Financial Statements 2018

GLOBAL DIMEN_SIONS

elringklinger

Contents

02 ElringKlinger AG Balance Sheet
04 ElringKlinger AG Income Statement
06 Notes to the Financial Statements
52 Combined Management Report
118 Auditor's report
124 Responsibility Statement

Combined Management Report

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

The Financial Statements of ElringKlinger AG are available in German and English. Only the German version shall be legally binding.

Financial Statements of ElringKlinger AG for Fiscal 2018

ElringKlinger AG, Dettingen/Erms

Balance sheet as of December 31, 2018 in EUR k

Assets	Dec. 31, 2018	Dec. 31, 2017
A. Fixed assets		
I. Intangible fixed assets		
1. Purchased industrial rights and licenses	7,080	8,358
2. Goodwill	142	161
3. Advance payments	1,386	815
	8,608	**9,334**
II. Tangible fixed assets		
1. Property and buildings	174,628	164,629
2. Technical equipment and machines	132,917	118,706
3. Other equipment, operating and office equipment	35,452	37,725
4. Advance payments and fixed assets under construction	24,686	22,163
	367,683	**343,223**
III. Fixed financial assets		
1. Shares in affiliated companies	397,754	428,554
2. Loans to affiliated companies	8,489	28,698
3. Equity investments	24,699	29,025
4. Securities classified as fixed financial assets	438	453
	431,380	**486,730**
	807,671	**839,287**
B. Current assets		
I. Inventories		
1. Raw materials, consumables and supplies	35,195	30,290
2. Work in progress	46,100	40,873
3. Finished goods and merchandise	70,113	69,708
4. Advance payments	2,062	3,635
	153,470	**144,506**
II. Receivables and other assets		
1. Trade receivables	92,317	93,641
2. Receivables from affiliated companies	299,558	227,286
3. Other assets	14,605	9,222
	406,480	**330,149**
III. Cash in hand, bank deposits and checks	**112**	**70**
	560,062	**474,725**
C. Prepaid expenses	2,676	2,186
	1,370,409	**1,316,198**

Liabilities and shareholder’s equity	Dec. 31, 2018	Dec. 31, 2017
A. Equity		
I. Share capital	**63,360**	**63,360**
II. Capital reserves	**120,827**	**120,827**
III. Revenue reserves		
1. Statutory reserve	3,013	3,013
2. Other revenue reserves	365,726	365,726
	368,739	**368,739**
IV. Accumulated loss/net retained profit	**-5,291**	**31,680**
	547,635	**584,606**
B. Provisions		
1. Provisions for pensions and similar obligations	74,555	68,936
2. Provisions for taxes	384	421
3. Other provisions	41,812	38,443
	116,751	**107,800**
C. Liabilities		
1. Liabilities due to banks	599,535	541,332
2. Payments received on account of orders	6,409	3,788
3. Trade payables	44,803	34,411
4. Liabilities to affiliated companies	28,362	21,450
5. Other liabilities	26,390	22,503
of which from taxes EUR 3,352k (EUR 2,801k)		
of which relating to social security EUR 57k (EUR 73k)		
	705,499	**623,484**
D. Deferred income	524	308
	1,370,409	**1,316,198**

ElringKlinger AG, Dettingen/Erms

Income statement for the period from January 1 to December 31, 2018

in EUR k	2018	2017
1. Sales revenue	720,457	674,393
2. Increase in finished goods and work in process	4,846	5,802
3. Other own work capitalized	337	1,519
4. Other operating income	46,853	16,575
5. Cost of materials		
a) Expenses for raw materials, supplies and merchandise	-297,232	-269,889
b) Expenses for purchased services	-28,973	-31,725
6. Personnel expenses		
a) Wages and salaries	-196,207	-163,756
b) Social security charges and expenses for pensions	-41,709	-34,011
of which for retirement pensions EUR -8,090 k (EUR -5,692 k)		
7. Amortization and depreciation		
a) on intangible assets and tangible fixed assets	-36,687	-33,124
b) on current assets in excess of write-downs which is customary for the Company	-24,200	0
8. Other operating expenses	-118,558	-98,764
9. Income from equity investments		
of which from affiliated companies EUR 34,959 k (EUR 20,311 k)	34,959	20,311
10. Income from other securities and loans classified as fixed financial assets		
of which from affiliated companies EUR 676 k (EUR 786 k)	698	804
11. Interest and similar income		
of which from affiliated companies EUR 5,161 k (EUR 2,999 k)	5,210	3,088
12. Write-downs on fixed financial assets	-53,541	-5,000
13. Interest and similar expenses		
of which from affiliated companies EUR -307 k (EUR -349 k)	-12,198	-10,701
thereof expenses from discounting: EUR -2,809 k (EUR -2,887 k)		
14. Taxes on income	-9,164	-15,045
15. Earnings after taxes	**-5,109**	**60,477**
16. Other taxes	-182	-258
17. Net loss/income for the year	**-5,291**	**60,219**
18. Transfer to other revenue reserves	0	-28,539
19. Accumulated loss/net retained earnings	**-5,291**	**31,680**

ElringKlinger AG, Dettingen/Erms

Notes to the Financial Statements for Financial Year 2018

General information

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

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

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

The financial year is the calendar year.

Accounting and valuation principles

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

Fixed assets

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

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

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

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

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

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

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

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

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

Current assets

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

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

In the majority of cases, customers acquire legal and economic ownership of tools. The tools are recognized under inventories until the transfer of beneficial ownership. Specific bad debt allowances for identified risks were recognized for the first time in 2018 to improve transparency. Had the risks been still accounted for as supply rights, impairments in 2018 would have been lower by EUR 1,718 k.

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

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

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

Equity

Share capital is recognized at its par value.

Provisions and liabilities

Pension obligations are measured as of December 31, 2018, in accordance with actuarial principles using the projected unit credit method. The 2018 G Heubeck mortality tables were used as the biometrical basis for calculation. These tables replaced the prior 2005 G Heubeck mortality tables in July 2018. The average market interest rate of the past 10 years is applied as the actuarial interest rate assuming a remaining term of 15 years. In addition to this, salary and pension trends are applied, as are age and gender-specific staff turnover probabilities.

Provisions for partial retirement are measured on the basis of an annual actuarial interest rate of 0.81% (p.y. 1.29%), an income trend of 3.00% (p.y. 3.00%) and the 2018 G mortality tables established upon actuarial principles by Dr. Klaus Heubeck. Provisions for obligations arising from partial retirement schemes are recognized according to the block model. Provisions for partial retirement were recognized for partial retirement contracts agreed as of the balance sheet date, as well as potential future contracts. They include benefit increases and the Company's settlement obligations which have been accrued as of the balance sheet date.

Provision for long-service awards are measured on the basis of an interest rate of 2.32% (p.y. 2.84%) and based on the projected unit credit method and the 2018 G mortality tables by Dr. Klaus Heubeck in accordance with actuarial principles. In addition, the calculation assumed a 3.00% income trend (p.y. 3.00%), a 1.00% career trend (p.y. 1.00%), an inflation rate of 1.50% (p.y. 1.50%), an average staff turnover of 2.00% (p.y. 2.00%) as well as an increase in the income ceiling for the assessment of contributions to the statutory pension and health insurance schemes of 2.00% (p.y. 2.00%).

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

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

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

Liabilities are recognized at their settlement amount.

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

Foreign currency items and currency translation

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

Deferred taxes

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

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

Balance sheet disclosures

Fixed assets

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

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

In the reporting period, there were extraordinary write-downs of the carrying amounts of property, plant and equipment totaling EUR 228 k (p.y. EUR 0 k) were performed due to impairments that are expected to be permanent.

The changes in shares in affiliated companies are attributable to a number of capital increases and a new foundation totaling EUR 35,702 k (p.y. EUR 18,065 k) as well as disposals totaling EUR 34,402 k (p.y. EUR 0 k). Furthermore, there were extraordinary write-downs of the carrying amounts of affiliated companies totaling EUR 32,100 k (p.y. EUR 5,000 k) were performed due to impairments that are expected to be permanent. Reversals of impairment losses on shares in affiliated companies totaled EUR 0 k (p.y. EUR 0 k)

There changes in loans to affiliated companies are attributable to the extraordinary write-downs of EUR 17,100 k (p.y. EUR 0 k) due to impairments that are expected to be permanent.

Impairment losses of EUR 4,326 k (p.y. EUR 0 k).were recorded for equity investments.

Receivables and other assets

EUR 267,203 k (p.y. EUR 183,594 k) of receivables from affiliated companies relate to financial transactions. Extraordinary write-downs of EUR 24,200 k (p.y. EUR 0 k) were recognized on these receivables, which were recorded under the item “Amortization, depreciation and write-downs of current assets” in the income statement if they were in excess of write-downs which are customary for the Company. The remaining receivables from affiliated companies continue to result from trade. As in the previous year, there were no receivables from equity investments classified as fixed financial assets as of December 31, 2018.

Of the other assets, an amount of EUR 2,868 k (p.y. EUR 556 k) has a remaining term of more than one year. As in the previous year, all other receivables and other assets are due in less than one year.

Statement of changes in fixed assets in financial year 2018

		Acquisition or manufacturing cost				
		Jan. 1, 2018	Additions	Reclassifications	Disposals	Dec. 31, 2018
		EUR k	EUR k	EUR k	EUR k	EUR k
I.	**Intangible fixed assets**					
	1. Purchased industrial rights and licenses	25,640	2,273	468	2	28,379
	2. Goodwill	1,990	0	0	0	1,990
	3. Advance payments	815	1,039	-468	0	1,386
		28,445	3,312	0	2	31,755
II.	**Tangible fixed assets**					
	1. Property and buildings	234,787	11,804	4,232	110	250,713
	2. Technical equipment and machines	433,396	20,428	13,567	6,851	460,540
	3. Other equipment, operating and office equipment	129,439	5,202	416	1,810	133,247
	4. Advance payments and fixed assets under constructior	22,163	20,738	-18,215	0	24,686
		819,785	58,172	0	8,771	869,186
III.	**Fixed financial assets**					
	1. Shares in affiliated companies	443,131	35,702	0	34,402	444,431
	2. Loans to affiliated companies	28,698	0	0	3,109	25,589
	3. Equity investments	29,025	0	0	0	29,025
	4. Securities classified as fixed financial assets	453	0	0	0	453
		501,307	35,702	0	37,511	499,498
		1,349,537	97,186	0	46,284	1,400,439

Accumulated amortization and depreciation						Carrying amount	
Jan. 1, 2018	Amortization, depreciation and write-downs of the year	Reversal of write-downs	Reclassifi -cations	Disposals	Dec. 31, 2018	Dec. 31, 2018	Dec. 31, 2017
EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
17,282	4,019	0	0	2	21,299	7,080	8,358
1,829	19	0	0	0	1,848	142	161
0	0	0	0	0	0	1,386	815
19,111	4,038	0	0	2	23,147	8,608	9,334
70,158	6,035	0	0	108	76,085	174,628	164,629
314,690	18,749	0	0	5,816	327,623	132,917	118,706
91,714	7,864	0	0	1,783	97,795	35,452	37,725
0	0	0	0	0	0	24,686	22,163
476,562	32,648	0	0	7,707	501,503	367,683	343,223
14,577	32,100	0	0	0	46,677	397,754	428,554
0	17,100	0	0	0	17,100	8,489	28,698
0	4,326	0	0	0	4,326	24,699	29,025
0	15	0	0	0	15	438	453
14,577	53,541	0	0	0	68,118	431,380	486,730
510,250	90,227	0	0	7,709	592,768	807,671	839,287

List of shareholdings as of December 31, 2018 and scope of consolidation

Name of company	Registered office	Share of capital in %
Parent company		
ElringKlinger AG	Dettingen/Erms	
Shares in affiliated companies (fully consolidated in the consolidated financial statements)		
Domestic		
Gedächtnisstiftung KARL MÜLLER BELEGSCHAFTSHILFE GmbH	Dettingen/Erms	100.00
Elring Klinger Motortechnik GmbH	Idstein	92.86
ElringKlinger Logistic Service GmbH	Rottenburg/Neckar	96.00
ElringKlinger Kunststofftechnik GmbH	Bietigheim-Bissingen	77.50
Polytetra GmbH[5]	Mönchengladbach	77.50
hofer powertrain products GmbH	Nürtingen	53.00
KOCHWERK Catering GmbH	Dettingen/Erms	100.00
Foreign		
ElringKlinger Abschirmtechnik (Schweiz) AG	Sevelen (Switzerland)	100.00
Elring Klinger (Great Britain) Ltd.	Redcar (UK)	100.00
hofer powertain products UK Ltd.	Warwick (UK)	53.00
ElringKlinger Italia Srl	Settimo Torinese (Italy)	100.00
Technik-Park Heliport Kft.	Kecskemét-Kádafalva (Hungary)	100.00
ElringKlinger Hungary Kft.	Kecskemét-Kádafalva (Hungary)	100.00
Elring Parts Ltd.	Gateshead (UK)	100.00
Elring Klinger, S.A.U.	Reus (Spain)	100.00
ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş.	Bursa (Turkey)	100.00
ElringKlinger Meillor SAS	Nantiat (France)	100.00
ElringKlinger Fuelcell Systems Austria GmbH	Wels (Austria)	100.00
ElringKlinger Silicon Valley, Inc.	Fremont (USA)	100.00
HURO Supermold S.R.L.	Timisoara (Romania)	100.00
ElringKlinger Canada, Inc.	Leamington (Canada)	100.00
ElringKlinger USA, Inc.	Buford (USA)	100.00
ElringKlinger Automotive Manufacturing, Inc.	Southfield (USA)	100.00
ElringKlinger Manufacturing Indiana, Inc.	Fort Wayne (USA)	100.00
Elring Klinger México, S.A. de C.V.	Toluca (Mexico)	100.00
EKASER, S.A. de C.V.	Toluca (Mexico)	100.00
Elring Klinger do Brasil Ltda.	Piracicaba (Brazil)	100.00
ElringKlinger South Africa (Pty) Ltd.	Johannesburg (South Africa)	100.00
ElringKlinger Automotive Components (India) Pvt. Ltd.	Ranjangaon (India)	100.00
Changchun ElringKlinger Ltd.	Changchun (China)	88.00
ElringKlinger Korea Co., Ltd.	Changwon (South Korea)	100.00
ElringKlinger China, Ltd.	Suzhou (China)	100.00
ElringKlinger Chongqing Ltd.	Chongqing (China)	100.00
ElringKlinger Engineered Plastics North America, Inc.[5]	Buford (USA)	77.50
ElringKlinger Engineered Plastics (Qingdao) Co., Ltd.[5]	Qingdao (China)	77.50
ElringKlinger Marusan Corporation	Tokyo (Japan)	50.00
Marusan Kogyo Co., Ltd.[7]	Tokyo (Japan)	23.45
PT. ElringKlinger Indonesia[6]	Karawang (Indonesia)	50.00
ElringKlinger (Thailand) Co., Ltd.[6]	Bangkok (Thailand)	50.00
Investments (accounted for using the equity method in the consolidated financial statements)		
Domestic		
hofer AG	Nürtingen	28.89

[1] 100 units local currency (LC) as of balance sheet date
[2] 100 units local currency (LC) as of balance sheet date
[3] valued at the closing rate
[4] valued at the average rate for the period
[5] wholly owned subsidiary of ElringKlinger Kunststofftechnik GmbH
[6] wholly owned subsidiary of ElringKlinger Marusan Corporation

Statutory accounts equity in LC k	Statutory accounts profit/loss in LC k	Local currency	Closing exchange rate [1]	Average rate of the period [2]	Statutory accounts equity in EUR k [3]	Statutory accounts in EUR k [4]	Most recent financial statements
25	1	EUR	1.0000	1.0000	25	1	Dec. 31, 2018
4,436	591	EUR	1.0000	1.0000	4,436	591	Dec. 31, 2018
4,093	289	EUR	1.0000	1.0000	4,093	289	Dec. 31, 2018
78,997	11,824	EUR	1.0000	1.0000	78,997	11,824	Dec. 31, 2018
2,320	534	EUR	1.0000	1.0000	2,320	534	Dec. 31, 2018
2,000	-303	EUR	1.0000	1.0000	2,000	-303	Dec. 31, 2018
-283	-284	EUR	1.0000	1.0000	-283	-284	Dec. 31, 2018
341	-6,171	CHF	88.7390	86.8372	303	-5,359	Dec. 31, 2018
20,537	1,746	GBP	111.7905	112.8732	22,959	1,971	Dec. 31, 2018
0	-611	GBP	111.7905	112.8732	0	-690	Dec. 31, 2018
14,341	289	EUR	1.0000	1.0000	14,341	289	Dec. 31, 2018
2,999,715	189,719	HUF	0.3115	0.3125	9,345	593	Dec. 31, 2018
9,030	-975,930	HUF	0.3115	0.3125	28	-3,050	Dec. 31, 2018
4,807	1,056	GBP	111.7905	112.8732	5,374	1,192	Dec. 31, 2018
20,898	4,300	EUR	1.0000	1.0000	20,898	4,300	Dec. 31, 2018
109,679	40,643	TRY	16.5049	17.5948	18,102	7,151	Dec. 31, 2018
7,710	-602	EUR	1.0000	1.0000	7,710	-602	Dec. 31, 2018
100	0	EUR	1.0000	1.0000	100	0	Dec. 31, 2018
2,163	954	USD	87.3362	84.7946	1,889	809	Dec. 31, 2018
11,178	2,324	RON	21.4431	21.4784	2,397	499	Dec. 31, 2018
43,480	3,906	CAD	64.0820	65.2367	27,863	2,548	Dec. 31, 2018
18,779	-29,400	USD	87.3362	84.7946	16,401	-24,930	Dec. 31, 2018
-3,952	12,906	USD	87.3362	84.7946	-3,452	10,944	Dec. 31, 2018
0	-3,387	USD	87.3362	84.7946	0	-2,872	Dec. 31, 2018
650,630	-3,953	MXN	4.4460	4.4145	28,927	-174	Dec. 31, 2018
99,125	17,458	MXN	4.4460	4.4145	4,407	771	Dec. 31, 2018
111,352	9,383	BRL	22.5023	23.0980	25,057	2,167	Dec. 31, 2018
25,132	5,905	ZAR	6.0756	6.4035	1,527	378	Dec. 31, 2018
1,980,495	94,825	INR	1.2542	1.2403	24,840	1,176	Mar. 31, 2018
813,761	61,628	CNY	12.6983	12.7949	103,333	7,885	Dec. 31, 2018
3,979,206	-466,970	KRW	0.0783	0.0772	3,114	-360	Dec. 31, 2018
650,929	80,444	CNY	12.6983	12.7949	82,657	10,293	Dec. 31, 2018
38,843	-11,259	CNY	12.6983	12.7949	4,932	-1,441	Dec. 31, 2018
770	166	USD	87.3362	84.7946	673	140	Dec. 31, 2018
29,830	3,006	CNY	12.6983	12.7949	3,788	385	Dec. 31, 2018
5,977,267	-32,847	JPY	0.7946	0.7692	47,495	-253	Dec. 31, 2018
672,377	2,480	JPY	0.7946	0.7692	5,343	19	Dec. 31, 2018
6,602,222	-132,881	IDR	0.0061	0.0060	400	-8	Dec. 31, 2018
12,888	6,954	THB	2.6989	2.6280	348	183	Dec. 31, 2018
36,051	394	EUR	1.0000	1.0000	36,051	394	Dec. 31, 2018

7) 46.9% subsidiary of ElringKlinger Marusan Corporation

Equity

During the financial year 2018, equity developed as follows:

EUR k	Dec. 31, 2017	Dividend	Revenue reserves	Net loss for the year	Dec. 31, 2018
Share capital	63,360	0	0	0	63,360
Capital reserves	120,827	0	0	0	120,827
Revenue reserves	368,739	0	0	0	368,739
Net retained earnings/net accumulated loss	31,680	-31,680	0	- 5,291	- 5,291
	584,606	**- 31,680**	**0**	**- 5,291**	**547,635**

The share capital of ElringKlinger AG amounted to EUR 63,359,990 as of December 31, 2018 and is divided into 63,359,990 registered shares, each entitled to a single vote. The share capital is fully paid in. Each registered share represents a theoretical interest of EUR 1.00 of the share capital. Profit is distributed in accordance with Sec. 60 AktG in conjunction with Sec. 23 no. 1 of the Articles of Association.

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

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

The Management Board has not exercised the authorization to date.

As of December 31, 2018, revenue reserves consist of a statutory reserve amounting to EUR 3,013 k (p.y. EUR 3,013 k) and other revenue reserves of EUR 365,726 k (p.y. EUR 365,726 k).

Net retained earnings/net accumulated loss developed as follows:

	EUR k
Net retained earnings as of December 31, 2017	31,680
Profit distribution for 2017	- 31,680
Profit brought forward	0
Net loss for 2018	- 5,291
Net accumulated loss as of December 31, 2018	**- 5,291**

Provisions

Provisions for pensions

As of the balance sheet date, there are pension obligations of EUR 74,555 k (p.y. EUR 68,936 k) which must be covered by provisions. Pension provisions are measured by applying an interest rate of 3.21% (p.y. 3.68%). In addition, the calculation assumes a 3.00% income trend (p.y. 3.00%), a 1.00% career trend (p.y. 1.00%), a pension trend of 1.50% (p.y. 1.50%) for benefit entitlements and 1.50% (p.y. 1.50%) for current pensions and an average staff turnover of 2.00% (p.y. 2.00%).

The difference between the carrying amount of the provisions for pensions when measured using the 7 and 10-year average interest rates is EUR 12,031 k (p.y. EUR 10,305 k). This amount is restricted from distribution in accordance with Sec. 253 (6) HGB. The dividend restriction is currently not in place because there are sufficient distributable reserves.

The pension obligations of active Management Board members totaling EUR 7,711 k (p.y. EUR 6,555 k) were offset against the fair value of plan assets of EUR 2,982 k (p.y. EUR 2,199 k) pursuant to Sec. 246 (2) HGB. The fair value of the covering assets exceeds their acquisition cost; this leaves an amount of EUR 17 k that is restricted from distribution in accordance with Sec. 268 (8) HGB. The dividend restriction is currently not in place because there are sufficient distributable reserves. Specific and pledged employer’s pension liability insurance that is protected from insolvency serves as plan assets. The fair value of the employer’s pension liability insurance claim comprises the insurer’s unearned premium reserve plus any credit balance from premium refunds (participation feature). The acquisition costs of the employer’s pension liability insurance come to EUR 2,965 k (p.y. EUR 2,205 k). Income from the adjustment of covering assets to the higher fair value total EUR 30 k (p.y. expense of EUR 11 k) and were recorded in interest expenses.

Applying Article 28 Introductory Law of the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch, “EGHGB”), provisions for pensions and similar obligations of EUR 1,879 k (p.y. EUR 1,099 k) are not reported in the balance sheet.

Other provisions relate to:

EUR k	Dec. 31, 2018	Dec. 31, 2017
Personnel-related obligations	25,265	21,901
Bonus credits not yet settled	3,252	3,202
Outstanding supplier invoices	5,870	5,915
Expected losses from customer transactions	2,539	2,469
Warranty obligations	1,413	2,005
Outstanding customer reimbursements	1,202	0
Commercial agents' compensation claims	350	350
Audit fees	343	328
Advertising subsidy	311	422
Remuneration of the Supervisory Board	298	331
Retention requirements	215	215
Derivative risks	165	12
Litigation costs	10	10
Other risks	579	1,285
Total	**41,812**	**38,443**

Personnel-related obligations include partial retirement obligations which must be covered by provisions in the amount of EUR 4,987 k (p.y. EUR 2,823 k). Deferred performance for partial retirement obligations amounting to EUR 2,325 k (p.y. EUR 1,858 k) was offset against plan assets in the amount of EUR 2,555 k (p.y. EUR 2,161 k) in accordance with Sec. 246 (2) HGB. Plan assets were identified as the specific and pledged trust agreement which is protected from insolvency covering asset transfer, reimbursement and agency between ElringKlinger AG and ElringKlinger Vermögenstreuhänder e.V., Dettingen/Erms, and ElringKlinger Mitarbeitertreuhänder e.V., Dettingen/Erms, dated March 7, 2005. The acquisition costs of the covering assets come to EUR 2,555 k (p.y. EUR 2,199 k). Fair value of the plan assets is based on the valuation of the investment at its price at the balance sheet date. Income from plan assets in 2018 came to EUR 0.1 k (p.y. EUR 7 k) and was reported net of expenses from the adjustment of plan assets at the lower fair value of EUR 6 k (p.y. EUR 11 k) under interest expenses. Unwinding the discount on the partial retirement obligations is recorded in interest expenses and amounts to EUR 41 k (p.y. EUR 31 k).

Liabilities

EUR k	thereof with a remaining term of					
	Total amount As of Dec. 31, 2018	up to one year	one to five years	more than five years	thereof secured	Total amount As of Dec. 31, 2017
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Liabilities due to banks	599,535	234,135	228,122	137,278	9,356	541,332
Payments received on account of orders	6,409	6,409	0	0	0	3,788
Trade payables	44,803	44,803	0	0	0	34,411
Liabilities to affiliated companies	28,362	19,103	9,259	0	0	21,450
Other liabilities	26,390	18,919	7,471	0	0	22,503
	705,499	**323,369**	**244,852**	**137,278**	**9,356**	**623,484**

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

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

Liabilities to affiliated companies relate to financial transactions of EUR 27,392 k (p.y. EUR 22,631 k) and trade receivables net of trade payables of EUR 4,848 k (p.y. EUR 3,993 k). Trade payables of EUR 5,818 k (p.y. EUR 2,812 k) are due to affiliated companies.

Deferred taxes

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

Deferred tax assets in the amount of EUR 698 k (p.y. EUR 79 k) result from the total differences arising between the carrying amounts and tax bases of fixed and current assets, including prepaid expenses and deferred income. Deferred taxes are measured using a tax rate of 28.6% (p.y. 28.6%).

The Company has no tax loss carryforwards.

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

Deferred tax liabilities on differences in carrying amounts for:

EUR k	Dec. 31, 2018	Dec. 31, 2017
Intangible fixed assets	59	88
Property, plant and equipment	10,851	11,924
Fixed financial assets	907	938
Receivables and other assets	1,110	0
Trade payables	0	6
Liabilities to affiliated companies	20	111
Liabilities due to banks	19	366
Total	**12,966**	**13,433**

Deferred tax assets on differences in carrying amounts for:

EUR k	Dec. 31, 2018	Dec. 31, 2017
Inventories	692	226
Receivables and other assets	0	2,434
Prepaid expenses	79	95
Provisions for pensions	9,175	7,728
Other provisions	3,716	3,027
Trade payables	1	0
Other liabilities	1	2
Total	**13,664**	**13,512**

Deferred tax assets, net	**698**	**79**

Deferred taxes developed as follows:

EUR k	Deferred tax assets	Deferred tax liabilities	Balance
	EUR k	EUR k	EUR k
Dec. 31, 2017	13,512	-13,433	79
Dec. 31, 2018	13,664	-12,966	698
Change	**152**	**467**	**619**

Income statement disclosures

Sales revenue

Breakdown by geographical market

EUR k	2018	2017
Germany	254,445	248,749
Rest of Europe	305,844	290,646
NAFTA	77,313	52,892
Asia-Pacific	57,467	58,602
Rest of the world	25,388	23,504
Total sales revenue	**720,457**	**674,393**

Broken down by division, sales revenue of EUR 574,756 k (p.y. EUR 530,623 k) relates to Original Equipment, EUR 145,403 k (p.y. EUR 143,486 k) to Aftermarket and EUR 298 k (p.y. EUR 284 k) to Industrial Parks.

Other operating income

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

Other operating income includes out-of-period income of EUR 30,957 k (p.y. EUR 1,103 k). This contains income from disposals of fixed assets of EUR 29,816 k (p.y. EUR 71 k), income from the release of provisions of EUR 654 k (p.y. EUR 835 k) and income from the reduction of valuation allowances of EUR 488 k (p.y. EUR 197 k).

In addition, the item includes government grants of EUR 4,560 k (p.y. EUR 6,390 k), income from insurance claims of EUR 2,519 k (p.y. EUR 53 k) and currency translation gains from realized and unrealized currency translation differences of EUR 8,444 k (p.y. EUR 7,820 k).

Other operating expenses

Other operating expenses include out-of-period items of EUR 1,906 k (p.y. EUR 283 k), thereof from the disposal of fixed assets of EUR 1,878 k (p.y. EUR 283 k) and defaults on receivables of EUR 28 k (p.y. EUR 0 k). Currency translation losses from realized and unrealized currency translation differences come to EUR 7,714 k (p.y. EUR 9,231 k).

Taxes on income

Taxes on income include out-of-period expenses of EUR 20 k (offset against out-of-period income). In the previous year, taxes on income included out-of-period tax income of EUR 2,734 k (offset against out-of-period tax expenses). Taxes on income include income for deferred taxes of EUR 0 k (p.y. EUR 3,281 k).

Other taxes

Other taxes contain out-of-period tax income of EUR 82 k (p.y. tax expenses of EUR 12 k).

Contingent liabilities

As in the previous year, there were no contingent liabilities arising from the issue or transfer of bills of exchange. There were contingent liabilities in connection with guarantees issued and performance bonds of EUR 116,292 k (p.y. EUR 111,544 k), of which EUR 116,292 k (p.y. EUR 111,544 k) related to affiliated companies.

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

ElringKlinger AG has undertaken to furnish other subsidiaries with sufficient funds such that they will be able to maintain their operations and meet their obligations.

On September 19, 2018, a letter of indemnity was issued in favor of ElringKlinger (Great Britain) Ltd. in order to take advantage of the exemption from audit duties under the UK Companies Act 2006. The letter of indemnity comprises all obligations in place up to the end of the financial year 2017 and applies until the obligations have been fully satisfied.

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

Other financial commitments

2018 EUR k	Total	Remaining term < 1 year	Remaining term 1 to 5 years	Remaining term > 5 years
Contracts for the supply of gas and electricity	28,497	9,802	18,695	0
Rental and lease agreements	4,929	2,423	2,458	48
	33,426	**12,225**	**21,153**	**48**
2017 EUR k	**Total**	**Remaining term < 1 year**	**Remaining term 1 to 5 years**	**Remaining term > 5 years**
Contracts for the supply of gas and electricity	26,415	9,507	16,908	0
Rental and lease agreements	5,992	1,770	4,222	0
	32,407	**11,277**	**21,130**	**0**

In addition, there are financial commitments to subsidiaries in the amount of EUR 1,411 k (p.y. EUR 861 k) in connection with loan agreements in place with subsidiaries.

As of the balance sheet date, there are contractual obligations to acquire property, plant and equipment and intangible assets amounting to EUR 25,466 k (p.y. EUR 21,799 k).

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

Other disclosures

Number of employees

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

	2018	2017
Wage earners	1,219	1,543
Salaried employees	1,856	1,138
	3,075	2,681
Trainees	131	129
	3,206	**2,810**

Related-party disclosures

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

The following transactions were entered into with companies which are not wholly-owned subsidiaries of the ElringKlinger Group in the financial year 2018:

EUR k	2018	2017
Sales revenue from the sale of manufactured goods and other sales revenue	5,522	15,923
License fees	2,520	3,076
Services performed	3,163	5,773
Sales of tools	348	593
Services received and other expenses	7,548	62,412
Income from equity investments	8,310	9,378
Interest income	74	111
Interest expenses	257	330
Loans granted as of the balance sheet date	14,883	7,065
Other receivables as of the balance sheet date	2,336	6,616
Loans received as of the balance sheet date	10,892	20,846
Other liabilities as of the balance sheet date	282	1.589

Furthermore:

- Cooperation agreement between ElringKlinger AG and Lechler GmbH, Metzingen, concerning traineeships. The deceased Prof. Walter H. Lechler held a significant interest in ElringKlinger AG and control over Lechler GmbH. The testamentary disposition of Prof. Lechler regarding the shares he held has yet to be conclusively implemented. ElringKlinger AG earned EUR 42 k during the reporting year (p.y. EUR 56 k). Receivables outstanding amounted to EUR 10 k (p.y. EUR 0 k) as of the balance sheet date.

- Loan agreement between Lechler GmbH and ElringKlinger AG. Lechler GmbH granted ElringKlinger AG loans totaling EUR 17,000 k (p.y. EUR 17,000 k). A loan for EUR 7,000 k was extended for an indefinite period and carries an interest rate of 2.10% p.a. An additional loan for EUR 5,000 k carries an interest rate of 0.69% p.a. and has a term until August 15, 2019. A further loan for EUR 5,000 k carries an interest rate of 0.90% p.a. and has a term until June 19, 2020.

Derivative financial instruments

The bank-confirmed market values of the derivatives are determined using recognized mathematical methods and the market data available as of the balance sheet date (mark-to-market method).

Financial derivatives are used to reduce the risks stemming from nickel prices. As of the balance sheet date, there was a nickel hedging contract for a remaining amount of 90 metric tons of nickel for the period from October 2018 to September 2019. The contract was marked to market as of the balance sheet date resulting in a positive fair value of EUR 12 k (p.y. EUR 176 k) as well as a negative market value of EUR 165 k (p.y. EUR 11 k). A provision for expected losses was recognized in the amount of the negative market value. The market values were determined using recognized mathematical methods and the market data available as of the balance sheet date (mark-to-market method).

Corporate bodies

Supervisory Board

Klaus Eberhardt Lindau, Chairman	Former CEO of Rheinmetall AG, Düsseldorf Governance roles: a) MTU Aero Engines AG, Munich b) n/a
Markus Siegers* Nürtingen, Deputy chair	Chairman of the Works Council of ElringKlinger AG, Dettingen/Erms
Nadine Boguslawski* Stuttgart	Principal Authorized Representative of IG Metall Stuttgart, Stuttgart (since January 1, 2019), Secretary for the metal and electrical industry of the IG Metall Bezirksleitung Baden-Württemberg, Stuttgart (until December 31, 2018) Governance roles: a) Robert Bosch Automotive Steering GmbH, Schwäbisch Gmünd b) Robert Bosch GmbH, Gerlingen-Schillerhöhe c) n/a
Armin Diez* Lenningen	Vice President of Battery Technology/E-Mobility at ElringKlinger AG, Dettingen/Erms Governance roles: a) n/a b) Member of the Advisory Board of e-mobil BW GmbH, Stuttgart
Pasquale Formisano* Vaihingen an der Enz	Chairman of the Works Council of ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen

Rita Forst Dörsdorf	Former member of the management board of Adam Opel AG, Rüsselsheim Governance roles: a) NORMA Group SE, Maintal b) Joh. Winklhofer Beteiligungs GmbH & Co.KG, Munich Metalsa, S.A. de C.V., Monterrey, Mexico Westport Fuel Systems, Vancouver, Canada
Andreas Wilhelm Kraut Rottenburg	Chairman and CEO of Bizerba SE & Co. KG, Balingen
Gerald Müller* Reutlingen	Trade union secretary of IG Metall Reutlingen-Tübingen, Reutlingen
Paula Monteiro-Munz* Grabenstetten	Deputy chairwoman of the Works Council of ElringKlinger AG, Dettingen/Erms
Prof. Hans-Ulrich Sachs Bremen	Managing Partner of betec Umformtechnik GmbH, Adelmannsfelden
Gabriele Sons Ratingen	Former member of the management board of ThyssenKrupp Elevator AG, Essen Governance roles: a) n/a b) Member of the Administrative Board of TÜV Rheinland Berlin Brandenburg Pfalz e.V., Cologne
Manfred Strauß Stuttgart	Managing Partner of M&S Messebau und Service GmbH, Neuhausen a.d.F. Governance roles: a) n/a b) Pro Stuttgart Verwaltungs GmbH, Stuttgart Pro Stuttgart Verkehrsverein, Stuttgart Eroca AG, Basel

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

Remuneration of the Supervisory Board

Total remuneration of the Supervisory Board of ElringKlinger AG amounted to EUR 672 k (p.y. EUR 702 k) in the reporting period. In addition, travel expenses in the amount of EUR 4 k (p.y. EUR 1 k) were reimbursed.

Total remuneration of the Supervisory Board is distributed among the individual Supervisory Board members as follows:

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

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

Management Board

Dr. Stefan Wolf, Bad Urach, Chairman	Responsible for Group companies, Legal Affairs, Human Resources, Investor Relations, Corporate Communications, Original Equipment Sales and the Aftermarket Division.
Theo Becker, Metzingen	Responsible for the Divisions E-Mobility, New Business Areas, Tooling Technology as well as the corporate functions Purchasing and Real Estate and Facility Management and the Thale plant.
Reiner Drews, Dettingen/Erms	From April 1, 2018, responsible for the Cylinder-head Gaskets, Special Gaskets, Plastic Housing Modules/Elastomer Technology/Lightweighting, Shielding Technology Divisions as well as the corporate functions Production Management, Quality and Environment.
Thomas Jessulat, Stuttgart	Responsible for the corporate functions Finance, Controlling, IT, Logistics, Business Area Development and the Industrial Parks Division

Governance roles in supervisory boards and other supervisory bodies

Dr. Stefan Wolf, Bad Urach, Chairman	Member of the supervisory board of ALLGAIER Werke GmbH, Uhingen
Theo Becker, Metzingen	Member of the supervisory board of E.G.O. Blanc und Fischer & Co. GmbH, Oberderdingen
Thomas Jessulat, Stuttgart	Chairman of the supervisory board of hofer AG, Nürtingen

Remuneration of the Management Board

Total remuneration of the Management Board came to EUR 4,231 k (p.y. EUR 3,940 k).

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

2018 EUR k	**Dec. 31, 2017**	**Change**	**Dec. 31, 2018**
Dr. Stefan Wolf	3,611	538	4,149
Theo Becker	2,716	332	3,047
Thomas Jessulat	229	185	414
Reiner Drews	0	100	100
Total	6,556	1,156	7,710

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

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

Provisions of EUR 13,072 k (p.y. EUR 13,230 k) were recognized for pension obligations to former members of the Management Board, the management of merged companies, and their surviving dependents. The total remuneration of former members of the Management Board – including remuneration of former members of corporate bodies of merged companies – came to EUR 869 k (p.y. EUR 861 k) in the financial year 2018.

Auditor's fees

	2018
Audit of the annual financial statements	668
Other assurance services	29
	697

Audit services include the fees for the mandatory audit of the separate financial statements and consolidated financial statements and also include the fees for a financial statements audit for a particular purpose. The other assurance services comprise fees for review work in connection with the non-financial report.

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

As of the balance sheet date 2018, the following equity investments classified as fixed financial assets existed and were notified pursuant to Sec. 21 (1) German Securities Trading Act (Wertpapierhandelsgesetz, “WpHG”).

1. Voting rights notification

1. Details of issuer

ElringKlinger AG
Max-Eyth-Strasse 2
72581 Dettingen/Erms
Germany

2. Reason for notification

☒ Acquisition/disposal of shares with voting rights
☒ Acquisition/disposal of instruments
☐ Change of breakdown of voting rights
☐ Other reason: Testamentary disposition of Walter H. Lechler and execution of a gift contract upon the death of the testator.

3. Details of person subject to the notification obligation

Name: **The Capital Group Companies, Inc.**

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

4. Names of shareholder(s)

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

5. Date on which threshold was crossed or reached:

October 24, 2018

6. Total positions

	% of voting rights attached to shares (total of 7.a.)	% of voting rights through instruments (total of 7.b.1. + 7.b.2.)	Total of both in % (7.a. + 7.b.)	Total number of voting rights of issuer
Resulting situation	2.92%	0.42%	3.37%	63,359,990
Previous notification	4.99%	0%	4.99%	/

7. Notified details of the resulting situation

a. Voting rights attached to shares (Sec. 33, 34 WpHG)

ISIN	absolute		in %	
	direct (Sec. 33 WpHG)	indirect (Sec. 34 WpHG)	direct (Sec. 33 WpHG)	indirect (Sec. 34 WpHG)
DE0007856023	0	1,869,867	0%	2.95%
Total	1,869,867		2.95%	

b.1. Instruments according to Sec. 38 (1) no. 1 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Voting rights absolute	Voting rights in %
Securities lending agreement	Payable on demand	unlimited	268,072	0.42%
		Total	268,072	0.42%

b.2. Instruments according to Sec. 38 (1) no. 2 WpHG

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

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

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

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

9. In case of proxy voting according to Sec. 34 (3) WpHG(only in case of attribution of voting rights pursuant to Sec. 34 (1) sentence 1 no. 6 WpHG)

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

10. Other notes:

Date

October 29, 2018

2. Voting rights notification

1. Details of issuer

ElringKlinger AG
Max-Eyth-Strasse 2
72581 Dettingen/Erms
Germany

2. Reason for notification

☒ Acquisition/disposal of shares with voting rights
☐ Acquisition/disposal of instruments
☐ Change of breakdown of voting rights
☐ Other reason: Testamentary disposition of Walter H. Lechler and execution of a gift contract upon the death of the testator.

3. Details of person subject to the notification obligation

Name: **SMALLCAP World Fund, Inc.**

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

4. Names of shareholder(s)

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

5. Date on which threshold was crossed or reached:

October 19, 2018

6. Total positions

	% of voting rights attached to shares (total of 7.a.)	% of voting rights through instruments (total of 7.b.1. + 7.b.2.)	Total of both in % (7.a. + 7.b.)	Total number of voting rights of issuer
Resulting situation	2.92%	0%	2.92%	63,359,990
Previous notification	3.07%	0%	3.07%	/

7. Notified details of the resulting situation

a. Voting rights attached to shares (Sec.Sec. 33, 34 WpHG)

ISIN	absolute		in %	
	direct (Sec. 33 WpHG)	indirect (Sec. 34 WpHG)	direct (Sec. 33 WpHG)	indirect (Sec. 34 WpHG)
DE0007856023	1,850,342	0	2.92%	0%
Total	1,850,342		2.92%	

b.1. Instruments according to Sec. 38 (1) no. 1 WpHG

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

b.2. Instruments according to Sec. 38 (1) no. 2 WpHG

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

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

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

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

9. In case of proxy voting according to Sec. 34 (3) WpHG

(only in case of attribution of voting rights pursuant to Sec. 34 (1) sentence 1 no. 6 WpHG)

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

10. Other notes:

3. Voting rights notification

1. Details of issuer

ElringKlinger AG
Max-Eyth-Strasse 2
72581 Dettingen/Erms
Germany

2. Reason for notification

- ☒ Acquisition/disposal of shares with voting rights
- ☐ Acquisition/disposal of instruments
- ☐ Change of breakdown of voting rights
- ☐ Other reason: Testamentary disposition of Walter H. Lechler and execution of a gift contract upon the death of the testator.

3. Details of person subject to the notification obligation

Name: **H.K.L. Holding Stiftung**

City and country of registered office: Vaduz, Liechtenstein

4. Names of shareholder(s)
holding directly 3% or more voting rights, if different from 3.

5. Date on which threshold was crossed or reached:
July 20, 2018

6. Total positions

	% of voting rights attached to shares (total of 7.a.)	% of voting rights through instruments (total of 7.b.1. + 7.b.2.)	Total of both in % (7.a. + 7.b.)	Total number of voting rights of issuer
Resulting situation	5.13%	%	5.13%	63,359,990
Previous notification	4.941%	n/a %	n/a %	/

7. Notified details of the resulting situation
a. Voting rights attached to shares (Sec.Sec. 33, 34 WpHG)

ISIN	absolute		in %	
	direct (Sec. 33 WpHG)	indirect (Sec. 34 WpHG)	direct (Sec. 33 WpHG)	indirect (Sec. 34 WpHG)
DE0007856023	3,250,000		5.13%	%
Total	3,250,000		5.13%	

b.1. Instruments according to Sec. 38 (1) no. 1 WpHG

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

b.2. Instruments according to Sec. 38 (1) no. 2 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Cash or physical settlement	Voting rights absolute	Voting rights in %
					0%
			Total		%

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

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

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

9. In case of proxy voting according to Sec. 34 (3) WpHG
(only in case of attribution of voting rights pursuant to Sec. 34 (1) sentence 1 no. 6 WpHG)

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

10. Other notes:

4. Voting rights notification

1. Details of issuer

ElringKlinger AG
Max-Eyth-Strasse 2
72581 Dettingen/Erms
Germany

2. Reason for notification
- ☐ Acquisition/disposal of shares with voting rights
- ☐ Acquisition/disposal of instruments
- ☐ Change of breakdown of voting rights
- ☒ Other reason: Testamentary disposition of Walter H. Lechler and execution of a gift contract upon the death of the testator.

3. Details of person subject to the notification obligation

Name: **Lechler Stiftung**
City and country of registered office: Stuttgart, Germany

4. Names of shareholder(s)

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

KWL Beteiligungs-GmbH
Lechler GmbH
Klaus Lechler Beteiligungs-GmbH
Elrena GmbH
Lechler Beteiligungs-GmbH

5. Date on which threshold was crossed or reached:

May 17, 2018

6. Total positions

	% of voting rights attached to shares (total of 7.a.)	% of voting rights through instruments (total of 7.b.1. + 7.b.2.)	Total of both in % (7.a. + 7.b.)	Total number of voting rights of issuer
Resulting situation	52.04%	0%	52.04%	63,359,990
Previous notification	29.981%	0%	29.981%	/

7. Notified details of the resulting situation

a. Voting rights attached to shares (Sec.Sec. 33, 34 WpHG)

ISIN	absolute		in %	
	direct (Sec. 33 WpHG)	indirect (Sec. 34 WpHG)	direct (Sec. 33 WpHG)	indirect (Sec. 34 WpHG)
DE0007856023	627,380	32,345,254	0.99%	51.05%
Total	32,972,634		52.04%	

b.1. Instruments according to Sec. 38 (1) no. 1 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Voting rights absolute	Voting rights in %
n/a	n/a	n/a	0	0%
		Total		%

b.2. Instruments according to Sec. 38 (1) no. 2 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Cash or physical settlement	Voting rights absolute	Voting rights in %
n/a	n/a	n/a	n/a	0	0%
			Total		%

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

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

Name	% of voting rights (if at least held 3% or more)	% of voting rights through instruments (if at least held 5% or more)	Total of both (if at least held 5% or more)
Lechler Stiftung	%	%	%
KWL Beteiligungs-GmbH	51.05%	%	51.05%
Klaus Lechler Beteiligungs-GmbH	51.05%	%	51.05%
Eroca AG	51.05%	%	51.05%
	%	%	%
Lechler Stiftung	%	%	%
KWL Beteiligungs-GmbH	51.05%	%	51.05%
Lechler GmbH	10.013%	%	10.013%

9. In case of proxy voting according to Sec. 34 (3) WpHG

(only in case of attribution of voting rights pursuant to Sec. 34 (1) sentence 1 no. 6 WpHG)

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

10. Other notes:

Elrena GmbH, KWL Beteiligungs-GmbH, Klaus Lechler Beteiligungs-GmbH, Eroca AG and Lechler Beteiligungs-GmbH are parties of a pooling agreement obligating them to uniformly exercise voting rights in ElringKlinger AG and based on mutual attribution of voting rights.

5. Voting rights notification

1. Details of issuer

ElringKlinger AG
Max-Eyth-Strasse 2
72581 Dettingen/Erms
Germany

2. Reason for notification

- ☐ Acquisition/disposal of shares with voting rights
- ☐ Acquisition/disposal of instruments
- ☐ Change of breakdown of voting rights
- ☒ Other reason: Testamentary disposition of Walter H. Lechler and execution of a gift contract upon the death of the testator.

3. Details of person subject to the notification obligation

Name: **Stiftung Klaus Lechler**

City and country of registered office: Basel, Switzerland

4. Names of shareholder(s)

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

KWL Beteiligungs-GmbH
Lechler GmbH
Klaus Lechler Beteiligungs-GmbH
Elrena GmbH
Lechler Beteiligungs-GmbH

5. Date on which threshold was crossed or reached: May 17, 2018

6. Total positions

	% of voting rights attached to shares (total of 7.a.)	% of voting rights through instruments (total of 7.b.1. + 7.b.2.)	Total of both in % (7.a. + 7.b.)	Total number of voting rights of issuer
Resulting situation	51.05%	0%	51.05%	63,359,990
Previous notification	29.01%	0%	29.01%	/

7. Notified details of the resulting situation

a. Voting rights attached to shares (Sec.Sec. 33, 34 WpHG)

ISIN	absolute		in %	
	direct (Sec. 33 WpHG)	indirect (Sec. 34 WpHG)	direct (Sec. 33 WpHG)	indirect (Sec. 34 WpHG)
DE0007856023	0	32,345,254	0%	51.05%
Total		**32,345,254**		**51.05%**

b.1. Instruments according to Sec. 38 (1) no. 1 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Voting rights absolute	Voting rights in %
n/a	n/a	n/a	0	0%
		Total		%

b.2. Instruments according to Sec. 38 (1) no. 2 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Cash or physical settlement	Voting rights absolute	Voting rights in %
n/a	n/a	n/a	n/a	0	0%
			Total		%

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

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

Name	% of voting rights (if at least held 3% or more)	% of voting rights through instruments (if at least held 5% or more)	Total of both (if at least held 5% or more)
Stiftung Klaus Lechler	%	%	%
Elrena GmbH	51.05%	%	51.05%
Elrega GmbH	%	%	%

9. In case of proxy voting according to Sec. 34 (3) WpHG

(only in case of attribution of voting rights pursuant to Sec. 34 (1) sentence 1 no. 6 WpHG)

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

10. Other notes:

Elrena GmbH, KWL Beteiligungs-GmbH, Klaus Lechler Beteiligungs-GmbH, Eroca AG and Lechler Beteiligungs-GmbH are parties of a pooling agreement obligating them to uniformly exercise voting rights in ElringKlinger AG and based on mutual attribution of voting rights.

6. Voting rights notification

1. Details of issuer

ElringKlinger AG
Max-Eyth-Strasse 2
72581 Dettingen/Erms
Germany

2. Reason for notification

☐ Acquisition/disposal of shares with voting rights
☐ Acquisition/disposal of instruments
☐ Change of breakdown of voting rights
☒ Other reason: Testamentary disposition of Walter H. Lechler and execution of a gift contract upon the death of the testator.

3. Details of person subject to the notification obligation

Name: **Klaus Lechler Familienstiftung**

City and country of registered office: Neuhausen a.d. Fildern, Germany

4. Names of shareholder(s)

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

KWL Beteiligungs-GmbH
Lechler GmbH
Klaus Lechler Beteiligungs-GmbH
Elrena GmbH
Lechler Beteiligungs-GmbH

5. Date on which threshold was crossed or reached:

May 17, 2018

6. Total positions

	% of voting rights attached to shares (total of 7.a.)	% of voting rights through instruments (total of 7.b.1. + 7.b.2.)	Total of both in % (7.a. + 7.b.)	Total number of voting rights of issuer
Resulting situation	51.05%	0%	51.05%	63,359,990
Previous notification	29.01%	0%	29.01%	/

7. Notified details of the resulting situation

a. Voting rights attached to shares (Sec.Sec. 33, 34 WpHG)

ISIN	absolute		in %	
	direct (Sec. 33 WpHG)	indirect (Sec. 34 WpHG)	direct (Sec. 33 WpHG)	indirect (Sec. 34 WpHG)
DE0007856023	0	32,345,254	0%	51.05%
Total	32,345,254		51.05%	

b.1. Instruments according to Sec. 38 (1) no. 1 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Voting rights absolute	Voting rights in %
n/a	n/a	n/a	0	0%
		Total		%

b.2. Instruments according to Sec. 38 (1) no. 2 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Cash or physical settlement	Voting rights absolute	Voting rights in %
n/a	n/a	n/a	n/a	0	0%
			Total		%

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

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

Name	% of voting rights (if at least held 3% or more)	% of voting rights through instruments (if at least held 5% or more)	Total of both (if at least held 5% or more)
Klaus Lechler Familienstiftung	%	%	%
Inlovo GmbH	%	%	%
Lechler Beteiligungs-GmbH	51.05%	%	51.05%

9. In case of proxy voting according to Sec. 34 (3) WpHG

(only in case of attribution of voting rights pursuant to Sec. 34 (1) sentence 1 no. 6 WpHG)

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

10. Other notes:

Elrena GmbH, KWL Beteiligungs-GmbH, Klaus Lechler Beteiligungs-GmbH, Eroca AG and Lechler Beteiligungs-GmbH are parties of a pooling agreement obligating them to uniformly exercise voting rights in ElringKlinger AG and based on mutual attribution of voting rights.

7. Voting rights notification

1. Details of issuer

ElringKlinger AG
Max-Eyth-Strasse 2
72581 Dettingen/Erms, Germany

2. Reason for notification

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

3. Details of person subject to the notification obligation

Name: **Internationale Kapitalgesellschaft mit beschränkter Haftung**
City and country of registered office: Düsseldorf, Germany

4. Names of shareholder(s)
holding directly 3% or more voting rights, if different from 3.

5. Date on which threshold was crossed or reached:
March 28, 2018
6. Total positions

	% of voting rights attached to shares (total of 7.a.)	% of voting rights through instruments (total of 7.b.1. + 7.b.2.)	Total of both in % (7.a. + 7.b.)	Total number of voting rights of issuer
Resulting situation	2.91%	0.00%	2.91%	63,359,990
Previous notification	3.01%	1.38%	4.39%	/

7. Notified details of the resulting situation

a. Voting rights attached to shares (Sec.Sec. 33, 34 WpHG)

ISIN	absolute		in %	
	direct (Sec. 33 WpHG)	indirect (Sec. 34 WpHG)	direct (Sec. 33 WpHG)	indirect (Sec. 34 WpHG)
DE0007856023	0	1,841,259	0.00%	2.91%
Total	1,841,259		2.91%	

b.1. Instruments according to Sec. 38 (1) no. 1 WpHG

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

b.2. Instruments according to Sec. 38 (1) no. 2 WpHG

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

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

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

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

9. In case of proxy voting according to Sec. 34 (3) WpHG

(only in case of attribution of voting rights pursuant to Sec. 34 (1) sentence 1 no. 6 WpHG)

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

10. Other notes:

8. Voting rights notification

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

9. Voting rights notification

Voting rights notifications pursuant to Sec. 21 (1) WpHG

Notifying parties:

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

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

1. Eroca AG

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

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

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

- Elrena GmbH
- Lechler Beteiligungs-GmbH

2. Klaus Lechler Beteiligungs-GmbH

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

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

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

- Eroca AG

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

- Elrena GmbH
- Lechler Beteiligungs-GmbH

3. KWL Beteiligungs-GmbH

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

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

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

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

- Eroca AG
- Klaus Lechler Beteiligungs-GmbH

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

- Eroca AG
- Elrena GmbH
- Lechler Beteiligungs-GmbH

4. PAUL LECHLER STIFTUNG gGmbH

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

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

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

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

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

- Eroca AG
- Elrena GmbH
- Lechler Beteiligungs-GmbH

10. Voting rights notification

Voting rights notifications pursuant to Sec. 21 (1) WpHG

Notifying parties:

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

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

1. Lechler Beteiligungs-GmbH

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

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

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

- Eroca AG
- Elrena GmbH

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

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

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

- Lechler Beteiligungs-GmbH

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

- Eroca AG
- Elrena GmbH

11. Voting rights notification

Voting rights notification pursuant to Sec. 21 (1) WpHG

Notifying parties:

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

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

1. Elrena GmbH

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

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

- Eroca AG

- Lechler Beteiligungs-GmbH

2. Stiftung Klaus Lechler

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

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

- Elrena GmbH

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

- Eroca AG
- Lechler Beteiligungs-GmbH

12. Voting rights notification

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

13. Voting rights notification

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

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

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

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

Scope of consolidation

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

Declaration of compliance with the German Corporate Governance Code

The Management Board and Supervisory Board issued a declaration of compliance pursuant to Sec. 161 AktG on the German Corporate Governance Code in the version dated February 7, 2017 and published it on the ElringKlinger AG website on December 4, 2018. This declaration of compliance will be available on the ElringKlinger AG website and therewith made permanently available to shareholders.

Subsequent events

On February 15, 2019, a syndicated loan of EUR 350,000 k was concluded with six national and international banks for a minimum term of five years.

Dettingen/Erms, March 21, 2019

The Management Board

Dr. Stefan Wolf Chairman	Theo Becker	Thomas Jessulat	Reiner Drews

Overview of ElringKlinger's Activities and Structure

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

Company profile

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

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

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

Business model and core competencies

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

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

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

When it comes to e-mobility, ElringKlinger has established three pillars in support of market transformation toward emission-free mobility: battery technology, fuel cell technology, and complete electric drive units as well as their components.

Economic and legal factors

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

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

Group structure and organization

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

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

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

Sales markets and company sites

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

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

In the majority of cases ElringKlinger holds a Tier 1 supplier position within the value chain. This means that ElringKlinger maintains a direct line of contact with the majority of key vehicle and engine manufacturers around the globe. The segments encompassing Engineered Plastics and Industrial Parks are targeted primarily at industries beyond the automotive sector.

Segments and divisions

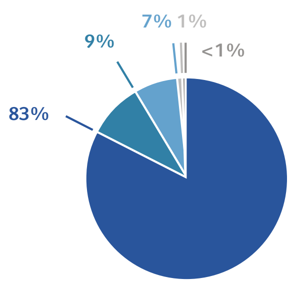
The ElringKlinger Group has divided its operational business into five segments. They also constitute the reportable segments under IFRS:

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

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

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

Group sales by segment 2018



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

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

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

Within the **Services** segment, ElringKlinger provides development and assessment services for engines, transmissions, and the exhaust tract using state-of-the-art testing and measurement facilities. The segment's customer base includes both vehicle manufacturers and automotive suppliers. This segment also includes logistics services for aftermarket sales and the catering service of a Group subsidiary.

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

Divisions

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

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

The **Shielding Technology** division develops and produces thermal, acoustic, and aerodynamic shielding systems. They handle a wide range of tasks relating to temperature and acoustic management in modern motor vehicles, in addition to assisting with aerodynamics along the vehicle underbody. This product area is also of relevance to e-mobility applications, as it covers acoustics and electromagnetic shielding. The product design and associated material composition are dependent on the specific requirements of the field of application within the vehicle. ElringKlinger offers customized solutions for this purpose. ElringKlinger is one of the few suppliers in the world to offer complete shielding packages for both the engine as well as the underbody and the exhaust tract. Based on revenue, the Group ranks as one of the top three suppliers at an international level in this division.

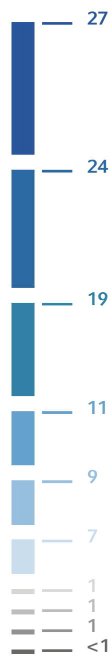
The product portfolio managed within the **Specialty Gaskets** division includes a very broad range of gaskets for various engine, turbocharger, transmission, and exhaust tract applications as well as transmission control plates and complex formed parts engineered from sheet metal. Due to the trend toward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

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

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

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

Group revenue by division 2018
(previous year) in %



Lightweighting/ Elastomer Technology	**27**	(23)
Shielding Technology	**24**	(26)
Specialty Gaskets	**19**	(18)
Cylinder-head Gaskets	**11**	(12)
Aftermarket	**9**	(9)
Engineered Plastics	**7**	(7)
Exhaust Gas Purification	**1**	(3)
E-Mobility[1]	**1**	(1)
Services	**1**	(1)
Industrial Parks/Other[2]	**<1**	(<1)

[1] Incl. Drivetrain
[2] Tooling activities

Internal Control Criteria

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

Financial control criteria

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

Sales revenue and EBIT are budgeted, calculated, and continually monitored for the Group, for the individual Group companies, including the parent, and for the five reportable segments and the respective divisions.

As its name suggests, ROCE measures a company's profitability and the efficiency with which its capital is employed. To calculate it, EBIT is divided by capital employed. In this context, ElringKlinger uses average capital employed during the period in question as a basis of calculation. This includes shareholders' equity, financial liabilities, provisions for pensions, and non-current, interest-bearing provisions such as anniversary and partial-retirement provisions. After the period of transformation in 2019, the target set by the Group is to increase ROCE as from 2020 on the basis of projected improvements in earnings and working capital. Variable remuneration for the managerial level directly below the Management Board is generally linked to the level of ROCE achieved. In the 2018 financial year, ROCE stood at 5.5% (8.2%) and was calculated as follows:

Calculation of ROCE

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

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

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

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

Selected financial control criteria of the ElringKlinger Group

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

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

Non-financial control criteria

Non-financial control criteria also provide management with important insights with regard to the Group's situation and can be used as a basis of decision-making. Compared to the key financial control criteria outlined above, the non-financial control criteria are of less significance. They include personnel, quality, and environmental indicators, particularly CO_2 emissions and energy consumption.

Further details can be found in the combined non-financial report prepared by the ElringKlinger Group, which will be published on ElringKlinger's website by April 30 at the latest in respect of the preceding financial year. The non-financial report relating to the 2018 financial year will be made available at www.elringklinger.de/2018-nfb-en. In addition, the company will provide detailed information on key indicators and activities (including details relating to human resources, social commitment, environment, and quality) in a separate sustainability report for the 2018 financial year. It is scheduled for publication in 2019 and will be available online at www.elringklinger.de/en/sustainability.

Company-specific leading indicators

Order intake and backlog are calculated on a regular basis and provide reliable indications of likely capacity utilization and revenue performance for the months ahead. They also constitute an important management parameter within the company.

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

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

Research and Development

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

Research and development ratio at 5%

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

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

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

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

Adapting traditional know-how for the future

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

Key figures R&D

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

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

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

Cylinder-head gaskets: efficiency gains at the highest level

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

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

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

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

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

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

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

Lightweighting: less is more

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

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

Alternative drive technologies: focus on batteries and fuel cells

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

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

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

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

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

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

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

Engineered plastics: a wide range of potential applications

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

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

Macroeconomic Conditions and Business Environment

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

Global economy loses momentum in 2018

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

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

GDP growth rates

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

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

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

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

Automobile markets close eventful year at solid level

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

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

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

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

World vehicle production close to prior-year level in 2018

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

Light vehicle production
Million units

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

Source: PwC Autofacts January 2019

Low share of electric vehicles amid significant regional differences

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

Positive performance for commercial vehicle markets

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

Significant Events

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

Merger of subsidiary

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

New company established in United States

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

Sale of Hug Group completed

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

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

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

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

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

Extension of Management Board contract of Chief Financial Officer Thomas Jessulat

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

Passing of Professor Walter H. Lechler

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

ElringKlinger sells interest in new enerday

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

ElringKlinger stock affected by index adjustments by Deutsche Börse

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

New subsidiary established in Austria

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

Sales and Earnings Performance

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

Revenue guidance for 2018 exceeded

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

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

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

Sustained growth surge in North America

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

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

Factors influencing Group revenue

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

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

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

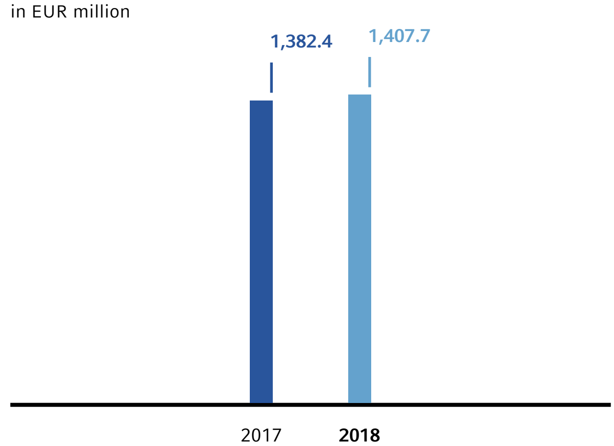
Overall, business in the international markets continued to gain in importance. The share of foreign sales in total Group revenue increased from a high base to 74.8% (74.4%).

Original Equipment segment impacted by internal and external factors

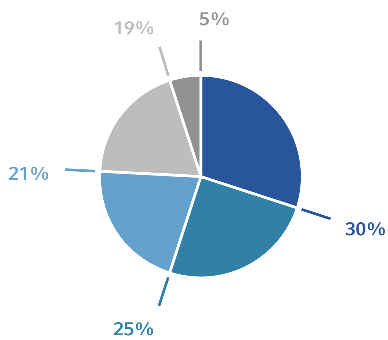
Accounting for 82.9% (83.1%) of total revenue, the Original Equipment segment remained the largest segment within the ElringKlinger Group in the period under review. Fueled by strong demand for products from the company's well-established portfolio and larger volumes of E-Mobility products requested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

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

Sales in the Original Equipment segment
in EUR million



Group sales by region 2018



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

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

High capacity utilization in NAFTA region

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

Successful implementation of improvement measures in Switzerland

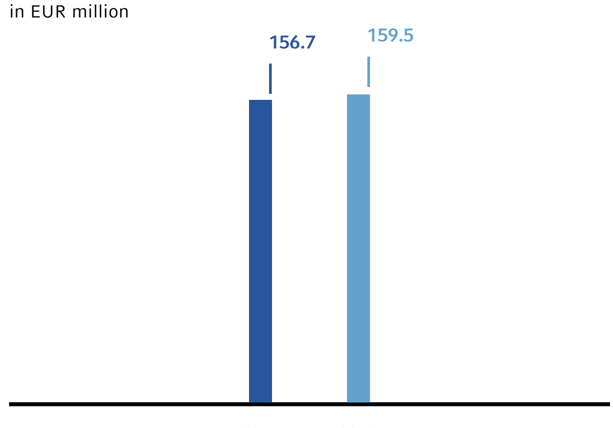
Further progress was made with regard to improvement measures at the Swiss production site of the Shielding Technology division in the period under review and the transfer of production volumes was completed as planned at the end of the year. The Management Board will continue to press ahead with efforts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

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

Sustained drive towards globalization of Aftermarket business

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

Sales in the Aftermarket segment
in EUR million



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

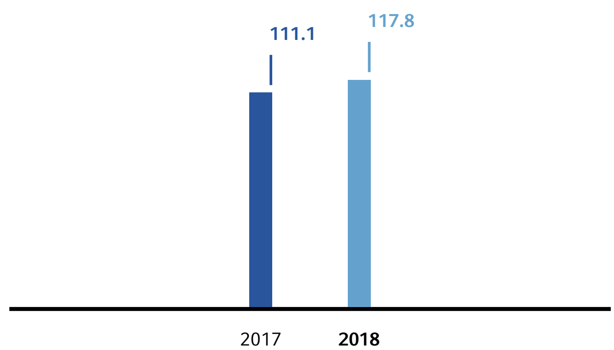
Eastern Europe, as the largest sales market in this segment, maintained its forward momentum in 2018; business also proved very encouraging in South America. Western Europe and the Middle East, by contrast, were faced with a slight downturn in revenue, partly due to the more lethargic state of the Turkish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

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

Stable EBIT margin for Engineered Plastics segment

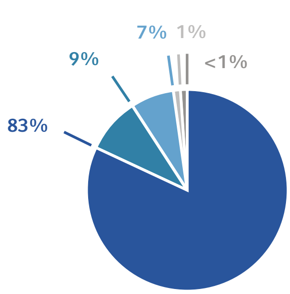
The Engineered Plastics segment manufactures and distributes products made of the high-performance plastic PTFE, serving not only the automotive sector but also industries centered around medical technology, mechanical engineering, and chemical and plant engineering.

Sales in the Engineered Plastics segment
in EUR million



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

Group sales by segment 2018



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

Stable revenue contributions from Services and Industrial Parks

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

Gross profit margin affected by high commodity prices

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

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

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

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

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

R&D ratio within target range

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

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

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

EBIT margin before purchase price allocation at 5.9%

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

Net finance costs down

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

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

Net income impacted by high tax rate

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

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

Suspension of dividend

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

Financial Position

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

Expansion of assets reflects organic growth

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

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

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

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

Deconsolidation of Hug Group and new enerday completed

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

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

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

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

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

Other asset-side items

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

Equity ratio at around 43%

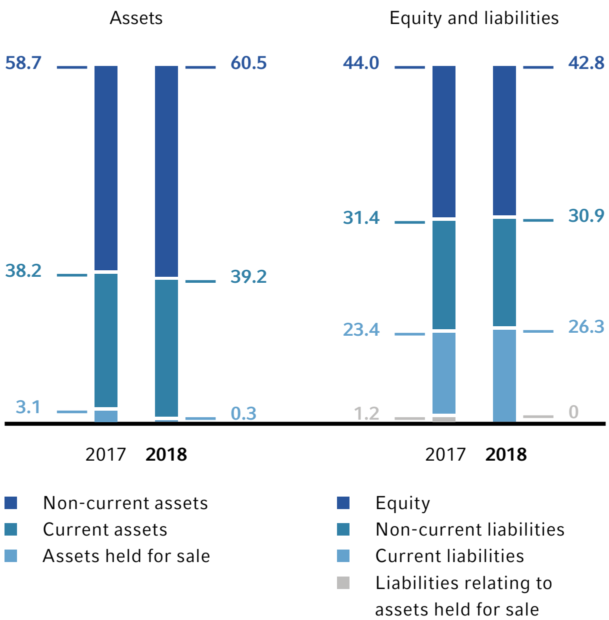
As of December 31, 2018, equity accounted for by the ElringKlinger Group amounted to EUR 890.1 (889.7) million. The positive effect of net income totaling EUR 47.9 (73.8) million in 2018 was offset almost entirely by the dividend payout to shareholders and non-controlling interests in ElringKlinger AG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

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

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

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

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



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

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

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

Net debt higher as part of investing activities

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

Cash Flows

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

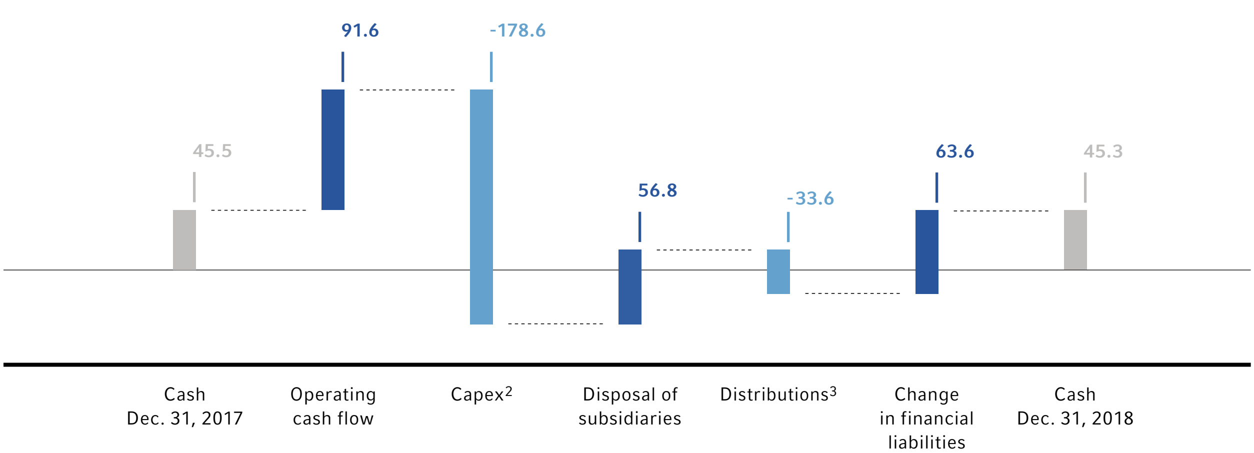
Cash flow from operating activities at EUR 92 million

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

More sizeable investment in E-Mobility

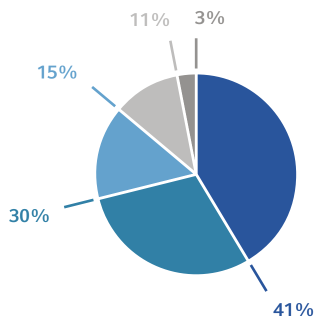
Payments made in connection with capital expenditure on property, plant, and equipment as well as investment property totaled EUR 163.5 (155.5) million in 2018. This translates into a capex ratio (capital expenditure on property, plant, and equipment and on investment property relative to Group revenue)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

Changes in cash 2018[1]
in EUR million



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

Investment[1] spending by region



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

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

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

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

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

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

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

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

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

Expansion in short-term loans for financing activities

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

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

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

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

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

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

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

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

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

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

Revenue up 7%

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

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

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

Original Equipment remains growth driver

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

Modest uptick in Aftermarket revenue

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

Year-on-year increase in total operating revenue

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

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

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

Rising commodity prices push up cost of materials

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

Headcount continues upward trajectory

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

Write-downs

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

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

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

Lower net income from equity investments

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

Earnings before taxes at EUR 4 million

As a result of the decline in earnings before interest, taxes, and equity investments, and the negative net income from equity investments, the company's earnings before taxes ended the year much lower at EUR 4.1 (75.5) million. Income taxes did not fall by the same margin because the write-downs on receivables from affiliated companies and on financial assets are not tax-deductible. Total income taxes for 2018 amounted to EUR 9.2 (15.0) million. As a consequence, the figure for profit after tax in 2018 was negative at EUR -5.1 (+60.5) million. After deducting other taxes, ElringKlinger AG posted a net loss of EUR -5.3 (+60.2) million.

Suspension of dividend

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

Net Assets of ElringKlinger AG

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

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

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

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

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

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

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

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

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

Equity ratio of ElringKlinger AG at 40%

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

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

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

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

Cash Flows of ElringKlinger AG

Operating cash flow shows marked improvement to EUR 94 million

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

Cash flows from investing activities influenced by several factors

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

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

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

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

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

The full annual financial statements of ElringKlinger AG (in accordance with HGB) have been published online at www.elringklinger.de/investor/2018-gbag-en.pdf.

People

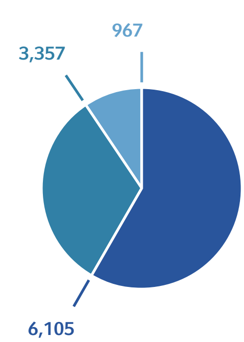
It is the employees of the ElringKlinger Group who, by bringing to bear their expertise and creative ideas on a daily basis, lay the foundations for the company's long-term success. For the first time in the company's history, 2018 saw the workforce grow to include more than 10,000 people, all helping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

Global growth leads to an increase in staffing numbers

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

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

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



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

Headcount data for the ElringKlinger Group

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

Procurement and Supplier Management

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

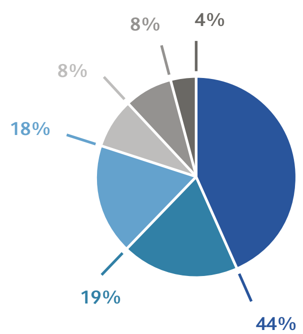
At 44.0% of revenue, materials are one of the largest cost items for the ElringKlinger Group. Active purchasing and goods control therefore plays a considerable part in the company's success. The key raw materials needed by ElringKlinger to manufacture its products include aluminum, alloyed high-grade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

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

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

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

Breakdown of raw materials used in 2018



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

higher than for the previous year. The total purchase volume including raw materials, consumables, and supplies as well as merchandise for the independent Aftermarket segment and investments in land, real estate, and property, plant, and equipment rose to EUR 1,160.2 (1,067.8) million.

Price escalation clauses successfully implemented

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

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

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

EUR 37 million in proceeds from scrap

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

Energy needs secured for the long term

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

Global purchasing structure optimized further

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

Period allowed for payments increased, capital tie-up improved

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

Supplier management: new purchasing sources for new fields of business

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

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

Report on Opportunities and Risks

Risk management system

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

The risk management system is made up of various tools and control systems. Among the key components are strategic Group planning and internal reporting. Planning enables potential risks to be identified and taken into account when making critical and far-reaching decisions. All key areas within the Group are involved in strategic Group planning. Within this context, information is retrieved, collated, and evaluated in a standardized process. The Management Board bears overall responsibility. Internal reporting is used to monitor and control business performance. A key component of the risk management system is regular reporting by the management of the respective domestic and foreign Group companies as well as the divisions, which is performed on a half-yearly basis. It covers developments in all fields relevant to the Group that can affect business activity and, in particular, the continuation of the ElringKlinger Group as a going concern. The focus is primarily on changes to the economic or political situation, new regulatory requirements, technological developments, commodities markets, and internal risks. This reporting system involves identifying and evaluating all risks and subsequently drafting recommendations on how to prepare for and protect against them. The Chief Financial Officer is responsible for coordinating these activities. This approach is designed to ensure that risks are identified at an early stage and measures aimed at avoiding or mitigating such risks can be implemented rapidly. Overall, the risk structures relating to the Group and the parent company do not differ significantly.

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

Alongside regular reporting, internal audits are an important control mechanism and thus an essential element of the risk management system. Audits are carried out in the business and service divisions of ElringKlinger AG as well as at the Group companies. They are conducted by the Audit department in cooperation with external accountancy firms commissioned by ElringKlinger AG. The rationale behind the use of internal and external specialists is to ensure that risks are identified, statutory requirements are met, internal processes are reviewed, and potential for improvement is recognized. The findings of such audits are compiled in reports, which are directed in particular at the Management Board and the Chairperson of the Audit Committee within the Supervisory Board. The reports are evaluated, whereupon necessary measures are initiated. The execution of measures is monitored by the Management Board member whose remit covers this area; this Management Board member is also responsible for reviewing assessments conducted with regard to risk positions identified by the company. All relevant findings are discussed with the areas concerned in order to bring about improvements or rectify any weaknesses. During the financial year 2018, audits were conducted at both domestic and international subsidiaries and within selected business areas of ElringKlinger AG. Outside Germany, the focus of these audits was on subsidiaries in the Asia-Pacific region. None of the audits conducted within this context gave rise to any significant objections. Both statutory regulations and internal requirements were consistently met. The recommendations submitted with regard to potential areas for optimization have been put in place or are currently being implemented.

In accordance with the existing compliance system, the Chief Compliance Officer reports directly to the Chief Executive Officer. Additional Compliance Officers have been appointed for individual regions in which ElringKlinger is active; they report to the Chief Compliance Officer. The ElringKlinger code of conduct forms an important part of the compliance system. It sets out binding expectations and rules for all employees of the ElringKlinger Group. Among other aspects, the code covers issues such as fair competition, corruption, discrimination, and the protection of confidential data. The code is distributed to all employees in the language of the country in which they are based. Staff members, and particularly management personnel, receive training relating to these issues. Training courses are held on a regular basis in order to prevent compliance-related infringements. In 2018, employees in relevant positions at various locations received training on compliance issues. Further courses are already scheduled for 2019.

ElringKlinger's Whistleblower System allows employees to report any irregularities they may come across using a variety of channels. This gives them a safe line of communication in order to pass on information on misconduct, violations of statutory provisions, and policy infringements. The Chief Compliance Officer responded to all indications of compliance-related infringements in order to investigate the circumstances and initiate requisite measures. Where evidence suggested that an infringement may have occurred, the Management Board was informed accordingly. One case involving a German subsidiary was reported and investigated. The required legal action was taken against an individual suspected of breach of trust and embezzlement. However, no other significant infringements were reportable for 2018.

The Management Board is committed to adapting and refining the existing compliance system to changing circumstances and the possibility of evolving risk exposure.

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

Control and risk management system with regard to accounting

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

The principal risks associated with the accounting process derive from the need to provide accurate and complete information within the specified time frame. This presupposes that the requirements have been clearly communicated and the departments responsible are placed in a position where they can meet those requirements. ElringKlinger has compiled an accounting manual on the basis of International Financial Reporting Standards (IFRS). All Group companies are required to apply the standards outlined in this manual as a basis of the financial reporting process. All the principal valuation standards such as those covering inventories, tools, and receivables under IFRS are specified in mandatory form within the manual. Mandatory accounting standards are also in use across the Group as a way of ensuring uniform treatment of the same issues.

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

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

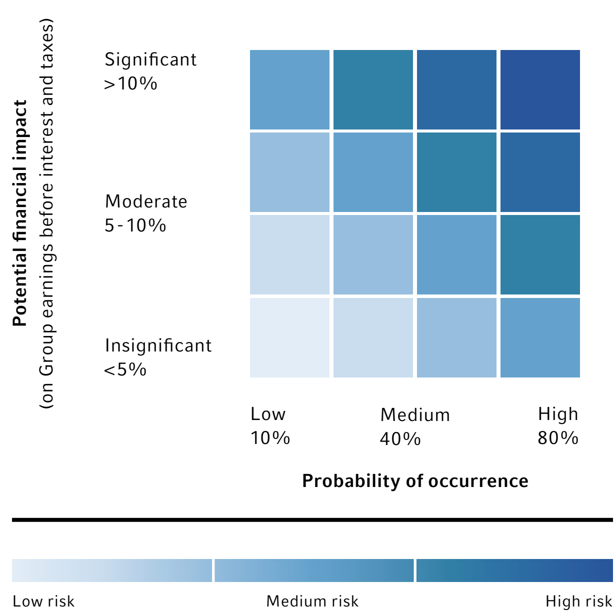
Among the risks that may affect the accounting process are, for instance, those associated with delays or errors in the entry of transactions or failure to observe the accounting manual and account allocation rules. In order to avoid mistakes, the accounting process is based on the separation of responsibilities and competencies, the automation of procedures, and plausibility checks for reporting purposes. Calculations are subject to continuous monitoring. Comprehensive and detailed checklists have to be worked through before the established reporting deadline.

The accounting process is also incorporated into the ElringKlinger Group's risk management system as a way of identifying accounting-related risks at an early stage, allowing the company to take prompt action to anticipate and address potential risks. As is the case with the other areas and functions of the Group, accounting is also subject to the investigations conducted as part of internal auditing; these are performed by external accountancy firms. Accounting processes and procedures at ElringKlinger AG and its Group companies are reviewed in the course of regular internal audits. The findings are then used to make further refinements and improvements. For more information, please refer to the description of the risk management system.

Assessment of opportunities and risks

The following table presents an overview of material risks to which the ElringKlinger Group is exposed as well as key opportunities. Both the risks and the opportunities were graded according to the probability of occurrence and the potential financial impact. A probability of occurrence of 10% is considered "low," one of 40% is classified as "medium," and one of 80% is deemed "high." The potential financial impact is categorized on the basis of criteria, ranging from "insignificant" to "significant." In this context, in the event of occurrence "insignificant" refers to a potential impact on Group earnings before interest and taxes of less than 5%, "moderate" between 5 and 10%, and "significant" in excess of 10%. These factors are identified on the basis of a gross assessment, i.e., prior to possible measures aimed at risk mitigation. The overall potential with regard to risks and opportunities in relation to the respective category is derived from the interaction of probability of occurrence and potential financial impact. The assessment of opportunities and risks was performed as of the end of the reporting period, i.e., December 31, 2018. Reporting in respect of opportunities and risks is always based on a period of one year.

Risk matrix of the ElringKlinger Group



Opportunity and risk profile of the ElringKlinger Group

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

Economic risks

Economic and industry risks

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

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

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

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

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

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

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

Therefore, the effects of an economic slump in a particular region can be offset at least in part. Due to its flexible cost structures, ElringKlinger would be able to respond immediately to market conditions in the event of more severe economic turbulence. Instruments available to the company include flexitime accounts and flexible shift models as well as the option of issuing an application for short-time work. Furthermore, the company can react to changing market conditions by adjusting its staffing levels to demand patterns and by pooling the production quantities of individual plants.

The central purchasing department works in close cooperation with suppliers for the purpose of assessing and adjusting procurement volumes in a timely manner. ElringKlinger factors in economic risks to an appropriate extent at the forward planning stage. The company always takes a cautious view of each macroeconomic scenario when drawing up budgets.

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

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

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

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

Political risks

Fundamentally, there is the potential that political decisions taken by national or international lawmakers will have a significant impact on the future business activities of the ElringKlinger Group. New laws and regulations can have a direct or indirect impact on technology trends or on the Group's sales regions.

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

For ElringKlinger, all these regions present certain sales risks. As regards the Original Equipment segment, these regions are of no particular relevance to business activities. However, North Africa and the Middle East are core regions for the Group's Aftermarket segment, which is therefore exposed to a general risk in terms of revenue. As sales in these regions are billed in euros, customers' restricted access to foreign currency could result in delayed payments or, in the worst-case scenario, to default on such payments.

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

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

General internal risks

General internal risks, work-related accidents, fire

Among the general internal risks that are not connected directly to the business model of the ElringKlinger Group are, in particular, work-related accidents and the risk of fires at production facilities.

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

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

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

Operational risks

Price-related pressure/Competition

As a supplier to the automotive industry, ElringKlinger operates in a business environment that is generally considered to be highly competitive. Customers tend to demand price discounts as part of regular negotiations. For the Group, this pressure is a significant risk, especially against the backdrop of rising commodity prices and/or potential tariff-related price increases.

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

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

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

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

Material risks/Supplier risks

Material costs constitute the single biggest expense item within the ElringKlinger Group. They accounted for 56.2% (54.2%) of the cost of sales in the 2018 financial year. Therefore, the direction taken by material prices is of particular significance to the company.

The raw materials primarily used within the ElringKlinger Group include alloyed high-grade steels, C-steel, aluminum, polyamides, and elastomers. In addition, the materials and components used to make battery and fuel cell systems play an increasingly important role in ElringKlinger's procurement activities (see "Procurement and Supplier Management").

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

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

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

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

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

Although high material prices have an adverse impact on the Group's earnings, ElringKlinger benefits from the same high prices when it sells the metal residues produced during stamping processes. All metal residues are recycled and sold by the Group's in-house scrap management unit. Potential cost increases can be offset, at least in part, by the proceeds from scrap sold in this way.

As part of its risk assessment, ElringKlinger monitors not only trends relating to material prices but also the actual availability of materials. In order to mitigate risks associated with bottlenecks or non-deliveries to the largest extent possible, ElringKlinger relies on close collaboration with its suppliers over the long term. The Group makes a point of planning its material requirements well in advance and is committed to a multi-supplier strategy in order to mitigate the risk of production-related disruption or downtime due to disruptions within the supply chain. In the 2018 financial year, ElringKlinger's top 30 suppliers accounted for 24% (23%) of volumes purchased within the Group. To the largest extent possible, ElringKlinger develops alternatives for commodities and materials that are either in short supply or that are subject to severe fluctuations in price.

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

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

Customer risks

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

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

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

As a consequence, ElringKlinger may lose existing development projects or orders secured from such players. Additionally, the company may potentially be adversely affected in financial terms in the form of expense items. The Group has established business relationships with several customers in this category and therefore classes the corresponding projects as being exposed to the risks outlined above. In response to the greater counterparty risk presented by such customers, ElringKlinger minimizes its exposure by maintaining a particularly close dialogue and regularly addressing their financing position. The aim is to agree on payment terms that correspond largely to project progression and therefore cover any investment and development amounts outstanding.

Labor cost risks

After cost of materials, labor costs constitute the second-largest expense item for the ElringKlinger Group. They accounted for 27.3% (26.9%) of the cost of sales in the 2018 financial year.

At 41.5% (40.3%), a significant proportion of the Group's overall workforce is employed at sites in Germany. Persistent wage increases at a domestic level or the reduction in working hours covered by collective bargaining agreements could have a visibly negative impact on earnings performance within the Group in the coming years. Therefore, as illustrated by the progression of staff cost ratios at German sites, the competitive position of ElringKlinger AG would deteriorate further in relation to its international peers.

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

By contrast, the level of labor costs in emerging countries such as China, South Korea, India, or Turkey, where around 14% (around 15%) of ElringKlinger's workforce is employed, is well below the Group average. A positive aspect is that both revenue and staffing levels in these regions are expanding at a faster rate than in Germany. In these markets too, however, the dynamics of wage development are to be viewed critically with regard to the financial performance of the regional companies.

In the event of an unexpected downturn in customer demand, the staff cost ratio may increase dramatically. Capacity constraints caused by a possible outage of machinery may also result in higher staff costs (temporary labor, nightshifts, and weekend work). ElringKlinger has a number of instruments at its disposal with regard to strategic HR planning (such as working time accounts, shift systems, and temporary employment contracts) that allow the company to respond rapidly and flexibly to such scenarios. Within the ElringKlinger Group, the proportion of employees with temporary contracts as of December 31, 2018, was 13.5% (14.6%).

The Group has offset the more pronounced wage costs seen in recent years by making substantial capital investments and implementing continuous measures aimed at raising efficiency levels in production in order to safeguard its international competitiveness and retain jobs in the domestic market.

Personnel risks

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

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

The lack of specialist staff within the labor market as a whole has become more noticeable. Some of the sites operating within the Group, or specific departments, are now finding it relatively difficult to attract qualified personnel with specialized skills. ElringKlinger has conducted targeted recruitment campaigns for some years to ensure that it is able to compete successfully in the "war for talent." The company attends career fairs, where it showcases itself as an attractive employer to graduates. It also meets the needs of university and college students by offering internships and thesis topics in order to retain their services in the long term. Additionally, the Group has taken on young people as technical and commercial apprentices to secure talent for the future. In order to retain skilled personnel and managers within the company in the long term, ElringKlinger offers internal and external training courses and programs for personal advancement.

IT risks

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

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

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

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

Quality/Warranty risks

As a manufacturing company and supplier to the automotive sector, ElringKlinger is exposed to the warranty and liability risks generally associated with this industry. The supply of non-compliant components may necessitate an exchange or recall of such parts, with corresponding costs and claims for damages. Furthermore, this may damage the company's reputation over the long term.

In this context, the development of entirely new products for fields of application beyond the automobile industry or in the area of alternative drive technologies is associated with further potential risks.

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

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

Legal risks

Legal risks/Compliance risks

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

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

Strategic risks

Technology risks

The business model of the ElringKlinger Group is based on a culture of excellence in innovation and the principle of technology leadership. The company's operations are tailored to the development of products that are technologically sophisticated and to the manufacture of such goods at a high level of productivity. On this basis, the Group aims to achieve long-term growth rates above the market average (see "Overview of ElringKlinger's Activities and Structure").

If ElringKlinger were to fail to identify and pursue fundamental technological changes in good time, the Group could lose its vantage point as a pioneer. In the medium term, this could jeopardize its strong position as a development partner to the vehicle industry. This scenario would have a detrimental effect on the Group's sales and earnings performance in the medium to long term. ElringKlinger invests a large sum of around 5% of its total Group revenue in research and development each year. Additionally, substantial investments have been channeled into the expansion of the Group's technology portfolio in recent years. ElringKlinger protects significant technologies and processes in the form of property rights and patents in order to combat the risk of damages caused by me-too products and imitations.

The company focuses its R&D activities firmly on key areas of interest currently driving the automotive industry, namely the optimization of vehicle weight by means of lightweight structural components and the development of alternative drive technologies. ElringKlinger is one of just a few suppliers to have taken the lead in positioning itself within the market for alternative drive systems at an early stage and with considerable capital expenditure, be it in the field of battery technology or fuel cell solutions.

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

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

External growth/Acquisitions

The process of consolidation within the automotive supply industry continues unabated, particularly as the sector as a whole gears up for the burgeoning transition away from the combustion engine toward alternative drive systems. Operating against this backdrop, ElringKlinger will have the opportunity for complementary acquisitions and targeted takeovers in order to enter regional markets and new fields of technology faster.

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

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

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

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

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

Financial risks

Bad debt loss

In light of the generally positive outlook for the industry, the risk of bad debts among customers in the Group's Original Equipment segment is classed as moderate. The risk of substantial bad debt losses attributable to individual customers is mitigated by a broadly diversified customer base. In the event of an insolvency of one of the three single biggest customers, which at present is considered unlikely, the default risk in respect of accounts receivable would have amounted to between EUR 12.6 and 25.8 million (between EUR 13.0 and 28.9 million) as of December 31, 2018.

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

Liquidity and financing risks

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

The Group needs to invest substantial amounts of cash to support its growth and the development of new technologies. This means that it generally needs to service a high level of financing. The banks have always been quite restrictive when lending to companies in the automotive sector, although in recent years it has been possible to obtain credit on relatively favorable terms. If rating agencies were to downgrade the automotive industry as a whole in response to a generally less favorable risk profile, credit terms for the sector and ultimately also for ElringKlinger would be adversely affected.

Against this backdrop, despite relatively low market interest rates and the industry's continued ability to generate healthy levels of revenue, the company is constantly exposed to an implicit financing risk. The risk of insolvencies, particularly with regard to smaller automotive supply companies that are not operating at an international level, can still not be ruled out entirely.

Thanks to its strong financial position, the ability of the ElringKlinger Group to refinance itself remains solid. At 42.8% (44.0%) the equity ratio still lies within the Group's medium-term target corridor of 40 to 50% of total assets. The Group's debt factor (net debt in relation to EBITDA) stands at 3.7 (2.7). At the year end, the Group's undrawn credit lines totaled EUR 190.2 (136.1) million.

With one exception at a subsidiary outside Germany, none of the Group's loan agreements contained financial covenants. As of December 31, 2018, no circumstances were present that would have justified the exercise of unilateral termination rights by banks. The company has identified no immediate risks that might jeopardize the financing of major projects planned by ElringKlinger or prevent the company from meeting its payment deadlines. From today's perspective, financing risks that might jeopardize the company's existence as a going concern can be ruled out.

Currency risks

The monetary policies adopted by the world's principal central banks and the divergence in economic performance within the respective regions have resulted in greater exchange rate volatility when viewed across an extended time frame. As well as the EUR-USD exchange rate, this applies to the exchange rates between the euro and most emerging-market currencies such as the Turkish lira (TRY), the Brazilian real (BRL), and the Mexican peso (MXN).

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

ElringKlinger is also exposed to currency translation risks when local results are consolidated in the Group currency. Therefore, changes in the average exchange rates can have an accretive or a dilutive effect on the Group's revenue and earnings. Overall, the negative effect of foreign currency translation on revenue in the financial year 2018 was equivalent to EUR -44.0 (-28.7) million.

Exchange rate movements also have an impact on the net finance result. These factors are mainly associated with the funding of Group entities by the parent company as well as with the measurement of accounts receivable and payable. In the 2018 financial year, the Group recorded a net foreign exchange gain of EUR 0.8 (-11.1) million.

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

Interest-rate risk

The ElringKlinger Group funds itself through cash flow generated from operating activities as well as through borrowings from banks. A detailed overview of current and non-current financial liabilities categorized by maturity as of December 31, 2018, can be found in the notes to the consolidated financial statements.

The bonded loan (Schuldscheindarlehen) granted in 2017 was used to optimize the term structure of the Group's interest expenses and therefore make them easier to plan. In total, a volume of EUR 200 million was issued in tranches covering maturities of five, seven, and ten years and with an average rate of interest of 1.23%. The current level of interest rates within the market is low when viewed over an extended period of time. A marked increase in interest rates would feed into variable rate loans and would ultimately also have an impact on ElringKlinger's net finance result. To a large extent, however, fixed interest rates have been agreed in respect of the financing liabilities of the ElringKlinger Group (cf. notes: "Non-current and current financial liabilities").

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

Use of derivative financial instruments

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

Opportunities

Climate change/Emission laws

The reduction of emissions continues to be one of the key issues driving the automotive industry. The European Union is known to have some of the strictest emission standards worldwide. In the EU, cars and light commercial vehicles have been subject to CO_2 regulation since 2009. The EU Commission has specified that average fleet emissions of CO_2 must be reduced to 95 g/km or below by 2021. Should these requirements not be met by the specified dates, manufacturers face severe fines.

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

For the ElringKlinger Group, this legislative framework offers considerable potential with regard to development and revenue growth over the coming years. The trend towards increasingly fuel-efficient engines places greater demands on gasket technology and shielding systems. For ElringKlinger, this opens up additional sales opportunities and new markets for highly heat-resistant specialty gaskets and shielding components, such as those required for turbochargers and in exhaust systems but also in the area of lightweight construction.

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

In July 2016, the German government introduced a subsidy to boost demand for vehicles with alternative drive systems. At present, this subsidy stands at EUR 4,000 for pure electric and EUR 3,000 for hybrid vehicles. The subsidy will remain in place up to June 2019 or until the EUR 1.2 billion incentive fund has been used up. Another federal government subsidy program, set up to expand the network of recharging points for electric cars in Germany, was given the green light by the European Union at the beginning of 2017. The plan for the period up to 2021 is to invest EUR 300 million on the installation of 15,000 recharging points throughout Germany. The aforementioned purchase incentives and efforts to improve the general infrastructure for e-mobility solutions are designed to prompt a change in consumer behavior and boost sales of cars powered by alternative drive systems.

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

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

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

Fuel cell technology also plays an important role when it comes to alternative powertrains. Alongside passenger cars, more trucks and buses in particular are to be fitted with fuel cells in the medium term. In contrast to battery technology, the fuel cell offers the advantage of extended range. What is more, the hydrogen required for these drive systems can be distributed via the existing network of service stations. ElringKlinger was quick off the mark in its efforts to embrace fuel cell technology and currently supplies various components as well as complete fuel cell stacks. In view of the fact that the vehicle fuel cell market is still in the process of establishing itself, the ElringKlinger Group sees considerable sales potential for the coming years. After an initial ramp-up phase over the next few years, the company expects to achieve in-depth market penetration from 2025 onwards.

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

Technology trends

As a result of increasingly strict international emissions standards, the probability of the technology trends outlined above actually coming to fruition is classed by the ElringKlinger Group as high. The industry will have to focus on more efficient engines, lightweight engineering, and the use of alternative drive technology if it is to have any chance of achieving the ambitious CO_2 targets set by policymakers.

Insofar as ElringKlinger continues to succeed in developing new solutions to tackle these issues and rolling them out onto the market by utilizing its existing expertise relating to materials processing, tooling, and development and production processes, the prospects for revenue and earnings growth of the Group can be categorized as significant.

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

Extension of product and service portfolio

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

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

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

New sales markets

In the coming years, moving into new regional sales markets may present opportunities for significant revenue and earnings growth for the existing ElringKlinger portfolio, particularly with regard to e-mobility (i. e., fuel cell and battery technology) and lightweight structural components – two central pillars with regard to the future. The most important of these regions is China, a lead market for e-mobility products. Asia has also become a pacesetter when it comes to newly developed technologies, such as R&D and production relating to battery cells. Against the backdrop of technological developments and legislative efforts, the Group sees the potential for significant growth in sales volumes in the coming years.

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

With a product portfolio centered around the high-performance plastic PTFE, the Engineered Plastics segment, in particular, has the opportunity to target sales markets beyond the automotive industry, such as the medical, chemical, and electrical industry or the aerospace sector. In geographical terms, future growth potential is seen in particular in the markets of Asia and the United States.

Industry consolidation/M&A

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

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

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

Overall assessment of risks and opportunities

The conclusion drawn by the Management Board from scrutinizing the opportunities and risks in their entirety is that the situation of the ElringKlinger Group in respect of risk exposure remains similar to that of the previous year, despite a number of structural changes that directly affect the automotive industry. Some of the risks to which the Group is exposed are of a geopolitical or external nature, and ElringKlinger therefore has either no or a very limited capacity to control these risks in an active manner. When weighing the relevance of risk in respect of the possible financial impact on Group earnings, the principal risks to which the ElringKlinger Group is exposed are, in particular, a sudden global slump in the market, rapid change in drive system technology, and external attacks on IT infrastructure. In addition, the direction taken by raw material prices has added a significant risk for the ElringKlinger Group.

Economic conditions in Europe, North America, and much of Asia remain stable, even though growth in China is returning to more normal levels compared with recent years. By contrast, the political situation between Russia and the Ukraine and in large parts of the Middle East remains a source of risk. The ongoing global trade dispute between the USA and China and the possibility that the UK may still leave the European Union in a disorderly fashion are the main political risks with the capacity to exert a direct impact on the ElringKlinger Group. Additionally, specific strategic and operational risks continue to exist within the Group. The financial opportunities and risks associated with exchange rate fluctuations continue to be pronounced. The process of transition seen within the automotive industry has meant changes to ElringKlinger's product portfolio. Products within the area of structural lightweighting and electromobility, which are considered promising fields for the future in strategic terms, are gaining in importance, while conventional products associated primarily with the combustion engine will become less relevant in the years ahead.

Drawing on the risk management system outlined above and its flexible cost structure, if necessary the ElringKlinger Group is in a position to respond promptly to any risks that may arise by implementing the corresponding risk management arrangements. The entity makes a point of not exposing itself to risks that may jeopardize the existence of the ElringKlinger Group or its ability to offer a dividend. The Group's solid financial position, as reflected in an equity ratio of 42.8% (44.0%) and its continued ability to raise additional funds, provides a protective shield in respect of ElringKlinger and its business model even in the event of a protracted market crisis, of which, however, there are no indications at present.

The principal opportunities for the company relate to the technological trend toward more fuel-efficient or emission-free drive systems, which is inextricably linked to the issue of climate change and a global drive toward stricter emission laws. The company invested at an early stage in areas such as battery and fuel cell technology that offer considerable potential going forward. Benefiting from products targeted at alternative drive systems and power supply as well as a number of new concepts in the field of lightweight construction, the Group can look forward to opportunities for growth around the globe.

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

Compensation Report

Compensation structure for members of the Management Board

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

Management Board compensation for the 2018 financial year is presented in accordance with the provisions set out in two different standards: first, the applicable financial reporting standards (GAS 17) and secondly, the German Corporate Governance Code in the version of February 7, 2017.

System of compensation

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

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

Fixed annual salary

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

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

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

Long-term incentive II (LTI II)

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

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

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

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

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

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

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

Fringe benefits

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

D&O insurance

The members of the Management Board are covered by the Group's existing directors' and officers' liability insurance (D&O insurance). The agreed deductible corresponds to the minimum deductible set out in Section 93 (2) sentence 3 AktG (German Stock Corporation Act) in the applicable version.

Retirement pension

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

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

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

Review and adjustment of compensation

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

Severance pay cap

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

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

Loans to Management Board members

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

Management Board compensation 2018

Management Board compensation for the 2018 financial year has been presented pursuant to the applicable financial reporting standards (GAS 17) as well as in accordance with the recommendations of the German Corporate Governance Code in the version dated February 7, 2017. Average EBIT of the years 2016–2018, totaling EUR 123,030k, was used as a basis for calculating LTI I. Of this, the respective members of the Management Board receive the following percentage shares:

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

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

Management Board compensation 2018 pursuant to financial reporting standard GAS 17

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

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

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

Management Board compensation pursuant to German Corporate Governance Code

The following presentation of compensation granted to and received by the Management Board members is based on the recommendations of the German Corporate Governance Code (GCGC) in the version dated February 7, 2017.

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

Benefits granted (Pursuant to GCGC)

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

In contrast to GAS 17, the table presents long-term compensation granted in 2018 for LTI II. In addition, the minimum and maximum amounts achievable have been listed. The benefit expense, which is presented in the form of the current service cost in the above table, has been included in total compensation.

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

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

Allocation pursuant to GCGC

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

Resignation of a Management Board member in 2016

Management Board member Karl Schmauder stepped down from his post with immediate effect on February 23, 2016. The separation agreement ("Aufhebungsvereinbarung" governed by German law) reached between the respective parties includes the immediate suspension of Mr. Schmauder, with ongoing compensation being payable up to the regular expiration of his contract of service on January 31, 2018. Entitlements in respect of LTI I for the financial years 2016 to 2017 were granted in full, while entitlements in respect of LTI I for the financial year 2018 were granted on a pro-rata basis. Entitlements in respect of LTI II for the tranches 2014–2016 and 2015–2017 were granted in full. LTI II for the tranche 2016–2018 shall be granted on a pro-rata basis. Retirement benefit rights granted to Mr. Schmauder shall remain valid. In the 2016 financial year, provisions totaling EUR 2,536 k were recognized in respect of benefits to be provided in 2017 and 2018. In the 2018 financial year, these provisions were depleted by payments of EUR 864 k (2017: EUR 1,434 k).

Compensation structure for members of the Supervisory Board

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

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

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

Supervisory Board compensation 2018

In the period under review, total compensation for the Supervisory Board of ElringKlinger AG was EUR 672 k (2017: EUR 702 k). Additionally, travel expenses totaling EUR 4 k (2017: EUR 1 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	2018	2017	2018	2017	2018	2017
Klaus Eberhardt	68	55	44	41	112	96
Walter Herwarth Lechler	0	24	0	19	0	43
Markus Siegers	44	44	33	37	77	81
Ernst Blinzinger	0	9	0	8	0	17
Nadine Boguslawski	23	24	22	25	45	49
Armin Diez	28	28	22	25	50	53
Pasquale Formisano	24	24	22	25	46	49
Rita Forst	24	24	22	25	46	49
Andreas Wilhelm Kraut	24	16	22	16	46	32
Gerald Müller	24	10	22	10	46	20
Paula Monteiro-Munz	28	28	22	25	50	53
Prof. Hans-Ulrich Sachs	24	24	22	25	46	49
Gabriele Sons	32	32	22	25	54	57
Manfred Strauß	32	29	22	25	54	54
Total	**375**	**371**	**297**	**331**	**672**	**702**

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

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

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

As of December 31, 2018, the nominal capital of ElringKlinger AG was EUR 63,359,990, divided into 63,359,990 registered shares, each furnished with one vote. The notional interest in the company's nominal capital is EUR 1.00 per registered share. Profits are distributed in accordance with Section 60 of the German Stock Corporation Act (Aktiengesetz – AktG) in conjunction with Section 23 no. 1 of the Articles of Association.

The persons or entities with a direct interest in capital who, according to the details of the Stock Register, held voting rights in excess of 10% as of December 31, 2018, are presented in the table below. These relate solely to interests attributable to family ownership.

Estate Professor Walter H. Lechler, Stuttgart, Germany	Total of 22.059% (of which 10.013% is attributable to it under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))
Lechler Beteiligungs GmbH, Stuttgart, Germany	Total of 20.037% (of which 10.006% is attributable to it under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))
Klaus Lechler Beteiligungs-GmbH, Neuhausen auf den Fildern, Germany	Total of 20.037% (of which 10.036% is attributable to it under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))

No shareholder is equipped with special rights constituting controlling powers.

ElringKlinger does not operate any employee profit-sharing schemes.

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

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

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

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

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

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

Corporate Governance Statement

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

Combined Non-Financial Report

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

Report on Expected Developments

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

Outlook – Market and Sector

Loss of momentum in global economic upturn

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

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

Slight growth for automobile market in 2019

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

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

GDP growth projections

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

Source: International Monetary Fund (January 2019)

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

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

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

E-mobility: lead market China in the fast lane

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

Light vehicle production

Million units

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

Source: PwC Autofacts January 2019

Slowdown in truck markets

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

Outlook – Group

Difficult competitive environment

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

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

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

Successful continuation of R&D activities

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

Impressive order books

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

Revenue growth above market level

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

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

Numerous influencing factors

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

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

Pressure on earnings

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

Disciplined investment approach

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

Optimized working capital

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

Improved cash flow

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

Lower debt

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

The aim is to gradually reduce debt as part of efforts to optimize the Group's cash flow situation. In combination with improved earnings in the medium term, this will drive down the net debt/EBITDA ratio. As for fiscal 2019, the Group is expecting to see a slight year-on-year improvement in this area. Factoring in the extensive measures being implemented, the ratio is likely to fall below 2.0 in the medium term.

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

Medium-term increase in ROCE

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

Original equipment segment

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

Engineered Plastics segment

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

Aftermarket segment

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

Parent company ElringKlinger AG

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

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

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

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

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

Dettingen/Erms, March 21, 2019
The Management Board

Dr. Stefan Wolf
CEO

Theo Becker

Thomas Jessulat

Reiner Drews

Independent auditor’s report

To ElringKlinger AG

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

Opinions

We have audited the annual financial statements of ElringKlinger AG, Dettingen/Erms, which comprise the balance sheet as of December 31, 2018, and the income statement for the financial year from January 1 to December 31, 2018, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of ElringKlinger AG, which is combined with the group management report, for the financial year from January 1 to December 31, 2018.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2018 and of its financial performance for the fiscal year from January 1 to December 31, 2018 in compliance with German legally required accounting principles, and

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

Pursuant to Sec. 322 (3) Sentence 1 HGB [“Handelsgesetzbuch”: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the opinions

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

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate audit opinion on these matters.

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

Impairment testing of financial assets and loans to associates

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

The review of the impairment testing of shares in associates, investments in and loans to associates is a key audit matter due to their materiality for the financial statements and the discretionary judgment involved in assessing whether there is objective evidence to indicate a lower net realizable value. The valuations depend to a large extent on the assessment of future cash inflows and the discount rate applied. In addition, the reporting year was marked by a general weakening of the economic environment in the automotive sector. The manifestations of this weakening in geographic regions, in which the Company operates, varied. Against this backdrop, the impairment testing of financial assets is a key audit matter.

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

Auditor's response:

As far as the fair values determined by the executive directors and their assessment that the valuation is expected to be permanent are concerned, we examined the underlying processes and controls used to determine these values. We included our valuation specialists in the audit to assess the valuation model and the calculation inputs. With the help of internal valuation experts, we obtained an understanding of the underlying valuation models for the determination of the fair value in terms of methodology and calculation and investigated whether these were determined using the relevant financial reporting standards IDW AuS HFA 10. We examined whether the valuation models were applied consistently. We also examined whether the budget planning reflects general and industry-specific market expectations. We compared the budget values used for the measurement with the medium-term planning approved by the Management Board and the Supervisory Board. We performed a target-actual comparison of the historical forecast data and the actual results on a sample test basis to assess forecast accuracy by comparing the medium-term planning of the previous years with the actual values of the financial year. The parameters used to estimate net realizable value such as the applied growth rates and the weighted average cost of capital were assessed by comparing them to publicly available market data and considering changes in significant assumptions, including future market conditions. In addition, we performed our own sensitivity analyses for the significant shares in associates in order to estimate the influence of certain parameters on the valuation model and any potential impairment risk.

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

Revenue recognition

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

The business activities of the Group mainly comprise manufacturing of series parts for the automotive industry and in the development and manufacturing of tools. Revenue from sales is recognized when the service has been rendered or the goods have been delivered, i.e., when the risk has been transferred to the customer. Due to the diversity of contractual provisions taking into account customer-specific general business conditions and the application of different delivery terms (incoterms), revenue recognition is considered to be complex and harbors a higher risk of material misstatement. Revenue recognition in this context, due to the materiality of revenue and the related effects on earnings as well as the situation that revenue and earnings before interest and taxes (EBIT) represent key financial performance indicators for corporate governance and corporate planning, is a key audit matter.

Auditor's response

During our audit, based on our understanding of the business and process, we obtained an understanding of the contractual arrangements with the customers, especially the contractual arrangements governing the time of transfer of risk, taking into account the customer-specific general delivery terms and conditions as well as using the different delivery terms (incoterms). We examined on a sample basis, whether there was matching documentation of customer acceptance for the sales revenue in the area of tools in December and whether the sales revenue was recognized in the correct period. For series parts, also on a sample basis, we examined whether the sales revenue according to the agreed different delivery terms (incoterms) have led to the recognition of sales revenue in the correct period. We requested a sample of balance confirmations for the receivables existing as of the balance sheet date.

Further, we performed data analyses of the entire sales revenue reported in financial year 2018 to determine how it had been entered in the system and assessed the posting logic in the light of the existing processes. We also analyzed entries other than invoices that were recorded in the course of the year as sales revenue, e.g., credit notes, for unusual activity. This also included analyses with regard to irregular margin fluctuations over time. We analyzed any deviations from our expectation on the basis of additional substantive audit activities taking into account other audit evidence.

In connection with sales revenue, we also examined whether the corresponding trade receivables had been settled by payment of the invoice amount in the customary business cycle. At the same time, we compared incoming payments with the corresponding statements of account on a sample basis. Further, individual revenue transactions were compared with the delivery notes and payments received on a sample basis.

Our audit procedures did not lead to any reservations relating to revenue recognition.

Responsibilities of the executive directors and the Supervisory Board for the annual financial statements and the management report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other legal and regulatory requirements

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

We were elected as auditor by the annual general meeting on May 16, 2018. We were engaged by the Supervisory Board on August 8, 2018. We have been the auditor of ElringKlinger AG without interruption since financial year 2013.

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

German Public Auditor responsible for the engagement

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

Stuttgart, March 21, 2019

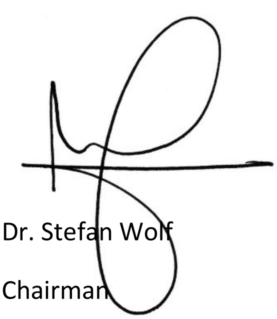
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

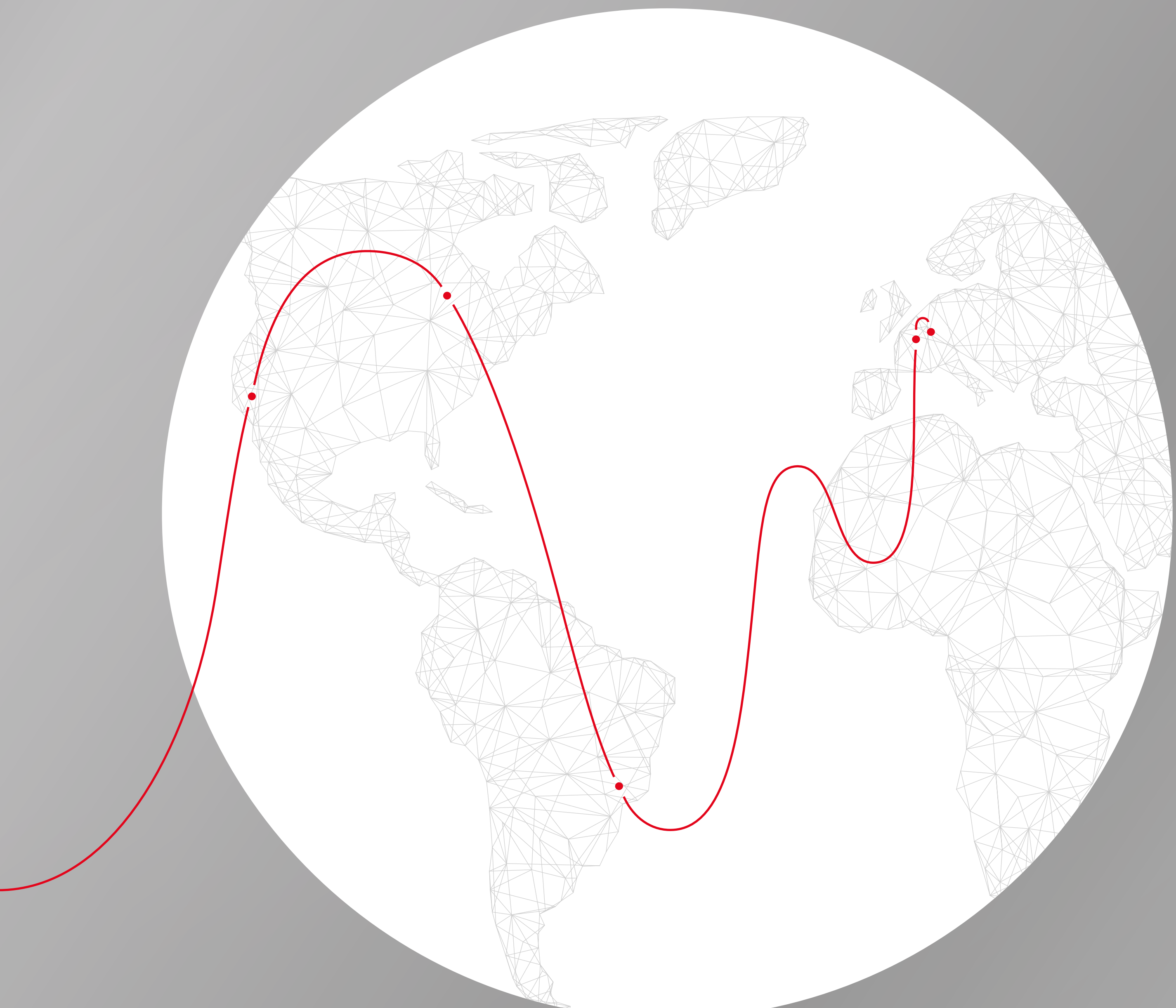
Responsibility statement and signature of the annual financial statements

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

Dettingen/Erms, March 21, 2019
Management Board




Dr. Stefan Wolf	Theo Becker	Thomas Jessulat	Reiner Drews
Chairman			



ElringKlinger AG
Max-Eyth-Straße 2
D-72581 Dettingen/Erms
(Germany)