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This non-financial Group report has been combined with the non-financial report of the exchange-listed parent company ElringKlinger AG and covers the 2018 financial year. Unless otherwise specified, the information presented refers to the ElringKlinger Group in its entirety.

This combined non-financial report has been prepared in accordance with the provisions set out in Section 289b et seqq. and Section 315b et seqq. of the German Commercial Code (Handelsgesetzbuch – HGB) and is not as yet based on a specific framework. Orientation or, where applicable, adaptation to a specific framework is an objective for the future. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft was commissioned to review the combined non-financial statement of ElringKlinger AG for the period from January 1, 2018 to December 31, 2018 in the context of a limited assurance engagement.

For purposes of linguistic simplification, this report avoids the simultaneous use of both forms of grammatical gender (masculine and feminine). General designations referring to people relate to all persons, irrespective of gender.

As in previous years, the Group intends to publish an extensive sustainability report in the course of 2019.

# Business model of the ElringKlinger Group

With a pedigree spanning 140 years, the ElringKlinger Group has established itself as an independent, globally positioned development partner and series supplier within the automotive industry. The Group offers innovative products for all types of powertrain – be it optimized combustion engines, high-performance hybrids, or solutions based on battery and fuel cell technology. The company operates with a clear focus on solutions tailored to eco-friendly mobility. Alongside cylinder-head and specialty gaskets, ElringKlinger's portfolio also includes lightweight plastic components and housing modules for the powertrain and vehicle body, thermal and acoustic shielding components, and battery and fuel cell systems. Beyond the automotive industry, the Group offers cross-industry products made of high-performance polytetrafluorethylene and various thermoplastics.

As a global automotive supplier, the Group is represented worldwide and has firmly positioned itself with production plants in all of the key vehicle markets. Operating in 21 countries, ElringKlinger supplies innovative products destined mainly for the principal economic regions of Europe, NAFTA, and Asia-Pacific. As of December 31, 2018, ElringKlinger had 39 production facilities, four sales offices, one logistics center, and one company operating solely within the area of aftermarket sales. In total, the Group was comprised of 40 entities at the end of the financial year under review.

ElringKlinger maintains direct lines of contact with the majority of key vehicle and engine manufacturers. In order to exploit the many benefits of global interaction, ElringKlinger sources raw materials from a number of countries around the globe and has established an extensive network of suppliers for this very purpose. Almost two-thirds of these goods are procured from Germany, China, and the United States.

The Group's operating business is divided into five segments: Original Equipment, Aftermarket, Engineered Plastics, Services, and Industrial Parks. The Original Equipment segment, in turn, comprises several divisions. From an organizational perspective, the other segments correspond to divisions.

ElringKlinger is of the firm belief that growth in all areas of business is compatible with commercial success and environmentally sound production processes. Embracing a sustainable approach to business means pursuing profitable, long-term growth while also remaining fully committed to social and ecological matters within the system as a whole. For the company, acting in a sustainable manner forms an integral part of a strategy that is aimed at enhancing its enterprise value over the long term. Values and actions derived from aspects of sustainability are therefore reflected in the Group's guidelines.

## Determining materiality

ElringKlinger conducted a materiality analysis for the purpose of determining matters of significance and compliance with statutory obligations in respect of environmental, social and employee-related matters, respect for human rights, and anti-corruption and bribery matters (Section 289c(3) HGB). Fields of activity were evaluated and prioritized on the basis of their business relevance and impact with regard to

key aspects as part of expert discussions with the Personnel, Legal Affairs, Quality, Purchasing, and Strategic Communications departments, which are in daily contact with relevant stakeholders. The main focus was, above all, on issues that are significantly influenced by the business model and the value chain. Five key subject areas emerged as a result. Among these subject areas, there is a particularly high

relevance in relation to the business operations of the ElringKlinger Group; these business operations, in turn, have an especially strong impact on the reportable matters. No material topics were identified with regard to social matters. The five key matters identified are:

- Combating corruption and bribery
- Responsibility in the supply chain
- Environmentally-friendly mobility
- Environmental protection in production
- Targeted recruitment and development of employees

## Risk assessment

As regards the sphere of activity of the business operations covered in the combined non-financial report of ElringKlinger AG, no significant risks were identified that are associated with its own business activities and for which the business activities are very likely to have or will in future have a severe negative impact on the reportable aspects. The risk assessment applies both to the Group's business activities and its business relations as well as the products and services of the ElringKlinger Group.

Risk management is seen as an all-embracing function within the company. As such, new risks that may potentially arise are incorporated into the existing risk management system. Relevant risk assessments have been performed by teams of experts for all significant issues presented in this non-financial report. These will be regularly reviewed and updated in the future.

# Combating corruption and bribery

**For ElringKlinger, compliant conduct is a critical precondition to taking social responsibility and an essential element in all business activities. Employees throughout the company are therefore to perform all tasks in accordance with current legislation, regulations, and fundamental values. To this end, Group-wide guidelines apply to all employees around the world.**

The global business activities of the ElringKlinger Group are subject to many national legal systems and various political, social, and cultural frameworks. For ElringKlinger, compliance with relevant legal provisions and operational guidelines is a basic precondition to the everyday activities of staff. The aim of the Group-wide Compliance Management Systems (CMS) is to ensure all employees are aware of their commitment to the values and aims of ElringKlinger and act accordingly. The system is based on the principles of prevention, detection, and investigation of breaches of compliance.

## Corporate guidelines of the ElringKlinger Group

In the course of preventing and countering compliance infringements, ElringKlinger formulated its "Vision and Mission" guideline, which enshrines the company's aims and fundamental values. The code of conduct and the corporate code, which in turn are complemented by further, more detailed guidelines for specific areas, were defined on this basis. The code of conduct serves as a key policy guideline in connection with efforts to counter bribery and corruption. It requires each individual to accept responsibility for actively upholding and promoting corporate values, and to avoid impairing such values. This entails a commitment to preventing and refusing to tolerate corrupt or similar conduct in connection with gratuities to and from business partners, authorities, or other persons. The ElringKlinger code of conduct also deals with the issues of bribery, conflicts of interest, and gifts. It reminds employees of their duty to refrain from offering or accepting gifts where this could lead to a conflict of interests.

## Compliance Management System

The task of the ElringKlinger Group's Compliance Officers is actively to investigate all indications of non-compliance in order to clarify circumstances and take the necessary steps as quickly as possible. Since the Management Board must be informed without delay where relevant evidence comes to light, the Compliance department is directly accountable to the Chief Executive Officer; the Chief Compliance Officer, who develops and enhances the Compliance Management System, reports to the CEO. Additional Compliance Officers have been appointed for the regions in which ElringKlinger is active; they report to the Chief Compliance Officer. Notifications can be directed to the Chief Compliance Officer and/or the respective regional Compliance Officer via the existing whistleblower system (telephone number and e-mail) or through personal dialogue. The introduction of a Group-wide digital and anonymous reporting system for disclosing potential grievances (originally planned for 2018) is now envisaged for 2019. The Management Board accepts responsibility for observing legal provisions and upholding internal guidelines. Defining compulsory regulations and monitoring the implementation of laws and guidelines is the task of the CMS.

To promote compliance with applicable laws, regulations, and fundamental values, the code of conduct and the corporate code are supplied to all members of staff when they commence working for the company. The Group also arranges specific training aimed at circumventing potential compliance risks, especially in areas that have regular contact with business partners.

Training sessions devoted to compliance issues were once again organized during the 2018 financial year for employees in relevant functional areas, particularly at the US subsidiaries. To support further compliance training sessions to be held at the domestic sites in 2019, training documents have been drawn up with advanced content on a range of topics including competition law, corruption, gratuities, and conflicts of interest. The information template developed in fiscal 2018 (Global Case Management) provides a structured procedure for the whole Group in dealing with compliance-related allegations.

Risks associated with bribery and corruption can occur at both the parent company and the subsidiaries as a result of unlawful actions. Given the installed instruments of the CMS (such as the existing whistleblower system) and the corporate culture practiced by ElringKlinger, the likelihood

of significant violations occurring can be said to be low, but cannot be ruled out altogether. As in the previous year, we are not aware of any case in the year under review in which significant breaches in connection with bribery and corruption were reported within the parent company or subsidiaries of the ElringKlinger Group.

ElringKlinger uses findings from the practical implementation of the CMS for the purposes of continual improvement of the system. Changes in general conditions and business developments may also necessitate ongoing adjustments. An intranet-based information platform is currently being set up; this will be used to publish and share information and documents on compliance within the Group. Compliance training measures will also be expanded to enhance prevention and raise awareness among staff.

## Responsibility in the supply chain

**The ElringKlinger Group pursues the clear aim of collaborating only with suppliers that comply fully with applicable labor, social, and environmental standards.**

Central Supplier Management is responsible for selecting and qualifying new suppliers for the ElringKlinger Group. Additional resources were assigned to the team in 2018, and capacity will be further expanded in 2019. More regional Supplier Developers will also be appointed to handle the rising number of procurement projects.

Regular management reporting is used to update the Management Board of the ElringKlinger Group on current activities in the field of supplier development.

### Supplier selection by specific criteria

Compliant conduct on the part of suppliers is important to the management of ElringKlinger as this forms the basis for all Group business activity. Guidelines are provided by the code of conduct and the corporate code outlined in the "Combating corruption and bribery" section.

New suppliers are selected and qualified on the basis of defined criteria, foremost among which are financial stability, quality, and availability in conjunction with sustainability criteria, especially with regard to compliance with applicable labor, social, and environmental standards.

The quality and environmental policy of the ElringKlinger Group forms part of contracts with all new suppliers; it also applies to existing suppliers. ElringKlinger actively encourages suppliers to introduce workplace safety management systems in line with the internationally recognized standard OHSAS 18001. The emphasis here is on personal protection, workplace safety, and healthcare with a view to avoiding workplace accidents or illnesses through preventive measures. The Group policy also makes the assumption that all spheres of activity observe the international standard ISO 26000; it, among other things, delivers recommendations and guidance on upholding human rights and promotes fair working, operating, and business practices. The Management Board of the ElringKlinger Group sets great store by environmentally sound operational management and the use of an environmental management system to regulate responsibilities, conduct, procedures, and guidelines for implementing operational environmental policy. In 2018, as in the previous year\*, around two-thirds of direct suppliers approved by the ElringKlinger Group signed up to the environmental and quality policy. In addition, approximately 90% of suppliers were certified according to the quality management standard ISO 9001 in reporting year 2018 (approximately 90%\* in 2017); around 45% (2017: around 45%\*) were certified to environmental management standard ISO 14001, while some 40% (approximately 40%\* in 2017) were certified to IATF 16949 (formerly TS 16949), the quality management standard for the automobile industry.

In 2018, ElringKlinger worked to update and expand its quality and environmental guidelines. These will now be incorporated into a supplier handbook that will also enshrine a code of conduct for suppliers and business partners. This code of conduct will be partly based on the principles of the International Labour Organization (ILO). The code will address such issues as corporate integrity, social/working conditions, and compliance and will form part of supplier qualification; originally scheduled for 2018, it will now be introduced in 2019.

To oversee compliance with labor, social, and environmental standards, the ElringKlinger Group carried out a total of

61 supplier audits in 2018 (2017: 61) in line with the VDA 6.3 standard, which has been expanded to cover social aspects. In the case of deviations from Group standards regulated in the ElringKlinger quality and environmental policy, remedial measures for implementation within a defined time frame are agreed with the supplier. Implementation is monitored by the ElringKlinger Supplier Management department. Regular or significant discrepancies will lead to a termination of business relations. In 2018, as in the previous year, no breaches of applicable labor, social, and environmental standards by suppliers were ascertained.

#### Responsible handling of raw materials

The ElringKlinger management actively implements supplier management through the International Material Data System (IMDS). Information collated from all automotive suppliers on the material and chemical composition of semi-finished products and components is passed on to ElringKlinger and to customers via the IMDS in order to circumvent potential environmental risks linked to incorrect product disposal. The IMDS also enables ElringKlinger to analyze which raw materials from which countries have been utilized by previous suppliers. Where necessary, Supplier Management can then investigate abnormalities linked to individual purchased products without delay. The main focus is on the responsible use of conflict resources such as tantalum, tin, tungsten, and gold, which in many cases are mined in an environmentally or socially unacceptable manner and in contravention of human rights. To a large extent, these conflict commodities are mined in the Democratic Republic of Congo and its neighboring states of Angola, Burundi, the Republic of the Congo, Rwanda, Zambia, South Sudan, Tanzania, Uganda, and the Central African Republic. ElringKlinger wants its purchasing patterns to impact positively on the environment, safety, health, and human rights. Although the Group does use small quantities of several of the aforementioned materials, it does not source these from the manufacturing countries stated. An analysis of raw materials procured by the ElringKlinger Group in 2018 based on supplier information provided no evidence that conflict resources were being sourced from the regions above.

\* Prior-year figures adapted to account for suppliers of spare parts

## Environmentally-friendly mobility

**ElringKlinger is actively involved in shaping the future of mobility, as emission-neutral concepts have been at the core of the company's activities for many years. ElringKlinger is already making a committed contribution to protecting the environment with innovative solutions that are aimed at increasing efficiency and reducing emissions. In the medium to long term, the Group is looking to generate at least 25% of its revenue with products in fields considered promising for the future in strategic terms: battery and fuel cell technology, electric drive systems, and lightweight structural components.**

The transport sector contributes significantly to the generation of emissions such as carbon dioxide (CO<sub>2</sub>), nitrogen oxide (NO<sub>x</sub>), and particulates. With this in mind, standards have been put in place around the globe to regulate vehicle emissions. Europe, for example, has the world's strictest limits on CO<sub>2</sub> emissions. Having already set a fleet average threshold for CO<sub>2</sub> emissions of 95 g/km from 2021, in 2018 the European Union decided to further reduce this limit by 15% by 2025 and 37.5% by 2030. On top of this, more and more countries are setting dates from which point on new registrations of cars with conventional combustion engines will be prohibited. Norway, a country that has long been at the forefront of electromobility, has already set the date for 2025. Countries such as the United Kingdom and France will follow in 2040. In China, the world's largest automobile market, vehicle manufacturers will face a quota of 10% from 2019 and 12% from 2020 for the proportion of alternative drive systems that they manufacture and sell.

All these developments are driving a far-reaching process of transformation in the automotive industry. The whole industry is working hard on solutions to promote eco-friendly mobility. With its wide range of expertise, ElringKlinger is helping to improve the classic combustion engine for the purpose of increasing efficiency levels. In tandem, the company is working on solutions for alternative drive systems. Over the last few years, ElringKlinger's management has established a broad strategic base within the Group and is now driving business expansion in three key areas: battery technology, fuel cell technology, and electric drive units.

In the area of battery technology, in 2011 the Group commenced series production of components for the lithium-ion batteries that are used in electric and hybrid vehicles. Evolving from a supplier of individual components, ElringKlinger now also offers end-to-end battery systems. It won its first orders in 2018.

The ElringKlinger Group has been actively involved in fuel cell technology for around 20 years. In 2018, it began to focus its R&D activities more strongly on the low-temperature PEM (proton exchange membrane) fuel cell systems used in mobile applications. In this area, ElringKlinger offers market-ready metallic bipolar plates, plastic media modules, and complete fuel cell stacks.

In 2017, ElringKlinger expanded its range of products and services relating to electric drivetrains by acquiring an interest in engineering specialist hofer AG. The Nürtingen-based company has built up a great deal of expertise in the field of electric drives, and its product portfolio includes e-machines, power electronics, transmissions, thermal management/cooling, and safety concepts.

In addition to the three fields mentioned above, the Lightweighting/Elastomer Technology division is one of the key growth areas. For example, weight reductions can be achieved by substituting heavy steels with alternative materials such as high-performance plastics or organo sheets. Lighter cars consume less fuel, emit fewer pollutants, and have a greater range. Today, this division offers nearly 20 different product



groups. In 2015, the industrialization of innovative polymer-metal hybrid components also marked a successful entry into lightweight structural engineering.

In 2018, these key strategic areas for the future represented around 7% of total sales revenue. In the medium to long term, the ElringKlinger Group aims to increase this to at least 25% of sales revenue.

In 2018, ElringKlinger also marketed its now highly diversified product range around the globe. In the same year, it expanded

its customer base, which consists of established vehicle manufacturers worldwide, to include further start-up companies. The company also hired additional R&D staff, primarily in the areas of e-mobility and fuel cells. The ground-breaking ceremony for the new Technology Center at the Group's headquarters in Dettingen/Erms was held in 2018. As of 2020, this will be a hub for developing battery and fuel cell applications, underlining the Group's focus on promoting environmentally-friendly mobility through innovative product developments.

## Environmental protection in production

**ElringKlinger has set itself the target of using approximately 1% of total investment\* by the Group per year for measures that serve to reduce emissions.**

A further important lever in combating climate change is the decarbonization of industrial companies around the globe. ElringKlinger is facing up to its responsibilities to the environment and to society. The Group has formulated its clear commitment in its environmental and quality policy, which also applies to suppliers.

A total of 32 companies and their sites are included in environmental reporting. ElringKlinger South Africa (Pty) Ltd., Johannesburg, South Africa, was included for the first time in 2018. Hug Engineering AG was deconsolidated as of March 1, 2018, and is therefore no longer considered in the report for 2018. As well as 31 production companies, ElringKlinger Logistic Service GmbH in Rottenburg/Ergenzingen, Germany, is also included. Not taken into consideration are the newer plants in Wels, Austria, in Warwick, UK, in Fort Wayne, USA, in Fremont, USA, and in Chongqing, China, because they have only been established recently. Due to their small size and low relevance to the environmental indicators, the long-established production

facilities in Nürtingen, Germany, in Timisoara, Romania, and in Bissingen/Teck, Germany, are also not included. In total, 79% of the Group's production locations are presented in environmental reporting, representing 96% of Group revenue and 97% of the Group's workforce.

The environmental management of all companies included in environmental reporting is certified in accordance with the internationally recognized ISO 14001 standard, with the exception of PT. ElringKlinger Indonesia, Karawang, Indonesia. Environmental management encompasses the responsibilities and processes associated with operational environmental protection in order to comply with legal requirements and to support the environmental sustainability of operating processes and products, in conjunction with the responsible use of available resources by employees. When making investment decisions, management always involves the environmental officer to evaluate risks of environmental relevance. The indicators described below are calculated once per year, analyzed, and passed on to the

\* The investment made to achieve the target (particularly additional capital expenditure on energy-saving measures) involves some of the investment in property and buildings, in technical plant and machinery, and in other systems (operating and office equipment).

Management Board for information purposes and as a basis for possible actions.

ElringKlinger separates the emissions figures into direct emissions and indirect emissions: emissions caused directly

by the company include those from gas, heating oil, and engine test benches as well as the company's own vehicle fleet; they are known as scope 1 emissions. Indirect emissions (scope 2) include all emissions arising from electricity consumption and air travel during the year under review.

|   | 2018               | 2017               |
|---|--------------------|--------------------|
| <b>Total direct and indirect CO<sub>2</sub> emissions in t</b>                          | <b>118,300</b>     | <b>111,800</b>     |
| <b>CO<sub>2</sub> emissions per EUR 1 million of revenue in t</b>                       | <b>69.7</b>        | <b>67.1</b>        |
| <b>Total direct CO<sub>2</sub> emissions in t<sup>1</sup></b>                           | <b>23,300</b>      | <b>24,800</b>      |
| of which direct CO <sub>2</sub> emissions from gas, oil, engine test benches, etc. in t | 22,200             | 23,500             |
| of which direct CO <sub>2</sub> emissions by the vehicle fleet in t <sup>2</sup>        | 1,100              | 1,300              |
| <b>Total indirect CO<sub>2</sub> emissions in t</b>                                     | <b>94,900</b>      | <b>87,000</b>      |
| of which indirect CO <sub>2</sub> emissions from electricity in t <sup>3</sup>          | 87,500             | 80,600             |
| of which indirect CO <sub>2</sub> emissions from air travel in t                        | 7,400 <sup>4</sup> | 6,400 <sup>5</sup> |

<sup>1</sup> For the parent company ElringKlinger AG 12,200 (12,700) t of direct CO<sub>2</sub> emissions arose from gas, oil, engine test benches, etc. Direct CO<sub>2</sub> emissions by the vehicle fleet amounted to 800 (1,200) t.

<sup>2</sup> Emissions are calculated by multiplying the annual mileage of vehicles by the CO<sub>2</sub> emissions stated by the relevant vehicle manufacturer. The fleet of company vehicles includes all vehicles at ElringKlinger sites in Germany. The figures for rental vehicles also comprise beyond that the rest of Europe, the USA, and Canada.

<sup>3</sup> For the parent company ElringKlinger AG 28,400 (27,300) t of indirect CO<sub>2</sub> emissions arose from electricity.

<sup>4</sup> Air travel from the locations in Germany, Austria, Switzerland, France, and Hungary, as well as centrally recorded flights from locations in the United Kingdom, the USA, Canada, Spain, Mexico, Turkey, and South Korea. Air travel relating solely to ElringKlinger AG will be determined separately from 2019.

<sup>5</sup> Air travel from the locations in Germany, Switzerland, France, and Hungary, as well as centrally recorded flights from locations in the United Kingdom and the USA.

Total direct and indirect CO<sub>2</sub> emissions increased by 6% in 2018 to 118,300 (2017: 111,800) tons. The CO<sub>2</sub> emissions per EUR 1 million of total Group revenue stood at 69.7 (2017: 67.1) tons.

Of the total direct CO<sub>2</sub> emissions in tons, 22,200 (2017: 23,500) tons were scope 1 emissions, i.e., from gas and heating oil consumption and engine test benches. This figure was slightly down on the previous year because the German sites in particular consumed less gas and heating oil due to climatic conditions.

The average CO<sub>2</sub> emissions per vehicle in the company vehicle fleet and by rental vehicles fell to 131 (2017: 143) g/km. Direct CO<sub>2</sub> emissions by the vehicle fleet and rental vehicles amounted to 1,100 (2017: 1,300) t. The reduction mainly stemmed from a lower total mileage covered by the 219 (2017: 259) company vehicles. The fleet of company vehicles includes all vehicles at ElringKlinger sites in Germany. The

figures for rental vehicles also comprise beyond that the rest of Europe, the USA, and Canada.

The Group's efforts to lower total direct CO<sub>2</sub> emissions paid off, despite strong revenue growth.

In 2018, total indirect CO<sub>2</sub> emissions increased by some 9% to 94,900 (2017: 87,000) tons. During the year under review, expansion of the global production network resulted in a 5% increase in the annual electricity demand and, in relation to Group revenue specifically, the electricity requirement increased by 3%. In 2018, capacity utilization by the plants in North America was particularly high. Here the higher demand for electricity can mainly be attributed to the procurement of additional machinery as well as operation during additional night and weekend shifts. When procuring machinery, the Group pays attention to energy efficiency and also renews existing machinery on a regular basis.

Management at ElringKlinger attaches great importance to the economical and responsible use of scarce resources. This is evidenced by a variety of measures such as the use of electric vehicles in the vehicle pool, continual process optimization, and building maintenance measures that lead to energy savings, for example. Group growth may be accompanied by step-fixed increases in direct and indirect CO<sub>2</sub> emissions, which can, for example, be attributed to the procurement of new machinery, the operation of further production facilities, or the product mix. Therefore, changes in the Group's CO<sub>2</sub> emissions may be volatile. These are monitored at all times and closely analyzed.

In terms of CO<sub>2</sub> emissions, too, ElringKlinger places great importance on making responsible use of the energy required to manufacture products. With ISO 50001 matrix certification, which ElringKlinger introduced at its European production sites in 2016, the Group has intensified its overall examination of energy flows and set up a comprehensive metering infrastructure at individual production facilities. This has enabled previously unused potential for energy efficiency to be tapped, energy costs to be lowered, and the emission of greenhouse gases (e.g., CO<sub>2</sub> emissions) to be reduced. In 2018, the Group implemented the following associated individual measures: converting facility lighting to energy-efficient LED technology at sites in Canada, India, Spain, and Dettingen, as well as energy-saving optimization, in particular the insulation of two roof areas at the Dettingen site.

ElringKlinger plans for each new building to be as energy-efficient as possible. The focus was on a high standard of energy performance when constructing the new building for the research and development center at the Dettingen site. All energy-efficient measures were implemented to achieve this. It was possible to come in at 45% below the

requirements of the EnEV (German Energy Saving Ordinance). Furthermore, charging points for electric vehicles were installed at sites in Switzerland, in Spain, and in Dettingen.

As part of the process of certification to ISO 50001, a steering and a working group was established with the aim of defining systems and processes in such a way that energy-related performance can be continually improved.

As a producing company with a total of 39 production facilities worldwide, ElringKlinger is dependent on the supply of sufficient energy and always tries to use this economically and in line with demand. At some locations, ElringKlinger has also installed wind power and solar plants as well as combined heat and power units. The advantage of a combined heat and power unit is that electricity and heat can be obtained in parallel, along with partial independence from electricity suppliers. In 2018, energy consumption (electricity, gas, heating oil, and fuel for engine test benches) came in at much the same level as the previous year at 312,844 (2017: 313,100) MWh. Of this, 119,394 (2017: 121,900) MWh is apportioned to the parent company, ElringKlinger AG. Overall, energy consumption has been rising at a slower pace in relation to Group revenue growth.

Constructing a new building for the technology center in Dettingen/Erms and the associated accounting procedures meant that the target of investing approximately 1% of total capital expenditure on measures to reduce emissions was far exceeded in 2018. A consequence is that this investment for 2019 is expected to be below 1%. Other measures implemented in 2018 included optimizing the energy efficiency of roof areas, converting facility lighting to LED technology, and installing charging points for electric cars.

# Targeted recruitment and development of employees

**In view of today's corporate growth and the changing world of work, the company is experiencing an increasing and changing demand for skilled workers. The quest to fulfill requirements within the business and tie employees to the company over the long term involves a variety of targeted staff development and recruitment measures. These therefore represent a key focus area for the HR Management team.**

As an independent serial supplier and development partner to car makers and suppliers, ElringKlinger is playing an active role in shaping the technological changes affecting the automotive industry. Against this background, the company's success is directly correlated with the commitment and skills of its employees. This means that, in operational areas of high strategic importance, staffing capacities need to be developed in a timely manner. For this purpose, the needs of the various specialist departments are being analyzed, centrally reported, brought together, and – subject to the consent of the Management Board – advertised accordingly. To give one example, ElringKlinger is conducting an increasing amount of research both in the promising areas of battery and fuel cell technology and within its Lightweighting/Elastomer Technology division. In these fields, there is a high demand for skilled workers from a predominantly technical background.

## Measures to attract qualified employees

Partly because of the high number of jobs currently on offer in the labor market due to economic factors, there is a relatively limited supply of qualified staff, particularly at ElringKlinger AG's German locations. To respond proactively to this situation, ElringKlinger AG is undertaking an extensive program of recruitment marketing activities focused on universities. Similarly, it is promoting itself as an attractive employer for graduates at career fairs and targeting university and technical college students by offering internships and dissertation opportunities.

In addition, by introducing an employee referral program in 2018, ElringKlinger has created for itself an additional means of reaching potential staff within its target audiences

in a timely way. Under the motto "Bring a talent," employees are encouraged to recommend external applicants whom they might know from their personal circle. This initiative has already proved successful within its first year of implementation.

## Changing requirements amid technological transition and e-mobility

In order to respond to future transformational changes resulting from the move towards electric vehicles, ElringKlinger is pursuing a number of concepts and approaches. In the apprenticeship field, work has been underway since 2018 on introducing a new "Electronics Technician for Devices and Systems" career path, specifically focused on the new business areas associated with e-mobility. ElringKlinger is currently developing the associated training infrastructure and specific content. It is planned that this apprenticeship will initially be offered at ElringKlinger's main site in Dettingen/Erms, starting in September 2020. A further measure involves the retraining and professional development of skilled workers and engineers. Here, ElringKlinger is working with a number of universities to develop a skills adaptation model for current employees with degrees in technical areas. In addition, ElringKlinger is also supporting on-the-job programs of study in the e-mobility field.

## The importance of apprenticeships and training within the Group

The company's internal vocational training also represents a key component of its HR management activities. Through its apprenticeship model, which is subject to constant redevelopment, ElringKlinger is able to train skilled workers in a targeted manner, thereby expanding the skills and

expertise of its workforce. At its German locations, ElringKlinger has built up many years of experience as a provider of various commercial and technical apprenticeship opportunities. In addition, within Germany the company also supports students enrolled in a number of “dual study” (two-track academic/vocational) degree programs. In fall 2018, in fact, a total of 40 apprentices and “dual study” students started their careers at the Dettingen/Erms headquarters.

Because of its German locations’ very good experience with such dual study programs, the Group has been rolling out this model globally since 2018. It is aiming to achieve an 80% level of standardization so that the whole Group can draw upon a unified pool of specialist expertise in the relevant professional fields. Around 20% of the content will, however, need to be adapted in order to cater to the requirements of different regional markets. In the first stage of the project in 2018, young people at three locations (the USA, Mexico, and China) embarked on one of the initial two apprenticeship programs being offered, each based on the German system. The necessary theoretical skills are being provided by nearby colleges on the basis of detailed consultation with the company.

Within ElringKlinger AG – the parent company headquartered in Dettingen/Erms Germany – the number of employees undertaking apprenticeships during fiscal 2018 rose slightly compared with the previous year. However, since the total number of employees rose disproportionately during the same period because of new hires of skilled workers, the overall share of apprentices in the workforce (number of apprentices and internal students as a proportion of total staffing numbers) declined slightly relative to the previous year. As of December 31, 2018, this figure stood at 4.0% (2017: 4.5%). The proportion of apprentices in the overall Group workforce was 3.6% in 2018 (2017: 4.1%).

#### Staff development activities

Within the Group, ongoing training represents a very important means of enhancing qualifications, consolidating strengths, and exploiting potential improvements. Professional development opportunities are therefore offered to Group employees in the form of internal training. These range from IT courses and language classes to communication and intercultural training sessions, with the offering continually modified to reflect changes in the world of work. Courses and seminars are delivered by both internal and external trainers. In 2018, a new system of qualifications was also introduced for production workers in relation to work

processes, taking into account customer-specific quality requirements.

The training model for managers globally was also developed further during 2018. In this context, management seminars were also held at two US sites with the support of an external training provider. Additionally, in 2018 the existing program of seminars “Leadership on the Move” was expanded to include three rather than two parallel seminar series. Participants in these seminars are provided with additional tools for their roles as managers and trained with the aid of practical case studies.

In regularly held meetings at which staff members discuss their qualification requirements with their line managers, employees’ specific needs are identified and evaluated by means of performance reviews. Due to the increase in the size of the workforce – at both the parent company and the Group overall –, more performance reviews were carried out in 2018 than in the previous year. The performance review rate (number of performance reviews carried out as a proportion of the average number of employees excluding vocational trainees and internal students) stood at 75.5% for the Group (2017: 77.0%) and 70.9% (2017: 73.0%) for the parent company, ElringKlinger AG. The decline relative to the previous year can be explained by the growth in staff numbers, as such reviews cannot be held for newly hired staff members during the first few months after they have joined the company.

To meet the complex requirements involved in international HR operations, ElringKlinger rolled out a far-reaching HR management system for all of its global employees in 2018. With the aid of this system, HR processes will have been digitized and standardized by the start of 2019. This will bring transparency to the entire HR cycle from recruitment and hiring to management and staff development and ensure efficient people management practices. Using this standardized Group-wide platform, employees can keep their career profile up to date for internal applications, while managers can post their staffing requirements. With this system, the Group has laid the foundations for the flexibility it needs in regard to human resources.

Over the long term, the challenge involves developing the skills of the existing workforce, particularly in the production field and in production-related areas, in a timely manner so that the Group can play an active but flexible role in the

changes taking place in the automotive industry. The Group's strategy paper on human resources development, which is currently available in a preliminary version, is intended to form the basis for all future staff development concepts and strategies.

Dettingen/Erms, March 21, 2019

The Management Board

Dr. Stefan Wolf  
CEO

Theo Becker

Thomas Jessulat

Reiner Drews

# Independent Auditor's Limited Assurance Report

**The assurance engagement performed by Ernst & Young (EY) relates exclusively to the German version of the non-financial report 2018 of ElringKlinger AG. The following text is a translation of the original German Independent Assurance Report.**

To ElringKlinger AG, Dettingen/Erms

We have performed a limited assurance engagement on the non-financial report of ElringKlinger AG according to § 289b HGB ("Handelsgesetzbuch": German Commercial Code), which is combined with the non-financial report of the group according to § 315b HGB, for the reporting period from January 1, 2018 to December 31, 2018 (hereafter non-financial report).

## A. Management's responsibility

The legal representatives of the Company are responsible for the preparation of the non-financial report in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility includes the selection and application of appropriate methods to prepare the non-financial report as well as making assumptions and estimates related to individual disclosures, which are reasonable in the circumstances. Furthermore, the legal representatives are responsible for such internal controls that they have considered necessary to enable the preparation of a non-financial report that is free from material misstatement, whether due to fraud or error.

## B. Auditor's declaration relating to independence and quality control

We are independent from the Company in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other professional responsibilities in accordance with these requirements.

Our audit firm applies the national statutory regulations and professional pronouncements for quality control, in particular the by-laws regulating the rights and duties of Wirtschaftsprüfer and vereidigte Buchprüfer in the exercise of their

profession [Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer] as well as the IDW Standard on Quality Control 1: Requirements for Quality Control in audit firms [IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW QS 1)].

## C. Auditor's responsibility

Our responsibility is to express a limited assurance conclusion on the non-financial report based on the assurance engagement we have performed.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB). This Standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether the non-financial report of the Company has been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB. In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the auditor's professional judgment.

Within the scope of our assurance engagement, which has been conducted between January and March 2019, we performed amongst others the following assurance and other procedures:

- Inquiries of employees regarding the selection of topics for the non-financial report, the risk assessment and the concepts of ElringKlinger for the topics that have been identified as material,

- Inquiries of employees responsible for data capture and consolidation as well as the preparation of the non-financial report, to evaluate the reporting processes, the data capture and compilation methods as well as internal controls to the extent relevant for the assurance of the non-financial report,
- Identification of likely risks of material misstatement in the non-financial report,
- Inspection of relevant documentation of the systems and processes for compiling, analyzing and aggregating data in the relevant areas in the reporting period and testing such documentation on a sample basis,
- Analytical evaluation of disclosures in the non-financial report,
- Inquiries and inspection of documents on a sample basis relating to the collection and reporting of selected data,
- Evaluation of the presentation of disclosures in the non-financial report.

#### D. Assurance conclusion

Based on our assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the non-financial report of ElringKlinger AG for the period from January 1, 2018 to December 31, 2018 has not been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

#### E. Intended use of the assurance report

We issue this report on the basis of the engagement agreed with ElringKlinger AG. The assurance engagement has been performed for the purposes of the Company and the report is solely intended to inform the Company as to the results of the assurance engagement and must not be used for purposes other than those intended. The report is not

intended to provide third parties with support in making (financial) decisions.

#### F. Engagement terms and liability

The "General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms]" dated January 1, 2017 are applicable to this engagement and also govern our relations with third parties in the context of this engagement ([www.de.ey.com/general-engagement-terms](http://www.de.ey.com/general-engagement-terms)). In addition, please refer to the liability provisions contained there in no. 9 and to the exclusion of liability towards third parties. We assume no responsibility, liability or other obligations towards third parties unless we have concluded a written agreement to the contrary with the respective third party or liability cannot effectively be precluded.

We make express reference to the fact that we do not update the assurance report to reflect events or circumstances arising after it was issued unless required to do so by law. It is the sole responsibility of anyone taking note of the result of our assurance engagement summarized in this assurance report to decide whether and in what way this result is useful or suitable for their purposes and to supplement, verify or update it by means of their own review procedures.

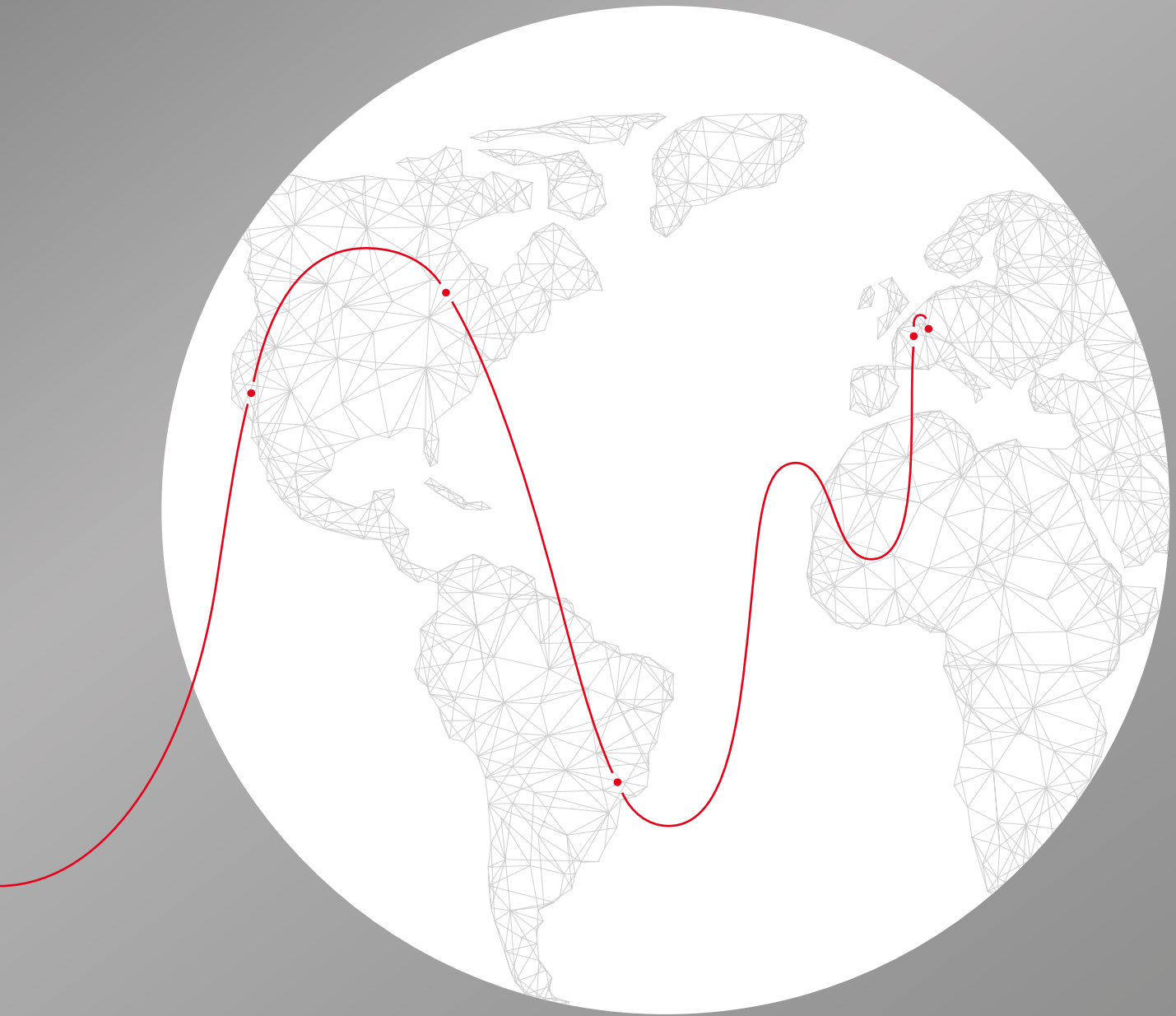
Munich, March 21, 2019

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

|                         |                         |
|-------------------------|-------------------------|
| Nicole Richter          | Annette Johne           |
| Wirtschaftsprüferin     | Wirtschaftsprüferin     |
| (German Public Auditor) | (German Public Auditor) |







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