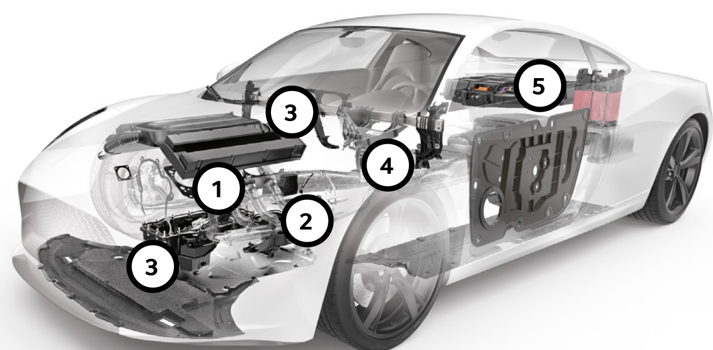
Annual Report 2017

elringklinger

Company Portfolio

As an automotive supplier, ElringKlinger has become a trusted partner to its customers – 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 CO_2, 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. This is complemented by solutions centered around thermal and acoustic shielding technology. Additionally, the Group's portfolio includes 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 9,600 employees at 49 ElringKlinger Group locations around the globe.

KEY AREAS OF BUSINESS



Original Equipment Segment

1

CYLINDER-HEAD GASKETS

12%

2

SPECIALTY GASKETS

18%

3

LIGHTWEIGHTING/ ELASTOMER TECHNOLOGY

23%

4

SHIELDING TECHNOLOGY

26%

5

E-MOBILITY

1%

EXHAUST GAS PURIFICATION

3%

Percentage of Group revenue 2017

AFTERMARKET

9%

ENGINEERED PLASTICS

7%

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.

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

Dr. Stefan Wolf,
Chief Executive Officer of ElringKlinger AG

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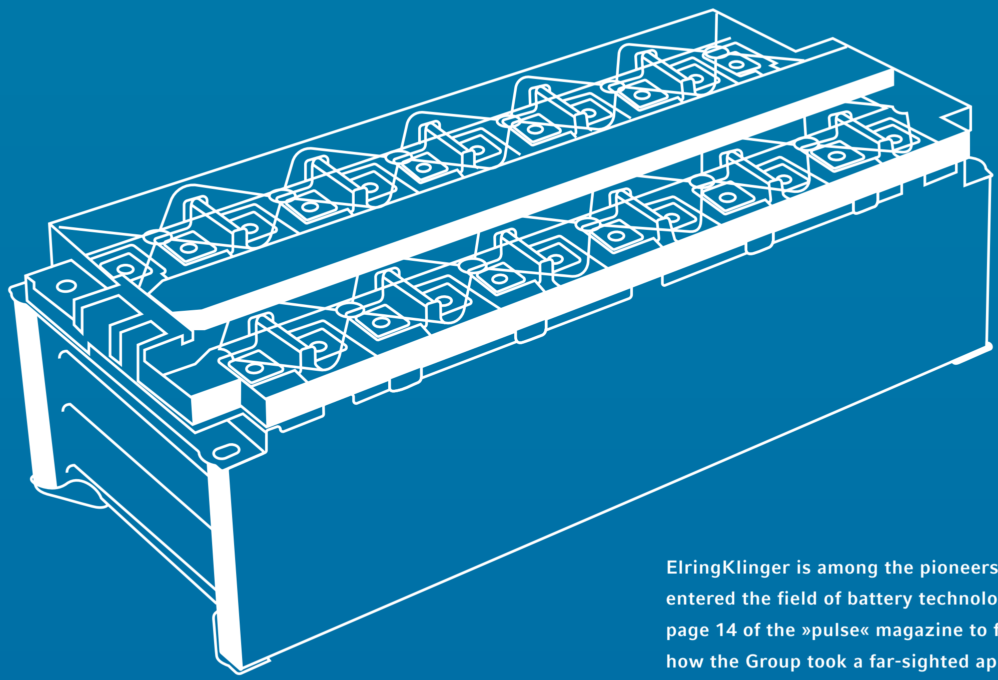


ElringKlinger is among the pioneers to have entered the field of battery technology. Turn to page 14 of the »pulse« magazine to find out how the Group took a far-sighted approach when charting its course for success in today's and tomorrow's world of mobility.

03 CONSOLIDATED FINANCIAL STATEMENTS

The Management Board of ElringKlinger AG

Dr. Stefan Wolf
Chairman/CEO

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

Thomas Jessulat

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

Theo Becker

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

(from left to right)

Theo Becker

Dr. Stefan Wolf

Thomas Jessulat

Letter to Shareholders

Dear Shareholders,
Ladies and Gentlemen,

"Fortune favors the prepared mind," said French microbiologist and chemist Louis Pasteur. We at ElringKlinger couldn't agree more, which is why we were quick off the mark in our efforts to embrace change within the automotive industry. Even several years ago, it was relatively clear that the industry would undergo a transformation at some stage. The precise timing and dynamics of this transition, however, were impossible to predict. Today change has become reality. In fact, it has been advancing with such vigor in recent years that terms such as e-mobility, battery range, and recharging infrastructure are now commonplace, as are the words fuel cell and hydrogen service station.

We at ElringKlinger began developing fuel cell stacks as far back as 20 years ago and made a point of consistently fine-tuning, intensifying, and accelerating our activities in this field as we moved forward. Today, these efforts are bearing fruit inasmuch as we are able to offer our customers a complete high-performance fuel cell module. This applies similarly to components used in the field of battery technology: series production of our cell contact systems commenced back in 2011. This is paying dividends within an evolving market, as we have now also established ourselves as an automotive supplier within the field of e-mobility. In early 2017, we further enhanced our company's strategic positioning by entering into a partnership with hofer powertrain, as a result of which we are now able to supply complete electric drive units on the basis of small-batch production. In summary: we are geared up for the changes sweeping through the automotive world.

In this context, our cooperation agreement with the Chinese company Sichuan Chengfei Integration Technology Co., Ltd. (CITC) was another important step in 2017. The two partners complement each other perfectly: operating through its subsidiary China Aviation Lithium Battery Co., Ltd., CITC will focus on the battery cell, while ElringKlinger will contribute all the other components of the module, such as cell contact systems and cell housings. The aim of this future joint venture is to produce and supply lithium-ion battery modules used within the global automotive market.

Toward the end of the year, we reached an agreement with a French automotive supplier covering the sale of Hug Engineering AG. This decision was driven by strategic considerations, as further significant investments would have been needed to remain competitive. Moreover, accounting for around 3% of total revenue, it does not represent a core area of our business. Against this background, the sale to a global player in the exhaust gas purification market is to be seen as a logical step. Instead of directing investments at a comparatively small line of business, ElringKlinger can concentrate on the promising fields of lightweighting and e-mobility – encompassing the three pillars of battery technology, fuel cell technology, and electric drive systems – as it pursues its strategy for the future.

As regards strategic positioning, the Group's financial structures are considered to be of similar importance. Here, too, we set a progressive course in 2017. In July, ElringKlinger completed the successful placement of a Schuldscheindarlehen – a first for the company. Due to strong demand from investors, the issue volume originally planned was more than doubled to EUR 200 million. The placement was divided into three different tranches with maturities of five, seven, and ten years – and the terms of this transaction were very good.

The Group has thus laid a solid foundation for repaying existing short-term liabilities, establishing favorable maturity structures, and generally expanding its financial room for maneuver with regard to ElringKlinger's strategic development.

Buoyancy in customer demand is a tribute to ElringKlinger's highly attractive and extremely marketable product portfolio. We saw order backlog expand further in 2017, while revenue increased faster relative to the global market. In fact, demand for our products was so strong at our sites in the NAFTA region that we exceeded market growth by more than ten percentage points. On the flip side, high levels of capacity utilization translated into additional costs. Our response was to expand production capacity for the purpose of limiting the impact on earnings. We succeeded in progressing as planned at our Swiss production plant in Sevelen with regard to operational improvements. Further revenue was redirected to other sites, thus providing additional scope for cost streamlining in Sevelen. These measures will continue in 2018.

Overall, our earnings before interest, taxes, and purchase price allocation (EBIT pre ppa) grew slightly to EUR 141.8 million, although unrealized translation effects relating to amounts denominated in foreign currencies proved detrimental in terms of net finance cost. It is a well-established tradition at ElringKlinger to provide shareholders with an adequate return on their investment. In keeping with this policy, the Management Board and Supervisory Board will propose to the Annual General Meeting a dividend of EUR 0.50 per share. This corresponds to a dividend ratio of 45%.

A key moment in the recent history of ElringKlinger AG was the resignation of Prof. Walter H. Lechler at the end of last year's Annual General Meeting. He stepped down as Chairman of the Supervisory Board and also vacated his post as a member of this body. In doing so, he followed the standard practice embraced by the family of principal shareholders of the company not to occupy key positions beyond the age of 75. Klaus Eberhardt, an experienced manager and business leader, was elected as the new Chairman of the Supervisory Board at the Supervisory Board meeting convened subsequent to the AGM. Andreas W. Kraut, CEO of weighing technology specialist Bizerba SE & Co. KG, was elected as a new member of the Supervisory Board, thereby replacing Prof. Lechler.

At the heart of the company are its people, and I would like to take this opportunity to express my sincere gratitude to them – also on behalf of my two fellow board members. ElringKlinger's successful advancement would be impossible without their tremendous skills and tireless efforts. At the same time, I would like to thank our customers and you, as our shareholders, for the trust placed in our company, for your fresh ideas, for your constructive criticism, and for the patience you have had to show on some occasions.

Finally, please let me assure you: the automotive industry is evolving, and we at ElringKlinger are well positioned to take on these changes. Indeed, in the spirit of Pasteur, we consider them to hold tremendous opportunities for the future.

Dettingen/Erms, March 2018
Yours sincerely,

Dr. Stefan Wolf
Chairman of the Management Board

Report by the Supervisory Board 2017

The financial year just ended was characterized by buoyant demand and, consequently, high levels of capacity utilization. At the same time, the pace of technological change within the automotive industry became increasingly dynamic. This created opportunities in the area of new drive technologies and lightweighting that were seized by ElringKlinger in the period under review. By contrast, the task of tackling the challenges arising from strong demand for ElringKlinger Group products proved more time-consuming than originally anticipated. Against this backdrop, it was impossible to offset in full the charges associated with these efforts by exploiting positive performances in other areas of the business. It should be noted, however, that the measures initiated are having a visible effect. From the Supervisory Board's viewpoint, ElringKlinger has established a very solid position for the future – with the prospect of sustained success driven by innovative products.

During financial year 2017, the Supervisory Board of ElringKlinger AG 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 with regard to key issues such as the strategic positioning of the Group. The Supervisory Board was involved in decision-making processes deemed to be of fundamental importance to the company. The Management Board sought the approval of the Supervisory Board in respect of transactions requiring prior authorization. Furthermore, the Management Board appropriately briefed the Supervisory Board in monthly written reports on key performance indicators, occurrences, and circumstances.

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 and compared these 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, case-by-case 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 always briefed extensively and in writing on the respective agenda items, this information being furnished in time to prepare for the meetings.

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

- The Supervisory Board meeting on March 24, 2017, was devoted to the Management Board's explanation of the 2016 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 Supervisory Board adopted the annual financial statements of ElringKlinger AG, endorsed the consolidated financial statements together with the combined management report, and approved the Management Board's proposal for the appropriation of profit. At this meeting, it approved the items on the agenda for the Annual General Meeting.

- At the Supervisory Board meeting on May 16, 2017, which took place immediately upon conclusion of the Annual General Meeting, Messrs. Klaus Eberhardt and Markus Siegers were elected to the posts of Chairman and Deputy Chairman of the Supervisory Board respectively. Mr. Manfred Strauß was newly elected to the Audit Committee and appointed as its Chairman. Professor Lechler, who stepped down from the Supervisory Board post at the end of the Annual General Meeting on May 16, 2017, was elected Honorary Chairman of the Supervisory Board of ElringKlinger AG following a unanimous vote. We would like to take this opportunity to thank Professor Lechler once again for his pioneering and truly exceptional efforts in the interests of the ElringKlinger Group. His service to the company spanned many decades, most recently in the role of Chairman of the Supervisory Board of ElringKlinger AG.

Klaus Eberhardt
Chairman of the Supervisory Board

- At its meeting on September 22, 2017, the Supervisory Board discussed and set target figures for the proportion of women to be appointed to the Management Board. Additionally, the Supervisory Board emphasized the importance of stepping up efforts to foster female talent so that more women can take on leadership roles at ElringKlinger in the future.

- The agenda for the meeting on December 7, 2017, included the 2018 budget and medium-term business planning. In addition, the Management Board provided a status report on measures initiated at ElringKlinger Abschirmtechnik in Switzerland. Other focal points included the report on results of internal audits conducted in 2017, the presentation of a schedule for internal audits in respect of financial year 2018, and a current risk assessment by the Management Board together with appropriate arrangements.

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

The Audit Committee convened on two occasions during the year under review. The meeting in March 2017 was devoted to in-depth discussion relating to the auditor's report on the 2016 annual financial statements. The agenda of the December meeting convened by the Audit Committee included the task of defining the focal points of the audit for financial year 2017 and the supervision of financial reporting processes as well as the internal control and compliance system. As in previous years, the CEO reported regularly to the Chairman of the Audit Committee on the results of internal audits.

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

There were no conflicts of interest between Supervisory Board members and the company in 2017.

The Declaration of Conformity by the Supervisory Board and the Management Board pursuant to Section 161 of the German Stock Corporation Act (AktG) and regarding the German Corporate Governance Code in the version of February 7, 2017, was approved unanimously and published on the company's website on December 4, 2017.

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 e-mail or by telephone.

At the end of 2017, the Supervisory Board, as stipulated by the provisions set out in the German Corporate Governance Code, again evaluated, as scheduled, the effectiveness of its work relating to the previous financial 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. This assessment produced no significant findings.

The annual financial statements of ElringKlinger AG and the corresponding consolidated financial statements with the combined management report for financial year 2017, as presented by the Management Board, were audited by the auditors Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The audit mandate was issued by the Supervisory Board in accordance with the appointment of the auditor by the Annual General Meeting on May 16, 2017. 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 financial year 2017. 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 competent auditors. The Supervisory Board concurred with the outcome of the audit. No objections were raised. At its meeting on March 23, 2018, 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 committed contribution and successful efforts.

Dettingen/Erms, March 23, 2018

On behalf of the Supervisory Board

Klaus Eberhardt
Chairman of the Supervisory Board

ElringKlinger on the Capital Market

Surging stock markets in 2017

From an investor perspective, equity markets developed very favorably in 2017. Buoyed by strong macroeconomic fundamentals, the world's key stock indices delivered an extremely solid trading-floor performance over the course of the year, in some cases even culminating in new all-time highs.

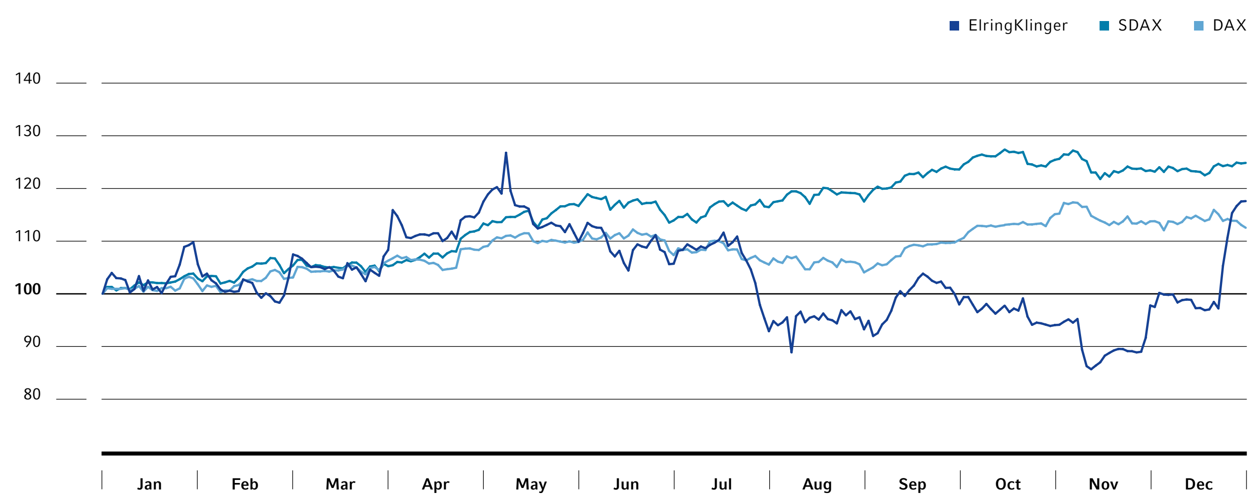
The initial trend was promising even as markets moved into 2017. Leading indicators in the eurozone, the United States, and China continued to gain momentum, while the US president pointed to the prospect of tax cuts. This, coupled with a convincing corporate reporting season by exchange-listed companies, helped to fuel the sustained upturn in stock markets that had been witnessed as early as the end of 2016. With the exception of the Nikkei, all of the major stock market indices made gains of more than 5% in the first quarter of 2017.

In the second quarter of 2017, the fourth interest rate hike by the US Federal Reserve in the space of one and a half years as well as signs from ECB president Mario Draghi of an imminent change of direction by the European Central Bank in respect of its bond-buying program led to a temporary dip in equity market momentum. However, markets regained their footing and returned to calmer waters amid news of Emmanuel Macron's victory in the French presidential election in May, particularly in view of the pro-European stance taken by the new incumbent.

Having ebbed slightly over the summer months due to seasonal factors, global stock markets saw a return to their positive trend toward the end of the third quarter of 2017. Stock market prices were boosted further by a number of factors, including business data pointing to sustained buoyancy in the eurozone, an improvement in economic trends, and more detailed information about the US tax reform plan. The results of Germany's federal election, which ultimately saw Angela Merkel reappointed as chancellor, also met with market approval.

The fourth quarter of 2017 also provided growth impetus for equity markets. In October, for instance, the ECB extended its bond-buying program until at least September 2018, although monthly purchases were to be cut by half from 60 to 30 billion euros. In December, a far-reaching tax reform was passed in the United States, as part of which the corporate tax rate was reduced from 35% to 21%. US stock indices were the main beneficiaries, with the Dow Jones, Nasdaq, and S&P 500 recording new all-time highs.

ElringKlinger's share price performance (XETRA) since January 1, 2017, (indexed, Dec. 30, 2016 = 100%)
compared with DAX and SDAX



The German stock market managed to complete the year of trading with substantial gains in 2017. Its performance was driven mainly by the healthy state of the economy as a whole as well as bulging order books and rising profits for companies. The country's economic fundamentals were solid enough to counteract temporary downside effects such as the protracted process of forming a new government in post-election Germany. Germany's blue chip index, the DAX, advanced to a record high of 13,526 points at the beginning of November. By the end of the year, the DAX had achieved a gain of 12.5%.

ElringKlinger stock in bullish mood at end of 2017

Having completed the year of trading at EUR 15.88 in 2016, ElringKlinger's stock continued to regain ground in January 2017, thus remaining on the path of recovery established as early as the end of 2016. In February, the company's share price consolidated at a level of around EUR 16. A benign trading environment and the announcement of the Group's financial results for fiscal year 2016, which were well received by the capital market, gave ElringKlinger's stock further impetus at the end of March. Toward the end of the first quarter of 2017, the company's share price stood at EUR 18.22.

At the beginning of the second quarter of 2017, the share price recorded at the end of March remained largely unchanged at around EUR 18. Following the presentation of company results for the first quarter of 2017 at the beginning of May, ElringKlinger's stock was propelled to EUR 20.14, its highest level for the year. Profit-taking over the following days then resulted in a downward correction in the share price. During the remainder of the second quarter of 2017, wide-spread skepticism over automotive industry stocks in general, fueled to some extent by persistently negative headlines concerning diesel-powered engines, was reflected in share prices. After the first six months of 2017, ElringKlinger's share price stood at EUR 16.78.

During the third quarter of 2017, allegations emerging at the end of July against five German car manufacturers concerning their possible involvement in a cartel served to fuel the capital markets' general hesitancy toward auto industry stocks. In the ensuing days, ElringKlinger's share price trended lower amid more pronounced sell-side pressure. Following the announcement of the company's financial results for the second quarter of 2017 at the beginning of August, ElringKlinger's share price declined further and settled at around EUR 14. After a solid performance in September that saw the previous month's losses offset in their entirety, ElringKlinger shares closed the third quarter of 2017 at EUR 15.77.

Over the course of the fourth quarter of 2017, the announcement of the company's financial results for the first nine months of 2017 initially prompted a downturn in the share price, which fell to an annual low of EUR 13.59 in the subsequent days of trading. Having bottomed out at this level, ElringKlinger's stock launched a steady comeback that was sustained right up to the end of the year. This turnaround was attributable, among other factors, to news concerning a joint venture framework agreement in the area of battery technology. The upturn was also underpinned by the issuance of revised ElringKlinger stock ratings by financial analysts. ElringKlinger shares closed 2017 at EUR 18.68.

Key Indicators for ElringKlinger's Stock

	2017	2016
Earnings per share IFRS (after non-controlling interests, in EUR)	1.10	1.24
Shareholders' equity per share (in EUR)[1]	13.45	13.44
High (in EUR)[2]	20.14	24.09
Low (in EUR)[2]	13.59	12.82
Share price (in EUR)[1,2]	18.68	15.88
Price-earnings ratio (P/E ratio)[1]	16.98	12.81
Dividend per share (in EUR)	0.50[3]	0.50
Average daily trading volume (German stock exchanges; no. of shares traded)	209,600	257,800
Average daily trading value (German stock exchanges; in EUR)	3,436,400	4,710,400
Market capitalization (EUR millions)[1,2]	1,183.6	1,006.2

[1] As of December 31
[2] Xetra trading
[3] Proposal to 2018 AGM

Trading volume for 2017 down on previous year

In the annual period under review, the average daily volume of ElringKlinger shares traded was 209,600 (257,800) units. Thus, the relatively substantial trading volumes recorded in previous years returned to more normal levels. Expressed in euros, the average daily trading value of ElringKlinger shares on German stock exchanges was EUR 3.4 (4.7) million. ElringKlinger's stock thus offered sufficiently high levels of liquidity for institutional investors to conduct larger share transactions.

2017 Annual General Meeting approves dividend of EUR 0.50 per share – Klaus Eberhardt becomes new Chairman of the Supervisory Board

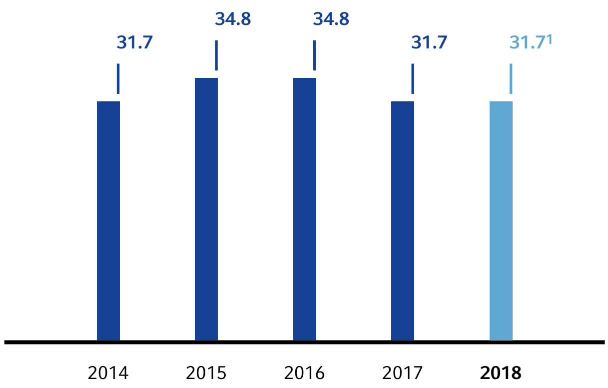
The 112th Annual General Meeting of ElringKlinger AG took place on May 16, 2017, and was attended by around 900 shareholders, shareholder representatives, and guests at the Liederhalle Culture and Congress Center in Stuttgart. In his speech, CEO Dr. Stefan Wolf presented a review of the financial year just ended and also outlined the current process of transformation in the automobile industry toward alternative drive systems, an area in which the Group is already very well positioned thanks to its diversified product portfolio.

The AGM approved by a large majority the proposal put forward by the Management Board and Supervisory Board for a dividend of EUR 0.50 (0.55) per share for financial year 2016. The total dividend payment amounted to EUR 31.7 (34.8) million. On this basis, the dividend ratio rose to 40.3% (38.0%), which was at the upper range of the long-term dividend policy adopted by the company. It stipulates a dividend payment equivalent to between 30 and 40% of Group net income for the purpose of ensuring that shareholders receive an appropriate and sustainable return on their investment.

The Annual General Meeting of shareholders also elected Andreas Wilhelm Kraut, Chief Executive Officer of Bizerba SE & Co. KG, as a new member of the Supervisory Board of ElringKlinger AG. He takes the place of board member Prof. Walter H. Lechler, who stepped down as Chairman of the Supervisory Board at the end of the AGM for reasons of age and left the Supervisory Board. At the Supervisory Board meeting convened subsequent to the AGM, the members of the Supervisory Board elected Klaus Eberhardt as their new Chairman. Eberhardt has been a member of the Supervisory Board of ElringKlinger AG since May 2013. Prof. Walter H. Lechler was elected as Honorary Chairman of the Supervisory Board.

At the next Annual General Meeting due to be held on May 16, 2018, the Management Board and Supervisory Board intend to propose a dividend of EUR 0.50 per share in respect of the financial year 2017.

Total Dividend Payments
in EUR million



[1] Proposal to 2018 AGM

Shareholder structure: private investors gaining ground

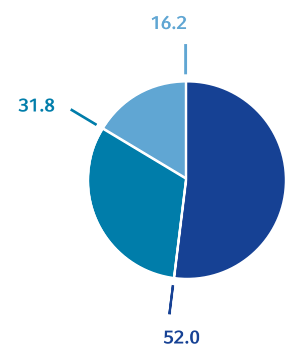
As of December 31, 2017, the shareholder structure of ElringKlinger AG was as follows: the company's free float accounted for 48.0% (48.0%) of the 63,359,990 no-par-value shares issued in total. The Lechler families continue to hold 52.0% (52.0%) of the interests in ElringKlinger AG, i.e., the majority of the share capital. As such, there was no change in the ratio of shares in free float to those in family ownership.

Large, primarily institutional, investors – banks, insurers, or investment companies from Germany and abroad – are by far the largest group of shareholders within the company's free float. In addition, ElringKlinger shares are held in the portfolios of many smaller and mid-size asset managers. At the end of 2017, this group of investors held 31.8% (32.7%) of ElringKlinger AG's total share capital. The percentage of free float shares held by institutional investors thus remained more or less stable year on year.

The number of private investors holding ElringKlinger shares again increased slightly. At the end of the reporting period, private investors accounted for 16.2% (15.3%) of the company's total share capital. Within a period of just three years, the percentage share of retail investors with ElringKlinger shareholdings has thus more than doubled.

This increase may be attributable partly to the fact 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.

Shareholder Structure[1]
in %



[1] As of December 31, 2017

Dialogue with the capital market

ElringKlinger continued to engage in proactive and ongoing dialogue with representatives of the capital market over the course of 2017. At the same time, the company managed to further expand the number of corporate road shows, in addition to attending more capital market conferences than in the previous year – both in Germany and abroad. In total, the company took part in 16 conferences and hosted 15 road shows.

In Germany, ElringKlinger presented its business model at several conferences held in Frankfurt/Main, the country's key financial center. This was complemented by events in Berlin, Munich, and Hamburg, the focus being on international and institutional investors. In Europe, the Investor Relations program included events in the Benelux region and the neighboring countries of Austria and Switzerland as well as the top financial centers of London and Paris. North America was another key travel destination in 2017. Attendees at conferences and road shows held on the east coast of the United States and in Canada showed strong interest in the company.

It is also customary for ElringKlinger to meet with representatives of the capital market at company sites. Institutional investors and financial analysts are given the opportunity to familiarize themselves first-hand with the company's latest technologies and production processes – an offer that continues to be well received by these groups. In 2017, ElringKlinger organized ten factory tours and technology presentations at its headquarters in Dettingen/Erms.

Alongside the analysts' conference held in Frankfurt/Main on an annual basis, the Management Board of ElringKlinger AG maintains a close dialogue with representatives of the capital markets on the occasion of the release of quarterly results or to discuss relevant occurrences such as acquisitions, incoming orders, or significant technological developments. The conference calls at these events are streamed live via the ElringKlinger website and can be accessed by the public. This approach embraces the principle of timely, simultaneous, and transparent communication for all groups of investors and others with an interest in the company.

Investor Relations against the backdrop of the 2017 IAA

As part of the International Motor Show (IAA) held in Frankfurt/Main in September 2017, ElringKlinger's Investor Relations team engaged in extensive dialogue with investors, analysts, and representatives of the business press, in addition to conducting guided tours of the exhibition booth. Furthermore, the company presented its business model to an international audience at a capital market conference hosted by Deutsche Bank in parallel with the trade show.

Under the heading of "e-xperience mobility", ElringKlinger showcased products for all types of drive system at its exhibition booth. By offering solutions for the full range of drive systems currently available, the company focused in particular on innovative battery and fuel cell technologies, a newly developed e-axle, and lightweight plastic components for use in various fields of application. The company's presentation at the IAA also included two show cars that illustrated ElringKlinger's broad scope of knowledge in the area of lightweighting and e-mobility. One of the show cars was dedicated entirely to solutions used in electric drivetrains, an offering made possible by ElringKlinger's investment in engineering specialist hofer. Among the key areas of interest was an e-axle (electric drive unit) developed by hofer powertrain products GmbH; it combines power electronics, transmission, and an electric motor in a single unit.

Level of interest shown by analysts remains high

During the fiscal year 2017, ElringKlinger was covered regularly by 21 financial analysts from various banks and research organizations. This figure was largely unchanged compared to the previous year and reflects continued strong interest in the company's stock. As of December 31, 2017, six analysts (28%) recommended buying the shares. Ten analysts (48%) issued "hold" recommendations for ElringKlinger stock, while five analysts (24%) 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 the company website.

Wide range of information and communication channels for private investors

As an exchange-listed company, ElringKlinger is committed to reporting on current and future corporate and market developments regularly and in a timely and transparent manner. One of the key objectives of the Investor Relations department is to meet the information and communication requirements of all investor groups in equal measure. This also includes, in particular, private investors in the company, who currently hold around 16% of shares issued and are therefore to be seen as an important shareholder group for the company. ElringKlinger operates a comprehensive information and communication service in order to promote a direct exchange and maintain an extensive dialogue.

The official ElringKlinger website (www.elringklinger.de) serves as a central information hub for all the latest developments of relevance to the company. Be it stock performance, press release, financial report, or details of upcoming events – the company website offers a wealth of information relating to ElringKlinger. As the website has been programmed in a responsive design, it is also the perfect choice 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.

Investors are also able to follow ElringKlinger's activities via the latest social media channels. Facebook (www.facebook.com/elringklinger) and Twitter (www.twitter.com/elringklingerAG) are used regularly for the release of interesting news items about the company and its shares.

Our telephone hotline (+49 7123 724-137) provides direct access to the Investor Relations department. A member of the team is on hand as a point of contact to answer specific questions relating to the company and its shares. Alternatively, inquiries can be submitted in writing by e-mail (investor-relations@elringklinger.com).

Moreover, ElringKlinger offers a range of services for private investors and other parties interested in the company. For example, this includes a free mailing service for the latest financial reports. 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 corporate news. Financial reports can be ordered through the website or via the telephone hotline or by e-mail. The same applies to the Investor Relations newsletter.

In order to foster direct dialogue with private investors, ElringKlinger takes part in events hosted by local Sparkasse and Volksbank financial institutions. They are targeted primarily at non-institutional shareholders and regional asset managers. In the period under review, private investors interested in the company again had the chance to find out about ElringKlinger and its business model first-hand. In Eching, Bavaria, the company took part in an event organized by Schutzgemeinschaft der Kapitalanleger e.V. (SdK) that attracted an audience of around 100 interested guests. After the presentation, attendees were given the opportunity to discuss specific questions with company representatives.

Awards galore for 2016 annual report

ElringKlinger AG's 2016 annual report won several awards in prestigious communication and design competitions.

The jury of the League of American Communications Professionals (LACP) honored ElringKlinger's annual report with a silver medal in the Automobiles & Components category of the LACP Vision Awards. With over a thousand submissions every year from all over the world, the LACP Vision Awards are considered to be among the most highly coveted prizes in the field of international financial reporting.

The company's annual report also received a gold medal in the Automotive Parts category of the ARC (Annual Report Competition) coordinated by US awards organization MerComm, Inc. Ranked as one of the top international design competitions, the ARC Awards recognize outstanding content and original design.

The report was also among the winners of the Automotive Brand Contest in the category of Corporate Publishing. The Automotive Brand Contest is an international design competition for automotive brands. The German Design Council, as initiator and organizer of this competition, acknowledges exceptional product and communication design by companies in the automotive industry.

ElringKlinger's annual report also excelled in the Fox Finance Award competition, where it gained a gold medal in the Automotive category in recognition of its efficiency in the field of communication. This contest focuses primarily on efficient corporate communication and covers all aspects of financial reporting. Among other elements, the competition also examines the consistency of communication beyond the classic annual report.

ElringKlinger's annual report also impressed the jury of the Good Design Award: it won in the Graphic Design category thanks to its exceptional design. This award is presented annually by the Chicago Athenaeum Museum of Architecture and Design and the European Centre of Architecture Art Design.

ElringKlinger stock as a sustainable investment

Alongside financial criteria, both environmental and social aspects are also of importance to a growing number of private and institutional investors. In addition, they often tend to make their investment decisions on the basis of whether a company has embraced the recommendations set out in the German Corporate Governance Code. ElringKlinger shares have become an interesting investment proposition for these groups of investors. As a future-focused company committed to a sustainable approach to business, ElringKlinger consistently operates in line with applicable quality and environmental standards. At the same time, the company's pioneering portfolio of products targeted at the key issues of CO_2 reduction and alternative drive technology is making a sizeable contribution when it comes to cutting greenhouse gases and other pollutants.

For more detailed information on ElringKlinger's efforts in the area of sustainability, readers are kindly requested to access the Sustainability section on the company's website, where they will also find the company's latest sustainability report entitled "pure direction".

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

Outlook for 2018

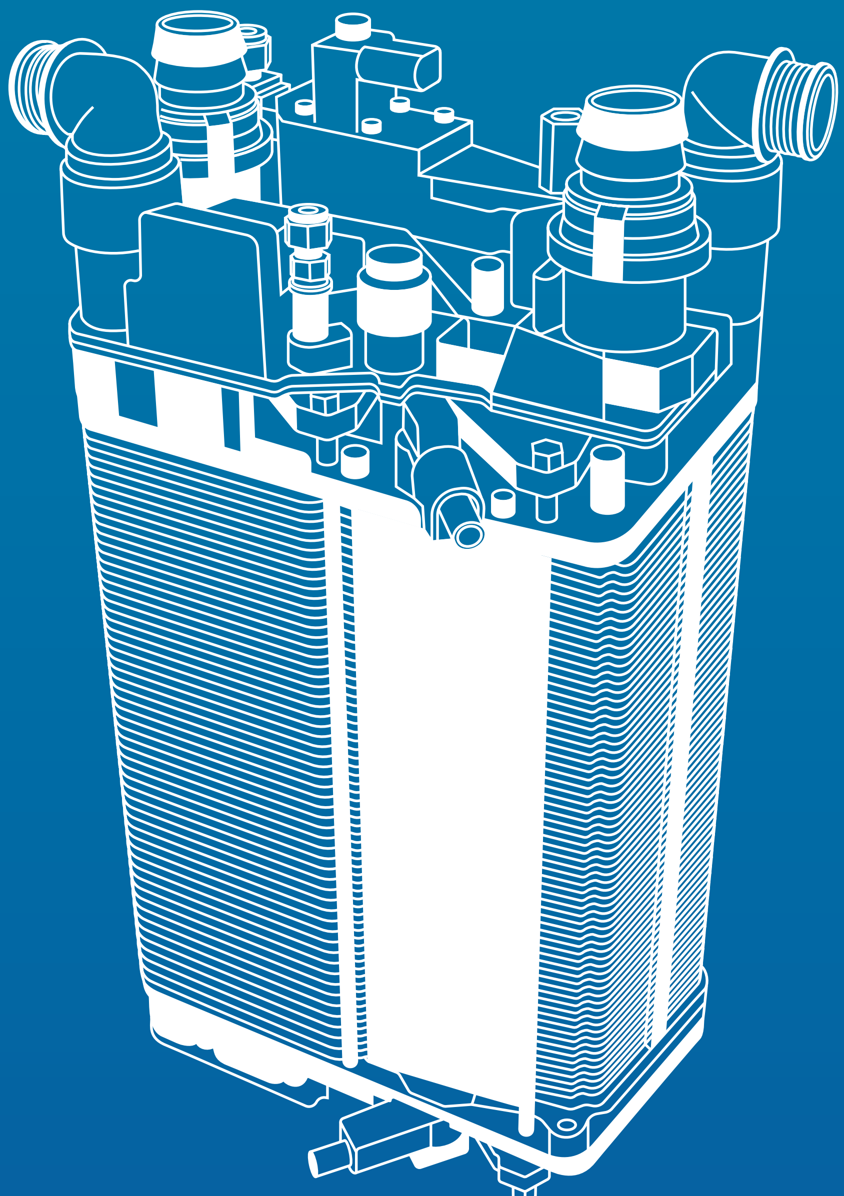
Looking ahead to 2018, the company is committed to driving forward its Investor Relations efforts at an international level by attending a range of capital market conferences and organizing various road shows. The schedule for 2018 includes events in North America, Scandinavia, Australia, and Singapore. Additionally, ElringKlinger will continue to engage in dialogue with private investors by holding regional meetings. All the key dates are listed in the Financial Calendar on ElringKlinger's website.

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, 2017, in respect of the Code, has been published online at www.elringklinger.de/en/company/corporate-governance in accordance with Section 3.10 of the German Corporate Governance Code in connection with the Corporate Governance Statement.

Combined Management Report for the Financial Year 2017

02



The fuel cell is a genuine all-rounder: discover the tremendous potential of this technology on page 38 of the »pulse« magazine.

Overview of ElringKlinger's Activities and Structure

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

Profile

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

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

Business model and core competencies

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

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

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

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

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

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

Economic and legal factors

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

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

Group structure and organization

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

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

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

- ElringKlinger Chongqing Ltd., with its registered office in Chongqing, China, was established on April 10, 2017. ElringKlinger AG holds 100.0% of the ownership interests.

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

Sales markets and company sites

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

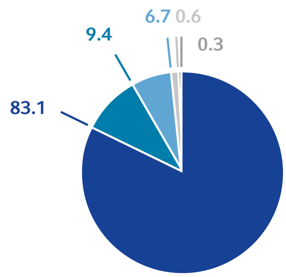
Segments and divisions

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

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

* Cf. glossary

Group sales by segment 2017
(previous year) in %



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

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

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

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

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

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

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

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

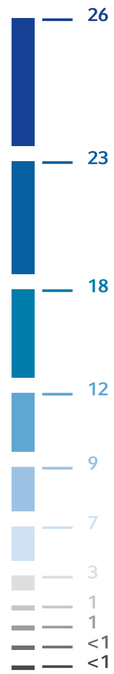
The **Shielding Technology** division encompasses thermal, acoustic, and aerodynamic shielding systems. They handle a wide range of tasks relating to temperature and acoustic management in modern motor vehicles, in addition to assisting with aerodynamics along the vehicle underbody. The product design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

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

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

The **Exhaust Gas Purification** division develops and produces exhaust gas purification systems for the catalytic aftertreatment of mobile and stationary combustion engines as well as for various off-road applications, including the commercial vehicle, shipping, and rail sector. At the end of 2017, ElringKlinger signed an agreement covering the sale of the Hug Group, Elsau, Switzerland (cf. Significant Events, page 32). The transaction was closed effective from March 1, 2018. The strategic decision to dispose of the largest company operating within this division is to be seen against the

Group revenue by division 2017
(previous year) in %



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

[1] Tooling Technology and New Business Areas

backdrop of increasing globalization in this line of business, which would have necessitated substantial investment. Instead, ElringKlinger will mainly be channeling its resources into the particularly promising areas of lightweighting and e-mobility.

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

* Cf. glossary

Internal Control Criteria

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

Financial control criteria

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

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

Calculation of ROCE

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

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

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

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

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

Non-financial control criteria

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

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

Selected financial control criteria of the ElringKlinger Group

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

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

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

Company-specific leading indicators

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

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

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

CONSOLIDATED FINANCIAL STATEMENTS

Research and Development

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

ElringKlinger well equipped for e-mobility

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

High research and development ratio

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

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

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

Key figures R&D

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

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

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

Cylinder-head gaskets: standardization at the highest level

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

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

Specialty gaskets: efficiency gains and transformation

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

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

Shielding technology: expanding the product range by integrating additional features

In the Shielding Technology division, ElringKlinger is now ideally placed to hone materials and technologies and launch them onto the market, enabling customers to benefit from the additional features incorporated into their conventional shielding systems. For instance, acoustic effectiveness can be added to the principal "thermal shielding" function, thus giving the people inside a vehicle a more comfortable ride. Developing a method for calculating the acoustic behavior of a shielding system in advance marked a major step

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* Cf. glossary

forward during the reporting year. Electromagnetic compatibility is also becoming increasingly significant in the wake of greater hybridization and electrification. ElringKlinger offers solutions in this area that enable sensitive components to be shielded effectively from both heat and electromagnetic fields.

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

Lightweighting: cutting emissions by reducing weight

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

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

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

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

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

Battery technology: ElringKlinger delivers electrifying solutions

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

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

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

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

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

Fuel cells: an energy converter with a promising future

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

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

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

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

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

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

Engineered plastics: a wide range of potential applications

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

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

* Cf. glossary

Macroeconomic Conditions and Sector Environment

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

Broad-based economic upturn

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

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

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

GDP growth rates

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

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

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

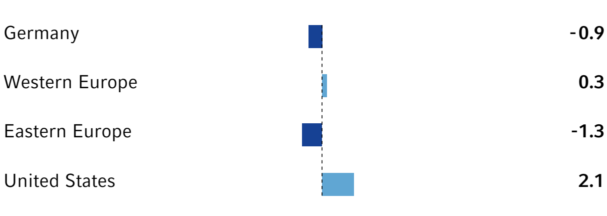
Sustained growth in global car market

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

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

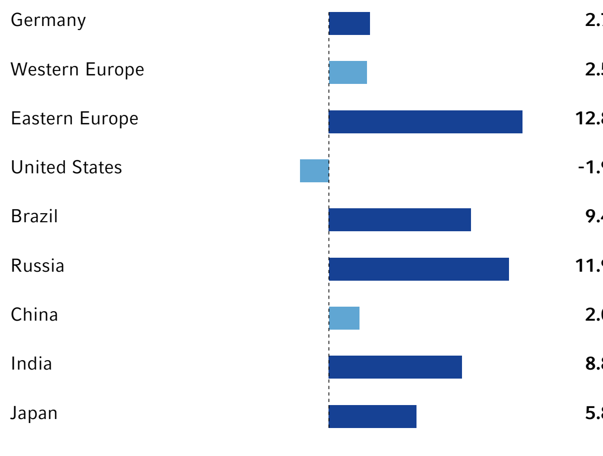
The US market for passenger cars and light trucks cooled slightly, as expected. With 17.1 million new vehicles having left the forecourts, however, sales remained high overall. SUVs and pickups continued to be very popular among buyers.

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



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

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



Source: VDA (January 2018)

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

E-mobility: demand rises from a low base

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

Bifurcated commercial vehicle markets

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

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

Significant Events

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

Amalgamation of two subsidiaries

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

Strategic investment in hofer

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

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

Extension of Management Board contracts brought forward

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

Establishment of a new subsidiary

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

Klaus Eberhardt becomes new Chairman of the Supervisory Board

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

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

Successful placement of Schuldscheindarlehen

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

Joint venture framework agreement signed

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

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

Agreement reached on the sale of the Hug Group

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

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

Sales and Earnings Performance

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

Revenue target met in 2017

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

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

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

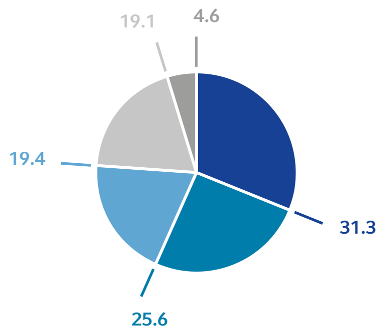
Group revenue up in all regions

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

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

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

Group sales by region 2017
(previous year) in %



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

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

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

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

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

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

Original Equipment segment sees revenue expand in all divisions

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

Shielding Technology shows first signs of improvement

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

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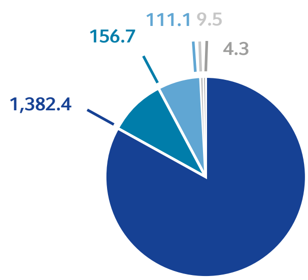
* Cf. glossary

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



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

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

E-Mobility remains on track for growth

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

Project-driven business in Exhaust Gas Purification division

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

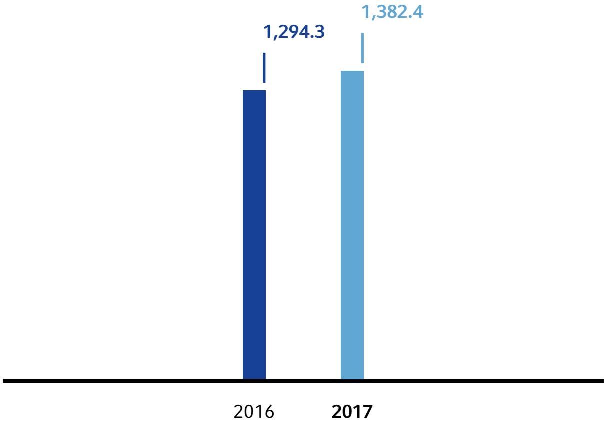
In summary, earnings before interest and taxes (EBIT) in the Original Equipment segment declined by 2.9% to EUR 86.3 (88.9) million.

Aftermarket business continues to produce strong margins

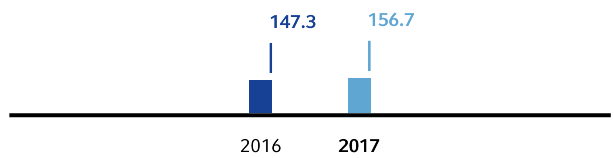
The Aftermarket segment covers ElringKlinger's range of spare parts, consisting primarily of cylinder-head gaskets and gasket sets. The Group saw segment revenue expand by EUR 9.4 million, or 6.4%, to EUR 156.7 (147.3) million in the 2017 financial year. As was the case last year, Germany and Eastern/Western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

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

Sales in the Original Equipment segment
in EUR million



Sales in the Aftermarket segment
in EUR million



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

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

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

Engineered Plastics segment lifts margin to almost 17%

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

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

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

Industrial Parks largely unchanged year on year

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

Revenue growth in Services segment

Elring Klinger Motortechnik GmbH, Idstein, Germany, KOCHWERK Catering GmbH, Dettingen/Erms, Germany, and ElringKlinger Logistic Service GmbH, Rottenburg-Ergenzingen, Germany, together generated EUR 9.5 (9.7)

* Cf. glossary

million in the 2017 financial year. Although ElringKlinger Logistic Service GmbH managed to increase revenue and earnings significantly in the period under review, the decline in earnings recorded at Elring Klinger Motortechnik GmbH was only partially offset within the segment as a whole.

Gross profit margin slightly down on previous year

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

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

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

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

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

R&D efforts stepped up

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

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

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

EBITDA rises by a good 3%

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

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

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

Net finance result falls by around EUR 16 million

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

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

Tax rate falls to 33%

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

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

Dividend proposal of EUR 0.50 per share

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

* Cf. glossary

Financial Position

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

Total assets increase due to organic growth and business acquisition

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

Planned sale of Hug subgroup

When considering the changes in the individual items in the statement of financial position, it should be noted that, as a result of the initiated sale of the Hug Group, domiciled in Elsau, Switzerland, the relevant assets and liabilities have been reclassified and are recognized separately as assets or liabilities held for sale as of December 31, 2017. As of the end of the reporting period, ElringKlinger held 93.67% of the interests in the Hug Group, which is fully consolidated as a subgroup (cf. "Significant Events", p. 32). Under assets held for sale (EUR 61.8 million), a total of EUR 30.1 million was attributable to non-current assets and EUR 31.6 million to current assets. On the liabilities side, an amount of EUR 23.7 million was reclassified, consisting mainly of provisions for pensions, current financial liabilities, and other current liabilities.

Increase in assets attributable to several factors

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

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

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

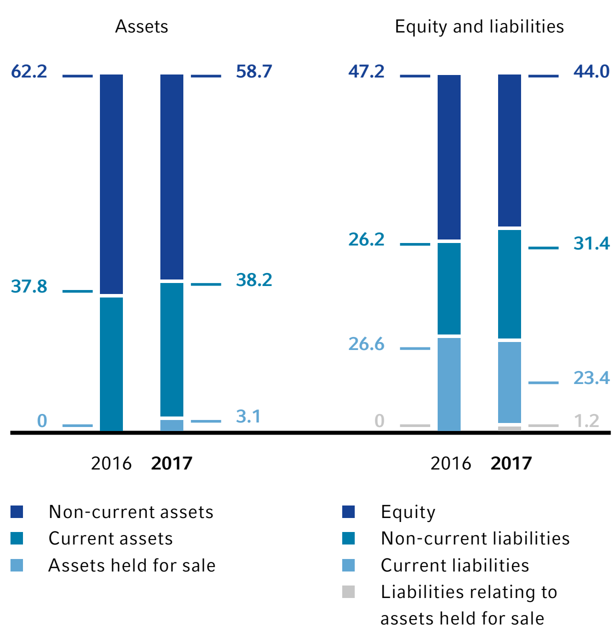
Working capital (inventories and trade receivables) was up by EUR 44.3 million year on year and amounted to EUR 672.2 (627.9) million as of the end of the reporting period. Adjusted for currency effects and the effect of the Hug reclassification, working capital increased by EUR 101.6 million. Around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

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

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

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

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



Equity of EUR 890 million

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

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

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

Slight decrease in pension provisions

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

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

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

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

Financial instruments expanded to include Schuldscheindarlehen

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

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

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

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

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

Cash Flows

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

Cash flow from operating activities at EUR 96 million

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

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

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

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

Investments scaled back to around 9% of Group revenue

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

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

* Cf. glossary

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

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

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

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

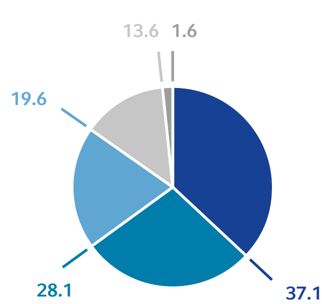
In January, the Group recorded a net outflow of EUR 27.7 million for the acquisition of hofer AG (associate) and its subsidiary hofer powertrain products GmbH (fully consolidated), both based in Nürtingen, Germany, in a deal closed during the first quarter of 2017.

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

Operating free cash flow in negative territory

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

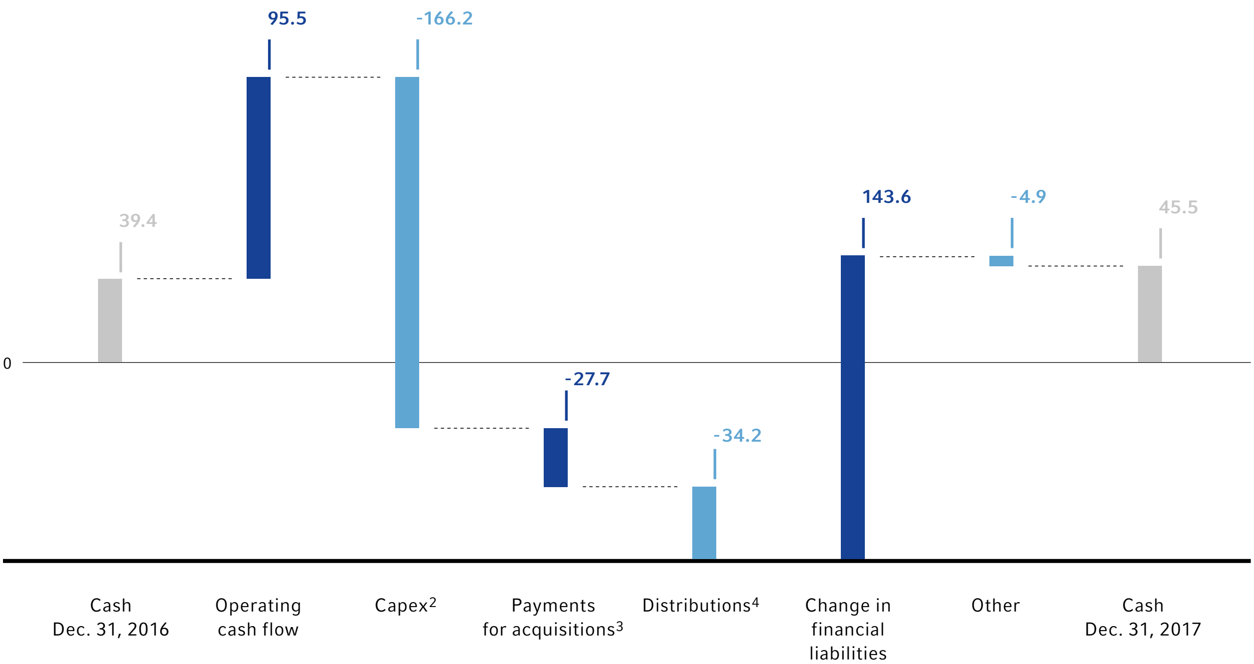
Investment[1] spending by region
(previous year) in %



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

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

Changes in cash 2017[1]
in EUR million



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

Expansion of financing activities

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

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

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

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

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

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

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

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

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

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

Sales and Earnings Performance of ElringKlinger AG

Substantial expansion in revenue

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

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

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

Sustained growth for Original Equipment

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

Further expansion of Aftermarket business

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

Year-on-year increase in total operating revenue

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

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

Cost of materials impacted by rising commodity prices

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

Further rise in headcount

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

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

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

Depreciation/amortization up by almost EUR 2 million

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

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

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

Higher income from affiliated companies

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

Interest result slightly improved

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

Net income up after lower tax expense

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

Proposed dividend of EUR 0.50

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

Net Assets of ElringKlinger AG

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

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

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

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

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

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

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

Equity ratio of ElringKlinger AG at 44%

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

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

Cash Flows of ElringKlinger AG

Cash flow from operating activities at EUR 76 million

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

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

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

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

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

CONSOLIDATED FINANCIAL STATEMENTS

* Cf. glossary

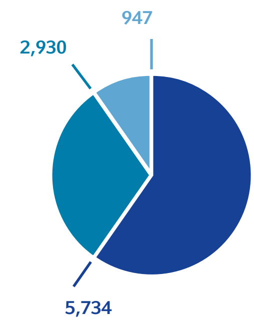
People

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

Further expansion of workforce

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

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



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

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

Headcount data for the ElringKlinger Group

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

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

Procurement and Supplier Management

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

Strategic refinements to procurement activities

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

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

Supplier management

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

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

High utilization of production capacity raises material costs and purchase volumes

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

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

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

Raw material prices continue to rise in 2017

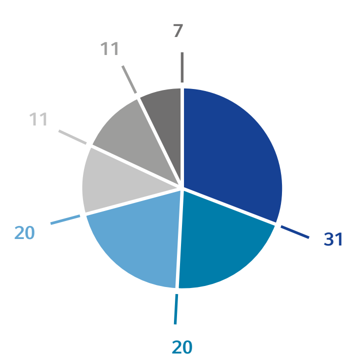
In 2017, high global demand for raw materials in the face of more severe shortages often led to steep price rises. In the case of carbon steel, for instance, significant price increases came about owing to a combination of robust demand and shortage of supply resulting from EU anti-dumping measures applied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

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

Proceeds from scrap rise amid high raw material prices

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

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



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

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

Energy needs secured through long-term supply contracts

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

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

Report on Opportunities and Risks

Risk management system

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

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

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

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

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

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

Control and risk management system with regard to accounting

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

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

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

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

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

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

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

Assessment of opportunities and risks

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

Opportunity and risk profile of the ElringKlinger Group

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

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

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

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

From today's perspective, a severe slump in vehicle production – comparable to the one seen in the crisis years of 2008/2009 – would not appear to be very likely. ElringKlinger anticipates that global car production will grow by around 2 to 3% in 2018 (cf. "Report on Expected Developments", p. 78).

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

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

Political risks

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

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

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

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

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

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

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

General internal risks

General internal risks, work-related accidents, fire

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

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

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

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

Operational risks

Price-related pressure/Competition

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

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

Competition within the automotive supply industry is intense. However, new competitors looking to penetrate the market are confronted with significant barriers to entry, as the business model and product portfolio of the ElringKlinger Group call for specialist expertise and competencies in materials processing, tool production, and process management (cf. "Overview of ElringKlinger's Activities and Structure", p. 20).

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

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

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

Material risks/Supplier risks

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

The raw materials primarily used within the ElringKlinger Group include alloyed high-grade steels, C-steel, aluminum, and polymer granules (cf. "Procurement and Supplier Management", p. 51). Prices relating to alloy surcharges (nickel, chromium, molybdenum) are subject to extreme volatility. They are added to the price of high-grade steel and cannot be fixed by contractual agreements.

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

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

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

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

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

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

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

Customer risks

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

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

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

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

Labor cost risks

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

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

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

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

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

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

Personnel risks

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

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

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

IT risks

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

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

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

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

Quality/Warranty risks

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

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

Legal risks

Legal risks/Compliance risks

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

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

Strategic risks

Technology risks

The business model of the ElringKlinger Group is based on a culture of excellence in innovation and the principle of technology leadership. The company is committed to developing products that are technologically sophisticated and to manufacturing these items with a high level of productivity, the aim being to achieve growth rates that are above the industry average (cf. "Overview of ElringKlinger's Activities and Structure", p. 20).

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

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

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

External growth/Acquisitions

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

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

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

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

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

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

Financial risks

Bad debt loss

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

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

Liquidity and financing risks

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

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

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

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

Currency risks

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

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

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

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

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

Interest-rate risks

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

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

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

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

Use of derivative financial instruments

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

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

Opportunities

Climate change/Emission laws

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

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

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

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

Germany's federal government remains committed to meeting the stated goal of one million new electric vehicles on the road by 2020 with the help of purchase schemes. To this end, a state-funded incentive program was introduced in July 2016. The subsidy available for pure electric vehicles is EUR 4,000, while buyers of cars equipped with hybrid or fuel cell technology receive EUR 3,000. The subsidy will remain in place up to June 2019 or until the EUR 1.2 billion incentive fund has been used up. Another federal government subsidy program, set up to expand the network of recharging points for electric cars in Germany, was given the green light by the European Union at the beginning of 2017. The plan for

* Cf. glossary

the period up to 2021 is to invest EUR 300 million on the installation of 15,000 recharging points throughout Germany. The aforementioned purchase incentives and efforts to improve the general infrastructure for e-mobility solutions are designed to prompt a sea change in consumer behavior and boost sales of electrically powered cars.

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

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

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

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

Technology trends/New emissions regulations

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

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

Extension of product and service portfolio

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

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

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

New sales markets

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

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

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

Industry consolidation/M&A

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

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

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

Overall assessment of risks and opportunities

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

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

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

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

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

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

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

Compensation Report

Compensation structure for members of the Management Board

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

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

System of compensation

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

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

Fixed annual salary

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

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

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

Long-term incentive II (LTI II)

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

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

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

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

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

Illustrative calculation LTI I

EBIT average 210,000,000

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

* Cf. glossary

Illustrative calculation LTI II

EVA mean value 95,000,000

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

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

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

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

Fringe benefits

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

D&O insurance

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

Retirement pension

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

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

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

Review and adjustment of compensation

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

Severance pay cap

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

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

Loans to Management Board members

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

Management Board compensation 2017

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

Management Board compensation 2017 pursuant to financial reporting standard GAS 17

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

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

Pension obligations

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

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

Management Board compensation pursuant to the German Corporate Governance Code

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

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

Benefits granted (Pursuant to GCGC)

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

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

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

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

Allocation pursuant to GCGC

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

Prior-year resignation of Management Board member

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

Compensation structure for members of the Supervisory Board

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

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

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

Supervisory Board compensation 2017

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

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

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

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

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

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

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

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

No shareholder is equipped with special rights constituting controlling powers.

ElringKlinger does not operate any employee profit-sharing schemes.

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

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

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

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

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

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

Corporate Governance Statement

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

Combined Non-Financial Statement

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

* Cf. glossary

Report on Expected Developments

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

Outlook – Market and Sector

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

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

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

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

GDP growth projections

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

Source: International Monetary Fund (January 2018)

Outlook for car sales in 2018

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

Source: Verband der Automobilindustrie (VDA)

Sustained growth in global vehicle market

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

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

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

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

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

E-mobility set to gather speed from 2020 onward

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

Commercial vehicle markets in positive territory in 2018

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

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

Outlook – Group

Industry operating against dynamic backdrop

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

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

Effective research and development activities

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

Revenue expectations underpinned by sustained buoyancy in orders

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

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

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

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

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

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

Commodity prices expected to remain high

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

New personnel for future-facing business

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

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

Group targets sustained earnings performance in dynamic times

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

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

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

Focused approach to capital expenditure

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

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

Targeted measures to improve working capital

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

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

Growth financed by moderate debt

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

Cash flow determined by earnings, investments, and working capital

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

Targeting steady development of ROCE

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

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

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

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

Engineered Plastics segment: above-average earnings performance

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

Aftermarket segment: profitable revenue growth

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

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

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

Parent company: sustained growth

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

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

* Cf. glossary

Guidance summary:

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

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

Dettingen/Erms, March 22, 2018
The Management Board

Dr. Stefan Wolf
CEO

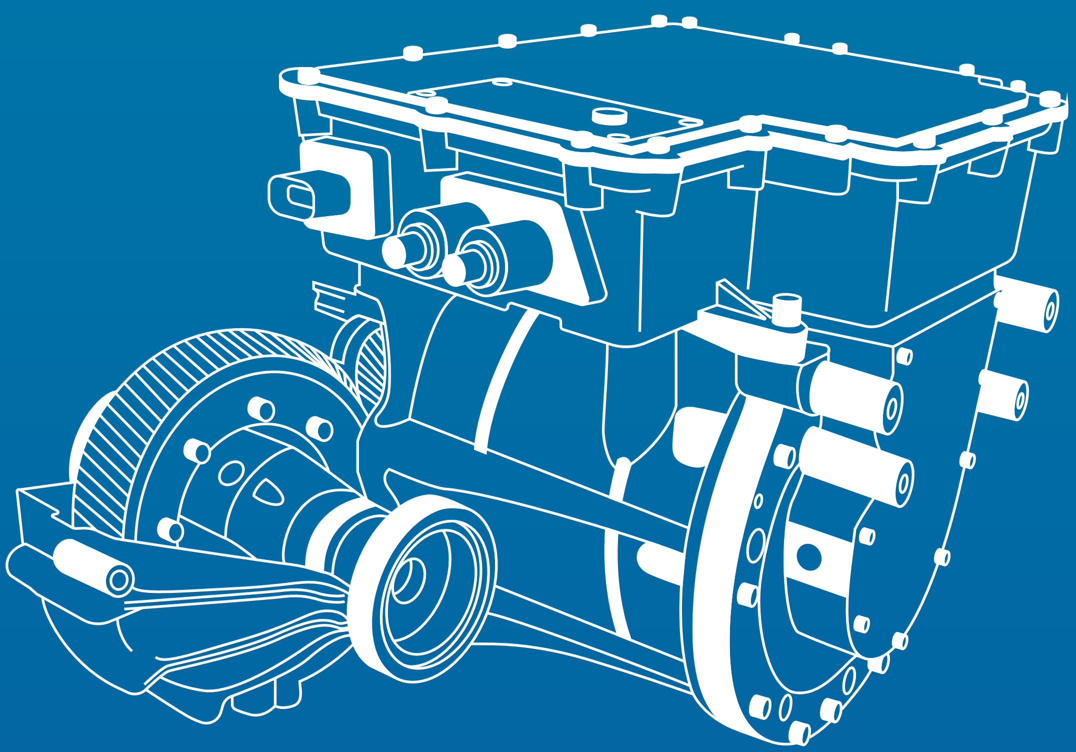
Theo Becker

Thomas Jessulat

Consolidated Financial Statements of ElringKlinger AG

FOR THE FINANCIAL YEAR 2017

03



ElringKlinger and hofer have joined forces to evolve electric drive technology. Read more about this electrifying partnership on page 22 of the »pulse« magazine.

Group Income Statement

of ElringKlinger AG, January 1 to December 31, 2017

EUR k	Note	2017	2016
Sales revenue	**(1)**	**1,664,041**	**1,557,443**
Cost of sales	(2)	-1,255,631	-1,161,524
Gross profit		**408,410**	**395,919**
Selling expenses	(3)	-141,859	-120,370
General and administrative expenses	(4)	-76,917	-74,207
Research and development costs	(5)	-71,387	-67,383
Other operating income	(6)	31,242	20,001
Other operating expenses	(7)	-12,171	-18,366
Operating result/EBIT		**137,318**	**135,594**
Finance income		20,900	17,461
Finance costs		-47,710	-28,961
Share of result of associates	(8)	-454	0
Net finance costs	**(9)**	**-27,264**	**-11,500**
Earnings before taxes		**110,054**	**124,094**
Income tax expense	(10)	-36,274	-41,479
Net income		**73,780**	**82,615**
of which: attributable to non-controlling interests	(21)	3,850	4,065
of which: attributable to shareholders of ElringKlinger AG	**(21)**	**69,930**	**78,550**
Basic and diluted earnings per share in EUR	(11)	1.10	1.24

Group Statement of Comprehensive Income

of ElringKlinger AG, January 1 to December 31, 2017

EUR k	2017	2016
Net income	**73,780**	**82,615**
Currency translation difference	-42,689	-3,309
Gains and losses that can be reclassified to the income statement in future periods	**-42,689**	**-3,309**
Remeasurement of defined benefit plans, net	4,200	-10,812
Gains and losses that cannot be reclassified to the income statement in future periods	**4,200**	**-10,812**
Other comprehensive income after taxes	**-38,489**	**-14,121**
Total comprehensive income	**35,291**	**68,494**
of which: attributable to non-controlling interests	2,716	3,676
of which: attributable to shareholders of ElringKlinger AG	**32,575**	**64,818**

Group Statement of Financial Position

of ElringKlinger AG, as at December 31, 2017

EUR k	Note	Dec. 31, 2017	Dec. 31, 2016
ASSETS			
Intangible assets	(12)	190,540	212,440
Property, plant and equipment	(13)	929,570	917,318
Investment property	(14)	17,030	15,822
Financial assets	(15)	1,036	1,029
Shares in associates	(8)	28,563	0
Non-current income tax assets	(16)	99	211
Other non-current assets	(16)	3,984	4,291
Deferred tax assets	(10)	16,986	16,808
Non-current assets		**1,187,808**	**1,167,919**
Inventories	(17)	369,547	328,334
Trade receivables	(18)	302,621	299,522
Current income tax assets	(18)	7,041	3,803
Other current assets	(18)	48,093	39,184
Cash and cash equivalents	(19)	45,498	39,407
Current assets		**772,800**	**710,250**
Assets held for sale	**(20)**	**61,772**	**0**
		2,022,380	**1,878,169**

EUR k	Note	Dec. 31, 2017	Dec. 31, 2016
LIABILITIES AND EQUITY			
Share capital		63,360	63,360
Capital reserves		118,238	118,238
Revenue reserves		710,885	672,635
Other reserves		-40,184	-2,829
Equity attributable to the shareholders of ElringKlinger AG	**(21)**	**852,299**	**851,404**
Non-controlling interest in equity	(22)	37,368	34,963
Equity		**889,667**	**886,367**
Provisions for pensions	(23)	125,999	136,562
Non-current provisions	(24)	12,319	13,604
Non-current financial liabilities	(25)	478,811	320,813
Deferred tax liabilities	(10)	14,075	16,456
Other non-current liabilities	(26)	3,551	3,834
Non-current liabilities		**634,755**	**491,269**
Current provisions	(24)	23,005	17,279
Trade payables	(26)	118,846	103,228
Current financial liabilities	(25)	221,944	257,392
Tax payable	(10)	14,881	26,151
Other current liabilities	(26)	95,535	96,483
Current liabilities		**474,211**	**500,533**
Liabilities relating to assets held for sale	**(20)**	**23,747**	**0**
		2,022,380	**1,878,169**

Group Statement of Changes in Equity

of ElringKlinger AG, January 1 to December 31, 2017

EUR k	Share capital	Capital reserves	Revenue reserves
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/Balance as of Jan. 1, 2017	**63,360**	**118,238**	**672,635**
Dividend distribution			-31,680
Change in scope of consolidated financial statements			
Total comprehensive income			69,930
Net income			69,930
Other comprehensive income			
Balance as of Dec. 31, 2017	**63,360**	**118,238**	**710,885**

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
-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**
			-31,680	-2,561	-34,241
				2,250	2,250
4,104		-41,459	32,575	2,716	35,291
			69,930	3,850	73,780
4,104		-41,459	-37,355	-1,134	-38,489
-39,512	**-212**	**-460**	**852,299**	**37,368**	**889,667**

Group Statement of Cash Flows

of ElringKlinger AG, January 1 to December 31, 2017

EUR k	Notes	2017	2016
Earnings before taxes		110,054	124,094
Depreciation/amortization (less write-ups) of non-current assets	(12) – (15)	101,074	95,652
Net interest	(9)	13,099	13,947
Change in provisions		6,765	12
Gains/losses on disposal of non-current assets		1,348	-1,084
Share of result of associates		454	0
Dividends from associates		0	0
Change in inventories, trade receivables and other assets not resulting from financing and investing activities		-114,528	-26,496
Change in trade payables and other liabilities not resulting from financing and investing activities		26,732	22,839
Income taxes paid	(10)	-50,581	-43,574
Interest paid		-10,697	-11,574
Interest received		314	258
Other non-cash expenses and income		11,441	1,668
Net cash from operating activities		**95,475**	**175,742**
Proceeds from disposals of property, plant and equipment, intangible assets and investment property		1,365	3,084
Proceeds from disposals of financial assets		2,792	456
Payments for investments in intangible assets	(12)	-10,674	-11,806
Payments for investments in property, plant and equipment and investment property	(13), (14)	-155,534	-171,281
Payments for investments in financial assets	(15)	-3,450	-4,834
Payments for the acquisition of associates		-29,017	0
Payments made/received for the acquisition of subsidiaries and other entities, less cash		1,321	-5,323
Net cash from investing activities		**-193,197**	**-189,704**
Payments to non-controlling interests for the purchase of shares		0	-163
Dividends paid to shareholders and to non-controlling interests		-34,241	-37,696
Proceeds from the addition of financial liabilities	(25)	234,706	82,337
Payments for the repayment of financial liabilities	(25)	-44,036	-63,135
Change in current loans		-47,082	23,132
Net cash from financing activities		**109,347**	**4,475**
Changes in cash		11,625	-9,487
Effects of currency exchange rates on cash		-2,957	-31
Cash at beginning of period	(19)	39,407	48,925
Cash at end of period		48,075	39,407
Less cash relating to assets held for sale		-2,577	0
Cash at end of period as per statement of financial position	**(19)**	**45,498**	**39,407**

Notes to the Consolidated Financial Statements

of ElringKlinger AG for the Financial Year 2017

General information

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

The financial year is the calendar year.

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

Accounting principles

The consolidated financial statements of ElringKlinger AG as of December 31, 2017, 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 § 315e (1) German Commercial Code (Handelsgesetzbuch, "HGB") and the provisions of German commercial and stock corporation law. ElringKlinger AG's Articles of Association contain regulations on profit appropriation. All IASs, IFRSs and IFRICs mandatory for the financial year 2017 have been observed.

On March 22, 2018, the Management Board of ElringKlinger AG submitted the consolidated financial statements to the Supervisory Board, which will meet on March 23, 2018 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 2017 for the first time:

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. The ElringKlinger Group has accounted for the amendments accordingly; please refer to the consolidated statement of cash flows in the notes to the consolidated financial statements.

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 and does not have a significant effect on the consolidated financial statements.

The following standards, which have already been adopted by the EU, are not yet mandatory for the financial year 2017 and have not yet been applied by the ElringKlinger Group:

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

The IASB published an amendment to IFRS 2 Classification and Measurement of Share-based Payment Transactions, which changes the following aspects: the effects 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 the accounting treatment of share-based payment transactions with cash settlement if the terms and conditions of a share-based payment transaction are modified, thereby changing its classification from cash-settled to equity-settled. The amendment is effective for reporting periods beginning on or after January 1, 2018. Early adoption is permitted. Due to the narrow scope of application, an initial analysis suggests this amended standard will not have any impact on the consolidated financial statements.

Amendment to IAS 40 Transfers of Investment Property

In December 2016, the IASB issued "Transfers of Investment Property" (amendments to IAS 40) to clarify transfers of investment property. It clarifies that a transfer to or from investment property is only to be classed as such if there is a change in use. The amendments are effective for financial years beginning on or after January 1, 2018. The amendments are to be adopted prospectively. A retrospective adoption is only permitted if it is possible to do so without using knowledge and insight gained subsequently. The current accounting treatment is in line with this clarification. For this reason, ElringKlinger does not anticipate any effects on the consolidated financial statements.

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 reporting periods 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. The Group aims to apply the new standard as of the date it is due to become effective. In financial year 2017, the Group measured the effects of all three aspects of IFRS 9. This assessment is based on the information available at this time and may change if additional information comes to light during the first-time application of IFRS 9 in 2018. On the whole, ElringKlinger does not expect any significant changes to the financial statements from first-time application.

The Group does not expect the classification and measurement of the financial assets to have any significant effects on the statement of financial position or on equity. It assumes that all of the financial assets held at fair value will continue to be measured at fair value. Credit and trade receivables are recognized to record contractual cash flows that are exclusively from repayments of the principal and interest payments on the outstanding nominal amount. ElringKlinger analyzed the contractual cash flows and came to the conclusion that the terms of payment are fulfilled and that there is no need for reclassification.

ElringKlinger intends to use the simplified valuation option for the new impairment requirements, recording the entire term of the expected credit losses of all trade receivables. Based on the analyses so far, the Group does not expect any significant changes to the impairments amounts.

IFRS 9 provides new regulations for the recognition of financial hedging relationships, hedge accounting in particular. The new standard is designed to present the effects of risk management more clearly. The Group does not currently use hedge accounting. For this reason, ElringKlinger assumes that, in terms of hedging activities, there will be no significant effects on the consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

The new standard was published by the IASB in May 2014 and aims to bring together the large number of revenue recognition requirements previously contained in a variety of standards and to define uniform basic principles that are applicable to all industries and for all categories of revenue transaction. IFRS 15 specifies when and in what amount revenue is recognized. As a basic principle, revenue is recognized to depict the transfer of goods and services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognized when the customer receives the power of disposal over the goods or services. In addition, the new standard encourages entities to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 replaces IAS 11 Construction Contracts and IAS 18 Revenue as well as the associated interpretations. The new regulations are effective for the first time for financial years beginning on or after January 1, 2018. 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. The modified retrospective method has been chosen, which means that instead of the comparative period being adjusted the cumulative conversion effects will be recorded directly in revenue reserves. In addition, disclosures will be made regarding the changes.

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

The knowledge and insight gained from this global analysis has confirmed that the application of IFRS 15 will not result in any significant effects on the consolidated financial statements of ElringKlinger. Revenue reserves as of January 1, 2018, are expected to decrease by around EUR 6 million. The effects on other items in the statement of financial position are to be found in an increase in trade receivables and other assets, as well as in a decrease in inventories, intangible assets and property, plant and equipment.

Tools used to manufacture components that also legally and economically owned by customers meet the definition of revenue recognition according to IFRS 15 when control of the tool is transferred, regardless of whether the price of the component is written down or it is directly purchased. As such, it is often the case that revenue is recognized at the time ownership is transferred and thus the profit or loss is recognized in full. As of January 1, 2018, this is expected to result in a decrease in fixed assets of EUR 6 million and in inventories of around EUR 4 million as well as an increase in contract assets of around EUR 3 million.

In terms of delivering components, ElringKlinger estimates that revenue from agreements with certain customers and business models should be recognized in the period in which it is earned as the units sold by the Group cannot be used otherwise and the Group is owed payments for the services that it has provided. Likewise, ElringKlinger estimates that the Group is owed payments for components that remain in the consignment warehouse until the minimum inventory amount is reached. This results in an increase in contract assets of around EUR 4 million and a decrease in inventories of around EUR 3 million.

The requirement to capitalize costs associated with performing contracts with customers if certain requirements pursuant to IFRS 15 are fulfilled is expected to result in a slight increase in non-current assets of around EUR 1 million as of January 1, 2018.

IFRS 16 Leases

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

IFRS 16 is to be applied for the first time for financial years beginning on or after January 1, 2019. Early adoption is permitted if the company applied IFRS 15 before or at the same time as IFRS 16 is applied for the first time.

The Group intends to adopt IFRS 16 for the first time as of January 1, 2019, applying the modified retrospective method. The cumulative effect from the first-time application of IFRS 16 as of January 1, 2019 will be recorded in revenue reserves without adjusting the comparative information. 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 as a lessee has largely concluded operating leases for movable assets (machinery and vehicles) and for real estate. Currently, merely the payment obligations for operating leases are disclosed in the notes to the consolidated financial statements. In future, a lessee will record a right of use asset that recognizes the lessee's right to use the underlying asset, and an obligation from the lease that recognizes the lessee's lease payment obligation.

The Group expects that this will cause total assets to increase at the date of first-time application. Please also see the Group's other notes on operating leases regarding the scope of the leases to be accounted for by the lessee in future periods.

In the income statement, the nature of expenses that are associated with these leases will change. The usually constant lease payments for operating leases, which up until now have been recognized in expense-generating functional areas, will in future be recognized as a depreciation expense for right-of-use assets in the respective functional area and interest expenses for the lease liabilities will be recognized in the financial result.

To date, the statement of cash flows has included payments for operating leases under the cash flow from operating activities. In 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.

No further significant effects are expected.

The following standards, which have already been adopted by the EU but are not yet mandatory for the financial year 2017, have not yet been applied by the ElringKlinger Group:

IFRS 17 Insurance Contracts

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

IFRIC 23 – Uncertainty over Income Tax Treatments

In June 2017, the IASB Interpretations Committee (IFRIC) published IFRIC 23 – Uncertainty over Income Tax Treatments. The interpretation clarifies the requirements of the recognition and measurement of uncertain income tax items. A company is to assess the likelihood of the relevant authority accepting the respective tax treatment. IFRIC 23 is effective for financial years beginning on or after January 1, 2019; early adoption is permitted. ElringKlinger is currently examining what effects the adoption will have of the consolidated financial statements. Based on the current analyses, the Group does not anticipate any significant effects.

Amendments to IAS 28 Investments in Associates and Joint Ventures

In October 2017, the IASB published amendments to IAS 28 Investments in Associates and Joint Ventures. The proposed amendments include the requirement that a company first apply IFRS 9 to financial instruments that are not accounted for using the equity method. The amendments are effective as of January 1, 2019. Early adoption of the amendment is permitted. The ElringKlinger Group intends to adopt the amended standard as of the date it is due to become effective. The Group is currently examining what effects these amendments will have on the consolidated financial statements.

Annual Improvements to IFRSs (2015 to 2017)

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

Scope of consolidated financial statements

The consolidated financial statements of ElringKlinger AG as of December 31, 2017, include the annual financial statements of 9 (2016: 8) domestic and 35 (2016: 34) foreign subsidiaries in which ElringKlinger AG holds, either directly or indirectly, more than 50% of the shares or is able to control the entity's financial and business policy for other reasons. Inclusion begins at the time the control relationship comes into being and ends when control is deemed to no longer exist.

The 27.0% share in hofer AG, Nürtingen, acquired in the first quarter of 2017, is recorded as an associate in non-current group assets as ElringKlinger has a significant influence on the business and financial policies. A significant influence in assumed for associates with a voting rights ranging from 20% to 50%. The imputed share of ElringKlinger increased to a total of 28.89% following the share buy-back of treasury shares by hofer AG in the first half of 2017.

The following companies made use of the exemption provisions provided by§ 264 (3) HGB:

- Elring Klinger Motortechnik GmbH, Idstein,
- ElringKlinger Logistic Service GmbH, Rottenburg/Neckar,
- ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen.

Furthermore, ElringKlinger (Great Britain) Ltd. made use of the exemption provisions under s479A of the UK Companies Act 2006 regarding the audit of financial statements for the financial statements as of December 31, 2017.

An overview of the 44 companies included in the consolidated financial statements of the parent company is provided below.

Schedule of Shareholdings and Scope of Consolidation

as of December 31, 2017

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
hofer powertrain products GmbH	Nürtingen	53.00
KOCHWERK Catering GmbH	Dettingen/Erms	100.00

Shares in affiliated companies (fully consolidated in the consolidated financial statements)

Foreign		
ElringKlinger Abschirmtechnik (Schweiz) AG	Sevelen (Switzerland)	100.00
Hug Engineering AG	Elsau (Switzerland)	93.67
Elring Klinger (Great Britain) Ltd.	Redcar (UK)	100.00
hofer powertain products UK limited	Warwick (UK)	53.00
ElringKlinger Italia Srl	Settimo Torinese (Italy)	100.00
Hug Engineering Italia S.r.l.[2]	Milan (Italy)	93.67
Technik-Park Heliport Kft.	Kecskemét-Kádafalva (Hungary)	100.00
ElringKlinger Hungary Kft.	Kecskemét-Kádafalva (Hungary)	100.00
Elring Parts Ltd.	Gateshead (UK)	100.00
Elring Klinger, S.A.U.	Reus (Spain)	100.00
ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş.	Bursa (Turkey)	100.00
ElringKlinger Meillor SAS	Nantiat (France)	100.00
ElringKlinger Silicon Valley, Inc.	Fremont (USA)	100.00
HURO Supermold S.R.L.	Timisoara (Romania)	100.00
ElringKlinger Canada, Inc.	Leamington (Canada)	100.00
ElringKlinger USA, Inc.	Buford (USA)	100.00
ElringKlinger Automotive Manufacturing, Inc.	Southfield (USA)	100.00
Hug Engineering Inc.[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 Chongqing Ltd.	Chongqing (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

Shares in associates (accounted for in the consolidated financial statements using the equity method)

Germany		
hofer AG	Nürtingen	28.89

1 ElringKlinger AG prepares the consolidated financial statements for the largest and smallest group of subsidiaries to be consolidated
2 100% subsidiary of Hug Engineering AG
3 100% 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 2017 is EUR 2,881 k (2016: EUR 2,394 k).

A dividend of EUR 2,025 k was distributed to the non-controlling interests in the financial year 2017. The remaining EUR 6,975 k was distributed to the parent company ElringKlinger AG.

Cash flow of the subgroup:

EUR k	2017	2016
Operating activities	17,351	16,114
Investing activities	-3,906	-7,215
Financing activities	-13,360	-9,630
Changes in cash	**86**	**-731**
Effects of currency exchange rates on cash	**-159**	**-54**

Summarized key financial information of the subgroup

EUR k	2017	2016
Non-current assets	63,809	65,892
Current assets	40,227	36,078
Non-current liabilities	13,903	15,162
Current liabilities	10,197	9,703
Sales revenue	105,067	98,775
Earnings before taxes (EBT)	16,730	14,776
Net income	**11,922**	**10,476**
Total comprehensive income	**11,833**	**9,487**

Further detailed information
EUR k

	2017	2016
Cash and cash equivalents	2,415	2,488
Cash in hand	6	7
Bank deposits	2,409	2,481
Non-current financial liabilities	225	1,225
to banks	0	1,000
to affiliated companies	225	225
Current financial liabilities	1,000	1,000
to banks from loans	1,000	1,000
to banks from current accounts	0	0
from overdraft facilities (only IC)	0	0
Interest income	266	157
Interest expense	290	421
Depreciation and amortization	5,582	5,450

Business combinations in 2017

With effect as of March 1, 2017, ElringKlinger AG acquired 27.0% of the shares in hofer AG with registered offices in Nürtingen, Germany, and 53% of the shares in its subsidiary hofer powertrain products GmbH, also with registered offices in Nürtingen, Germany, with effect as of February 6, 2017. The shares were acquired by subscribing to a capital increase.

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

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

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

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

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

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

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

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

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

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

Newly formed company 2017

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

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

Company buyouts 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 through profit or loss 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 calculates an amount to be paid annually based on an adjusted revenue amount. Deferred performance is 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.

The first-time full consolidation of the Company increased the Group's sales revenue by EUR 6,969 k as of April 11, 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:

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. No impairment losses were recognized in respect of trade receivables. In 2016, their fair value corresponded to the gross value of EUR 1,179 k.

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:

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 in 2016

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 recognized directly in equity. ElringKlinger AG now holds an 80% interest in the company.

Newly formed company 2016

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

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.

Investments in associates

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

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

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

Currency translation

The reporting currency of the ElringKlinger Group is the euro.

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

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

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

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

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

		Closing rate		Average rate	
Currency	Abbr.	Dec 31, 2017	Dec 31, 2016	2017	2016
US dollar (USA)	USD	1.19930	1.05410	1.13703	1.10317
Pound sterling (UK)	GBP	0.88723	0.85618	0.87572	0.82269
Franc (Switzerland)	CHF	1.17020	1.07390	1.11628	1.09085
Canadian dollar (Canada)	CAD	1.50390	1.41880	1.47253	1.45892
Real (Brazil)	BRL	3.97290	3.43050	3.64344	3.81926
Peso (Mexico)	MXN	23.66120	21.77190	21.42845	20.68174
RMB (China)	CNY	7.80440	7.32020	7.65567	7.34151
WON (South Korea)	KRW	1,279.61000	1,269.36000	1,275.34917	1,279.91750
Rand (South Africa)	ZAR	14.80540	14.45700	15.06342	16.12887
Yen (Japan)	JPY	135.01000	123.40000	127.30417	120.440830
Forint (Hungary)	HUF	310.33000	309.83000	309.31000	311.90917
Turkish lira (Turkey)	TRY	4.54640	3.70720	4.14289	3.34263
Leu (Romania)	RON	4.65850	4.53900	4.57379	4.49330
Indian rupee (India)	INR	76.60550	71.59350	73.78786	74.20010
Indonesian rupiah (Indonesia)	IDR	16,239.12000	14,173.43000	15,233.45750	14,678.48083
Baht (Thailand)	THB	39.12100	37.72600	38.35650	38.86225

Accounting policies

Goodwill

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

EUR k	2017	2016
Original Equipment	148,385	158,864
Engineered Plastics	6,313	6,313
Aftermarket	1,658	1,658
Total	**156,356**	**166,835**

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 used. For revenue planning, Elringklinger assumes that in the medium term ElringKlinger's growth will be above the global market growth rate.

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. For 2018, ElringKlinger assumes that the purchase prices for commodities on the global market, especially for aluminum and steel, will continue to rise. Rising prices are expected to continue on the steel market due to the existing supply shortage, which results from import duties on steel imports from China and Russia. The price for aluminum, which has increased significantly over the past few years, should stabilize or increase slightly. On the whole, however, the risk of excessive increases in the cost of materials is deemed moderate. 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, 2017 was the weighted average cost of capital (WACC) before taxes of 10.22% (2016: 9.98%). The WACC is determined on the basis of the risk-free rate according to the method of the IDW ["Institut der Wirtschaftsprüfer in Deutschland e. V., Düsseldorf": Institute of Public Auditors in Germany, Düsseldorf], the market risk premium and the beta factor. Beta represents the individual risk of a share as compared to a market index. It is calculated as the average value for the peer group. The credit spread, which expresses the premium over the risk-free rate, was derived from a rating of a peer group.

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, 2017 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.

Assets and liabilities held for sale

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

Financial instruments

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 "held for sale", later reversals of impairment losses are, however, recognized directly in equity.

Changes to the fair value of financial assets classified as held for sale are recognized in equity under other comprehensive income after taking deferred taxes into account. Any 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 held for sale** if they are financial assets for which there is intention to sell and they were not acquired for trading purposes or cannot be allocated to any of the 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.

Other current liabilities

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

Derivative financial instruments and hedge accounting

Under IAS 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 position 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. Markdowns 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 2017. Applying the discount for lack of marketability from 2016 would have resulted in an increase in impairment of EUR 4,903 k in 2017.

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.

Provisions for pensions

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

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

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

Provisions

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

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

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

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

Leases

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

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

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

Recognition of income and expense

Sales revenue is measured at the fair value of the 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 2017 amounted to 1.95% (2016: 1.87%). In the financial year 2017 borrowing costs of EUR 403 k (2016: EUR 360 k) were capitalized.

Income taxes and deferred taxes

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

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

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

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

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

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

Contingent liabilities and contingent receivables

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

Use of estimates

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

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

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

Risks and uncertainties

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

According to current assessments, there are risks regarding economic development from the uncertain outcome of the UK's exit negotiations from the eurozone and from several emerging and developing economies in recession, however these economies are of little significance to world trade.

Economists expect global economic growth to continue in 2018. Total economic output in the whole of the eurozone will increase in a similarly moderate fashion as Germany. In addition to the US economy's continuing expansion, the large emerging economies India and China are also experiencing strong growth. Even Japan is showing signs of recovery after years of stagnation. Overall, it is considered unlikely that the world economy will suffer a significant decline. The International Monetary Fund anticipates 3.9% growth in the global economy for 2018.

General forecasts for the automotive sector are cautiously optimistic regarding 2018. Whilst a similarly high level is expected compared to the previous year, the US market will, on the whole, taper off and even the signs of growth from China are comparatively moderate. By contrast, the Indian car market's expansion and the recovery of markets in Brazil and Russia are considered to be drivers of growth. 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 assumes that the global market for cars will increase by around 2–3% in 2018 (see "Report on expected developments").

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

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

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

Individual disclosures on the Group Income Statement

1 — Sales revenue

Sales revenue increased by EUR 106,598 k in comparison with 2016 to reach EUR 1,664,041 k.

Sales revenue of the Group are made up as follows:

EUR k	2017	2016
Sale of goods	1,650,181	1,543,250
Proceeds from the rendering of services	9,513	9,674
Income from rental and leasehold	4,347	4,519
Total	**1,664,041**	**1,557,443**

Breakdown by geographical markets:

EUR k	2017	2016
Domestic	426,201	412,254
Foreign	1,237,840	1,145,189
Total	**1,664,041**	**1,557,443**

The location of the customer is used to determine allocation of sales revenue. The division of group sales revenue by segment and region is provided under note (32) Segment reporting.

2 — Cost of sales

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

Cost of sales includes:

EUR k	2017	2016
Cost of materials	680,856	630,088
Personnel expenses	338,214	302,775
Depreciation and amortization	89,807	84,287
Other expenses	146,754	144,374
Total	**1,255,631**	**1,161,524**

3 — Selling expenses

Selling expenses increased by EUR 21,489 k compared to 2016 to reach EUR 141,859 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 2,710 k compared to 2016 to reach EUR 76,917 k.

5 — Research and development costs

Research and development costs include the personnel expenses and the cost of experimental materials and tools attributable to these activities, unless these are development costs that are required to be capitalized under the conditions set forth in IAS 38.57. Compared to 2016, research and development costs increased by EUR 4,004 k to EUR 71,387 k. Development costs of EUR 4,529 k (2016: EUR 7,368 k) were capitalized in the financial year 2017.

6 — Other operating income

EUR k	2017	2016
Insurance reimbursements/ claims reimbursements	10,961	967
Government grants	7,578	6,823
Reimbursements from third parties	4,333	2,399
Reversal of provisions/deferred liabilities	2,509	1,606
Other taxes (excl. income tax)	1,060	708
Reversal of impairments on receivables	794	929
Income from disposals of non-current assets	195	1,591
Other	3,812	4,978
Total	**31,242**	**20,001**

7 — Other operating expenses

EUR k	2017	2016
Other taxes (excl. income tax)	4,672	4,045
Losses on disposal of non-current assets	1,541	502
Impairment of receivables	1,499	835
Expenditures for claims	1,068	1,833
Other fees	714	825
Recognition of provisions/deferred liabilities	426	7,655
Defaults on receivables	346	1,104
Selling costs for machinery	115	354
Other	1,790	1,213
Total	**12,171**	**18,366**

8 — Associates

ElringKlinger holds a share of 28.89% in hofer AG, Nürtingen. The hofer Group is a competent systems developer for drive chain systems in the automotive sector. The share deal allows ElringKlinger to benefit from this innovative capacity, especially in the development and production of alternative drive technology. ElringKlinger uses the equity method to account for its share in hofer AG in the consolidated financial statements. The following table provides summarized information of the Group's investment in hofer AG.

EUR k	2017
Non-current assets	45,078
Current assets	32,707
Non-current liabilities	17,412
Current liabilities	15,862
Net assets	**45,511**
Group share (28.89%)	12,859
Goodwill	15,704
Carrying amount of the Group's share	**28,563**
Sales revenue	46,794
Comprehensive income for the financial year	**-1,571**
Other comprehensive income	0
Group share in profit/loss (28.89%)	**-454**
Dividends received	**0**

The associate had no contingent liabilities or capital commitments as of December 31, 2017.

9 — Net finance costs

EUR k	2017	2016
Financial income		
Income from currency differences	20,380	14,688
Interest income	512	551
Other	8	2,222
Finance income, total	**20,900**	**17,461**
Finance costs		
Expenses from currency difference	-31,471	-14,240
Interest expense	-13,611	-14,498
Other	-2,628	-223
Finance costs, total	**-47,710**	**-28,961**
Share of result of associates	**-454**	**0**
Net finance costs	**-27,264**	**-11,500**

Of the interest expenses, EUR 2,281 k (2016: EUR 2,495 k) relates to interest portions of pension plans and the remainder to bank interest and interest expense from the reversal of discounts on non-current provisions. Borrowing costs for qualifying assets in the amount of EUR 403 k were capitalized in the reporting year (2016: EUR 360 k); this represents a corresponding improvement in the result. Interest expenses for finance leases are immaterial.

10 — Income taxes

Income taxes are composed as follows:

EUR k	2017	2016
Current tax expense	39,996	48,259
Deferred taxes	-3,722	-6,780
Tax expense reported	**36,274**	**41,479**

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

The income tax rate calculated for the German companies is 29.6% (2016: 29.4%). Foreign taxation is calculated at the rates applicable in the countries concerned and lies between 9.0% and 34.7% (2016: between 9.0% and 40.8%). The average foreign tax rate is 24.8% (2016: 27.6%).

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

The following table shows a reconciliation between the income tax expense that might theoretically be expected to arise for the Group under application of the current domestic rate of 25.7% (2016: 27.9%) and the income tax expense actually reported.

EUR k	2017	2016
Earnings before taxes	110,054	124,094
Expected tax rate	**25.7%**	**27.9%**
Expected tax expenses	**28,240**	**34,585**
Change in the expected tax rate due to:		
– Permanent differences	251	51
– Difference in basis of assessment of local taxes	400	-299
– Use of non-capitalized or forfeiture of capitalized tax loss carryforwards	-599	-447
– Reversal/impairment loss of capitalized tax loss carryforwards (from other periods)	0	0
– Addition to non-current tax loss carryforwards (relating to the period)	6,143	2,810
– Taxes relating to other periods	-3,679	4,805
– Deviations due to changes in tax rate	4,515	-287
– Deviations on account of withholding taxes	989	373
– Other effects	14	-112
Current tax expense	**36,274**	**41,479**
Actual tax rate	**33.0%**	**33.4%**

Retained earnings of EUR 23,004 k (2016: EUR 19,881 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 986 k (2016: EUR 284 k) and was recorded as a deferred tax liability. Further retained earnings of domestic and foreign subsidiaries of EUR 184,087 k (2016: EUR 176,024 k) are intended to be permanently reinvested in those operations on the basis of current planning.

Deferred tax assets on tax loss carryforwards have been recognized in the amount of EUR 12,621 k (2016: EUR 14,602 k). No deferred tax assets were recognized in respect of tax loss carryforwards amounting to EUR 67,541 k (2016: EUR 40,680 k), since it was not expected that the deferred tax assets would be utilized in the foreseeable future.

Unused income tax loss carryforwards primarily relate to foreign subsidiaries. The expiration of carry forwards not recognized for tax purposes is as follows:

Loss carryforwards are forfeited within

EUR k	Dec 31, 2017	Dec. 31, 2016
One year	0	49
Two years	0	1,208
Three years	356	181
Four years	880	1,074
Five years	1,288	1,426
More than five years	50,535	34,248
Non-forfeitable	14,482	2,494
Total	**67,541**	**40,680**

Tax deferrals relate to the following line items:

Line items EUR k	Deferred tax assets Dec. 31, 2017	Deferred tax assets Dec. 31, 2016	Deferred tax liabilities Dec. 31, 2017	Deferred tax liabilities Dec. 31, 2016
Intangible assets	708	575	8,357	9,892
Property, plant and equipment	4,033	3,905	37,032	42,429
Investment property	82	55	1,949	1,918
Financial assets	4	2	0	0
Other non-current assets	105	6	2	324
Inventories	5,079	5,918	858	1,491
Trade receivables	1,005	1,491	162	249
Other current assets	8	559	2,599	696
Cash and cash equivalents	0	0	6	0
Provisions for pensions	22,399	23,683	483	4
Non-current provisions	2,230	2,289	0	0
Non-current financial liabilities	35	30	905	14
Other non-current liabilities	547	647	44	0
Current provisions	4,944	2,109	0	0
Trade payables	17	15	255	195
Current financial liabilities	28	43	441	161
Other current liabilities	2,691	2,854	1,008	774
Deferred taxes associated with investments in subsidiaries	0	0	986	284
Tax loss carryforwards	12,621	14,602	0	0
Reclassification to assets held for sale	-1,002	0	-2,464	0
Total	**55,534**	**58,783**	**52,623**	**58,431**
Offsetting of deferred tax assets against deferred tax liabilities	-38,548	-41,975	-38,548	-41,975
Recognized in the statement of financial position	**16,986**	**16,808**	**14,075**	**16,456**

Deferred taxes totaling EUR -1,706 k (2016: EUR 6,067 k) were recognized in other comprehensive income. Of this amount EUR -1,505 k (2016: EUR 5,942 k) relates to pension provisions and EUR -201 k (2016: EUR 125 k) relate to a net investment.

11 — Basic and diluted earnings per share

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

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

	2017	2016
Profit/loss attributable to the shareholders of ElringKlinger AG (EUR k)	69,930	78,550
Average number of shares	63,359,990	63,359,990
Earnings per share in EUR	**1.10**	**1.24**

Disclosures on the Group Statement of Financial Position

12 — Intangible assets

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

Purchase commitments to acquire intangible assets amounted to EUR 1,132 k as of December 31, 2017 (December 31, 2016: EUR 967 k).

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

EUR k	2017	2016
Cost of sales	11,938	12,900
Selling expenses	3,935	3,937
General and administrative expenses	805	917
Research and development costs	1,379	728
Total	**18,057**	**18,482**

13 — Property, plant and equipment

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

Property, plant and equipment contains technical equipment capitalized by the Group as finance leases in the amount of EUR 550 k (2016: EUR 728 k). In the financial year, amortization of leased assets amounted to EUR 191 k (2016: EUR 192 k).

As in the previous year, no impairment losses were recognized on property, plant and equipment in the financial year 2017.

Purchase commitments to acquire property, plant and equipment from third parties amounted to EUR 44,277 k as of December 31, 2017 (December 31, 2017: EUR 41,249 k).

14 __ Investment property

EUR k	Investment property	Investment property under construction	Total
Acquisition/production cost as of Jan. 1, 2017	**26,335**	**273**	**26,608**
Currency changes	-28	0	-28
Additions	0	1,812	1,812
Reclassifications	1,986	-1,986	0
As of Dec. 31, 2017	**28,293**	**99**	**28,392**
Write-downs as of Jan. 1, 2017	**10,786**	**0**	**10,786**
Currency changes	-10	0	-10
Additions	586	0	586
As of Dec. 31, 2017	**11,362**	**0**	**11,362**
Net carrying amount as of Dec. 31, 2017	**16,931**	**99**	**17,030**
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**
Write-downs 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**

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

Investment property has a fair value of EUR 25,753 k as of the reporting date (2016: EUR 19,457 k). The input data used to determine the fair value correspond to stage 3 of the fair value hierarchy. The fair value is determined using the discounted cash flow method and official valuations. Under the discounted cash flow method, the surplus of expected future rental payments over the expected cash expenses is discounted to the valuation date. The discount rate used for the Idstein industrial park was 3.18% (2016: 8.75%) and 6.09% for the Kecskemét-Kádafalva industrial park (2016: 8.75%). 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 4,347 k (2016: EUR 4,519 k). Expenses directly connected with these financial investments amounted to EUR 5,377 k (2016: EUR 5,163 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.

15 — Financial assets and shares in associates

EUR k	Shares in associates	Non-current securities	Other financial investments	Total
Acquisition cost as of Jan. 1, 2017	**0**	**1,085**	**16**	**1,101**
Currency changes	0	-6	0	-6
Additions	29,017	206	0	29,223
Revaluations	-454	2	0	-452
Disposals	0	204	0	204
As of Dec. 31, 2017	**28,563**	**1,083**	**16**	**29,662**
Write-downs as of Jan. 1, 2017	**0**	**72**	**0**	**72**
Currency changes	0	0	0	0
Additions	0	3	0	3
Revaluations	0	-9	0	-9
Disposals	0	3	0	3
As of Dec. 31, 2017	**0**	**63**	**0**	**63**
Net carrying amount as of Dec. 31, 2017	**28,563**	**1,020**	**16**	**29,599**
Fair value Dec. 31, 2017		1,020	16	
Acquisition cost as of Jan. 1, 2016	**0**	**1,292**	**22**	**1,314**
Currency changes	0	4	-2	2
Revaluations	0	247	0	247
Disposals	0	458	4	462
As of Dec. 31, 2016	**0**	**1,085**	**16**	**1,101**
Write-downs as of Jan. 1, 2016	**0**	**59**	**0**	**59**
Currency changes	0	1	0	1
Additions	0	14	0	14
Disposals	0	2	0	2
As of Dec. 31, 2016	**0**	**72**	**0**	**72**
Net carrying amount as of Dec. 31, 2016	**0**	**1,013**	**16**	**1,029**
Fair value Dec. 31, 2016		1,013	16	

Of the non-current securities, EUR 829 k (2016: EUR 819 k) is pledged in full to secure pension claims.

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

Non-current income tax assets include an investment income tax credit carried by ElringKlinger Automotive Components (India) of EUR 99 k.

Other non-current assets include an advance payment on future licensing expenses amounting to EUR 734 k (2016: EUR 682 k).

17 — Inventories

EUR k	Dec 31, 2017	Dec. 31, 2016
Raw materials, consumables and supplies	116,421	100,949
Work in progress	72,686	62,478
Finished goods and merchandise	171,215	156,125
Advance payments	9,225	8,782
Total	**369,547**	**328,334**

Impairments of EUR 12,145 k were recognized on inventories due to market risks and obsolescence (2016: EUR 14,390 k). Impairments and write-ups of inventories are recognized in cost of sales.

18 — Trade receivables, current income and other current assets

For trade receivables and other current assets, impairments of EUR 5,760 k (2016: EUR 5,767 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.

Movements in the bad debt allowance for trade receivables and current assets are presented in the table below:

EUR k	2017	2016
As of Jan. 1	**5,767**	**6,262**
Additions	1,163	740
Reversals/utilizations	-672	-1,235
Exchange rate effects	-180	0
Reclassification to assets held for sale	-318	0
As of Dec. 31	**5,760**	**5,767**

A breakdown of the due dates of the trade receivables is provided below:

EUR k	Dec 31, 2017	Dec. 31, 2016
Neither overdue nor impaired	**247,448**	**244,473**
Overdue, not impaired		
– less than 30 days	31,443	35,505
– from 31 to 60 days	8,911	7,629
– from 61 to 90 days	4,663	4,054
– from 91 to 180 days	388	581
– more than 180 days	1,131	127
Total	**46,536**	**47,896**
Discounts	**-320**	**-263**
Impaired	**8,957**	**7,416**
Carrying amount	**302,621**	**299,522**

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.

As regards receivables that are not past due and not impaired, there were no indications as of the reporting date that the debtors would be unable to settle their payment obligations.

Other current assets include tax receivables from VAT and other taxes of EUR 14,692 k (2016: EUR 19,400 k), time deposits and securities of EUR 4,892 k (2016: EUR 4,617 k) and other receivables from third parties of EUR 28,509 k (2016: EUR 15,167 k), of which EUR 2,573 k (2016: EUR 1,135 k) relates to financial assets and EUR 176 k (2016: EUR 0 k) to financial derivatives.

Current income tax assets mainly contain the corporate income tax credits of Elring Klinger Mexico, S.A. de C.V. of EUR 3,163 k (2016: EUR 77 k) and ElringKlinger TR Otomotiv Sanayi ve Ticaret A.S. of EUR 838 k (2016: EUR 0) as well as of ElringKlinger AG of EUR 1,715 k (2016: EUR 0 k). The corporate income tax credits of ElringKlinger AG capitalized at present value of EUR 684 k were used in full in the reporting year.

19 — 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.

20 — Assets and liabilities held for sale

The Group primarily focuses its strategic direction on areas of the future; lightweighting, electromobility and electric drives. In this context, the Group aimed to reach an agreement with a French automotive supplier in December 2017 on the sale of the Hug Group with registered offices in Elsau, Switzerland. The 93.67% share that ElringKlinger held in Hug Engineering AG were transferred in full to the counterparty. The acquisition agreement was signed on December 21, 2017. The transaction was completed on February 28, 2018, with effect as of March 1, 2018. In accordance with IFRS 5, the assets and liabilities of HUG Engineering AG and those of its four subsidiaries were reclassified to assets and liabilities held for sale. As of December 31, 2017, these assets and liabilities remained allocated to the segment. These assets were not required to be written down to fair value less costs to sell.

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

21 — 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, 2017 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 AktG 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, 2022 (Authorized Capital 2017). As a rule, the shareholders are entitled to subscription rights. The shares may also be acquired by one or more banks subject to the proviso that they offer them to the shareholders for subscription. However, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude shareholder subscription rights

- in order to eliminate fractional amounts;
- if the capital increase against in-kind contributions is implemented specifically for the purpose of acquiring companies, parts of companies, equity investments classified as fixed financial assets or other assets in connection with an intended acquisition or within the framework of business combinations and the shares issued excluding the subscription rights do not exceed 10% of the capital stock. This applies to the share capital existing either on the date on which this authorization takes effect or on the date on which it is exercised.

- if the new shares are issued against cash contributions and if the issue price per new share does not fall significantly below the quoted price of shares already listed, and the shares issued without subscription rights pursuant to § 186 (3) sentence 4 AktG, do not represent more than 10% of the share capital, either on the date on which this authorization takes effect or on the date on which it is exercised. The upper limit of 10% of share capital includes any shares issued or sold during the term of this authorization 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 by the sum of retained earnings and the profit or loss for the year, as shown in the annual financial statements of ElringKlinger AG that have been drawn up according to the provisions of the German Commercial Code (HGB). In the financial year 2017, ElringKlinger AG distributed to its shareholders a dividend of EUR 31,680 k (EUR 0.50 per share) from the retained earnings reported in 2016. In the financial year 2016, the distribution was EUR 34,848 k (EUR 0.55 per share) from the retained earnings reported in 2015.

The Management Board and the Supervisory Board will propose to the Annual General Meeting on the 2017 annual financial statements on May 16, 2018 to distribute a dividend of of EUR 31,680 k (EUR 0.50 per each participating share).

22 — 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.

23 — Provisions for pensions

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

Under the **defined contribution plans** the company pays contributions to state or private pension schemes on the basis of statutory or contractual obligations or on a voluntary basis. Once the contributions are paid, the company has no further obligations, such as follow-up contribution payments. Current contribution payments are reported under personnel expenses in the reporting year; in the reporting year, the Group's contribution payments totaled EUR 24,168 k (2016: EUR 22,217 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 held by the pension fund constitute plan assets as defined by IAS 19.8 and are thus netted with the obligation to the beneficiaries.

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

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

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

Measurement as of	Dec 31, 2017	Dec. 31, 2016
Discount rate (vesting period)	1.48%	1.36%
Discount rate (pension period)	1.28%	1.16%
Expected salary increases (in %)	2.44%	2.69%
Future pension increases	1.51%	1.50%

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

EUR k	2017	2016
Present value of pension benefits as of Jan. 1	**181,611**	**157,802**
Current service cost	6,902	6,201
Past service cost	154	-454
Plan participant contributions	5,463	3,977
Interest expense	2,281	2,927
Disbursements/utilization	-10,915	-6,354
Actuarial gains/losses	-5,627	16,898
Currency differences	-4,566	598
Other changes	68	16
Liabilities in connection with assets held for sale	-22,492	0
Present value of pension benefits as of Dec. 31	**152,879**	**181,611**
of which (partially) covered by plan assets	48,865	75,797
of which not covered	104,014	105,814

The average weighted term of the defined benefit obligation amounts to 18 years (2016: 19 years). Actuarial gains and losses arise from the following effects:

EUR k	2017	2016
Effects from changes in the interest rate	-2,895	11,229
Effects from changes in demographic assumptions	-2,284	2,999
Effects from other experience-based adjustments	-448	2,670
Actuarial gains/losses	**-5,627**	**16,898**

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

EUR k	2017	2016
Market value as of Jan. 1	**45,049**	**39,058**
Interest income	348	432
Employer contributions	3,824	3,871
Plan participant contributions	5,463	3,977
Service costs	-7,167	-2,807
Actuarial gains/losses	78	144
Currency effects	-3,241	374
Liabilities in connection with assets held for sales	-17,474	0
Market value as of Dec. 31	**26,880**	**45,049**

Plan assets comprise insurance claims. The plan assets and present value of defined benefit obligations are allocated to key countries as follows:

EUR k	2017	2016
Present value of pension benefits as of Dec. 31		
Germany	122,321	123,770
Switzerland	25,997	53,180
Other	4,561	4,661
Present value of pension benefits as of Dec. 31	**152,879**	**181,611**
Market value of plan assets as of Dec. 31		
Germany	7,438	6,179
Switzerland	19,136	38,637
Other	306	233
Market value of plan assets as of Dec. 31	**26,880**	**45,049**

The actual return on plan assets amounts to EUR 409 k (2016: EUR 567 k).

In 2018, liquidity is likely to be reduced due to contributions to plan assets and the reimbursement rights and by direct Group benefit payouts, which are expected to amount to EUR 5,595 k (2016: EUR 4,270 k). The future payments from pension obligations are as follows:

EUR k	2017	2016
For the next 12 months	5,595	4,270
Between one and five years	70,643	15,050
More than five years	264,761	316,757

The following amounts are reported in the income statement for defined benefit plans

EUR k	2017	2016
Current service cost	6,902	6,201
Net interest expenses	1,933	2,495
Past service cost	154	-454
Total pension expense	**8,989**	**8,242**

Net interest expenses comprise interest expenses of EUR 2,281 k (2016: EUR 2,927 k) as well as interest income from plan assets of EUR 348 k (2016: EUR 432 k).

The current service cost and past service costs are reported as part of the personnel expenses of the functional areas.

The full amount of actuarial gains and losses during the current year is reported under other comprehensive income. Changes are shown in the table below:

EUR k	2017	2016
Actuarial gains (-) and (+) losses recognized in other comprehensive income	-5,705	16,754
Deferred taxes on actuarial gains (-) and losses (+) recognized under other comprehensive income	1,505	-5,942

The amount of the Group's obligation as reported on the statement of financial position is derived as follows:

EUR k	2017	2016
Present value of pension obligation	152,879	181,611
Fair value of plan assets	26,880	45,049
Reported pension provision	125,999	136,562

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 24,663 k/ EUR 30,039 k.

A 0.5% increase/decrease in future salary increases would lead to an increase/decrease in the DBO of EUR 2,109 k/EUR 3,407 k.

A change in future pension developments of +0.25%/-0.25% would lead to an increase/decrease in the DBO of EUR 3,786 k/EUR 4,980 k.

24 — Other provisions

Other provisions can be broken down as follows:

EUR k	Dec 31, 2017	Dec 31, 2016
Current provisions	23,005	17,279
Non-current provisions	12,319	13,604
Total	**35,324**	**30,883**

Current provisions:

in EUR k	Personnel obligations	Warranty obligations	Potential losses from customer contracts	Litigation costs	Other risks	Total
As of Dec. 31, 2016	**4,229**	**4,405**	**4,573**	**972**	**3,100**	**17,279**
Currency changes	-79	-174	-154	-47	-21	-475
Change in consolidated group	0	22	0	0	0	22
Utilization	3,197	553	4,417	394	311	8,872
Reversal	499	1,082	0	370	2,489	4,440
Additions	2,540	12,763	4,350	104	930	20,687
Reclassifications	0	33	0	0	32	65
Liabilities in connection with assets held for sale	0	-1,261	0	0	0	-1,261
As of Dec. 31, 2017	**2,994**	**14,153**	**4,352**	**265**	**1,241**	**23,005**

Provisions for warranty obligations are counterbalanced by insurance reimbursements of EUR 10,823 k, which are recognized as other receivables due from third parties.

Non-current provisions:

EUR k	Personnel obligations	Warranty obligations	Litigation costs	Other risks	Total
As of Dec. 31, 2016	**11,465**	**1,324**	**211**	**604**	**13,604**
Currency changes	-79	-61	-11	-23	-174
Change in consolidated group	0	0	0	0	0
Utilization	1,155	79	16	2	1,252
Reversal	281	60	68	8	417
Unwinding of discount/discounting	110	0	0	0	110
Additions	965	25	0	123	1,113
Reclassifications	0	-33	0	-32	-65
Liabilities in connection with assets held for sale	0	-510	-90	0	-600
As of Dec. 31, 2017	**11,025**	**606**	**26**	**662**	**12,319**

Personnel provisions are recognized for phased retirement schemes, long-term service benefits and similar obligations.

The provision for warranties represents the best estimate of management and was recognized on the basis of past experience and the industry average for defective products with regard to the Group's liability for a warranty of twelve months. In addition, specific individual warranties were taken into account.

The 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.

25 — Non-current and current financial liabilities

EUR k	Domestic	Foreign	Total Dec 31, 2017	Domestic	Foreign	Total Dec 31, 2016
Overdrafts	105,451	13,931	119,382	145,960	21,602	167,562
Financial liabilities with a residual term of less than one year	59,485	43,077	102,562	11,938	77,892	89,830
Current financial liabilities	**164,936**	**57,008**	**221,944**	**157,898**	**99,494**	**257,392**
Financial liabilities with a residual term of between one and five years	265,275	85,476	350,751	240,009	66,596	306,605
Financial liabilities with a residual term of more than five years	128,060	0	128,060	4,721	9,487	14,208
Non-current financial liabilities	**393,335**	**85,476**	**478,811**	**244,730**	**76,083**	**320,813**
Total	**558,271**	**142,484**	**700,755**	**402,628**	**175,577**	**578,205**

This includes liabilities from finance leases of EUR 496 k (2016: EUR 480 k) with a nominal volume of EUR 521 k (2016: EUR 511 k).

The average interest rates were:

in %	Dec 31, 2017	Dec. 31, 2016
Overdrafts:		
Domestic	1.34	0.67
Foreign	4.02	3.92
Financial liabilities:		
Domestic: less than one year	2.35	2.52
Domestic: between one and five years	1.34	1.79
Domestic: more than five years	1.43	1.96
Foreign: less than one year	2.42	2.47
Foreign: between one and five years	2.67	2.40
Foreign: more than five years		3.26

Fixed interest rates have been agreed for financial liabilities amounting to EUR 565,696 k (2016: EUR 389,065 k).

To secure these liabilities, there are land charges on company land with a carrying amount of EUR 158,844 k (2016: EUR 149,254 k), collateral assignment of inventories with a carrying amount of EUR 0 k (2016: EUR 863 k), collateral assignment of receivables with a carrying amount of EUR 0 k (2016: EUR 6,338 k) and collateral assignment of tools with a carrying amount of EUR 0 k (2016: EUR 705 k). The secured liabilities amounted to EUR 36,334 k (2016: EUR 44,152 k) as of December 31, 2017.

As of December 31, 2017, the Group had unused lines of credit amounting to EUR 136,056 k (2016: EUR 122,185 k).

26 — Trade payables and other current and non-current liabilities

Trade payables and other non-current and current liabilities include open obligations from the exchange of goods and services.

The carrying amounts of trade payables approximate their fair value.

The trade payables and other current and non-current liabilities are not secured except for the retentions of title that are customary in trading relationships.

Other current liabilities from third parties contain financial liabilities of EUR 47,467 k.

27 — Hedging policy and financial instruments

Risks and hedging policy

As a consequence of the international nature of the activities of the ElringKlinger Group, changes in exchange rates, interest rates and prices of raw materials impact the financial performance, net assets and cash position of the Group. The risks arise from currency and interest rate fluctuations in connection with business operations and financing. Further risks result from fluctuations in the market prices of raw materials. Additionally, there are liquidity risks which relate to credit and market risks or accompany a deterioration of business operations and financial market turmoil.

By concluding hedges, the Management Board of ElringKlinger AG aims to manage the risk factors that may adversely affect the financial performance, net assets and cash position and thus to minimize these influences. Within the ElringKlinger Group, derivative financial instruments may only be entered into with the consent of the Management Board. Hedge accounting in accordance with IAS 39 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, 2017
EUR k

Local currency	CHF	HUF	MXN	USD	KRW	Other	Total
Local currency +10%							
Consolidated net income	3,597	2,692	2,493	1,574	850	-322	10,884
Local currency -10%							
Consolidated net income	-3,597	-2,692	-2,493	-1,574	-850	322	-10,884

Dec 31, 2016
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

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, 2017, earnings would have been EUR 361 k (2016: EUR 526 k) lower. Had market interest rates been 30 basis points lower, earnings would have been EUR 47 k (2016: EUR 41 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. In order to mitigate fluctuations in the purchase prices for raw materials, ElringKlinger has entered into two nickel hedges. Where necessary, it is possible to secure acceptable procurement prices by means of additional derivatives.

ElringKlinger processes a significant volume of high-grade stainless steels. This includes alloy surcharges, in particular for nickel, which is a listed metal subject to market price fluctuations. ElringKlinger uses derivative financial instruments to hedge portions of alloy surcharges assessed in cost calculations. A price corridor surrounding the average calculation cost is hedged. If the quoted exchange price of nickel exceeds the upper range of the corridor, ElringKlinger receives a compensatory payment. If the quoted exchange price of nickel falls below the lower range of the corridor, ElringKlinger has to pay a surcharge. As of the reporting date, there were two nickel hedging contracts for a total of 150 metric tons of nickel. The existing nickel hedges expire in the financial year 2018 and the latest expiration date is on December 31, 2018.

The Group manages the credit risk of derivatives by entering into derivative financial transactions exclusively with major banks of impeccable creditworthiness in accordance with uniform guidelines.

Had the market value of nickel been 10% higher on December 31, 2017, earnings would have been EUR 306 k higher (2016: EUR 0 k). A 10% decrease in the market value would have resulted in an increase in earnings of EUR 74 k (2016: EUR 0 k).

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 11,249 k (2016: EUR 9,530 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 under note 18.

In 2017, the two largest customers accounted for 10.2% and 8.0% of sales, respectively (2016: 11.0% and 8.3%).

Liquidity risk

The solvency and liquidity of the ElringKlinger Group is constantly monitored by liquidity planning. Furthermore, a cash liquidity reserve and guaranteed credit lines ensure solvency and liquidity. Reference is also made to the financing risks presented in the risk report as part of the group management report of the ElringKlinger Group (Opportunity and risk report – Financial risks– Liquidity and financing risks).

Expected cash outflows

The following table shows all contractually fixed payments for redemptions, repayments and interest from financial liabilities recognized in the statement of financial position, including derivative financial instruments that have a negative market value.

EUR k	Trade payables	Financial liabilities	Finance leases	Derivatives	Other current liabilities	Total
As of Dec. 31, 2017						
Carrying amount	**118,846**	**700,259**	**496**	**11**	**47,467**	**867,079**
Expected outflows:	**118,846**	**731,842**	**522**	**11**	**47,467**	**898,688**
– less than one month	88,627	31,786	25	1	0	120,439
– between one and three months	23,644	29,249	52	2	8,663	61,610
– between three months and one year	4,577	170,083	218	8	38,804	213,690
– between one and five years	1,755	367,715	227	0	0	369,697
– more than five years	243	133,009	0	0	0	133,252
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

Further disclosures on financial liabilities are provided under note (25).

28 — 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

	Cash and cash equivalents	Trade receivables	Other current assets	
EUR k	CA	CA	CA	
As of Dec. 31, 2017				
Loans and receivables	45,498	302,621	7,465	
Held to maturity	0	0	0	
Held for trading	0	0	0	
Available for sale	0	0	0	
Total	**45,498**	**302,621**	**7,465**	
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**	

The following table shows the carrying amounts (CA) and fair values (FV) of current and non-current financial liabilities:

	Other current liabilities	Current financial liabilities	Current financial leases		
EUR k	CA	CA	CA	FV	
As of Dec. 31, 2017					
Financial liabilities measured at acquisition cost	47,467	221,666	0	0	
Financial liabilities measured at fair value through profit or loss	0	0	0	0	
No IAS 39 measurement category	0	0	278	295	
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	

Other current liabilities contain a purchase price liability of EUR 34,782 k (2016: two purchase price liabilities totaling EUR 33,801 k) from a written put option which is measured at amortized cost. The second purchase price liability, which was likewise contained in other current liabilities in the previous year, constitutes part of the liabilities held for sale. The liability was measured at a fair value of EUR 1,500 k and reclassified accordingly.

	Derivatives	Non-current securities		Other financial assets		Total
	CA	CA	FV	CA	FV	CA
	0	0	0	8	8	355,592
	0	829	840	0	0	829
	176	0	0	0	0	176
	0	192	192	7	7	199
	176	**1,021**	**1,032**	**15**	**15**	**356,796**
	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**

	Trade payables	Derivatives		Non-current financial liabilities		Non-current financial leases		Total
	CA	CA	FV	CA	FV	CA	FV	CA
	118,846	0	0	478,593	468,251	0	0	866,572
	0	11	11	0	0	0	0	11
	0	0	0	0	0	218	226	496
	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

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 of non-controlling interests of ElringKlinger Marusan Corporation on their shares contained in other current liabilities is based on forecasts of it business value. For the measurement of this put option of non-controlling interests, estimates are made when forecasting business development as well as when selecting the interest rate used regarding the liability recognized. A 10% change in the business value causes the put option to increase/decrease by EUR 3,478 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, 2017:

EUR k	Level 1	Level 2	Level 3
Dec 31, 2017			
Financial assets			
Non-current securities	192	0	0
Other financial assets	7	0	0
Derivatives*	0	176	0
Total	**199**	**176**	**0**
Financial liabilities			
Derivatives*	0	11	0
Total	**0**	**11**	**0**
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**

* 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, 2017:

EUR k	Level 1	Level 2	Level 3
Dec 31, 2017			
Financial assets			
Non-current securities	829	0	0
Other financial assets	0	0	8
Total	**829**	**0**	**8**
Financial liabilities			
Non-current liabilities from finance leases	0	0	226
Non-current financial liabilities	0	468,251	0
Purchase price liability from written put option	0	0	34,782
Total	**0**	**468,251**	**35,008**
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**

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:

EUR k	2017	2016
Held-for-trading financial instruments*	165	0
Available-for-sale assets	0	498
Held-to-maturity investments	-5	-18
Loans and receivables	-2,813	3,599
Financial liabilities measured at acquisition cost	-7,134	-814

* 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 contained in other comprehensive income that arise from the adjustment of amortized costs of affiliates. 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:

EUR k	2017	2016
Total interest income	314	258
Total interest expense	-11,230	-11,328

As in the previous year, total interest income did not result in interest income from impaired financial assets.

29 — 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, 2017, future minimum lease payments under finance leases amounted to EUR 521 k (2016: EUR 511 k). The reconciliation of future minimum lease payments from finance lease arrangements to the corresponding liabilities as of December 31, 2017 is as follows:

EUR k	Minimum lease payments Dec 31, 2017	Interest included in minimum lease payments Dec 31, 2017	Liabilities from finance leases Dec 31, 2017
Term			
Less than one year	295	17	278
Between one and five years	226	8	218
More than five years	0	0	0
Total	**521**	**25**	**496**

30 — Capital management

ElringKlinger believes that the Group's sound financial base is a prerequisite for further growth. The Group's solid capital resources render it possible to invest in future organic growth, as well as in external growth.

The Management Board of the parent company has set a target equity ratio of 40% to 50% within the Group. ElringKlinger AG's Articles of Association do not define any capital requirements.

The management 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, 2017 as compared to December 31, 2016.

in EUR million	2017	2016
Equity	**889.7**	**886.4**
as % of total capital	44.0%	47.2%
Non-current liabilities	634.8	491.3
Current liabilities	474.2	500.5
Liabilities in connection with assets held for sale	23.7	0
Debt	**1,132.7**	**991.8**
as % of total capital	56.0%	52.8%
Total capital	**2,022.4**	**1,878.2**

The change in equity from December 31, 2016 to December 31, 2017 was due primarily to an increase in revenue reserves and a decrease in other reserves. Debt increased year-on-year by 14.2%.

The equity ratio of the Group (44.0%) 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, 2017, there were no issues prevailing that would have justified banks exercising their unilateral right of termination.

31 — 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.

Change in liabilities from financing activities:

EUR k	Non-current financial liabilities	Current financial liabilities
Dec. 31, 2016	320,813	257,392
Changes in cash	165,639	-22,051
Business acquisitions	1,048	0
Reclassifications of liabilities in connection with assets held for sale	0	-5,338
Exchange rate differences	-8,888	-9,232
Change in fair value	0	0
Other changes	199	1,173
Dec 31, 2017	**478,811**	**221,944**
Dec. 31, 2015	326,092	209,597
Changes in cash	-6,855	49,189
Business acquisitions	0	0
Exchange rate differences	1,576	-1,810
Change in fair value	0	0
Other	0	416
Dec. 31, 2016	**320,813**	**257,392**

32 — 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 IFRSs. 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 10.2% of the Group's consolidated sales revenue from one customer (EUR 168,999 k).

Segment reporting

Segment	Original Equipment		Aftermarket		Engineered Plastics		Industrial Parks	
EUR k	2017	2016	2017	2016	2017	2016	2017	2016
External revenue	**1,382,376**	**1,294,305**	**156,664**	**147,267**	**111,141**	**101,678**	**4,347**	**4,519**
Intersegment revenue	19,933	17,636	0	0	194	160	567	352
Segment revenue	**1,402,309**	**1,311,941**	**156,664**	**147,267**	**111,335**	**101,838**	**4,914**	**4,871**
EBIT[1] / Operating result	**86,320**	**88,916**	**31,755**	**30,487**	**18,476**	**14,881**	**-463**	**-292**
Depreciation and amortization	90,101	85,507	2,300	1,989	6,181	5,829	1,034	959
Capital expenditures[2]	156,777	166,388	2,695	1,753	4,150	7,896	1,826	2,384
Segment assets	1,791,231	1,652,681	96,908	88,422	110,044	109,332	20,665	19,643

Segment	Services		Other		Consolidation		Group	
EUR k	2017	2016	2017	2016	2017	2016	2017	2016
External revenue	**9,513**	**9,674**	**0**	**0**	**0**	**0**	**1,664,041**	**1,557,443**
Intersegment revenue	6,875	5,875	0	0	-27,569	-24,023	0	0
Segment revenue	**16,388**	**15,549**	**0**	**0**	**-27,569**	**-24,023**	**1,664,041**	**1,557,443**
EBIT[1] / Operating result	**1,230**	**1,602**	**0**	0	**0**	**0**	**137,318**	**135,594**
Depreciation and amortization	1,463	1,354	0	0	0	0	101,079	95,638
Capital expenditures[2]	760	4,666	0	0	0	0	166,208	183,087
Segment assets	14,238	14,293	0	0	-10,706	-6,202	2,022,380	1,878,169

[1] Earnings before interest and taxes
[2] Investments in intangible assets and property, plant and equipment and investment property

Segment reporting by region

Region EUR k		Sales revenues[1]	Non-current assets	Investments
Germany	2017	426,201	514,447	61,604
	2016	412,254	472,202	72,234
Rest of Europe	2017	521,507	272,922	46,704
	2016	489,099	293,399	36,908
NAFTA	2017	323,277	161,558	32,531
	2016	291,990	155,242	44,152
Asia-Pacific	2017	317,269	195,898	22,686
	2016	298,973	201,057	26,776
South America and rest of the world	2017	75,787	21,914	2,683
	2016	65,127	24,710	3,017
Group	**2017**	**1,664,041**	**1,166,739**[2]	**166,208**
	2016	**1,557,443**	**1,146,610**[2]	**183,087**

[1] The location of the customer is used to determine allocation of sales revenues to the regions.
[2] This includes financial assets of EUR 1,036 k (2016: EUR 1,029 k)

Other disclosures

Contingent liabilities

As in the previous year, the ElringKlinger Group does not have any contingent liabilities stemming from guarantees, performance bonds or bills of exchange issued.

Contingent assets and liabilities

As of the reporting date, there were no contingent assets and liabilities.

Operating leases

Expenses include payments from operating leases of EUR 10,756 k (2016: EUR 10,764 k).

At the end of the reporting period, the Group had outstanding obligations arising from binding operating leases that fall due as follows:

EUR k	Dec 31, 2017	Dec. 31, 2016
less than one year	4,781	4,300
between one and five years	9,212	9,015
more than five years	867	1,973
Total	**14,860**	**15,288**

Of the total, EUR 8,135 k (2016: EUR 8,460 k) is related to outstanding obligations from binding operating leases for commercial premises, EUR 5,236 k (2016: EUR 3,899 k) to office equipment, and EUR 1,490 k (2016: EUR 2,929 k) to other lease arrangements.

Finance leases

Information on the finance lease can be found under note (29).

Other financial commitments

Energy purchase commitments

EUR k	Dec 31, 2017	Dec. 31, 2016
less than one year	10,946	9,496
between one and five years	19,287	19,356
Total	**30,233**	**28,852**

Proceeds from lease agreements

The future lease payments due to ElringKlinger in relation to binding operating leases from letting the industrial parks Idstein and Kecskemét-Kádafalva (Hungary) are due as follows:

EUR k	Dec 31, 2017	Dec. 31, 2016
less than one year	1,753	1,715
between one and five years	2,888	3,109
more than five years	1,792	2,200
Total	**6,433**	**7,024**

Number of employees

The average number of employees during the year (excluding Management Board members) was as follows:

	2017	2016
Employees	8,628	7,931
Trainees	373	391
Total	**9,001**	**8,322**

Personnel expenses

Personnel expenses in the reporting year amounted to EUR 486,278 k (2016: EUR 445,968 k). Personnel expenses include expenses for wages and salaries, social security and other benefit costs, as well as expenses for post-employment benefits.

Events after the end of the reporting period

On December 21, 2017, the agreement to sell the Hug Group to a French automotive supplier was signed. The transaction was closed on February 28, 2018. The preliminary purchase price is EUR 58,870 k. Further information can be found in note 20 – Assets and liabilities held for sale.

On March 22, 2018, the Management Board of ElringKlinger AG submitted the consolidated financial statements to the Supervisory Board, which will meet on March 23, 2018 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 ElringKlinger AG and in Lechler GmbH. ElringKlinger AG earned EUR 56 k during the reporting year (2016: EUR 47 k). There were no receivables as of the reporting date (2016: EUR 25 k).

Lease agreement between Technik-Park Heliport Kft., Kecskemét-Kádafalva, Hungary (TPH), and the Lechler GmbH subsidiary, Lechler Kft., Kecskemét-Kádafalva, Hungary. Based on this lease, TPH earned EUR 298 k in rental income including ancillary costs in the reporting year (2016: 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 542 k in sales revenue during the reporting year (2016: EUR 496 k). There were no outstanding receivables as of December 31, 2017 (2016: EUR 41 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 99 k worth of services under these business relations in 2017 (2016: EUR 184 k). As of December 31, 2017, there is EUR 17 k in liabilities (2016: EUR 15 k). Furthermore, CEK sold EUR 62 k worth of goods and raw materials to CHYAP (2016: EUR 169 k). There are no outstanding trade receivables as of the reporting date 2017 (2016: EUR 1 k).

Loan agreement between Lechler GmbH and ElringKlinger AG. Lechler GmbH granted ElringKlinger AG loans totaling EUR 17,000 k (2016: EUR 17,000 k). A loan for EUR 7,000 k carries an interest rate of 1.08% p. a. and has a term until August 17, 2018. An additional loan for EUR 5,000 k carries an interest rate of 0.69% p. a. and has a term until August 15, 2019. A further loan for EUR 5,000 k carries an interest rate of 0.9% p. a. and has a term until June 19, 2020.

Supply agreement between Lechler GmbH and KOCHWERK Catering GmbH, a wholly owned subsidiary of ElringKlinger AG. KOCHWERK Catering GmbH supplies Lechler GmbH with canteen food. KOCHWERK Catering GmbH earned EUR 160 k during the reporting year (2016: EUR 169 k). As of the end of the reporting period, one outstanding receivable came to EUR 1 k (2016: EUR 13 k).

Relationships in the course of ordinary activities exist between the ElringKlinger subsidiary hofer powertrain products GmbH, Nürtingen, and various subsidiaries of hofer AG, Nürtingen. The business dealings pertain to services received and other expenses of EUR 580 k. Outstanding liabilities come to EUR 493 k as of December 31, 2017.

The salaries of the employee representatives to the Supervisory Board are in line with market conditions.

Corporate bodies

Supervisory board

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

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

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

Remuneration of the Supervisory Board

Total remuneration of the supervisory board of ElringKlinger AG amounted to EUR 702 k (2016: EUR 741 k) in the reporting period. In addition, travel expenses in the amount of EUR 1 k (2016: EUR 2 k) were reimbursed. The remuneration of the employee representatives in the Supervisory Board amounted to EUR 667 k in 2017 (2016: EUR 652 k) for their activities as employees.

Management Board

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

Governance roles in Supervisory Boards and other supervisory bodies

Dr. Stefan Wolf, Sindelfingen, Chairman	Chairman of the supervisory board of NORMA Group AG, Maintal, member of the supervisory board of ALLGAIER Werke GmbH, Uhingen
Theo Becker, Metzingen	Member of the Supervisory Board of E.G.O. Blanc und Fischer & Co. GmbH, Oberderdingen
Thomas Jessulat, Stuttgart	Chairman 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:

EUR k	2017	2016
Short-term fixed remuneration	1,391	1,354
Short-term variable performance-based remuneration	2,474	2,675
Long-term variable performance-based remuneration	-230	-249
Long-term variable share-based remuneration	-19	-165
Severance payments	0	2,743
Expenses from post-employment benefits	638	532
Total	**4,254**	**6,890**

In the financial year, total Management Board remuneration pursuant to § 314 (1) no. 6a sentence 1 to 4 HGB came to EUR 3,940 k (2016: EUR 4,565 k). The present value (DBO) of the pension provisions amounted to EUR 10,098 k (2016: EUR 8,893 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 0 k in the financial year (2016: EUR 2,743 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. The previous model was terminated with the introduction of the new remuneration system for members of the Management Board. Tranches that are not yet exercisable remain unchanged. Stock appreciation rights refer to a right to a cash settlement, not, however, for shares of ElringKlinger AG. It was planned that 30,000 stock appreciation rights would be granted to each member of the Management Board on February 1 of each year beginning in 2013. The strike price was calculated using the arithmetic mean of the market price of ElringKlinger shares on the last 60 trading days prior to the grant date. The grant of the stock appreciation rights is subject to an investment by the Management Board members of one-tenth of the number of granted stock appreciation rights in shares of ElringKlinger AG. The holding period for the stock appreciation rights was four years. Within a period of two additional years after the holding period expires, a Management Board member may demand redemption of the stock appreciation rights. The redemption price is calculated using the average market price of ElringKlinger shares of the last 60 trading days prior to redemption. Redemption of the stock appreciation rights may be demanded only if the redemption price exceeds the strike price by 25%. The total redemption price per tranche is limited to two fixed annual salaries at the time of redemption. There are still 90,000 stock appreciation rights remaining from the last tranches issued in 2013, which are valid until February 1, 2019 and have an average strike price of EUR 24.54.

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

Provisions of EUR 16,916 k (2016: EUR 17,619 k) were recognized for pension obligations to former members of the management board, the management of merged companies, and their surviving dependents. The total remuneration of former members of the Management Board – including remuneration of former members of corporate bodies of merged companies – came to EUR 861 k (2017: EUR 3,601 k) during the financial year 2016. Remuneration of former members of the management board from the previous year contain severance payments of EUR 2,743 k, of which EUR 1,434 k was paid out in the reporting year.

The auditor fees amounted to:

EUR k	2017	2016
Audit of the annual financial statements	642	513
Other assurance services	33	4
Tax advisory	40	0
Other services	0	22
Total	**715**	**539**

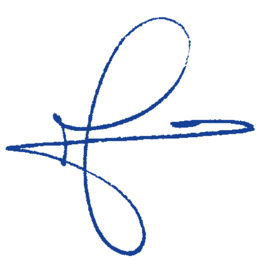
The audit services include fees for mandatory and voluntary audit of annual financial statements as well as fees for the mandatory audit of the consolidated financial statements, furthermore they contain fees for support services for enforcement proceedings.

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

Declaration of compliance with the German Corporate Governance Code

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

Dettingen/Erms, March 22, 2018
Management Board



Dr. Stefan Wolf
Chairman/CEO

Theo Becker

Thomas Jessulat

Audit Opinion

"Independent auditor's report

To ElringKlinger AG

Report on the audit of the consolidated financial statements and of the group management report

Opinions

We have audited the consolidated financial statements of ElringKlinger AG and its subsidiaries (the Group), which comprise the consolidated income statement, and the consolidated statement of comprehensive income for the financial year from January 1, 2017 to December 31, 2017, consolidated statement of financial position as of December 31, 2017, consolidated statement of cash flows and consolidated statement of changes in equity for the financial year from January 1, 2017 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of ElringKlinger AG, which is combined with the management report of the Company, for the financial year from January 1, 2017 to December 31, 2017.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2017, and of its financial performance for the financial year from January 1, 2017 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

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

Basis for the opinions

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

Key audit matters in the audit of the consolidated financial statements

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

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

Impairment testing of goodwill

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

According to IFRS standards, goodwill is not subject to amortization, however, there is an obligation to test it annually for impairment. This involves comparing the recoverable amount of the cash-generating unit with its carrying amount. The recoverable amount is the value in use. As a rule, the basis of these measurements is the present value of future cash flows of cash generating units to be measured to which goodwill was allocated. Measurements are based on budgets, which in turn are based on the budgets approved by the Management Board and Supervisory Board. The result of these measurements depends chiefly on the executive directors' estimates of the future cash flows of the respective companies as well as the discount rate applied and is thus subject to judgment.

Auditor's response:

With regard to the value in use determined by the executive directors, we examined the underlying processes used to calculate the value in use. With the help of internal valuation experts, we obtained an understanding of the underlying valuation models for the determination of the value in use in terms of methodology and calculation. We also examined whether the underlying budget planning reflects general and industry-specific market expectations. We performed a target-actual comparison of the historical forecast data and the actual results on a sample test basis to assess forecast accuracy. We examined the inputs used to measure value in use, such as the applied growth rates and the weighted average cost of capital were compared with publicly available market data and assessed taking into consideration the change in significant assumptions, including future market conditions.

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

Reference to related disclosures:

For disclosures on the accounting policies applied for goodwill impairment, please refer to the "Accounting policies" section in the notes to the consolidated financial statements.

Accounting treatment of the hofer transaction

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

The review of the date of first-time consolidation and the related purchase price allocation of hofer AG, Nürtingen, and of hofer powertrain products GmbH, Nürtingen, was material for our audit of the consolidated financial statements because the assessment of the subject matter regarding the transfer of control and the related date of first-time consolidation is highly complex due to numerous contractual contingencies and includes a certain degree of judgment.

The purchase price was distributed over assets and liabilities in the purchase price allocation performed by the Company. Due to the complexity underlying the identification of hidden reserves and hidden liabilities in the context of the purchase price allocation and the judgment exercised as regarding the inputs used in the valuation, e.g., the applied weighted average cost of capital or the underlying useful life, the hofer transaction was a key audit matter of our audit.

Auditor's response:

Based on the explanations of the Management Board, we reviewed their assessment regarding the day of the transfer of control of the acquired company shares using the contractual basis and contingencies as well as the capital measures implemented.

We particularly assessed the sequence of the steps required for the share deal, legal effectiveness of capital increases and the associated creation of new shares as well as the question, whether potential voting rights already emerged before the legal creation of the shares, which could have brought forward the date of first-time consolidation.

With the help of internal valuation experts, we scrutinized the revaluation of statement of financial position prepared as of the date of first-time consolidation, particularly regarding the capitalized assets and liabilities as well as of contingent liabilities. In particular, we reviewed the identification and measurement of intangible assets capitalized in connection with the transaction. Furthermore, we obtained an understanding of the underlying measurements both in terms of methodology and calculation. We examined the valuation inputs used, for example, the growth rates and the weighted average cost of capital were compared with publicly available market data and assessed taking into consideration the change in significant assumptions, including future market conditions.

Moreover, we reviewed the disclosures in the notes to the consolidated financial statements for completeness and checked whether they were appropriately presented.

Reference to related disclosures:

The Group has made disclosures on the contents and sequence of the share deal of hofer AG, Nürtingen, as well as of hofer powertrain products GmbH, Nürtingen, in the "Significant events" and "Net assets" sections of the combined management report as well in the "Basis of consolidation" section in the notes to the consolidated financial statements.

Disposal of shares in Hug Engineering AG, Elsau/Switzerland

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

In connection with further focus on the core business or strategic future orientation, the ElringKlinger Group was in the process of disposing the Hug group. In this context, assets and liabilities of the Hug subgroup allocated to the area of exhaust gas purification were classified as a disposal group (IFRS 5) with effect from December 1, 2017. In our opinion, this subject matter was of particular significance due to the underlying complex contractual agreements and the related definition in terms of content, definition of various IFRS regulations as well as significant implications on the representation of the subject matter in the consolidated financial statements.

Auditor's response:

For the audit of proper accounting treatment of assets and liabilities held for sale of the disposal group, we reviewed the underlying contractual basis as well as approval process from the anti-trust authorities. We obtained an understanding of the fulfillment of requirements for the classification as a disposal group (IFRS 5), the resulting implications on the measurement of assets and liabilities and the recognition and disclosure requirements in the notes to the consolidated financial statements using relevant IFRS criteria. In particular, we reviewed the definition from Group accounting for assets and liabilities of the disposal group by the Company as well as the related IFRS measurement provisions to be applied.

Our audit procedures did not lead to any reservations regarding the accounting for the disposal of the Hug group.

Reference to related disclosures:

For disclosures on the disposal group, please refer to the "Assets and liabilities held for sale" section in the notes to the consolidated financial statements of the Company.

Other information

The Supervisory Board is responsible for the supervisory board report. In all other respects, the executive directors are responsible for the other information. The other information comprises the other components of the annual report, particularly the "Responsibility Statement" pursuant to Section 297 (2) Sentence 4 HGB, the Section "Foreword of the Chairman of the Management Board" of the annual report and the report of the Supervisory Board pursuant to Section 171 (2) AktG ["Aktiengesetz": German Stock Corporation Act]. We received a copy of this 'Other information' by the time this auditor's report was issued.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the executive directors and the Supervisory Board for the consolidated financial statements and the group management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other legal and regulatory requirements

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

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

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

German Public Auditor responsible for the engagement

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

Stuttgart, March 22, 2018
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

Responsibility Statement

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 22, 2018
Management Board

Dr. Stefan Wolf
Chairman/CEO

Theo Becker

Thomas Jessulat

Glossary

Financials

C — Cash flow
Figure used to determine a company's financial strength. It measures the extent to which cash received as a result of the company's operating activities exceeds its cash outflows and shows the amount of cash generated by the company itself. For the purpose of determining cash flow, an entity's profit for the annual period is adjusted for items that do not produce an inflow or outflow of cash, such as depreciation or changes in provisions. Net cash from operating activities is the surplus of cash generated by operating activities.

Corporate Governance
Includes the entirety of rules, regulations, and values for corporate management and supervision that should be as responsible as possible and focused on sustainability and value generation over the long term.

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.

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.

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.

F — Financial covenants
Financial covenants are contractual clauses within loan agreements. Under these terms, companies obligate themselves to meet specific financial requirements.

H — HGB
Abbreviation for Handelsgesetzbuch (German Commercial Code). The financial statements of the parent company, ElringKlinger AG, are prepared in accordance with HGB.

I — IFRS
Abbreviation for International Financial Reporting Standards. They contain accounting provisions for exchange-listed entities. The application of IFRS has been mandatory in the EU since January 2005. ElringKlinger has been reporting in accordance with IFRS since 2004.

M — 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 interest-bearing non-current provisions such as anniversary and partial-retirement provisions. The average value is calculated as the aggregate of the carrying amounts at the end of the reporting period of the previous year and the current year, divided by two.

S — 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 — Bead

In this case, beads refer to stamped indentations on a metal surface; they are used for sealing purposes. Beads in multi-layer cylinder-head gaskets are stamped into the so-called functional layers and are designed to provide macrosealing, while the elastomer coating offers microsealing. Full beads are used for the purpose of sealing the combustion chamber, whereas half beads are deployed in the area of fluids. ElringKlinger uses the term "nano bead" to refer to beads with a height of up to 30 micrometers. They are used, for example, in transmission case gaskets to facilitate the best possible distribution of (often inadequately distributed) bolt forces.

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 CO_2 legislation. They impose average permitted fleet consumption limits on US manufacturers. Failure to comply with the strict CAFE regulations can result in substantial fines.

Cell contact system

The cell contact systems developed by ElringKlinger for lithium-ion batteries consist of cell connectors and a cell carrier in which the connectors are integrated as a robust laser-welded construction. Via the cell connectors, the individual battery cells are connected both in a row and parallel to one another. They act as conductors, absorb cell energy and contain sensors. The system consists of a control interface with thermal and electric monitoring.

Cockpit cross-car beam

Structural component located behind the interior panel of the vehicle's cockpit; it supports elements such as the dashboard, steering column, heating modules, glove compartment, etc. Applying HFH technology (hydroformed hybrids), ElringKlinger manufactures cockpit cross-car beams as lightweight components. This involves producing so-called hybrid parts from polymer and metal materials by means of the hydroforming method (cf. Hydroforming) and plastic injection-molding in a single step. Similar structural components include front-end carriers, to which the headlights or other vehicle parts are fitted.

Cryogenic application

Cryogenic applications use liquefied gas at extremely low temperatures. Fields of application include flash freezing in the food industry or the area of food preservation. Cryogenic systems are engineered, among other things, from products made of high-performance plastics. Due to the material properties and functional specifications of these products, they can be deployed at temperatures below -200°C.

D — Downsizing

In the automotive industry, downsizing is a concept that refers to a reduction in engine capacity while improving the engine's efficiency. One of the most common ways of achieving this is to feed in air under increased pressure (compressor/turbocharger). A reduction in engine size means lower fuel consumption and therefore lower emissions. At the same time, higher injection pressures generate greater thermal and mechanical stress in the engine compartment. In turn, this makes greater demands in terms of gasket design and thermal management.

E — Elastomer

Plastics/polymers can be divided into three main categories depending on their processing properties: thermoplasts, duroplasts, and elastomers. The distinctive feature of elastomers is that their shape can be changed temporarily through the application of pressure or stretching before they return to their original form (rubber). The final material varies 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. As from September 1, 2017 the new standards 6c and 6d-TEMP have been in force. These stipulate more stringent test procedures. Effective from 2014, Euro 6 also imposed drastic reductions on heavy truck emissions of NO_X, in particular, but also HC and CO.

F — FEM

The finite element method (FEM) is a computer-aided numerical method used for the purpose of solving complex problems relating to mathematical physics and product engineering, e.g., as part of strength and deformation analyses. ElringKlinger applies this method in order to optimize the functional "bead" and "stopper" elements in its cylinder-head gaskets. In this case, FEM can be used to calculate the best possible stopper topography while taking into account influencing factors such as the rigidity of adjacent components, ignition force, and bolt tightening torque.

Front-end carrier

cf. Cockpit cross-car beam

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).

Fuel cell stack

In a fuel cell context, the term "stack" refers to a complete stack of individual fuel cells, including bipolar plates and retaining and connecting devices. To boost performance, the individual fuel cells are connected in series.

H — Hybrid drive

In the automotive industry, the term refers to the use of two different energy sources to drive a vehicle. This usually involves combining a combustion engine with an electric motor. Vehicles can be categorized according to the level of hybridization:

- Micro hybrids feature an automatic start-stop system and, additionally, a brake energy regeneration system to charge the starter battery.
- Mild hybrids have an electric drive that supports the combustion engine for more performance.
- Full hybrids deliver an output of 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.

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 — Nano bead

cf. Bead

Nitrogen oxides (NO_x)

The internationally recognized abbreviation NO_x is used for compounds of nitrogen and oxygen. These gases, which form in the exhausts of combustion engines, are harmful to humans and the environment. Emissions standards are becoming increasingly stringent worldwide and prescribe strict limits for NO_x.

O — Organo sheet

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 — SOFC (Solid Oxide Fuel Cell)

Solid oxide fuel cells are also known as "high-temperature fuel cells" owing to their high operating temperatures (approx. 800 °C). This type of fuel cell can be operated with a wide range of fossil fuels, from which hydrogen gas is obtained using a reformer.

T — Tier 1/Tier 2

Automotive companies that supply vehicle manufacturers (OEMs) directly are known as Tier 1 suppliers. These generally source some of their products from their own suppliers, which are then referred to as Tier 2 suppliers, Tier 3, and so on, reflecting their position in the supply chain. Most of ElringKlinger's products go directly to vehicle manufacturers, making it a Tier 1 supplier. With regard to exhaust gas purification technology and transmission components, ElringKlinger mostly acts as a Tier 2 supplier.

Turbocharger

Turbochargers increase the air flow rate in engines by compressing the air that is necessary for combustion. The turbocharger is one of the key factors in engine downsizing, as it allows for equivalent or even better performance with a reduced engine capacity. In turn, this results in fuel savings.

Imprint

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Algro Design Duo, 300 g / m^2 (Cover),
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Further information is available at www.elringklinger.com

Disclaimer – Forward-looking Statements and Forecasts
This report contains forward-looking statements. These statements are based on expectations, market evaluations and forecasts by the Management Board and on information currently available to them. In particular, the forward-looking statements shall not be interpreted as a guarantee that the future events and results to which they refer will actually materialize. Whilst the Management Board is confident that the statements as well as the opinions and expectations on which they are based are realistic, the aforementioned statements rely on assumptions that may conceivably prove to be incorrect. Future results and circumstances depend on a multitude of factors, risks and imponderables that can alter the expectations and judgments that have been expressed. These factors include, for example, changes to the general economic and business situation, variations of exchange rates and interest rates, poor acceptance of new products and services, and changes to business strategy.

Supplementary Notes
Due to rounding, some of the numbers and percentage figures specified in this document may differ from the actual values, particularly in the case of summation and percentage calculations.

This report was published on March 27, 2018, and is available in German and English. Only the German version shall be legally binding.

Financial Calendar 2018

MARCH
27
Annual Press Conference, Stuttgart
Analysts' Meeting, Frankfurt/Main

MAY
14
Interim Report on the 1st Quarter of 2018

MAY
16
113th Annual General Shareholders' Meeting, Stuttgart, Cultural and Congress Center Liederhalle, 10:00 a.m. CEST

AUGUST
07
Interim Report on the 2nd Quarter and 1st Half of 2018

NOVEMBER
06
Interim Report on the 3rd Quarter and 1st Nine Months of 2018

MAI 2019
16
114th 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 2018

APR	23. – 27.	Hannover Messe, Hanover, Germany
MAY	15. – 17.	The Battery Show Europe, Hanover, Germany
JUN	17. – 22.	World Hydrogen Energy Conference (WHEC) Rio de Janeiro, Brazil
	27. – 28.	Dritev (Drivetrain for Vehicles) – VDI Congress, Bonn, Germany
JUL	18. – 20.	EV China – Energy Saving and New Energy Vehicle Technology Exhibition, Shanghai, China
	26. – 28.	China International Hydrogen and Fuel Cell Conference and Exhibiton (CHFCE), Beijing, China
SEP	11. – 15.	Automechanika Frankfurt, Frankfurt/Main, Germany
	20. – 27.	IAA Commercial Vehicles, Hanover, Germany
OCT	08. – 10.	27th Aachen Colloquium, Aachen, Germany
	16. – 20.	Fakuma, Friedrichshafen, Germany
	31. – 01.11.	AAPEX 2018, Las Vegas, USA
NOV	28. – 01.12.	Automechanika Shanghai, Shanghai, China
DEC	03. – 06.	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.elring.de/en/press-events/dates-events

ElringKlinger worldwide

As an automotive supplier, ElringKlinger serves nearly all the world's vehicle and engine manufacturers. With sites in 21 countries, the Group is able to operate in close proximity to its customers. These efforts are supported by more than 9,600 employees at 38 production and 11 sales and service sites around the world.

NAFTA

19 %

SHARE OF SALES

EUROPE (excluding Germany)

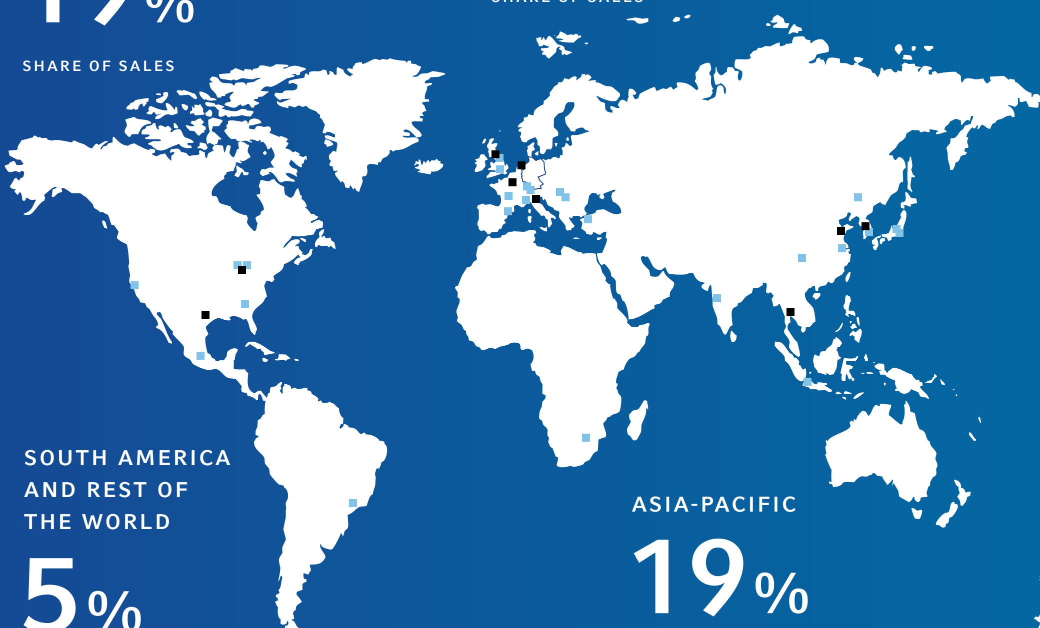
31 %

SHARE OF SALES

LEGEND

- Production site
- Sales office
- Services

As at December 31, 2017



GERMANY

26 %

SHARE OF SALES

SOUTH AMERICA AND REST OF THE WORLD

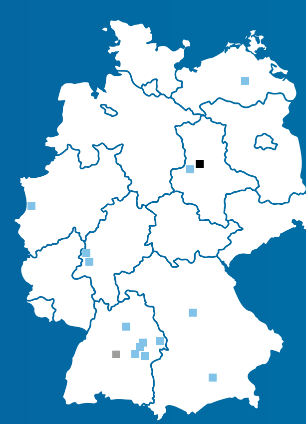
5 %

SHARE OF SALES

ASIA-PACIFIC

19 %

SHARE OF SALES



EUROPE (excluding Germany)

- Redcar (Great Britain)
- Gateshead (Great Britain)
- Warwick (Great Britain)
- Enschede (Netherlands)
- Nantiat/Chamborêt (France)
- Poissy (France)
- Reus (Spain)
- Sevelen (Switzerland)
- Elsau (Switzerland)
- Milan (Italy)
- Turin (Italy)
- Kecskemét-K. (Hungary)
- Timisoara (Romania)
- Bursa (Turkey)

NAFTA

- Leamington (Canada)
- Plymouth (USA)
- Southfield (USA)
- Buford (USA)
- Austin (USA)
- Fremont (USA)
- Toluca (Mexico)

ASIA-PACIFIC

- Changchun (China)
- Suzhou (China)
- Chongqing (China)
- Qingdao (China)
- Tokyo (Japan)
- Saitama (Japan)
- Gumi (South Korea)
- Seoul (South Korea)
- Ranjangaon (India)
- Bangkok (Thailand)
- Karawang (Indonesia)

SOUTH AMERICA AND REST OF THE WORLD

- Piracicaba (Brazil)
- Johannesburg (South Africa)

GERMANY

- Dettingen/Erms
- Bietigheim-Bissingen
- Bissingen/Teck
- Geretsried-Gelting
- Heidenheim
- Idstein
- Langenzenn
- Lenningen
- Magdeburg
- Mönchengladbach
- Neubrandenburg
- Nürtingen
- Rottenburg/Neckar
- Runkel
- Thale

Key Figures

ElringKlinger Group at a glance

		2017	2016	2015	2014	2013	2012	2011
Order Situation								
Order intake	€ million	1,732.0	1,693.7	1,615.3	1,418.6	1,284.4	1,134.8	1,089.0
Order backlog	€ million	1,000.6	932.5	796.2	688.2	595.4	456.0	448.4
Sales/Earnings								
Sales revenue	€ million	1,664.0	1,557.4	1,507.3	1,325.8	1,150.1	1,127.2	1,032.8
Cost of sales	€ million	1,255.6	1,161.5	1,133.0	967.4	824.5	815.0	744.2
Gross profit margin		24.5%	25.4%	24.8%	27.0%	28.3%	27.7%	27.9%
EBITDA	€ million	238.4	231.2	222.8	233.4	238.6[4]	218.0	247.9[5]
EBIT / Operating result	€ million	137.3	135.6	135.2	154.0	164.2[4]	138.6	151.1[5]
EBIT margin		8.3%	8.7%	9.0%	11.6%	14.3%[4]	12.3%	14.6%[5]
Adjusted EBIT, pre ppa[1]	€ million	141.8	140.4	140.4	162.3	149.8	140.9	130.6
Adjusted EBIT margin, pre ppa[1]		8.5%	9.0%	9.3%	12.2%	13.0%	12.5%	12.6%
Earnings before taxes	€ million	110.1	124.1	128.8	153.1	148.9[4]	123.6	136.6[5]
Net income	€ million	73.8	82.6	95.8	110.6	111.2[4]	89.2	97.6[5]
Net income attributable to shareholders of ElringKlinger AG	€ million	69.9	78.6	91.6	105.7	105.4[4]	85.7	94.9[5]
Cash Flow								
Net cash from operating activities	€ million	95.5	175.7	123.3	149.9	119.0	112.3	74.5
Net cash from investing activities	€ million	-193.2	-189.7	-212.7	-168.0	-126.4	-108.2	-147.4
Net cash from financing activities	€ million	109.3	4.5	65.3	20.1	14.7	-13.3	35.4
Operating free cash flow[2]	€ million	-66.6	-3.8	-65.2	-12.4	-4.2	8.2	-10.5
Balance Sheet								
Balance sheet total	€ million	2,022.4	1,878.2	1,765.8	1,558.8	1,392.1	1,268.6	1,217.6
Equity	€ million	889.7	886.4	855.7	775.2	701.3	642.2	610.1
Equity ratio		44.0%	47.2%	48.5%	49.7%	50.4%	50.6%	50.1%
Returns								
Return on equity after taxes		8.3%	9.5%	11.7%	15.0%	16.6%[4]	14.2%	17.2%[5]
Return on total assets after taxes		4.5%	5.3%	6.5%	8.2%	9.2%[4]	8.2%	9.9%[5]
Return on Capital Employed (ROCE)		8.2%	8.7%	9.5%	12.4%	14.4%[4]	13.3%	16.7%[5]
Human Resources								
Employees as of Dec. 31		9,611	8,591	7,912	7,255	6,716	6,263	6,075
Stock								
Earnings per share	in €	1.10	1.24	1.45	1.67	1.66[4]	1.35	1.50[5]
Dividends paid	€ million	31.7[3]	31.7	34.8	34.8	31.7	28.5	36.7
Dividend per share	in €	0.50[3]	0.50	0.55	0.55	0.50	0.45	0.58

[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 2018

[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)

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