-299	-57
– Use of non-capitalized or forfeiture of capitalized tax loss carryforwards	-447	-374
– Write-up/impairment loss of capitalized tax loss carryforwards (from other periods)	0	-3,495
– Addition to non-current tax loss carryforwards (relating to the period)	2,810	932
– Taxes relating to other periods	4,805	-767
– Deviations due to changes in tax rate	-287	226
– Deviations on account of withholding taxes	373	518
– Other effects	-112	-113
Current tax expense	41,479	32,969
Actual tax rate	33.4%	25.6%

Retained earnings of EUR 19,881 k (2015: EUR 17,946 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 284 k (2015: EUR 495 k) and was recorded as a deferred tax liability. Further retained earnings of domestic and foreign subsidiaries of EUR 176,024 k (2015: EUR 356,158 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 14,602 k (2015: EUR 11,023 k, prior-year figure adjusted). No deferred tax assets were recognized in respect of tax loss carryforwards amounting to EUR 40,680 k (2015: EUR 34,056 k, prior-year figure adjusted), 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 expiration of carry forwards not recognized for tax purposes is as follows:

Loss carryforwards are forfeited within in EUR k	Dec. 31, 2016	Dec. 31, 2015
One year	49	0
Two years	1,208	530
Three years	181	2,189
Four years	1,074	172
Five years	1,426	982
More than five years	34,248	26,505*
Non-forfeitable	2,494	3,678
Total	40,680	34,056

* Prior-year figure adjusted

Tax deferrals relate to the following line items:

Line items in EUR k	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Intangible assets	575	397	9,892	10,516
Property, plant and equipment	3,905	3,676	42,429	38,046
Investment property	55	26	1,918	1,845
Financial assets	2	2	0	9
Other non-current assets	6	64	324	218
Inventories	5,918	4,362*	1,491	1,915
Trade receivables	1,491	483	249	1,165
Other current assets	559	556	696	765
Cash and cash equivalents	0	0	0	0
Provisions for pensions	23,683	18,378	4	0
Non-current provisions	2,289	1,624	0	8
Non-current financial liabilities	30	207	14	0
Other non-current liabilities	647	112	0	0
Current provisions	2,109	1,843	0	31
Trade payables	15	43	195	19
Current financial liabilities	43	47	161	84
Other current liabilities	2,854	1,809	774	542
Deferred taxes associated with investments in subsidiaries	0	0	284	495
Tax loss carryforwards	14,602	11,023*	0	0
Total	58,783	44,652	58,431	55,658
Offsetting of deferred tax assets against deferred tax liabilities	-41,975	-30,544	-41,975	-30,544
Recognized in the statement of financial position	16,808	14,108	16,456	25,114

* Prior-year figures adjusted

Deferred taxes totaling EUR 6,067 k (2015: EUR -1,754 k) were recognized in other comprehensive income. Of this amount EUR 5,942 k (2015: EUR -1,962 k) relates to pension provisions and EUR 125 k (2015: EUR 208 k) relate to a net investment.

10 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:

	2016	2015
Profit/loss attributable to the shareholders of ElringKlinger AG (EUR k)	78,550	91,576
Average number of shares	63,359,990	63,359,990
Earnings per share in EUR	1.24	1.45

Disclosures on the Group Statement of Financial Position

11 Intangible assets

in EUR k	Development costs (internally generated)	Goodwill (purchased)	Patents, licenses, soft- ware and similar rights (purchased)	Intangible assets under construction	Total
Acquisition/production cost as of Jan. 1, 2016	49,492	178,719	74,133	219	302,563
Currency changes	-138	994	187	0	1,043
Change in consolidated group	0	915	3,928	0	4,843
Additions	7,368	0	3,452	986	11,806
Reclassifications	0	0	75	-49	26
Disposals	6,155	0	371	0	6,526
as of Dec. 31, 2016	50,567	180,628	81,404	1,156	313,755
Amortization as of Jan. 1, 2016	28,658	13,676	46,687	0	89,021
Currency changes	25	117	192	0	334
Additions	8,449	0	10,033	0	18,482
Disposals	6,155	0	367	0	6,522
as of Dec. 31, 2016	30,977	13,793	56,545	0	101,315
Net carrying amount as of Dec. 31, 2016	19,590	166,835	24,859	1,156	212,440
Acquisition/production cost as of Jan. 1, 2015	44,111	155,386	61,984	46	261,527
Currency changes	1,046	6,211	920	0	8,177
Change in consolidated group	0	17,122	8,015	0	25,137
Additions	9,841	0	3,645	177	13,663
Reclassifications	2	0	4	-4	2
Disposals	5,508	0	435	0	5,943
as of Dec. 31, 2015	49,492	178,719	74,133	219	302,563
Amortization as of Jan. 1, 2015	25,227	13,400	37,557	0	76,184
Currency changes	712	276	651	0	1,639
Additions	8,215	0	8,897	0	17,112
Reclassifications	0	0	17	0	17
Disposals	5,496	0	435	0	5,931
as of Dec. 31, 2015	28,658	13,676	46,687	0	89,021
Net carrying amount as of Dec. 31, 2015	20,834	165,043	27,446	219	213,542

Purchase commitments to acquire intangible assets amounted to EUR 967 k as of December 31, 2016 (December 31, 2015: EUR 524 k).

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

in EUR k	2016	2015
Cost of sales	12,900	11,194
Selling expenses	3,937	3,857
General and administrative expenses	917	1,361
Research and development costs	728	700
Total	18,482	17,112

12 Property, plant and equipment

in 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, 2016	390,268	953,265	164,122	119,794	1,627,449
Currency changes	451	1,837	-696	-2,524	-932
Change in consolidated group	0	843	370	0	1,213
Additions	19,057	45,794	18,220	86,329	169,400
Reclassifications	57,708	33,534	4,265	-95,533	-26
Disposals	2,062	29,077	3,878	0	35,017
as of Dec. 31, 2016	465,422	1,006,196	182,403	108,066	1,762,087
Depreciation as of Jan. 1, 2016	83,860	606,528	109,802	0	800,190
Currency changes	109	321	-199	0	231
Additions	10,760	53,607	12,277	0	76,644
Reclassifications	0	-26	26	0	0
Disposals	214	28,440	3,642	0	32,296
as of Dec. 31, 2016	94,515	631,990	118,264	0	844,769
Net carrying amount as of Dec. 31, 2016	370,907	374,206	64,139	108,066	917,318
Acquisition/production cost as of Jan. 1, 2015	356,387	865,017	150,734	71,014	1,443,152
Currency changes	8,468	8,979	839	1,683	19,969
Change in consolidated group	86	3,206	2	0	3,294
Additions	19,597	48,396	13,561	91,525	173,079
Reclassifications	6,266	35,324	2,725	-44,317	-2
Disposals	536	7,657	3,739	111	12,043
as of Dec. 31, 2015	390,268	953,265	164,122	119,794	1,627,449
Depreciation as of Jan. 1, 2015	73,612	558,312	103,248	0	735,172
Currency changes	1,757	4,457	183	0	6,397
Additions	9,004	50,888	10,048	0	69,940
Reclassifications	0	-39	21	0	-18
Disposals	513	7,090	3,698	0	11,301
as of Dec. 31, 2015	83,860	606,528	109,802	0	800,190
Net carrying amount as of Dec. 31, 2015	306,408	346,737	54,320	119,794	827,259

Property, plant and equipment contains technical equipment capitalized by the Group as finance leases in the amount of EUR 728 k (2015: EUR 880 k). In the financial year, amortization of leased assets amounted to EUR 192 k (2015: EUR 189 k).

As in the previous year, no impairment losses were recognized on property, plant and equipment in the financial year 2016.

Purchase commitments to acquire property, plant and equipment from third parties amounted to EUR 41,249 k as of December 31, 2016 (December 31, 2015: EUR 45,786 k).

13 Investment property

in EUR k	Investment property	Investment property under construction	Total
Acquisition/production cost as of Jan. 1, 2016	21,384	3,031	24,415
Currency changes	252	60	312
Additions	1,608	273	1,881
Reclassifications	3,091	-3,091	0
as of Dec. 31, 2016	26,335	273	26,608
Depreciation as of Jan. 1, 2016	10,173	0	10,173
Currency changes	101	0	101
Additions	512	0	512
as of Dec. 31, 2016	10,786	0	10,786
Net carrying amount as of Dec. 31, 2016	15,549	273	15,822
Acquisition/production cost as of Jan. 1, 2015	21,347	91	21,438
Currency changes	-17	0	-17
Additions	54	2,940	2,994
as of Dec. 31, 2015	21,384	3,031	24,415
Depreciation as of Jan. 1, 2015	9,726	0	9,726
Currency changes	-13	0	-13
Additions	460	0	460
as of Dec. 31, 2015	10,173	0	10,173
Net carrying amount as of Dec. 31, 2015	11,211	3,031	14,242

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

Investment property has a fair value of EUR 19,457 k as of the reporting date (2015: EUR 17,017 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 in the calculation was 8.75% (2015: 7.88%). 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 4,519 k (2015: EUR 4,273 k). Expenses directly connected with these financial investments amounted to EUR 5,163 k (2015: EUR 3,811 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 saleability of investment property.

14 Financial assets

in EUR k	Non-current securities	Other financial assets	Total
Acquisition cost as of Jan. 1, 2016	1,292	22	1,314
Currency changes	4	-2	2
Additions	247	0	247
Disposals	458	4	462
as of Dec. 31, 2016	1,085	16	1,101
Write-downs as of Jan. 1, 2016	59	0	59
Currency changes	1	0	1
Additions	14	0	14
Disposals	2	0	2
as of Dec. 31, 2016	72	0	72
Net carrying amount as of Dec. 31, 2016	1,013	16	1,029
Fair value Dec. 31, 2016	1,013	16	
Acquisition cost as of Jan. 1, 2015	1,693	90	1,783
Currency changes	13	7	20
Revaluations	-14	0	-14
Disposals	400	75	475
As of Dec. 31, 2015	1,292	22	1,314
Write-downs as of Jan. 1, 2015	55	0	55
Currency changes	2	0	2
Additions	2	0	2
As of Dec. 31, 2015	59	0	59
Net carrying amount as of Dec. 31, 2015	1,233	22	1,255
Fair value Dec. 31, 2015	1,233	22	

Of the non-current securities, EUR 819 k (2015: EUR 1,042 k) is pledged in full to secure pension claims.

15 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) of EUR 99 k and a corporate income tax credit carried by Elring Klinger do Brasil Ltda. of EUR 112 k.

Other non-current assets include an advance payment on future licensing expenses amounting to EUR 682 k (2015: EUR 565 k).

16 Inventories

in EUR k	Dec. 31, 2016	Dec. 31, 2015
Raw materials, consumables and supplies	100,949	94,266
Work in progress	62,478	60,591
Finished goods and merchandise	156,125	159,217
Advance payments	8,782	7,828
Total	328,334	321,902

Impairments of EUR 14,390 k were recognized on inventories due to market risks and obsolescence (2015: EUR 17,936 k). No write-ups were performed. Impairments are recognized in cost of sales.

17 Trade receivables, current income tax assets and other current assets

For trade receivables and other current assets, impairments of EUR 5,767 k (2015: EUR 6,262 k) were recognized for specific identifiable risks and likely use of discounts.

The carrying amount of the trade receivables and other assets corresponds to their fair values.

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

The adjustment account for trade receivables and other current assets developed as follows:

in EUR k	2016	2015
As of Jan. 1	6,262	5,690
Additions	740	1,732
Reversals/utilizations	-1,235	-1,026
Exchange rate effects	0	-134
As of Dec. 31	5,767	6,262

A breakdown of the due dates of the trade receivables is provided below:

in EUR k	Dec. 31, 2016	Dec. 31, 2015
Neither overdue nor impaired	244,473	239,834
Overdue, not impaired		
– less than 30 days	35,505	26,738
– from 31 to 60 days	7,629	7,054
– from 61 to 90 days	4,054	2,900
– from 91 to 180 days	581	523
– more than 180 days	127	382
Total	47,896	37,597
Discounts	-263	-256
Impaired	7,416	10,054
Carrying amount	299,522	287,229

The need to recognize impairment losses is analyzed on every reporting date for major customers on an individual basis. Additionally, a large number of receivables are grouped into homogeneous groups and assessed for impairment collectively.

For the portfolio of receivables neither overdue nor impaired, there are no indications as of the reporting date that would indicate that the debtors will not meet their payment obligations.

Other current assets include tax receivables from VAT and other taxes of EUR 19,400 k (2015: EUR 14,628 k), time deposits and securities of EUR 4,617 k (2015: EUR 31 k) and other receivables from third parties of EUR 15,167 k (2015: EUR 16,073 k), of which EUR 1,135 k (2015: EUR 1,372 k) relates to financial assets and EUR 0 k (2015: EUR 11 k) to financial derivatives.

Current income tax assets mainly contain the corporate income tax credits of ElringKlinger AG capitalized at present value in the amount of EUR 684 k (2015: EUR 684 k) and of ElringKlinger Kunststofftechnik GmbH also capitalized at present value of EUR 669 k (2015: EUR 698 k) as well as income tax assets of ElringKlinger Automotive Manufacturing, Inc. of EUR 1,187 k (2015: EUR 0 k).

18 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.

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

19 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, 2016 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 § 60 German Stock Corporation Act (Aktiengesetz, “AktG”) in conjunction with § 23 no. 1 of the Articles of Association.

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the Company's share capital by issuing new shares for cash and/or in-kind contributions on one or more occasions, however by no more than EUR 31,679,995, by May 17, 2017 (Authorized Capital 2012). 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;
- if the new shares are issued against cash contributions and if the issue price per new share does not fall significantly below the quoted price of shares already listed, and the shares issued without subscription rights pursuant to § 186 (3) sentence 4 AktG, do not represent more than 10% of the share capital, either on the date on which this authorization takes effect or on the date on which it is exercised. The upper limit of 10% of share capital includes any shares issued or sold during the term of this authorization in exclusion of shareholders' subscription rights in direct or indirect application of § 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 German Stock Corporation Act (AktG), the distributable dividend is measured on the retained earnings reported in the annual financial statements of ElringKlinger AG that have been drawn up according to the provisions of the German Commercial Code (HGB). In the financial year 2016, ElringKlinger AG distributed to its shareholders a dividend of EUR 34,848 k (EUR 0.55 per share) from the retained earnings reported in 2015. In the financial year 2015, the distribution was EUR 34,848 k (EUR 0.55 per share) from the retained earnings reported in 2014.

At the Annual General Meeting held on May 16, 2017 to ratify the 2016 financial statements, the Management Board and the Supervisory Board will propose that a dividend of EUR 0.50 per participating share be distributed from retained earnings of EUR 31,680 k.

20 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.

21 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 as well as the Swiss subsidiaries, 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 22,217 k (2015: EUR 20,529 k) and are allocated to the relevant function costs.

The defined benefit plans are accounted for in the Group through the recognition of provisions for pensions that are determined by the projected unit credit method in accordance with 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 received by the pension fund constitute plan assets within the meaning of IAS 19.8 and are therefore netted against the obligation to the plan beneficiaries.

The pension plans of the Swiss Group companies insure employees against the economic consequences of old age, disability and death. Assets are fully covered by pension insurance policy. No shortfall can arise from an agreement at a fully 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, 2016	Dec. 31, 2015
Discount rate (vesting period)	1.36%	1.94%
Discount rate (pension period)	1.16%	1.67%
Expected salary increases (in %)	2.69%	2.67%
Future pension increases	1.50%	1.75%

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

in EUR k	2016	2015
Present value of pension benefits as of Jan. 1	157,802	156,008
Current service cost	6,201	6,364
Past service cost	-454	-846
Plan participant contributions	3,977	3,664
Interest expense	2,927	2,763
Disbursements/utilization	-6,354	-8,513
Actuarial gains/losses	16,898	-6,280
Currency differences	598	4,549
Other changes	16	93
Change in consolidated group	0	0
Present value of pension benefits as of Dec. 31	181,611	157,802
of which (partially) covered by plan assets	75,797	48,709
of which not covered	105,814	109,093

The average weighted term of the defined benefit obligation amounts to 19 years (2015: 17 years). Actuarial gains and losses arise from the following effects:

in EUR k	2016	2015
Effects from changes in the interest rate	11,229	-5,316
Effects from changes in demographic assumptions	2,999	-43
Effects from other experience-based adjustments	2,670	-921
Actuarial gains/losses	16,898	-6,280

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

in EUR k	2016	2015
Market value as of Jan. 1	39,058	31,918
Change in consolidated group	0	0
Interest income	432	464
Employer contributions	3,871	4,603
Plan participant contributions	3,977	3,664
Service costs	-2,807	-4,951
Actuarial gains/losses	144	199
Currency effects	374	3,161
Market value as of Dec. 31	45,049	39,058

Plan assets comprise insurance claims. The plan assets and present value of defined benefit obligations are allocated to key countries as follows:

in EUR k	2016	2015
Present value of pension benefits as of Dec. 31		
Germany	123,770	104,879
Switzerland	53,180	48,709
Other	4,661	4,214
Present value of pension benefits as of Dec. 31	181,611	157,802
Market value of plan assets as of Dec. 31		
Germany	6,179	4,874
Switzerland	38,637	34,063
Other	233	121
Market value of plan assets as of Dec. 31	45,049	39,058

The actual return on plan assets amounts to EUR 567 k (2015: EUR 673 k).

In 2017, 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 4,270 k (2015: EUR 3,775 k). The future payments from pension obligations are as follows:

in EUR k	2016	2015
For the next 12 months	4,270	3,775
Between one and five years	15,050	14,693
More than five years	316,757	290,389

The following amounts are reported in the income statement for defined benefit plans

in EUR k	2016	2015
Current service cost	6,201	6,364
Net interest expenses	2,495	2,299
Past service cost	-454	-846
Total pension expense	8,242	7,817

Net interest expenses comprise interest expenses of EUR 2,927 k (2015: EUR 2,763 k) as well as interest income from plan assets of EUR 432 k (2015: EUR 464 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:

in EUR k	2016	2015
Actuarial gains (-) and (+) losses recognized in other comprehensive income	16,754	-6,479
Deferred taxes on actuarial gains (-) and losses (+) recognized under other comprehensive income	-5,942	1,962

The amount of the Group's obligation as reported on the statement of financial position is derived as follows:

in EUR k	2016	2015
Present value of pension obligation	181,611	157,802
Fair value of plan assets	45,049	39,058
Reported pension provision	136,562	118,744

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 27,023 k/EUR 33,077 k.

A 0.5% increase/decrease in future salary increases would lead to an increase/decrease in the DBO of EUR 2,505 k/EUR 3,622 k.

A change in future pension developments of +0.25%/-0.25% would lead to an increase/decrease in the DBO of EUR 4,615 k/EUR 5,595 k.

22 Other provisions

Other provisions can be broken down as follows:

in EUR k	Dec. 31, 2016	Dec. 31, 2015
Current provisions	17,279	16,423
Non-current provisions	13,604	12,340
Total	30,883	28,763

Current provisions:

in EUR k	Personnel obligations	Warranty obligations	Expected losses from customer contracts	Litigation costs	Other risks	Total
As of Dec. 31, 2015	2,243	5,724	4,085	1,844	2,527	16,423
Currency changes	6	- 13	15	68	9	85
Change in consolidated group	0	120	0	0	0	120
Utilization	2,814	2,189	4,099	613	723	10,438
Reversal	0	548	0	941	1,627	3,116
Additions	4,305	1,374	4,572	614	2,881	13,746
Reclassifications	489	-63	0	0	33	459
As of Dec. 31, 2016	4,229	4,405	4,573	972	3,100	17,279

Non-current provisions:

in EUR k	Personnel obligations	Warranty obligations	Litigation costs	Other risks	Total
As of Dec. 31, 2015	9,949	1,296	288	807	12,340
Currency changes	- 1	10	1	13	23
Change in consolidated group	0	0	0	0	0
Utilization	398	279	94	28	799
Reversal	189	40	102	218	549
Unwinding of discount/discounting	129	0	0	0	129
Additions	2,464	274	118	63	2,919
Reclassifications	-489	63	0	-33	-459
As of Dec. 31, 2016	11,465	1,324	211	604	13,604

Personnel provisions are recognized for phased retirement schemes, long-term service benefits and similar obligations.

The provision for warranties represents the best estimate of the 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 12 months. In addition, specific individual warranties were taken into account.

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.

23 Non-current and current financial liabilities

in EUR k	Domestic	Foreign	Total Dec. 31, 2016	Domestic	Foreign	Total Dec. 31, 2015
Overdrafts	145,960	21,602	167,562	111,697	35,081	146,778
Financial liabilities with a residual term of less than one year	11,938	77,892	89,830	29,376	33,443	62,819
Current financial liabilities	157,898	99,494	257,392	141,073	68,524	209,597
Financial liabilities with a residual term of between one and five years	240,009	66,596	306,605	207,057	100,822	307,879
Financial liabilities with a residual term of more than five years	4,721	9,487	14,208	9,028	9,185	18,213
Non-current financial liabilities	244,730	76,083	320,813	216,085	110,007	326,092
Total	402,628	175,577	578,205	357,158	178,531	535,689

This includes liabilities from finance leases of EUR 480 k (2015: EUR 462 k) with a nominal volume of EUR 511 k (2015: EUR 497 k).

The average interest rates were:

in %	Dec. 31, 2016	Dec. 31, 2015
Overdrafts:		
Domestic	0.67	0.87
Foreign	3.92	3.31
Financial liabilities:		
Domestic: less than one year	2.52	3.58
Domestic: between one and five years	1.79	1.95
Domestic: more than five years	1.96	1.87
Foreign: less than one year	2.47	2.70
Foreign: between one and five years	2.40	2.43
Foreign: more than five years	3.26	3.26

Fixed interest rates have been agreed for financial liabilities amounting to EUR 389,065 k (2015: EUR 380,287 k).

To secure these liabilities, land charges were issued on company land with a carrying amount of EUR 149,254 k (2015: EUR 119,463 k) and collateral assignment issued for inventory with a carrying amount of EUR 863 k (2015: EUR 4,866 k), receivables with a carrying amount of EUR 6,338 k (2015: EUR 11,939 k) and tools with a carrying amount of EUR 705 k (2015: EUR 0 k). The secured liabilities amounted to EUR 44,152 k (2015: EUR 48,266 k) as of December 31, 2016.

As of December 31, 2016, the Group had unused lines of credit amounting to EUR 122,185 k (2015: EUR 98,935 k).

24 Trade payables and other current and non-current liabilities

Trade payables and other current and non-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 48,685 k.

25 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 assets, liabilities, financial position and profit or loss 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 assets, liabilities, financial position and profit or loss 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 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 revenue is generated in a different currency than that in which the related costs are incurred. Sales revenue is 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, 2016							
in EUR k							
Local currency	HUF	EUR	IDR	CNY	JPY	Other	Total
Local currency +10%							
Consolidated net income	917	748	531	512	- 117	59	2,650
Local currency -10%							
Consolidated net income	-917	-748	-531	-512	117	-59	-2,650
Dec. 31, 2015							
in EUR k							
Local currency	EUR	CHF	CAD	USD	CNY	Other	Total
Local currency +10%							
Consolidated net income	-2,257	-1,206	-856	649	564	205	-2,901
Local currency -10%							
Consolidated net income	2,257	1,206	856	-649	-564	-205	2,901

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 on December 31, 2016, earnings would have been EUR 526 k (2015: EUR 105 k) lower. Had market interest rates been 30 basis points lower, earnings would have been EUR 41 k (2015: EUR 11 k) 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. Where necessary, it is possible to secure acceptable procurement prices by means of derivatives.

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 9,530 k (2015: EUR 12,521 k) 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 in note 17.

In 2016, the two largest customers accounted for 11.0% and 8.3% of sales revenue, respectively (2015: 11.7% and 8.1%).

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.

in EUR k	Trade payables	Financial liabilities	Finance leases	Derivatives	Other current liabilities	Total
As of Dec. 31, 2016						
Carrying amount	103,228	577,725	480	0	48,685	730,118
Expected outflows:	103,228	594,517	511	0	48,685	746,941
– less than one month	68,516	52,471	14	0	0	121,001
– between one and three months	29,211	30,832	30	0	8,992	69,065
– between three months and one year	2,570	168,306	123	0	39,693	210,692
– between one and five years	2,797	328,586	344	0	0	331,727
– more than five years	134	14,322	0	0	0	14,456
As of Dec. 31, 2015						
Carrying amount	85,939	535,277	462	182	49,374	671,234
Expected outflows:	85,939	557,802	497	182	49,374	693,794
– less than one month	51,010	57,397	14	15	0	108,436
– between one and three months	29,810	19,420	30	30	4,196	53,486
– between three months and one year	3,952	137,588	114	137	45,178	186,969
– between one and five years	1,157	324,931	339	0	0	326,427
– more than five years	10	18,466	0	0	0	18,476

Further disclosures on financial liabilities are provided under note (23).

26 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 shows the carrying amounts (CA) and fair values (FV) of financial assets

in EUR k	Cash and cash equivalents	Trade receivables	Other current assets
	CA	CA	CA
As of Dec. 31, 2016			
Loans and receivables	39,407	299,522	5,752
Held to maturity	0	0	0
Held for trading	0	0	0
Available for sale	0	0	0
Total	39,407	299,522	5,752
As of Dec. 31, 2015			
Loans and receivables	48,925	287,229	1,403
Held to maturity	0	0	0
Held for trading	0	0	0
Available for sale	0	0	0
Total	48,925	287,229	1,403

The following table shows the carrying amounts (CA) and fair values (FV) of financial liabilities:

in EUR k	Other current liabilities	Current financial liabilities	Current Finance leases	
	CA	CA	CA	FV
As of Dec. 31, 2016				
Financial liabilities measured at acquisition cost	48,685	257,231	0	0
Financial liabilities measured at fair value through profit or loss	0	0	0	0
No IAS 39 measurement category	0	0	161	167
As of Dec. 31, 2015				
Financial liabilities measured at acquisition cost	49,374	209,445	0	0
Financial liabilities measured at fair value through profit or loss	0	0	0	0
No IAS 39 measurement category	0	0	152	158

	Derivatives	Non-current securities		Other financial assets		Total
	CA	CA	FV	CA	FV	CA
	0	0	0	8	8	344,689
	0	819	819	0	0	819
	0	0	0	0	0	0
	0	194	194	8	8	202
	0	1,013	1,013	16	16	345,710
	0	0	0	10	10	337,567
	0	1,042	1,043	0	0	1,042
	11	0	0	0	0	11
	0	191	191	12	12	203
	11	1,233	1,234	22	22	338,823

	Trade payables	Derivatives		Non-current financial liabilities		Non-current Finance leases		Total
	CA	CA	FV	CA	FV	CA	FV	CA
	103,228	0	0	320,495	318,100	0	0	729,639
	0	0	0	0	0	0	0	0
	0	0	0	0	0	318	344	479
	85,939	0	0	325,782	326,768	0	0	670,540
	0	182	182	0	0	0	0	182
	0	0	0	0	0	310	339	462

Other current liabilities contain two purchase price liabilities of EUR 33,801 k (2015: one purchase price liability of EUR 35,153 k) from written put options which are 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.

The fair value of the other financial instruments held to maturity is based on prices quoted in an active market as of the reporting date.

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 granted to non-controlling interests of ElringKlinger Marusan Corporation to sell their shares is reported under other current liabilities and is based on forecasts of its business value. For the measurement of this put option held by 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 3,293 k.

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, 2016:

in EUR k	Level 1	Level 2	Level 3
Dec. 31, 2016			
Financial assets			
Non-current securities	194	0	0
Other financial assets	8	0	0
Derivatives*	0	0	0
Total	202	0	0
Financial liabilities			
Derivatives*	0	0	0
Total	0	0	0
Dec. 31, 2015			
Financial assets			
Non-current securities	191	0	0
Other financial assets	12	0	0
Derivatives*	0	11	0
Total	203	11	0
Financial liabilities			
Derivatives*	0	182	0
Total	0	182	0

* These are derivatives which do not meet the prerequisites for hedge accounting.

The table below shows the allocation of financial assets and liabilities that are not measured at fair value, but for which a fair value is disclosed, at the three levels of the fair value hierarchy as of the valuation date December 31, 2016:

in EUR k	Level 1	Level 2	Level 3
Dec. 31, 2016			
Financial assets			
Non-current securities	819	0	0
Other financial assets	0	0	8
Total	819	0	8
Financial liabilities			
Non-current liabilities from finance leases	0	0	344
Non-current financial liabilities	0	318,100	0
Purchase price liability from written put option	0	0	33,801
Total	0	318,100	34,145
Dec. 31, 2015			
Financial assets			
Non-current securities	1,043	0	0
Other financial assets	0	0	10
Total	1,043	0	10
Financial liabilities			
Non-current liabilities from finance leases	0	0	339
Non-current financial liabilities	0	326,768	0
Purchase price liability from written put option	0	0	35,153
Total	0	326,768	35,492

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.

Net gains/losses on financial instruments:

in EUR k	2016	2015
Held-for-trading financial instruments*	0	-157
Available-for-sale assets	498	0
Held-to-maturity investments	-18	0
Loans and receivables	3,599	2,913
Financial liabilities measured at acquisition cost	-814	614

* 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 on disposal of available-for-sale assets include income from the fair value adjustment of amortized costs of affiliated companies. There were no net gains that were reclassified from other comprehensive income to the income statement.

Net gains and losses on held-to-maturity investments include impairments and revaluations.

Net gains and losses on loans and receivables 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:

in EUR k	2016	2015
Total interest income	258	521
Total interest expense	- 11,328	- 9,663

As in the previous year, total interest income did not result in interest income from impaired financial assets.

27 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, 2016, future minimum lease payments under finance leases amounted to EUR 511 k (2015: EUR 497 k). The reconciliation of future minimum lease payments from finance lease arrangements to the corresponding liabilities as of December 31, 2016 is as follows:

in EUR k	Minimum lease payments Dec. 31, 2016	Interest included in minimum lease payments Dec. 31, 2016	Liabilities from finance leases Dec. 31, 2016
Term			
Less than one year	167	6	161
Between one and five years	344	26	318
More than five years	0	0	0
Total	511	32	479

28 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 minimum equity ratio of 40% within the Group. ElringKlinger AG's Articles of Association do not define any capital requirements.

The management 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 and total assets as of December 31, 2016 as compared to December 31, 2015.

in EUR million	2016	2015
Equity	886.4	855.7
as % of total capital	47.2%	48.5%
Non-current liabilities	491.3	486.1
Current liabilities	500.5	424.0
Debt	991.8	910.1
as % of total capital	52.8%	51.5%
Total capital	1,878.2	1,765.8

The change in equity from December 31, 2015 to December 31, 2016 was due primarily to an increase in revenue reserves and a decrease in other reserves. Debt increased year-on-year by 9%.

The equity ratio of the Group (47.2%) exceeded the 40% target equity ratio set by the Supervisory Board and Management Board.

For one loan, 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, 2016, there were no issues prevailing that would have justified banks exercising their unilateral right of termination.

* Cf. glossary

29 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 on 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 scope of the consolidated financial statements 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. The line "Change in current loans" was added to provide better insight into the Group's cash position. The previous-year figures were adjusted accordingly, with an amount of EUR 30,556 k for 2015 being reclassified from "Payments from the addition of financial liabilities."

30 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. From 2016, the Group measures the performance of its segments based on earnings before interest and taxes (EBIT). As such, the earnings before income taxes, interest income and expenses as well as the segment liabilities are no longer reported. 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 11% of the Group's consolidated sales revenue from one customer (EUR 171,814 k).

Segment reporting

Segment in EUR k	Original Equipment		Aftermarket		Engineered Plastics		Industrial Parks	
	2016	2015	2016	2015	2016	2015	2016	2015
External revenue	1,294,305	1,255,793	147,267	142,218	101,678	96,647	4,519	4,273
Intersegment revenue	17,636	27,606	0	0	160	111	352	234
Segment revenue	1,311,941	1,283,399	147,267	142,218	101,838	96,758	4,871	4,507
EBIT¹	88,916	91,167	30,487	28,195	14,881	13,207	-292	696
Depreciation and amortization ²	85,507	78,823	1,989	1,972	5,829	5,020	959	457
Capital expenditures ³	166,388	154,660	1,753	2,036	7,896	17,872	2,384	4,138
Segment assets	1,652,681	1,543,379	88,422	89,018	109,332	110,548	19,643	18,449
Segment in EUR k	Services		Other		Consolidation		Group	
	2016	2015	2016	2015	2016	2015	2016	2015
External revenue	9,674	8,322	0	0	0	0	1,557,443	1,507,253
Intersegment revenue	5,875	6,089	0	0	-24,023	-34,040	0	0
Segment revenue	15,549	14,411	0	0	-24,023	-34,040	1,557,443	1,507,253
EBIT¹	1,602	1,983	0	0	0	0	135,594	135,248
Depreciation and amortization ²	1,354	1,242	0	0	0	0	95,638	87,514
Capital expenditures ³	4,666	11,030	0	0	0	0	183,087	189,736
Segment assets	14,293	14,019	0	0	-6,202	-9,620	1,878,169	1,765,793

¹ Earnings before interest and taxes² Depreciation and amortization³ Investments in intangible assets and property, plant and equipment and investment property

Segment reporting by region

Region in EUR k		Sales revenues ¹	Non-current assets	Investments
Germany	2016	412,254	472,202	72,234
	2015	411,491	446,458	68,963
Rest of Europe	2016	489,099	293,399	36,908
	2015	470,330	273,600	41,371
NAFTA	2016	291,990	155,242	44,152
	2015	296,390	123,323	30,746
Asia-Pacific	2016	298,973	201,057	26,776
	2015	270,736	193,811	47,722
South America and rest of the world	2016	65,127	24,710	3,017
	2015	58,306	19,105	935
Group	2016	1,557,443	1,146,610²	183,087
	2015	1,507,253	1,056,297²	189,737

¹ The location of the customer is used to determine allocation of sales revenues to the regions.

² This includes financial assets of EUR 1,029 k (2015: EUR 1,255 k)

Other disclosures

Contingent liabilities

As in the previous year, the ElringKlinger Group is currently not subject to contingent liabilities 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 10,764 k (2015: EUR 8,650 k).

At the end of the reporting period, the Group had outstanding obligations arising from binding operating leases that fall due as follows:

in EUR k	Dec. 31, 2016	Dec. 31, 2015
less than one year	4,300	4,701
between one and five years	9,015	10,829
more than five years	1,973	2,168
Total	15,288	17,698

Of the total, EUR 8,460 k (2015: EUR 9,422 k) is related to outstanding obligations from binding operating leases for commercial premises, EUR 3,899 k (2015: EUR 4,251 k) to office equipment, and EUR 2,929 k (2015: EUR 4,025 k) to other lease arrangements.

Finance leases

Information on the finance lease can be found in note (27).

Other financial commitments

Energy purchase commitments

in EUR k	Dec. 31, 2016	Dec. 31, 2015
less than one year	9,496	2,882
between one and five years	19,356	17,379
Total	28,852	20,261

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-Kadafalva (Hungary) fall due as follows:

in EUR k	Dec. 31, 2016	Dec. 31, 2015
less than one year	1,715	1,292
between one and five years	3,109	1,732
more than five years	2,200	702
Total	7,024	3,726

Number of employees

The average number of employees during the year (excluding Management Board members) was as follows:

	2016	2015
Employees	7,931	7,322
Trainees	391	331
Total	8,322	7,653

Personnel expenses

Personnel expenses in the reporting year amounted to EUR 445,968 k (2015: EUR 416,652 k). Personnel expenses include expenses for wages and salaries, social security and other benefit costs, as well as expenses for post-employment benefits.

Changes in the composition of share indices

At its meeting held on March 3, 2016, Deutsche Börse decided to make changes to the composition of its share indices. The ElringKlinger AG share is being taken out of the MDAX index, in which it was previously listed, and will become part of the SDAX effective as of March 21, 2016. Two factors are decisive for the composition of the indices on the German share market: the market capitalization of the free float and the average trading volume of a share. ElringKlinger AG ranked near the bottom with regard to both measurement criteria and for this reason its share was removed from the MDAX index.

Events after the end of the reporting period

On October 26, 2016, ElringKlinger AG concluded a notarized agreement on a strategic shareholder investment of 27% in the Nürtingen engineering company hofer AG and a 53% material shareholding in the subsidiary hofer powertrain products GmbH, Nürtingen.

The shares were acquired in 2017 through participation in a capital increase. 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. 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. In addition, the contract includes a master loan agreement of EUR 30,000 k for the purpose of financing future investing activities of hofer powertrain products GmbH. The entry for hofer powertrain products GmbH was made in the commercial register on February 6, 2017. The entry for hofer AG was made in the commercial register on March 1, 2017.

hofer Group is, among other things, 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.

No measurements were yet available for calculating the further disclosures pursuant to IFRS 3 paragraph B64.

On March 23, 2017, the Management Board of ElringKlinger AG submitted the consolidated financial statements to the Supervisory Board, which will meet on March 24, 2017 to approve them. No other significant events occurred after the reporting date.

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. In addition, 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. Mr. Walter Herwarth Lechler is the Chairman of the Supervisory Board of ElringKlinger AG and holds a significant interest in Lechler GmbH. ElringKlinger AG earned EUR 47 k during the reporting year (2015: EUR 48 k). A receivable of EUR 25 k was still outstanding as of the reporting date (2015: EUR 15 k).

Lease agreement between Technik-Park Heliport Kft., Kecskemét-Kadafalva, Hungary (TPH), and the Lechler GmbH subsidiary, Lechler Kft., Kecskemét-Kadafalva, Hungary. TPH earned EUR 200 k in rental income based on this lease during the reporting year (2015: EUR 200 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 496 k in sales revenue during the reporting year (2015: EUR 492 k). As of the end of the reporting period, December 31, 2016, there was one outstanding receivable of EUR 41 k (2015: EUR 29 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 184 k worth of services under these business relations in 2016 (2015: EUR 183 k). As of December 31, 2016, there is EUR 15 k in liabilities (2015: EUR 17 k). Furthermore, CEK sold EUR 169 k worth of goods and raw materials to CHYAP (2015: EUR 95 k). As of the reporting date, December 31, 2016, there was one outstanding trade receivable of EUR 1 k (2015: EUR 0 k).

Loan agreement between Lechler GmbH and ElringKlinger AG. Lechler GmbH granted ElringKlinger AG loans totaling EUR 17,000 k (2015: EUR 12,000 k). A loan for EUR 7,000 k bears an interest rate of 1.08% p.a. and has a term until August 17, 2018. An additional loan for EUR 5,000 k bears an interest rate of 1.52% p.a. and has a term until June 19, 2017. A further loan for EUR 5,000 k bears an interest rate of 0.69% p.a. and has a term until August 15, 2019.

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 169 k during the reporting year (2015: EUR 150 k). As of the end of the reporting period one outstanding receivable came to EUR 13 k (2015: EUR 11 k).

The salaries of the employee representatives to the Supervisory Board are in line with market conditions.

Corporate bodies

Supervisory board

Walter Herwarth Lechler Stuttgart, Chairman	Managing Partner of Lechler GmbH, Metzingen Governance roles: a) n.a. b) Lechler Ltd., Sheffield/United Kingdom
Markus Siegers*, Altbach, Deputy Chairman	Chairman of the Works Council of ElringKlinger AG
Ernst Blinzinger*, Reutlingen	Former Principal Authorized Representative of IG Metall trade union, Reutlingen-Tübingen branch
Nadine Boguslawski*, Stuttgart	Secretary for the metal and electrical industry of the IG Metall trade union, Baden-Württemberg district administration Governance roles: a) Robert Bosch Automotive Steering GmbH, Schwäbisch Gmünd b) n.a.
Armin Diez*, Lenningen	Divisional Director of New Business Areas and Director of the Battery Technology/E-Mobility Division at ElringKlinger AG Governance roles: a) n.a. b) Member of the Advisory Board of e-mobil BW GmbH, Stuttgart

Klaus Eberhardt, Lindau	Former CEO of Rheinmetall AG, Düsseldorf Governance roles: a) MTU Aero Engines AG, Munich Dürr AG, Bietigheim-Bissingen b) n.a.
Pasquale Formisano* Vaihingen an der Enz	Chairman of the Works Council of ElringKlinger Kunststofftechnik GmbH
Rita Forst, Dörsdorf	Former member of the Management Board of Adam Opel AG, Rüsselsheim Governance roles: a) n.a. b) Joh. Winklhofer Beteiligungs GmbH & Co. KG, Munich Metalsa, S.A. de C. V., Monterrey, Mexico
Paula Monteiro-Munz* Grabenstetten	Deputy chairwoman of the Works Council of ElringKlinger AG
Prof. Hans-Ulrich Sachs, Bremen	Managing shareholder of betec Umformtechnik GmbH, Adelmannsfelden
Gabriele Sons, Ratingen	Member of the Management Board of ThyssenKrupp Elevator AG, Essen
Manfred Strauß, Stuttgart	Managing shareholder 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 supervisory boards to be established by law within the meaning of § 125 AktG

b) Membership in comparable domestic and foreign supervisory bodies within the meaning of § 125 AktG

Remuneration of the Supervisory Board

Total remuneration of the Supervisory Board of ElringKlinger AG amounted to EUR 741 k (2015: EUR 774 k) in the reporting period. In addition, travel expenses in the amount of EUR 2 k (2015: EUR 0 k) were reimbursed. The remuneration of the employee representatives in the Supervisory Board amounted to EUR 652 k in 2016 (2015: EUR 643 k) for their activities as employees.

Management Board

Dr. Stefan Wolf, Sindelfingen, Chairman	responsible for all Group companies and the corporate functions of Legal Affairs, Personnel, Investor Relations, Corporate Communications and the corporate function Aftermarket as well as (from February 23, 2016) Original Equipment Sales
Theo Becker, Metzingen	Responsible for the Cylinder-head Gaskets, Specialty Gaskets, lightweighting/Elastomer Technology, Shielding Technology, E-Mobility, Exhaust Gas Purification Technology and Tooling Technology divisions, as well as the corporate functions Quality and Environment, Materials Management, logistics and the ElringKlinger AG plants as well as New Business Areas since February 23, 2016
Karl Schmauder, Hülben	Responsible for Original Equipment Sales and New Business Areas until February 23, 2016
Thomas Jessulat, Stuttgart	Responsible for the corporate functions of Finance, Controlling, IT and the Industrial Parks division since January 1, 2016

Governance roles in supervisory boards and other supervisory bodies

Dr. Stefan Wolf, Sindelfingen, Chairman	Chairman of the supervisory board of Norma Group AG, Maintal, member of the supervisory board of ALLGAIER Werke GmbH, Uhingen
Theo Becker, Metzingen	Member of the supervisory board of E.G.O. Blanc und Fischer & Co. GmbH, Oberderdingen
Karl Schmauder, Hülben	Member of the Advisory Board of Steiff Beteiligungs-GmbH, Giengen
Thomas Jessulat, Stuttgart	Member of the supervisory board of hofer AG, Nürtingen (since January 28, 2017)

Remuneration of the Management Board

The remuneration of the Management Board amounted to:

in EUR k	2016	2015
Short-term fixed remuneration	1,354	1,387
Short-term variable performance-based remuneration	2,675	2,958
Long-term variable performance-based remuneration	-249	697
Long-term variable share-based remuneration	-165	-100
Severance payments	2,743	0
Expenses from post-employment benefits	532	523
Total	6,890	5,465

In the financial year, total Management Board remuneration pursuant to § 314 (1) no. 6a sentence 1 to 4 HGB came to EUR 4,565 k (2015: EUR 5,521 k). The present value (DBO) of the pension provisions amounted to EUR 8,893 k (2015: EUR 11,027 k). Remuneration relating to the retirement of one of the members of the Management Board in accordance with § 314 (1) No. 6a Sentence 6dd HGB amounted to EUR 2,743 k in the financial year (2015: EUR 0 k). The following stock appreciation rights stem from long-term performance-related remuneration:

As part of the long-term variable remuneration, the members of the Management Board were granted stock appreciation rights until the financial year 2013. Stock appreciation rights refer to a right to a cash settlement, not, however, for shares of ElringKlinger AG. It was planned that 30,000 stock appreciation rights would be granted to each member of the Management Board on February 1 of each year beginning in 2013. The strike price is calculated using the arithmetic mean of the market price of ElringKlinger's shares on the last 60 trading days prior to the grant date. The grant of the stock appreciation rights is subject to an investment by the Management Board members of one-tenth of the number of granted stock appreciation rights in shares of ElringKlinger AG. The holding period of the stock appreciation rights is four years. Within a period of two additional years after the holding period expires, a Management Board member may demand redemption of the stock appreciation rights. The redemption price is calculated using the average market price of ElringKlinger's shares of the last 60 trading days prior to redemption. Redemption of the stock appreciation rights may be demanded only if the redemption price exceeds the strike price by 25%. The total redemption price per tranche is limited to two fixed annual salaries at the time of redemption. Provisions are recognized in order to cover the estimated future payments. The fair value of the obligation is determined based on the Black-Scholes model using current market parameters. A risk-free interest rate of -0.12% was used.

The volatility of the share price (36.10%) was determined over a four-year period. The expected dividend was EUR 0.50 per share.

The previous model was terminated with the introduction of the new remuneration system for members of the Management Board. Tranches that are not yet exercisable remain unchanged.

For the financial year 2016, the figures are as follows:

Date tranche was issued	2013
Number of stock appreciation rights exercised	
Value of stock appreciation rights exercised (EUR k)	
Number of stock appreciation rights (not yet exercisable)	90,000
Average strike price (EUR)	24.54
Average remaining term to maturity in years	0.08
Value of stock appreciation rights held by members of the Management Board	
December 31, 2016 (EUR k)	19
December 31, 2015 (EUR k)	184
December 31, 2014 (EUR k)	236
December 31, 2013 (EUR k)	129

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

Provisions of EUR 17,619 k (2015: EUR 11,962 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 3,601 k in the financial year 2016 (2015: EUR 837 k). The remuneration of former members of the corporate bodies include settlement payments of EUR 2,743 k.

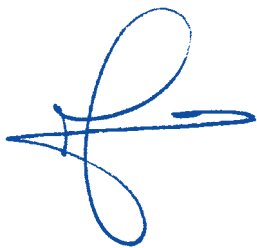
The **auditor fees** amounted to:

in EUR k	2016	2015
Audit of the annual financial statements	513	540
Other assurance services	4	17
Tax advisory	0	2
Other services	22	289
Total	539	848

Declaration of compliance with the German Corporate Governance Code

The Management Board and Supervisory Board issued a declaration of compliance pursuant to § 161 AktG on the German Corporate Governance Code in the version dated May 5, 2015 and published it on the ElringKlinger AG website on December 4, 2016. This declaration of compliance will be available on the ElringKlinger AG website and therewith made permanently available to shareholders.

Dettingen/Erms, March 23, 2017
Management Board



Dr. Stefan Wolf
Chairman/CEO



Theo Becker



Thomas Jessulat

AUDIT OPINION

We have issued the following opinion on the consolidated financial statements and the group management report, which has been combined with the management report of ElringKlinger AG:

“We have audited the consolidated financial statements prepared by ElringKlinger AG, Dettingen/Erms, comprising the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the notes to the consolidated financial statements, together with the group management report, which has been combined with the management report of ElringKlinger AG for the fiscal year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs [International Financial Reporting Standards] as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB [“Handelsgesetzbuch”: German Commercial Code] is the responsibility of the Company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU as well as the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the legal requirements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks relating to future development.”

Stuttgart, March 23, 2017
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Marbler
Wirtschaftsprüfer
[German Public Auditor]

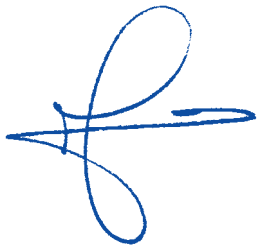
Göhner
Wirtschaftsprüfer
[German Public Auditor]

RESPONSIBILITY STATEMENT

Responsibility Statement According to §§ 297(2) Sentence 4 and 315(1) Sentence 6 HGB (German Commercial Code)

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.

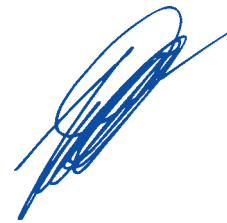
Dettingen/Erms, March 23, 2017
Management Board



Dr. Stefan Wolf
Chairman/CEO



Theo Becker



Thomas Jessulat

GLOSSARY

Financials

B BilRUG

In force since July 23, 2015, the Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz – BilRUG) transposed EU Directive 2013/34/EU into German law. The BilRUG includes changes mainly to the German Commercial Code (HGB), the German Stock Corporation Act (AktG), the German Limited Liability Companies Act (GmbHG), and the German Disclosure Act (PublG) as well as to the associated introductory acts.

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.

E Earnings per share

Earnings per share (EPS) is 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.

EBITDA

EBITDA stands 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.

EBIT/Operating result

EBIT stands for earnings before interest and taxes. It 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.

F Financial covenants

Financial covenants are contractual clauses within loan agreements. Under these terms, companies obligate themselves to meet specific financial requirements.

Free float

Free float refers to a company's shares that can be freely traded on the exchange and that are not firmly held by certain groups of investors. According to the definition by Deutsche Börse AG, share packages under 5% are counted as part of the free float.

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 MDAX

The Mid Cap Dax (MDAX) is a German stock market index introduced in 1996. It encompasses the stocks of 50 corporations (mostly small and medium-sized enterprises) that rank directly below the companies listed in Germany's main DAX index in terms of market capitalization of free float and average trading volume on German stock exchanges.

N 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.

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 and cash payments for investments in financial assets.

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, that 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

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 non-current provisions such as anniversary and partial-retirement provisions.

S SDAX

The Small Cap Index (SDAX) is a stock index that was introduced by Deutsche Börse in 1999. It measures the performance of the fifty biggest Prime Standard companies ranked below the DAX and MDAX in terms of market capitalization and trading volume.

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.

W WpHG

Abbreviation for Wertpapierhandelsgesetz (Securities Trading Act).

Technology**B Bipolar plates**

Bipolar plates are the key mechanical components in fuel cell stacks (cf. "Stack"). 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 CAFE regulations

The CAFE (Corporate Average Fuel Economy) regulations are the US equivalent of European CO₂ legislation. They impose average permitted fleet consumption limits on US manufacturers. Failure to comply with the strict CAFE regulations can result in substantial fines.

Catalytic oxidation of carbon monoxide (CO) and hydrocarbon (HC)

Method used for the purpose of reducing carbon monoxide and hydrocarbons in the exhaust gas. Carbon monoxide is mainly produced by the incomplete burning of fossil fuels. It is a colorless, odorless, and poisonous gas. When the hazardous exhaust gases pass through a catalytic converter (usually made of a ceramic material) and come into contact with its active surface usually featuring a precious-metal coating, a chemical reaction takes place and the gases are converted into non-toxic components (carbon dioxide and water).

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.

Combined heat/power generation (CHP)

This concept involves actively reusing the waste heat created as a by-product of electricity generation in order to heat domestic or industrial premises. This leads to a particularly high degree of overall efficiency.

D Data logger

Process-controlled device that records data in regular intervals via an interface and stores it within the system.

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.

DPF (Diesel Particulate Filter)

The job of a diesel particulate filter is to filter out the harmful particulates (soot) from diesel engine exhaust gases. One of the most common designs involves a wall flow filter made of ceramic (e.g., silicon carbide). The porous filter walls extract over 99% of the particulates contained in the exhaust gases. The technologies developed by ElringKlinger are used in various industries, such as the shipping sector.

DPF coating

The soot particles deposited in the diesel particulate filter (DPF) must be burned off in order to regenerate the filter. Most filters have a catalytic coating to accelerate the reaction. Due to the catalytic effect, the burn-off of soot particles can actually be initiated at low temperatures, resulting in the oxidation of any remaining hydrocarbons or carbon monoxide into CO₂ and water. The catalytic coating material is generally based on precious metals (platinum,

rhodium, palladium). However, ElringKlinger uses its own coating material known as CleanCoat™, which is based on an alkali silicate substance. CleanCoat™ is free of precious and heavy metals and is highly active even at low temperatures. It is used at series production level in the mobiclean™ R diesel particulate filter systems made by ElringKlinger.

E EGR

Exhaust gas recirculation (EGR) refers to the reduction of nitrogen oxide (NO_x) emissions produced when fuel is burned in a combustion engine. Where exhaust gas recirculation is deployed, some of the fresh air taken in is replaced by exhaust gases. This reduces the excess oxygen in the cylinders. At the same time, due to the higher thermal capacity of the exhaust gases relative to the fresh air, the combustion temperature is lowered. As a result, production of nitrogen oxide is reduced.

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 according to 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.

European emission standards

The emission standards prescribed by the European Parliament specify emission limits for HC (hydrocarbons), CO (carbon monoxide), NO_x (nitrogen oxides), and particulates with regard to all newly registered vehicles in Europe. Different limits apply to diesel and gasoline engines. The Euro 6 standard, which introduces much stricter limits on nitrogen oxides in diesel-powered vehicles, came into force for passenger cars in 2014. Effective from 2014, Euro 6 also imposed drastic reductions on heavy truck emissions of NO_x, in particular, but also HC and CO.

F Folded stoppers

Stoppers are structural features in cylinder-head gaskets that support the sealing elements fitted to engine combustion chambers. The well-established method of folding and hemming has been refined such that a broader fold of the sheet metal can be created; this design opens up a

wider range of applications. Drawing on many years of experience in stamping technology, ElringKlinger is thus able to unlock additional potential with regard to costs and performance.

Fuel cell

Fuel cells are a highly effective method of converting chemical fuel energy into electrical energy. 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. There are different types of fuel cell technologies that offer specific advantages depending on their application. ElringKlinger develops and manufactures components for the SOFC high-temperature fuel cell (cf. SOFC fuel cell), which is usually deployed in stationary applications, as well as the PEM low-temperature fuel cell (cf. PEM fuel cell).

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 20kW/t, which makes them capable of being propelled solely by an electric engine.
- Plug-in hybrids are comparable to full hybrids. Additionally, the accumulator (i.e., the rechargeable battery) can be charged via the combustion engine or the electrical grid.

Hydroforming

Hydroforming is a method that involves forming a metal tube in a forming tool with the help of a fluid that is injected under pressure of up to 1,000 bar. As part of this process, the tube expands by up to 5% and the geometry of the tool is shaped as required.

I IMO Tier III

IMO stands for International Maritime Organization. Based in London, IMO is a specialized agency within the United Nations (UN). Among its other tasks, it determines upper

emission levels aimed at preventing and combating marine pollution. Since January 1, 2016, newly built ships have been subject to stricter standards governing nitrogen oxide emissions. The upper limits specified in Tier III apply solely to specially designated areas defined by the IMO.

IP classification

IP stands for "International Protection." In the case of electronic components, IP ratings specify which protective measures have been taken against direct and indirect contact.

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.

M Metal-elastomer gaskets

Gaskets made from a metal core with vulcanized elastomer profiles for sealing power-transmitting connections, for example oil pump gaskets and timing case gaskets.

N 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. SCR technology can be used to neutralize nitrogen oxides (cf. "SCR").

O Organo sheet

Lightweight, fiber-reinforced organo sheets can partially replace sheet steel or aluminum in vehicles. They are 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.

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.

PTFE

The thermoplastic high-performance plastic PTFE (abbreviation for “polytetrafluoroethylene”) – commonly known by the trade name Teflon – 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 Rightsizing

From 2017 onward, the WLTP cycle (Worldwide harmonized Light vehicles Test Procedure) is to be applied for the purpose of determining car emission levels under realistic conditions. In the case of conventional engine downsizing, however, the difference between cycle-based consumption and real consumption can be significant depending on the style of driving. Therefore, the focus with regard to new generations of engines is on ensuring that various factors, such as engine capacity, torque, or consumption, are synchronized in such a manner as to create the best possible match.

S SCR (Selective Catalytic Reduction)

Technology for the reduction of toxic nitrogen oxides (NO_x). This technique involves adding a urea solution to the exhaust gas mixture. When this mixture passes through the catalytic converter, the nitrogen oxides react with the

urea solution and are subsequently converted into nitrogen and water. Incorporating SCR modules, the exhaust gas purification systems developed by ElringKlinger subsidiary Hug are able to reduce NO_x levels by up to 99%.

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.

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.

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.

IMPRINT

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ElringKlinger AG assumes no responsibility for data and statistics originating from third-party publications.

Paper

Algro Design Duo, 300 g/m² (Cover),
Arctic Volume White, 115 g/m² (Inside)

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.

This report was published on March 30, 2017, and is available in German and English. Only the German version shall be legally binding.

FINANCIAL CALENDAR 2017

**30
MARCH**

Annual Press Conference,
Stuttgart

Analysts' Meeting,
Frankfurt/Main

**09
MAY**

Interim Report
on the 1st Quarter of 2017

**16
MAY**

112th Annual General Shareholders' Meeting,
Stuttgart, Cultural and Congress Center Liederhalle,
10:00 a.m. CEST

**08
AUGUST**

Interim Report
on the 2nd Quarter and
1st Half of 2017

**07
NOVEMBER**

Interim Report
on the 3rd Quarter and
First Nine Months of 2017

**16
MAY 2018**

113th Annual General Shareholders' Meeting,
Stuttgart, Cultural and Congress Center Liederhalle,
10:00 a.m. CEST

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.

CALENDAR TRADE FAIRS 2017

MARCH	01–03	BATTERY JAPAN 2017 – 8th Int'l Rechargeable Battery Expo, Tokyo, Japan
APRIL	04–06	The Battery Show Conference Europe & Electric & Hybrid Vehicle Technology Conference Europe, Sindelfingen, Germany
	04–06	Medtec Europe, Stuttgart, Germany
	19–28	Auto Shanghai 2017 – The 17th International Automobile Industry Exhibition, Shanghai, China
	24–28	MDA – Motion, Drive & Automation, Hanover, Germany
MAY/JUNE	30–02	Moulding Expo – International Trade Fair for Tool, Pattern and Mould Making, Stuttgart, Germany
JUNE	27–29	Power-Gen Europe, Cologne, Germany
JULY	05–06	VDI Congress – Drivetrain for Vehicles, Bonn, Germany
SEPTEMBER	12–24	67th International Motor Show (IAA) Cars, Frankfurt/Main, Germany
	27–30	Monaco Yacht Show, Le Suffren, Monaco
OCTOBER	09–11	26th Aachen Colloquium, Aachen, Germany
	17–21	Fakuma – International Trade Fair for Plastics Processing, Friedrichshafen, Germany
NOV/DEC	29–02	Automechanika, Shanghai, China
DECEMBER	05–06	International CTI Symposium, Berlin, Germany

For further events and trade fairs please visit our websites:
www.elringklinger.de/en/press/dates-events
www.elringklinger-kunststoff.de/english/service/trade-fair-dates
www.hug-engineering.com/en/news/exhibitions
www.elring.de/en/press-events/dates-events

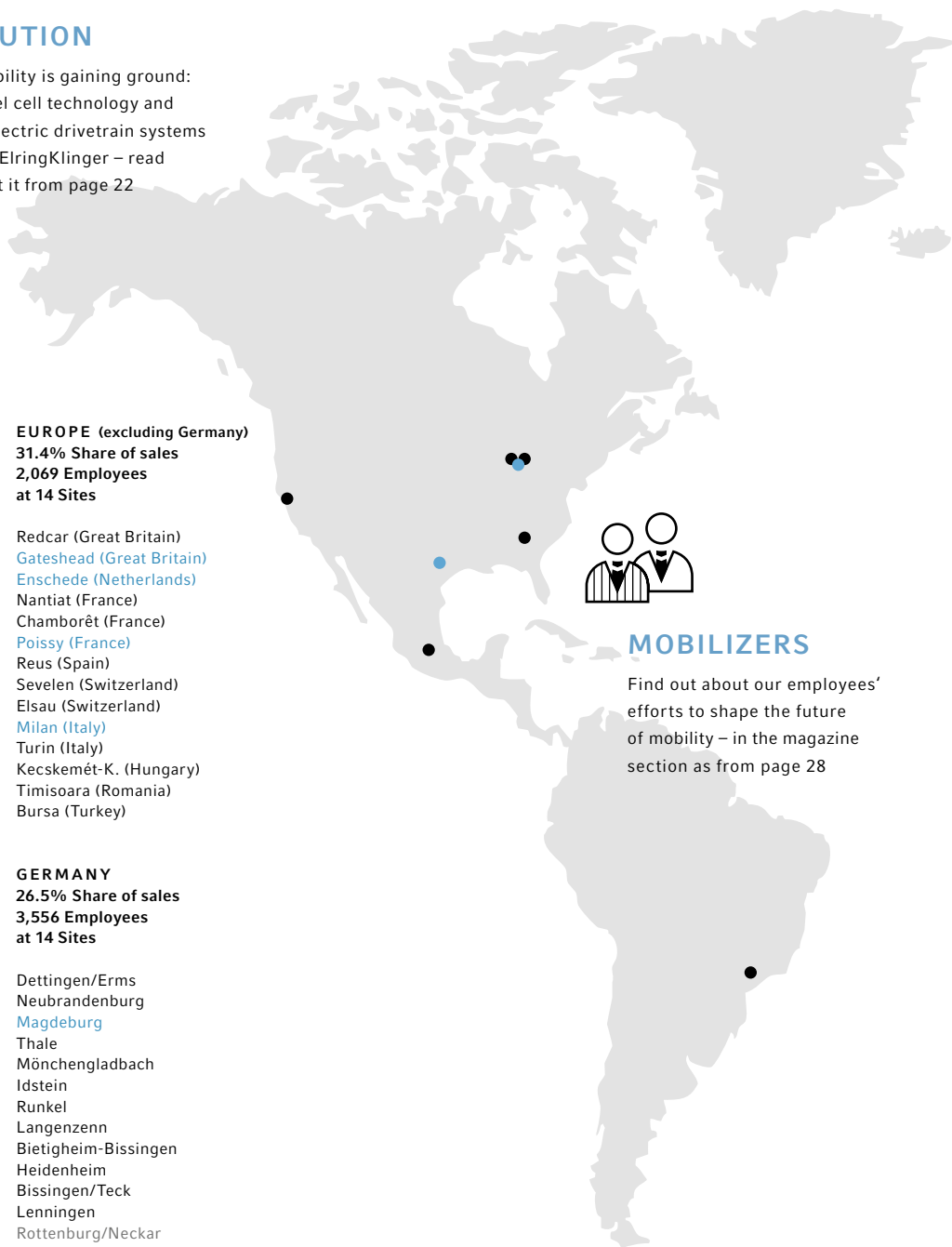
47 SITES WORLDWIDE

As an international Group, ElringKlinger maintains business relationships with the majority of vehicle and engine manufacturers operating around the globe. Committed to cementing these business ties, the company engages in close dialogue with its customers – underpinned by a strong regional presence in 21 countries. These efforts are supported by more than 8,500 employees at 36 production and 11 sales and service sites around the world.



E-VOLUTION

Electromobility is gaining ground: Battery/fuel cell technology and now also electric drivetrain systems offered by ElringKlinger – read more about it from page 22



Sites:

NAFTA
18.7% Share of sales
1,216 Employees
at 7 Sites

- Leamington (Canada)
- Plymouth (USA)
- Southfield (USA)
- Buford (USA)
- Austin (USA)
- Fremont (USA)
- Toluca (Mexico)

SOUTH AMERICA AND REST OF THE WORLD
4.2% Share of sales
340 Employees
at 2 Sites

- Piracicaba (Brazil)
- Johannesburg (South Africa)

ASIA-PACIFIC
19.2% Share of sales
1,410 Employees
at 10 Sites

- Changchun (China)
- Suzhou (China)
- Qingdao (China)
- Tokyo (Japan)
- Saitama (Japan)
- Gumi (South Korea)
- Seoul (South Korea)
- Ranjangaon (India)
- Bangkok (Thailand)
- Karawang (Indonesia)

EUROPE (excluding Germany)
31.4% Share of sales
2,069 Employees
at 14 Sites

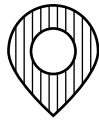
- Redcar (Great Britain)
- Gateshead (Great Britain)
- Enschede (Netherlands)
- Nantiat (France)
- Chamborêt (France)
- Poissy (France)
- Reus (Spain)
- Sevelen (Switzerland)
- Elsau (Switzerland)
- Milan (Italy)
- Turin (Italy)
- Kecskemét-K. (Hungary)
- Timisoara (Romania)
- Bursa (Turkey)

GERMANY
26.5% Share of sales
3,556 Employees
at 14 Sites

- Dettingen/Erms
- Neubrandenburg
- Magdeburg
- Thale
- Mönchengladbach
- Idstein
- Runkel
- Langenzenn
- Bietigheim-Bissingen
- Heidenheim
- Bissingen/Teck
- Lenningen
- Rottenburg/Neckar
- Geretsried-Gelting

MOBILIZERS

Find out about our employees' efforts to shape the future of mobility – in the magazine section as from page 28



THINK TANK

A case-by-case report on innovation hotspots provides insights into day-to-day activities at ElringKlinger's Group headquarters – more as from page 02



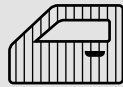
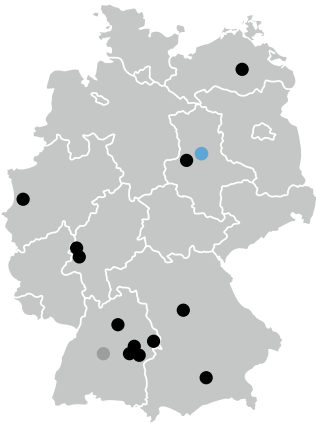
DRIVING CHANGE

Embracing change: Dr. Stefan Wolf, CEO of ElringKlinger, in conversation with Winfried Kretschmann, State Premier of Baden-Württemberg – in the magazine section as from page 08



EDGING AHEAD

One step ahead with company tooling solutions – find out more as from page 12



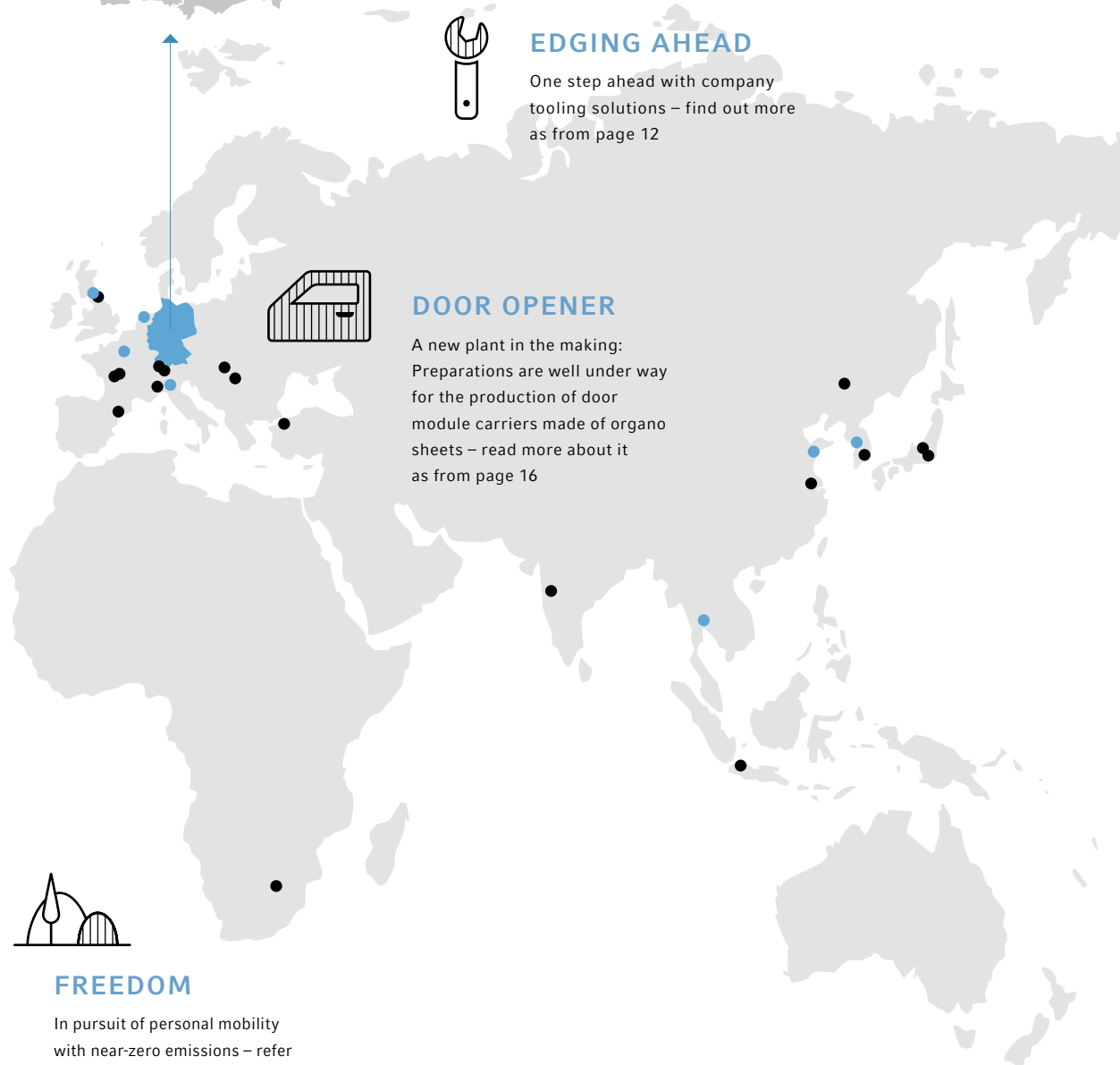
DOOR OPENER

A new plant in the making: Preparations are well under way for the production of door module carriers made of organo sheets – read more about it as from page 16



FREEDOM

In pursuit of personal mobility with near-zero emissions – refer to pages 26/27



Legend:

● Production site ● Sales office ● Services

As at December 31, 2016



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