Notes to the Consolidated Financial Statements

of ElringKlinger AG for the Financial Year 2017

General information

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

The financial year is the calendar year.

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

Accounting principles

The consolidated financial statements of ElringKlinger AG as of December 31, 2017, have been prepared in accordance with the International Financial Reporting Standards (IFRSs) approved by the International Accounting Standards Board (IASB) as adopted by the European Union (EU), the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), the supplementary commercial law regulations pursuant to § 315e (1) German Commercial Code (Handelsgesetzbuch, "HGB") and the provisions of German commercial and stock corporation law. ElringKlinger AG's Articles of Association contain regulations on profit appropriation. All IASs, IFRSs and IFRICs mandatory for the financial year 2017 have been observed.

On March 22, 2018, the Management Board of ElringKlinger AG submitted the consolidated financial statements to the Supervisory Board, which will meet on March 23, 2018 to approve them.

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

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

The following regulations and amendments to existing regulations were applied for the financial year 2017 for the first time:

Amendments to IAS 7: Statements of Cash Flows

The amendments to IAS 7 were published by the IASB as part of its disclosure initiative and contain requirements for additional disclosures on changes to liabilities from financing activities. The new provisions become effective for financial years beginning on or after January 1, 2017. The ElringKlinger Group has accounted for the amendments accordingly; please refer to the consolidated statement of cash flows in the notes to the consolidated financial statements.

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

The amendment to this standard aims to standardize accounting for deferred tax assets from unrealized losses that are related to assets measured at fair value. The amendment is effective for reporting periods beginning on or after January 1, 2017 and does not have a significant effect on the consolidated financial statements.

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

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

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

Amendment to IAS 40 Transfers of Investment Property

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

IFRS 9 Financial Instruments

The IASB completed its project to replace IAS 39 Financial Instruments: Recognition and Measurement in July 2014 by publishing the final version of IFRS 9 Financial Instruments. In the final version of IFRS 9, accounting for the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting in particular were revised completely. IFRS 9 is to be applied for the first time for reporting periods beginning on or after January 1, 2018. The first-time application is to be performed retrospectively, although there are various simplification options available. Earlier voluntary adoption of the standard is permitted. The Group aims to apply the new standard as of the date it is due to become effective. In financial year 2017, the Group measured the effects of all three aspects of IFRS 9. This assessment is based on the information available at this time and may change if additional information comes to light during the first-time application of IFRS 9 in 2018. On the whole, ElringKlinger does not expect any significant changes to the financial statements from first-time application.

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

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

IFRS 16 Leases

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

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

The Group intends to adopt IFRS 16 for the first time as of January 1, 2019, applying the modified retrospective method. The cumulative effect from the first-time application of IFRS 16 as of January 1, 2019 will be recorded in revenue reserves without adjusting the comparative information. The following effects were already identified in a preliminary analysis. However, the analysis had not yet been completed and the Group is constantly updating its findings in line with developments in the interpretation of IFRS 16.

To date, the Group as a lessee has largely concluded operating leases for movable assets (machinery and vehicles) and for real estate. Currently, merely the payment obligations for operating leases are disclosed in the notes to the consolidated financial statements. In future, a lessee will record a right of use asset that recognizes the lessee’s right to use the underlying asset, and an obligation from the lease that recognizes the lessee’s lease payment obligation.

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

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

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

No further significant effects are expected.

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

IFRS 17 Insurance Contracts

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

IFRIC 23 – Uncertainty over Income Tax Treatments

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

Amendments to IAS 28 Investments in Associates and Joint Ventures

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

Annual Improvements to IFRSs (2015 to 2017)

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

Scope of consolidated financial statements

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

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

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

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

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

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

Schedule of Shareholdings and Scope of Consolidation

as of December 31, 2017

Name of company	Domicile	Capital share in %
Parent		
ElringKlinger AG[1]	Dettingen/Erms	
Shares in affiliated companies (fully consolidated in the consolidated financial statements)		
Domestic		
Gedächtnisstiftung KARL MÜLLER BELEGSCHAFTSHILFE GmbH	Dettingen/Erms	100.00
Elring Klinger Motortechnik GmbH	Idstein	92.86
ElringKlinger Logistic Service GmbH	Rottenburg/Neckar	96.00
ElringKlinger Kunststofftechnik GmbH	Bietigheim-Bissingen	77.50
Polytetra GmbH/DE[3]	Mönchengladbach	77.50
Hug Engineering GmbH[2]	Magdeburg	93.67
new enerday GmbH/DE	Neubrandenburg	80.00
hofer powertrain products GmbH	Nürtingen	53.00
KOCHWERK Catering GmbH	Dettingen/Erms	100.00

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

Foreign		
ElringKlinger Abschirmtechnik (Schweiz) AG	Sevelen (Switzerland)	100.00
Hug Engineering AG	Elsau (Switzerland)	93.67
Elring Klinger (Great Britain) Ltd.	Redcar (UK)	100.00
hofer powertain products UK limited	Warwick (UK)	53.00
ElringKlinger Italia Srl	Settimo Torinese (Italy)	100.00
Hug Engineering Italia S.r.l.[2]	Milan (Italy)	93.67
Technik-Park Heliport Kft.	Kecskemét-Kádafalva (Hungary)	100.00
ElringKlinger Hungary Kft.	Kecskemét-Kádafalva (Hungary)	100.00
Elring Parts Ltd.	Gateshead (UK)	100.00
Elring Klinger, S.A.U.	Reus (Spain)	100.00
ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş.	Bursa (Turkey)	100.00
ElringKlinger Meillor SAS	Nantiat (France)	100.00
ElringKlinger Silicon Valley, Inc.	Fremont (USA)	100.00
HURO Supermold S.R.L.	Timisoara (Romania)	100.00
ElringKlinger Canada, Inc.	Leamington (Canada)	100.00
ElringKlinger USA, Inc.	Buford (USA)	100.00
ElringKlinger Automotive Manufacturing, Inc.	Southfield (USA)	100.00
Hug Engineering Inc.[2]	Austin (USA)	93.67
Elring Klinger México, S.A. de C.V.	Toluca (Mexico)	100.00
EKASER, S.A. de C.V.	Toluca (Mexico)	100.00
Elring Klinger do Brasil Ltda.	Piracicaba (Brazil)	100.00
ElringKlinger South Africa (Pty) Ltd.	Johannesburg (South Africa)	100.00
ElringKlinger Automotive Components (India) Pvt. Ltd.	Ranjangaon (India)	100.00
Changchun ElringKlinger Ltd.	Changchun (China)	88.00
ElringKlinger Korea Co., Ltd.	Changwon (South Korea)	100.00
ElringKlinger China, Ltd.	Suzhou (China)	100.00
ElringKlinger Chongqing Ltd.	Chongqing (China)	100.00
ElringKlinger Engineered Plastics North America, Inc.[3]	Buford (USA)	77.50
ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd.[3]	Qingdao (China)	77.50
ElringKlinger Marusan Corporation[4]	Tokyo (Japan)	50.00
Taiyo Jushi Kakoh Co., Ltd.[5]	Tokyo (Japan)	50.00
Marusan Kogyo Co., Ltd.[6]	Tokyo (Japan)	23.45
PT. ElringKlinger Indonesia[5]	Karawang (Indonesia)	50.00
ElringKlinger (Thailand) Co., Ltd[5]	Bangkok (Thailand)	50.00
Hug Engineering B.V.[7]	Enschede (Netherlands)	84.30

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

Germany		
hofer AG	Nürtingen	28.89

[1] ElringKlinger AG prepares the consolidated financial statements for the largest and smallest group of subsidiaries to be consolidated
[2] 100% subsidiary of Hug Engineering AG
[3] 100% subsidiary of ElringKlinger Kunststofftechnik GmbH
[4] Consolidated due to contractual possibility of exercising control
[5] Wholly owned subsidiary of ElringKlinger Marusan Corporation
[6] 46.9% subsidiary of ElringKlinger Marusan Corporation, consolidated due to majority of voting rights
[7] 90% subsidiary of Hug Engineering AG

Notes on non-controlling interests in subsidiaries

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

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

The non-controlling interests amount to 22.5%.

The share in the earnings of this subgroup attributable to non-controlling interests for the financial year 2017 is EUR 2,881 k (2016: EUR 2,394 k).

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

Cash flow of the subgroup:

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

Summarized key financial information of the subgroup

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

Further detailed information

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

Business combinations in 2017

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

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

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

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

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

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

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

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

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

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

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

Newly formed company 2017

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

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

Company buyouts in 2016

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

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

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

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

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

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

Goodwill is not tax deductible.

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

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

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

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

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

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

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

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

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

Goodwill is tax deductible.

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

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

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

Acquisition of non-controlling interests in 2016

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

Newly formed company 2016

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

Summary of the principal accounting and measurement methods

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

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

Consolidation methods

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

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

Any remaining negative difference is recorded in income.

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

If additional shares of an already fully consolidated subsidiary are acquired, the difference between the purchase price and carrying amount of non-controlling interests is recognized directly in equity.

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

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

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

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

Investments in associates

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

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

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

Currency translation

The reporting currency of the ElringKlinger Group is the euro.

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

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

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

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

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

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

Accounting policies

Goodwill

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

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

Goodwill is capitalized and subjected to impairment testing on an annual basis. If the value is no longer recoverable, impairment is recorded. Otherwise, the valuation of the previous year is retained. Impairment of goodwill is not reversed, even if the impairment has ceased to apply.

ElringKlinger conducts an impairment test of goodwill at least once annually. Annual impairment testing of goodwill is performed as of the closing date on December 31. During impairment tests, the recoverable amount of the cash-generating unit is compared to its carrying amount. Recoverable amount is measured at value in use.

The value in use of the cash-generating units is determined by discounting future cash flows. This calculation is based on the following key assumptions:

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

The plan is based on expected future market developments taking into consideration the business development thus far. The material assumptions relate to the development of sales revenue and earnings after taxes.

Sales revenue planning at the ElringKlinger Group is performed at an individual component level.

With regard to short-term planning, the current order backlog, information on the respective manufacturer and information from independent sources, such as advisory firms or automobile associations, is used. For revenue planning, Elringklinger assumes that in the medium term ElringKlinger's growth will be above the global market growth rate.

Costs are also budgeted at an individual component level within the ElringKlinger Group. This takes into account both efficiency gains as well as cost increases. For the raw materials processed in the cash-generating units, group-wide uniform planning assumptions were applied. For 2018, ElringKlinger assumes that the purchase prices for commodities on the global market, especially for aluminum and steel, will continue to rise. Rising prices are expected to continue on the steel market due to the existing supply shortage, which results from import duties on steel imports from China and Russia. The price for aluminum, which has increased significantly over the past few years, should stabilize or increase slightly. On the whole, however, the risk of excessive increases in the cost of materials is deemed moderate. For other costs, it is assumed that they will continue to develop in line with regional economic development and dependent on sales revenue.

The discount factor applied as of December 31, 2017 was the weighted average cost of capital (WACC) before taxes of 10.22% (2016: 9.98%). The WACC is determined on the basis of the risk-free rate according to the method of the IDW ["Institut der Wirtschaftsprüfer in Deutschland e. V., Düsseldorf": Institute of Public Auditors in Germany, Düsseldorf], the market risk premium and the beta factor. Beta represents the individual risk of a share as compared to a market index. It is calculated as the average value for the peer group. The credit spread, which expresses the premium over the risk-free rate, was derived from a rating of a peer group.

As in the previous year, the discount rate was used without applying a growth discount to determine the terminal value.

The impairment test performed as of December 31, 2017 did not result in the impairment of goodwill. Even changes in key parameters, which management deemed to be possible would not result in impairment.

Intangible assets

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

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

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

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

Property, plant and equipment

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

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

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

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

Investment property

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

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

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

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

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

Impairments and reversals are recorded through profit and loss.

Assets and liabilities held for sale

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

Financial instruments

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

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

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

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

Financial assets include cash, trade receivables and other loans and receivables and derivative financial assets held for trading.

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

Financial assets

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

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

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

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

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

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

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

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

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

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

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

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

Financial liabilities

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

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

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

At ElringKlinger, **financial liabilities measured at amortized cost** include trade payables and interest-bearing loans. They are measured at amortized cost using the effective interest method. Gains or losses are recognized in the income statement when the liability is retired or has been redeemed.

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

Other current liabilities

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

Derivative financial instruments and hedge accounting

Under IAS 39, all derivative financial instruments such as currency, price and interest swaps as well as forward exchange transactions, must be recognized at market values, independently of the purpose or the intent of the agreement under which they were concluded. Since no hedge accounting is applied in the ElringKlinger Group, the changes in the fair value of the derivative financial instruments are always recognized in profit or loss.

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

Inventories

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

After a review of the existing markdowns for lack of marketability, these amounts were adjusted in 2017. Applying the discount for lack of marketability from 2016 would have resulted in an increase in impairment of EUR 4,903 k in 2017.

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

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, checks and bank deposits available on demand. No cash equivalents are held. Cash is recognized at amortized cost.

Provisions for pensions

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

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

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

Provisions

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

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

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

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

Leases

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

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

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

Recognition of income and expense

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

Sales revenue is recorded when the performances due have been rendered and the principal risks and rewards have passed to the purchaser and receipt of the payment can be reliably expected.

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

Income from services is recognized as soon as the services have been rendered.

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

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

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

Research and development costs

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

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

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

Government grants

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

Borrowing costs

Borrowing costs directly associated with the acquisition, construction, or production of qualifying assets are added to the production costs of these assets until the period in which the assets are largely available for their intended use or for their sale. Interest not capitalized pursuant to IAS 23 is recognized on an accrual basis as an expense using the effective interest method. The actual borrowing costs are capitalized if a financing loan can be definitively assigned to a specific investment. Unless a direct relationship can be established, the Group's average interest rate for borrowed capital for the current period is used. The Group's average interest rate for borrowed capital for the financial year 2017 amounted to 1.95% (2016: 1.87%). In the financial year 2017 borrowing costs of EUR 403 k (2016: EUR 360 k) were capitalized.

Income taxes and deferred taxes

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

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

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

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

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

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

Contingent liabilities and contingent receivables

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

Use of estimates

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

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

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

Risks and uncertainties

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

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

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

General forecasts for the automotive sector are cautiously optimistic regarding 2018. Whilst a similarly high level is expected compared to the previous year, the US market will, on the whole, taper off and even the signs of growth from China are comparatively moderate. By contrast, the Indian car market's expansion and the recovery of markets in Brazil and Russia are considered to be drivers of growth. Growth is generally anticipated to shift from the established markets to emerging and developing economies. Thanks to its global presence with manufacturing and sales locations in the growth regions of the future, the Group is prepared for potential stagnation or declining demand in the traditional vehicle markets.

The risk of a dramatic collapse in vehicle production – similar to the one observed in the 2008/2009 crisis – is not very likely from today's perspective. ElringKlinger assumes that the global market for cars will increase by around 2–3% in 2018 (see "Report on expected developments").

ElringKlinger, with its broad customer structure, is neither dependent on individual markets nor on individual manufacturers. This means that an economic downturn in one region can at least be partially offset. Thanks to its flexible cost structures, ElringKlinger, in the event of greater economic turmoil, would be in the position to react immediately to the market conditions. The instruments available include flextime accounts and flexible shift models as well as the option to apply for government-sponsored schemes for shorter working hours. In addition, it is possible to react to changing market situations by adjusting the headcount to the demand situation and by merging the production quantities of individual plants. Procurement quantities would be reviewed and adjusted at short notice in close cooperation with the central procurement function and suppliers.

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

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

Individual disclosures on the Group Income Statement

1 — Sales revenue

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

Sales revenue of the Group are made up as follows:

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

Breakdown by geographical markets:

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

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

2 — Cost of sales

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

Cost of sales includes:

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

3 — Selling expenses

Selling expenses increased by EUR 21,489 k compared to 2016 to reach EUR 141,859 k. Selling expenses mainly include personnel expenses, material and marketing costs, as well as depreciation and amortization related to sales activities.

4 — General and administrative expenses

General and administrative expenses primarily include personnel expenses and material costs as well as the depreciation and amortization related to the administrative area. General and administrative expenses rose by EUR 2,710 k compared to 2016 to reach EUR 76,917 k.

5 — Research and development costs

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

6 — Other operating income

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

7 — Other operating expenses

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

8 — Associates

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

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

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

9 — Net finance costs

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

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

10 — Income taxes

Income taxes are composed as follows:

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

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

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

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

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

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

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

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

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

Loss carryforwards are forfeited within

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

Tax deferrals relate to the following line items:

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

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

11 — Basic and diluted earnings per share

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

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

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

Disclosures on the Group Statement of Financial Position

12 — Intangible assets

EUR k	Development costs (internally developed)	Goodwill (purchased)	Patents, licenses, software and similar rights (purchased)	Intangible assets under construction	Total
Acquisition/production cost As of Jan. 1, 2017	**50,567**	**180,628**	**81,404**	**1,156**	**313,755**
Currency changes	-1,774	-5,973	-1,489	0	-9,236
Change in consolidated group	0	1,381	615	0	1,996
Additions	4,529	0	5,330	815	10,674
Reclassifications	0	0	1,190	-1,156	34
Disposals	6,523	0	17,036	0	23,559
Reclassification Assets held for sale	2,594	6,271	12,247	0	21,112
As of Dec. 31, 2017	**44,205**	**169,765**	**57,767**	**815**	**272,552**
Amortization as of Jan. 1, 2017	**30,977**	**13,793**	**56,545**	**0**	**101,315**
Currency changes	-1,231	-384	-1,305	0	-2,920
Change in consolidated group	0	0	0	0	0
Additions	7,865	0	10,192	0	18,057
Reclassifications	0	0	-30	0	-30
Disposals	6,591	0	17,028	0	23,619
Reclassification Assets held for sale	1,113	0	9,678	0	10,791
As of Dec. 31, 2017	**29,907**	**13,409**	**38,696**	**0**	**82,012**
Net carrying amount as of Dec. 31, 2017	**14,298**	**156,356**	**19,071**	**815**	**190,540**
Acquisition/production cost As of Jan. 1, 2016	**49,492**	**178,719**	**74,133**	**219**	**302,563**
Currency changes	-138	994	187	0	1,043
Change in consolidated group	0	915	3,928	0	4,843
Additions	7,368	0	3,452	986	11,806
Reclassifications	0	0	75	-49	26
Disposals	6,155	0	371	0	6,526
As of Dec. 31, 2016	**50,567**	**180,628**	**81,404**	**1,156**	**313,755**
Amortizations as of Jan. 1, 2016	**28,658**	**13,676**	**46,687**	**0**	**89,021**
Currency changes	25	117	192	0	334
Additions	8,449	0	10,033	0	18,482
Disposals	6,155	0	367	0	6,522
As of Dec. 31, 2016	**30,977**	**13,793**	**56,545**	**0**	**101,315**
Net carrying amount as of Dec. 31, 2016	**19,590**	**166,835**	**24,859**	**1,156**	**212,440**

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

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

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

13 — Property, plant and equipment

EUR k	Land and buildings	Plant and machinery	Other equipment, furniture and fixtures	Property, plant and equipment under construction	Total
Acquisition/production cost As of Jan. 1, 2017	**465,422**	**1,006,196**	**182,403**	**108,066**	**1,762,087**
Currency changes	-16,550	-35,566	-3,396	-6,321	-61,833
Change in consolidated group	0	2	50	0	52
Additions	18,272	51,312	15,022	69,116	153,722
Reclassifications	24,463	49,130	7,376	-81,003	-34
Disposals	2,019	7,666	5,024	0	14,709
Reclassification Assets held for sale	16,205	14,131	3,091	4	33,431
As of Dec. 31, 2017	**473,383**	**1,049,277**	**193,340**	**89,854**	**1,805,854**
Depreciation as of Jan. 1, 2017	**94,515**	**631,990**	**118,264**	**0**	**844,769**
Currency changes	-2,967	-19,728	-1,611	0	-24,306
Additions	11,488	57,540	13,408	0	82,436
Reclassifications	0	14	16	0	30
Disposals	528	6,780	4,631	0	11,939
Reclassification Assets held for sale	1,965	10,780	1,961	0	14,706
As of Dec. 31, 2017	**100,543**	**652,256**	**123,485**	**0**	**876,284**
Net carrying amount as of Dec. 31, 2017	**372,840**	**397,021**	**69,855**	**89,854**	**929,570**
Acquisition/production cost As of Jan. 1, 2016	**390,268**	**953,265**	**164,122**	**119,794**	**1,627,449**
Currency changes	451	1,837	-696	-2,524	-932
Change in consolidated group	0	843	370	0	1,213
Additions	19,057	45,794	18,220	86,329	169,400
Reclassifications	57,708	33,534	4,265	-95,533	-26
Disposals	2,062	29,077	3,878	0	35,017
As of Dec. 31, 2016	**465,422**	**1,006,196**	**182,403**	**108,066**	**1,762,087**
Depreciation as of Jan. 1, 2016	**83,860**	**606,528**	**109,802**	**0**	**800,190**
Currency changes	109	321	-199	0	231
Additions	10,760	53,607	12,277	0	76,644
Reclassifications	0	-26	26	0	0
Disposals	214	28,440	3,642	0	32,296
As of Dec. 31, 2016	**94,515**	**631,990**	**118,264**	**0**	**844,769**
Net carrying amount as of Dec. 31, 2016	**370,907**	**374,206**	**64,139**	**108,066**	**917,318**

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

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

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

14 — Investment property

EUR k	Investment property	Investment property under construction	Total
Acquisition/production cost as of Jan. 1, 2017	**26,335**	**273**	**26,608**
Currency changes	-28	0	-28
Additions	0	1,812	1,812
Reclassifications	1,986	-1,986	0
As of Dec. 31, 2017	**28,293**	**99**	**28,392**
Write-downs as of Jan. 1, 2017	**10,786**	**0**	**10,786**
Currency changes	-10	0	-10
Additions	586	0	586
As of Dec. 31, 2017	**11,362**	**0**	**11,362**
Net carrying amount as of Dec. 31, 2017	**16,931**	**99**	**17,030**
Acquisition/production cost as of Jan. 1, 2016	**21,384**	**3,031**	**24,415**
Currency changes	252	60	312
Additions	1,608	273	1,881
Reclassifications	3,091	-3,091	0
As of Dec. 31, 2016	**26,335**	**273**	**26,608**
Write-downs as of Jan. 1, 2016	**10,173**	**0**	**10,173**
Currency changes	101	0	101
Additions	512	0	512
As of Dec. 31, 2016	**10,786**	**0**	**10,786**
Net carrying amount as of Dec. 31, 2016	**15,549**	**273**	**15,822**

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

Investment property has a fair value of EUR 25,753 k as of the reporting date (2016: EUR 19,457 k). The input data used to determine the fair value correspond to stage 3 of the fair value hierarchy. The fair value is determined using the discounted cash flow method and official valuations. Under the discounted cash flow method, the surplus of expected future rental payments over the expected cash expenses is discounted to the valuation date. The discount rate used for the Idstein industrial park was 3.18% (2016: 8.75%) and 6.09% for the Kecskemét-Kádafalva industrial park (2016: 8.75%). Measurement of the fair values was not performed by an independent expert.

All investment property is rented out under operating leases. The resulting rental income came to EUR 4,347 k (2016: EUR 4,519 k). Expenses directly connected with these financial investments amounted to EUR 5,377 k (2016: EUR 5,163 k). Material contractual commitments to acquire or maintain investment property did not exist as of the end of the reporting period. Furthermore, there were no limitations regarding the saleability of investment property.

15 — Financial assets and shares in associates

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

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

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

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

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

17 — Inventories

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

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

18 — Trade receivables, current income and other current assets

For trade receivables and other current assets, impairments of EUR 5,760 k (2016: EUR 5,767 k) were recognized for specific identifiable risks and likely use of discounts.

The carrying amount of the trade receivables and other assets corresponds to their fair values.

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

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

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

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

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

The need to recognize impairment losses is analyzed on every reporting date for major customers on an individual basis. Additionally, a large number of receivables are grouped into homogeneous groups and assessed for impairment collectively.

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

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

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

19 — Cash and cash equivalents

The item cash and cash equivalents comprises cash and deposits held by the Group in current accounts. As in the previous year, there were no cash equivalents.

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

20 — Assets and liabilities held for sale

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

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

21 — Equity

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

The share capital of ElringKlinger AG amounted to EUR 63,359,990 as of December 31, 2017 and is divided into 63,359,990 registered shares, each entitled to a single vote. The share capital is paid in full. Each registered share represents a theoretical interest of EUR 1.00 of the share capital. Profit is distributed in accordance with § 60 AktG German Stock Corporation Act (Aktiengesetz, AktG) in conjunction with § 23 no. 1 of the Articles of Association.

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

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

- if the new shares are issued against cash contributions and if the issue price per new share does not fall significantly below the quoted price of shares already listed, and the shares issued without subscription rights pursuant to § 186 (3) sentence 4 AktG, do not represent more than 10% of the share capital, either on the date on which this authorization takes effect or on the date on which it is exercised. The upper limit of 10% of share capital includes any shares issued or sold during the term of this authorization in exclusion of shareholders' subscription rights in direct or indirect application of § 186 (3) sentence 4 AktG.

The Management Board has not exercised the authorization to date.

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

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

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

Under the German Stock Corporation Act (AktG), the distributable dividend is measured by the sum of retained earnings and the profit or loss for the year, as shown in the annual financial statements of ElringKlinger AG that have been drawn up according to the provisions of the German Commercial Code (HGB). In the financial year 2017, ElringKlinger AG distributed to its shareholders a dividend of EUR 31,680 k (EUR 0.50 per share) from the retained earnings reported in 2016. In the financial year 2016, the distribution was EUR 34,848 k (EUR 0.55 per share) from the retained earnings reported in 2015.

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

22 — Non-controlling interests in equity and net income

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

23 — Provisions for pensions

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

Under the **defined contribution plans** the company pays contributions to state or private pension schemes on the basis of statutory or contractual obligations or on a voluntary basis. Once the contributions are paid, the company has no further obligations, such as follow-up contribution payments. Current contribution payments are reported under personnel expenses in the reporting year; in the reporting year, the Group's contribution payments totaled EUR 24,168 k (2016: EUR 22,217 k) and are allocated to the relevant function costs.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

With regard to sensitivities, the key actuarial assumptions determined were the discount rate, salary increases and future pension developments.

A 1% increase/decrease in the discount rate would lead to a decrease/increase in the DBO of EUR 24,663 k/ EUR 30,039 k.

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

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

24 — Other provisions

Other provisions can be broken down as follows:

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

Current provisions:

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

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

Non-current provisions:

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

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

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

The other risks relate to a variety of identifiable individual risks and uncertain obligations, which have been recognized as they are more likely than not to lead to an outflow of resources.

25 — Non-current and current financial liabilities

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

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

The average interest rates were:

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

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

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

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

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

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

The carrying amounts of trade payables approximate their fair value.

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

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

27 — Hedging policy and financial instruments

Risks and hedging policy

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

By concluding hedges, the Management Board of ElringKlinger AG aims to manage the risk factors that may adversely affect the financial performance, net assets and cash position and thus to minimize these influences. Within the ElringKlinger Group, derivative financial instruments may only be entered into with the consent of the Management Board. Hedge accounting in accordance with IAS 39 was not applied.

Currency risk

Due to the international nature of its business, the ElringKlinger Group is exposed to currency risks in the normal course of business.

Exchange rate risk arises for the Group in relation to its operating business principally when sales revenue is generated in a different currency than that in which the related costs are incurred. Sales revenue is generally generated in the functional currency (which is the relevant national currency) of the Group entity concerned. In order to reduce currency risks from operating business, the purchases of goods, raw materials and services as well as investing and financing activities are generally accounted for in the functional currency of the group entity. The group also endeavors to minimize its foreign currency risk by manufacturing its products in the relevant local sales markets.

Subsidiaries are not permitted to take out financing in foreign currency or to invest it for speculative reasons. Intercompany financing and investment is usually denominated in the relevant functional currency.

Several ElringKlinger AG subsidiaries are domiciled outside the euro area. Since the euro is the reporting currency of the ElringKlinger Group, the income and expenses of these subsidiaries are translated into euros upon consolidation. Changes in the closing rates and changes in the closing rates compared to the average rates and historical rates can give rise to currency translation effects that are reflected in the equity of the Group under other comprehensive income.

Due to the inclusion of subsidiaries, the group also recognizes assets and liabilities relating to these subsidiaries outside of the euro area that are denominated in national currencies. When these assets are translated into euros, exchange rate fluctuations can lead to changes in value. The changes in these net assets are reflected in group equity under other comprehensive income.

A sensitivity analysis has been conducted in order to quantify the potential effects of exchange rate changes on consolidated net income. This analysis illustrates the change in consolidated net income in the event that the relevant functional currency of the Group companies appreciates or depreciates by 10% as compared to the foreign currency.

Dec 31, 2017
EUR k

Local currency	CHF	HUF	MXN	USD	KRW	Other	Total
Local currency +10%							
Consolidated net income	3,597	2,692	2,493	1,574	850	-322	10,884
Local currency -10%							
Consolidated net income	-3,597	-2,692	-2,493	-1,574	-850	322	-10,884

Dec 31, 2016
EUR k

Local currency	HUF	EUR	IDR	CNY	JPY	Other	Total
Local currency +10%							
Consolidated net income	917	748	531	512	-117	59	2,650
Local currency -10%							
Consolidated net income	-917	-748	-531	-512	117	-59	-2,650

Interest rate risk

Interest rate risk arises primarily from financial assets that are subject to a floating rate of interest. The Group manages interest rate risk with the objective of optimizing its interest income and expense.

Fixed interest rates have been agreed mainly for the financing liabilities of the ElringKlinger Group. As a result, the risk arising from interest rate fluctuations is only slight.

Had market interest rates been 30 basis points higher on December 31, 2017, earnings would have been EUR 361 k (2016: EUR 526 k) lower. Had market interest rates been 30 basis points lower, earnings would have been EUR 47 k (2016: EUR 41 k) lower.

Risk arising from prices for raw materials

ElringKlinger is exposed to risks from changes in the prices for the raw materials it uses in production. In order to mitigate fluctuations in the purchase prices for raw materials, ElringKlinger has entered into two nickel hedges. Where necessary, it is possible to secure acceptable procurement prices by means of additional derivatives.

ElringKlinger processes a significant volume of high-grade stainless steels. This includes alloy surcharges, in particular for nickel, which is a listed metal subject to market price fluctuations. ElringKlinger uses derivative financial instruments to hedge portions of alloy surcharges assessed in cost calculations. A price corridor surrounding the average calculation cost is hedged. If the quoted exchange price of nickel exceeds the upper range of the corridor, ElringKlinger receives a compensatory payment. If the quoted exchange price of nickel falls below the lower range of the corridor, ElringKlinger has to pay a surcharge. As of the reporting date, there were two nickel hedging contracts for a total of 150 metric tons of nickel. The existing nickel hedges expire in the financial year 2018 and the latest expiration date is on December 31, 2018.

The Group manages the credit risk of derivatives by entering into derivative financial transactions exclusively with major banks of impeccable creditworthiness in accordance with uniform guidelines.

Had the market value of nickel been 10% higher on December 31, 2017, earnings would have been EUR 306 k higher (2016: EUR 0 k). A 10% decrease in the market value would have resulted in an increase in earnings of EUR 74 k (2016: EUR 0 k).

Credit risk

Credit risk defines the risk of economic loss arising from a counterparty's failure to satisfy contractual payment obligations.

Credit risk encompasses both the direct risk of default, the risk of a ratings downgrade, and concentration risks. The maximum risk exposures of financial assets generally subject to credit risk correspond to their carrying amounts and can be described as follows:

Liquid funds

Liquid funds comprise primarily bank deposits available on demand. The ElringKlinger Group is exposed to losses from credit risks in connection with the investment of liquid funds if financial institutions fail to meet their obligations (counterparty risk). In order to minimize this risk, care is taken in selecting the financial institutions at which deposits are made. The maximum risk exposure corresponds to the carrying amount of the liquid funds at the end of the reporting period.

Trade receivables

Trade receivables relate primarily to the global sales of gaskets, sealing materials, plastic products and modules for the automotive sector and for the manufacturing industry in general. Credit risk resides in the possibility of counterparty default, and is characterized by the Group's customer base, which includes a number of key accounts.

In domestic business, most receivables are secured by retention of title. In order to limit credit risk, credit checks in the form of inquiries with credit information services are performed for selected counterparties. Moreover, internal processes are in place to continually monitor receivables where partial or complete default may be anticipated.

In its export business, ElringKlinger also assesses the credit standing of its counterparties by submitting inquiries to credit information services and on the basis of the specific country risk. In addition, credit insurance policies are taken out or letters of credit are required in certain cases. Trade receivables of EUR 11,249 k (2016: EUR 9,530 k) are secured by credit insurance policies.

Allowances are also recognized in respect of identifiable individual risks. The maximum risk exposure from trade receivables corresponds to the carrying amount of these receivables at the end of the reporting period. The carrying amounts of trade receivables, together with a separate breakdown of overdue receivables and receivables for which allowances have been recognized, can be found under note 18.

In 2017, the two largest customers accounted for 10.2% and 8.0% of sales, respectively (2016: 11.0% and 8.3%).

Liquidity risk

The solvency and liquidity of the ElringKlinger Group is constantly monitored by liquidity planning. Furthermore, a cash liquidity reserve and guaranteed credit lines ensure solvency and liquidity. Reference is also made to the financing risks presented in the risk report as part of the group management report of the ElringKlinger Group (Opportunity and risk report – Financial risks– Liquidity and financing risks).

Expected cash outflows

The following table shows all contractually fixed payments for redemptions, repayments and interest from financial liabilities recognized in the statement of financial position, including derivative financial instruments that have a negative market value.

EUR k	Trade payables	Financial liabilities	Finance leases	Derivatives	Other current liabilities	Total
As of Dec. 31, 2017						
Carrying amount	**118,846**	**700,259**	**496**	**11**	**47,467**	**867,079**
Expected outflows:	**118,846**	**731,842**	**522**	**11**	**47,467**	**898,688**
– less than one month	88,627	31,786	25	1	0	120,439
– between one and three months	23,644	29,249	52	2	8,663	61,610
– between three months and one year	4,577	170,083	218	8	38,804	213,690
– between one and five years	1,755	367,715	227	0	0	369,697
– more than five years	243	133,009	0	0	0	133,252
As of Dec. 31, 2016						
Carrying amount	**103,228**	**577,725**	**480**	**0**	**48,685**	**730,118**
Expected outflows:	**103,228**	**594,517**	**511**	**0**	**48,685**	**746,941**
– less than one month	68,516	52,471	14	0	0	121,001
– between one and three months	29,211	30,832	30	0	8,992	69,065
– between three months and one year	2,570	168,306	123	0	39,693	210,692
– between one and five years	2,797	328,586	344	0	0	331,727
– more than five years	134	14,322	0	0	0	14,456

Further disclosures on financial liabilities are provided under note (25).

28 — Additional information on financial instruments

This section provides a comprehensive overview of the significance of financial instruments and offers additional information on line items of the statement of financial position containing financial instruments. No recognized financial instruments were offset.

The following table shows the carrying amounts (CA) and fair values (FV) of financial assets

	Cash and cash equivalents	Trade receivables	Other current assets
EUR k	CA	CA	CA
As of Dec. 31, 2017			
Loans and receivables	45,498	302,621	7,465
Held to maturity	0	0	0
Held for trading	0	0	0
Available for sale	0	0	0
Total	**45,498**	**302,621**	**7,465**
As of Dec. 31, 2016			
Loans and receivables	39,407	299,522	5,752
Held to maturity	0	0	0
Held for trading	0	0	0
Available for sale	0	0	0
Total	**39,407**	**299,522**	**5,752**

The following table shows the carrying amounts (CA) and fair values (FV) of current and non-current financial liabilities:

	Other current liabilities	Current financial liabilities	Current financial leases	
EUR k	CA	CA	CA	FV
As of Dec. 31, 2017				
Financial liabilities measured at acquisition cost	47,467	221,666	0	0
Financial liabilities measured at fair value through profit or loss	0	0	0	0
No IAS 39 measurement category	0	0	278	295
As of Dec. 31, 2016				
Financial liabilities measured at acquisition cost	48,685	257,231	0	0
Financial liabilities measured at fair value through profit or loss	0	0	0	0
No IAS 39 measurement category	0	0	161	167

Other current liabilities contain a purchase price liability of EUR 34,782 k (2016: two purchase price liabilities totaling EUR 33,801 k) from a written put option which is measured at amortized cost. The second purchase price liability, which was likewise contained in other current liabilities in the previous year, constitutes part of the liabilities held for sale. The liability was measured at a fair value of EUR 1,500 k and reclassified accordingly.

	Derivatives	Non-current securities		Other financial assets		Total
	CA	CA	FV	CA	FV	CA
	0	0	0	8	8	355,592
	0	829	840	0	0	829
	176	0	0	0	0	176
	0	192	192	7	7	199
	176	**1,021**	**1,032**	**15**	**15**	**356,796**
	0	0	0	8	8	344,689
	0	819	819	0	0	819
	0	0	0	0	0	0
	0	194	194	8	8	202
	0	**1,013**	**1,013**	**16**	**16**	**345,710**

	Trade payables	Derivatives		Non-current financial liabilities		Non-current financial leases		Total
	CA	CA	FV	CA	FV	CA	FV	CA
	118,846	0	0	478,593	468,251	0	0	866,572
	0	11	11	0	0	0	0	11
	0	0	0	0	0	218	226	496
	103,228	0	0	320,495	318,100	0	0	729,639
	0	0	0	0	0	0	0	0
	0	0	0	0	0	318	344	479

Management determined that the carrying amount of cash, trade receivables, other receivables, trade payables, other current financial liabilities and other current liabilities is virtually the same as their fair value primarily as a result of the short term of these instruments.

The fair value of the other financial instruments held to maturity is based on prices quoted in an active market as of the reporting date.

ElringKlinger determines the market value of non-current fixed-interest liabilities to banks, finance lease liabilities and derivatives by discounting expected future cash flows with the current prevailing interest rates for similar financial liabilities with comparable residual terms and the company-specific risk rate.

The fair value of the put option of non-controlling interests of ElringKlinger Marusan Corporation on their shares contained in other current liabilities is based on forecasts of it business value. For the measurement of this put option of non-controlling interests, estimates are made when forecasting business development as well as when selecting the interest rate used regarding the liability recognized. A 10% change in the business value causes the put option to increase/decrease by EUR 3,478 k.

Financial assets and liabilities measured at fair value are classified into the following 3-level fair value hierarchy as of the valuation date December 31, 2017:

EUR k	Level 1	Level 2	Level 3
Dec 31, 2017			
Financial assets			
Non-current securities	192	0	0
Other financial assets	7	0	0
Derivatives*	0	176	0
Total	**199**	**176**	**0**
Financial liabilities			
Derivatives*	0	11	0
Total	**0**	**11**	**0**
Dec. 31, 2016			
Financial assets			
Non-current securities	194	0	0
Other financial assets	8	0	0
Derivatives*	0	0	0
Total	**202**	**0**	**0**
Financial liabilities			
Derivatives*	0	0	0
Total	**0**	**0**	**0**

* These are derivatives which do not meet the prerequisites for hedge accounting.

The table below shows the allocation of financial assets and liabilities that are not measured at fair value, but for which a fair value is disclosed, at the three levels of the fair value hierarchy as of the valuation date December 31, 2017:

EUR k	Level 1	Level 2	Level 3
Dec 31, 2017			
Financial assets			
Non-current securities	829	0	0
Other financial assets	0	0	8
Total	**829**	**0**	**8**
Financial liabilities			
Non-current liabilities from finance leases	0	0	226
Non-current financial liabilities	0	468,251	0
Purchase price liability from written put option	0	0	34,782
Total	**0**	**468,251**	**35,008**
Dec. 31, 2016			
Financial assets			
Non-current securities	819	0	0
Other financial assets	0	0	8
Total	**819**	**0**	**8**
Financial liabilities			
Non-current liabilities from finance leases	0	0	344
Non-current financial liabilities	0	318,100	0
Purchase price liability from written put option	0	0	33,801
Total	**0**	**318,100**	**34,145**

The levels of the fair value hierarchy are defined as follows:

Level 1: Measurement based on market prices

Level 2: Measurement based on market prices for similar instruments on the basis of measurement models based on inputs that are observable on active markets.

Level 3: Measurement based on inputs for assets and liabilities not representing observable market data.

An assessment is made at the end of every reporting period as to whether the assets and liabilities accounted for at fair value have been transferred between the levels of the fair value hierarchy. There were no reclassifications in the reporting period.

Net gains/losses on financial instruments:

EUR k	2017	2016
Held-for-trading financial instruments*	165	0
Available-for-sale assets	0	498
Held-to-maturity investments	-5	-18
Loans and receivables	-2,813	3,599
Financial liabilities measured at acquisition cost	-7,134	-814

* These are derivatives which do not meet the prerequisites for hedge accounting.

Net gains and losses from derivatives include the effects from changes in market values, which were recorded in full in profit or loss for the period.

Net gains on disposal of available-for-sale assets include income contained in other comprehensive income that arise from the adjustment of amortized costs of affiliates. There were no net gains that were reclassified from other comprehensive income to the income statement.

Net gains and losses on held-to-maturity investments include impairments and revaluations.

Net gains and losses on loans and receivables primarily consist of currency effects.

Net gains from financial liabilities measured at cost include currency effects.

Total interest income and expenses for financial assets and financial liabilities not measured at fair value through profit or loss are as follows:

EUR k	2017	2016
Total interest income	314	258
Total interest expense	-11,230	-11,328

As in the previous year, total interest income did not result in interest income from impaired financial assets.

29 — Finance leases

Liabilities from finance leases relate to leases of property, plant and equipment which transfer substantially all risks and rewards of beneficial ownership to the Group as lessee. As of December 31, 2017, future minimum lease payments under finance leases amounted to EUR 521 k (2016: EUR 511 k). The reconciliation of future minimum lease payments from finance lease arrangements to the corresponding liabilities as of December 31, 2017 is as follows:

EUR k	Minimum lease payments Dec 31, 2017	Interest included in minimum lease payments Dec 31, 2017	Liabilities from finance leases Dec 31, 2017
Term			
Less than one year	295	17	278
Between one and five years	226	8	218
More than five years	0	0	0
Total	**521**	**25**	**496**

30 — Capital management

ElringKlinger believes that the Group's sound financial base is a prerequisite for further growth. The Group's solid capital resources render it possible to invest in future organic growth, as well as in external growth.

The Management Board of the parent company has set a target equity ratio of 40% to 50% within the Group. ElringKlinger AG's Articles of Association do not define any capital requirements.

The management is authorized to buy back own shares up to a total of 10% of the share capital existing at the time of the resolution (May 13, 2015). The authorization is valid until May 13, 2020. There are no share option programs that impact the capital structure.

The following table presents changes in equity and total assets as of December 31, 2017 as compared to December 31, 2016.

in EUR million	2017	2016
Equity	**889.7**	**886.4**
as % of total capital	44.0%	47.2%
Non-current liabilities	634.8	491.3
Current liabilities	474.2	500.5
Liabilities in connection with assets held for sale	23.7	0
Debt	**1,132.7**	**991.8**
as % of total capital	56.0%	52.8%
Total capital	**2,022.4**	**1,878.2**

The change in equity from December 31, 2016 to December 31, 2017 was due primarily to an increase in revenue reserves and a decrease in other reserves. Debt increased year-on-year by 14.2%.

The equity ratio of the Group (44.0%) exceeded the 40% target equity ratio set by the Supervisory Board and Management Board.

For one loan, financial covenants have been agreed upon. These affect the equity ratio and gearing factor. If these covenants are breached, the terms of the loan change and the loan becomes immediately callable.

As of December 31, 2017, there were no issues prevailing that would have justified banks exercising their unilateral right of termination.

31 — Notes to the statement of cash flows

The group statement of cash flows shows how the liquidity of the ElringKlinger Group has changed as a result of cash inflows and outflows in the course of the financial year. In accordance with IAS 7, cash flows are categorized as cash flows from operating activities, investing activities or financing activities.

The cash reported in the statement of cash flows comprises liquid funds reported on the statement of financial position, i.e., cash in hand, checks and bank deposits.

Cash flows from investing and financing activities are determined by reference to payments. By contrast, cash flows from operating activities are derived indirectly from earnings before taxes for the year. For the indirect computation, effects from currency translation and changes to the scope of the consolidated financial statements are eliminated from the changes to the items of the statement of financial position arising from operating activities. For this reason, it is not possible to reconcile the changes in the relevant items of the statement of financial position with the corresponding figures in the published group statement of financial position.

Change in liabilities from financing activities:

EUR k	Non-current financial liabilities	Current financial liabilities
Dec. 31, 2016	320,813	257,392
Changes in cash	165,639	-22,051
Business acquisitions	1,048	0
Reclassifications of liabilities in connection with assets held for sale	0	-5,338
Exchange rate differences	-8,888	-9,232
Change in fair value	0	0
Other changes	199	1,173
Dec 31, 2017	**478,811**	**221,944**
Dec. 31, 2015	326,092	209,597
Changes in cash	-6,855	49,189
Business acquisitions	0	0
Exchange rate differences	1,576	-1,810
Change in fair value	0	0
Other	0	416
Dec. 31, 2016	**320,813**	**257,392**

32 — Segment reporting

The organizational and internal reporting structure of the ElringKlinger Group is centered around its five business divisions: "Original Equipment", "Aftermarket", "Engineered Plastics", "Services" and "Industrial Parks".

The activities in the "Original Equipment" and "Aftermarket" reporting segments relate to the manufacturing and distribution of parts and components for the engine, transmission and exhaust system and lightweight plastic components in motor vehicles (powertrain), as well as battery and fuel cell components and tools machining.

The "Engineered Plastics" segment manufactures and distributes technical products made of high-performance PTFE plastics for the vehicle and general industrial sectors.

The "Services" reporting segment primarily operates engine test benches and contributes to the development of engines.

The "Industrial Parks" segment is responsible for the administration and leasing of land and buildings.

The "Consolidation" column in the "Segment reporting" table below provides an overview of consolidation entries between the segments. Internal control and reporting are based on IFRSs. With the exception of the Original Equipment segment's provision of supplies to the Aftermarket segment, the extent of trade between the individual segments is insignificant. The exchange of goods and/or services between the segments takes place at arm's-length prices.

The segment results do not contain an impairment loss.

The Original Equipment segment generated 10.2% of the Group's consolidated sales revenue from one customer (EUR 168,999 k).

Segment reporting

Segment	Original Equipment		Aftermarket		Engineered Plastics		Industrial Parks	
EUR k	2017	2016	2017	2016	2017	2016	2017	2016
External revenue	**1,382,376**	**1,294,305**	**156,664**	**147,267**	**111,141**	**101,678**	**4,347**	**4,519**
Intersegment revenue	19,933	17,636	0	0	194	160	567	352
Segment revenue	**1,402,309**	**1,311,941**	**156,664**	**147,267**	**111,335**	**101,838**	**4,914**	**4,871**
EBIT[1] / Operating result	**86,320**	**88,916**	**31,755**	**30,487**	**18,476**	**14,881**	**-463**	**-292**
Depreciation and amortization	90,101	85,507	2,300	1,989	6,181	5,829	1,034	959
Capital expenditures[2]	156,777	166,388	2,695	1,753	4,150	7,896	1,826	2,384
Segment assets	1,791,231	1,652,681	96,908	88,422	110,044	109,332	20,665	19,643

Segment	Services		Other		Consolidation		Group	
EUR k	2017	2016	2017	2016	2017	2016	2017	2016
External revenue	**9,513**	**9,674**	**0**	**0**	**0**	**0**	**1,664,041**	**1,557,443**
Intersegment revenue	6,875	5,875	0	0	-27,569	-24,023	0	0
Segment revenue	**16,388**	**15,549**	**0**	**0**	**-27,569**	**-24,023**	**1,664,041**	**1,557,443**
EBIT[1] / Operating result	**1,230**	**1,602**	**0**	0	**0**	**0**	**137,318**	**135,594**
Depreciation and amortization	1,463	1,354	0	0	0	0	101,079	95,638
Capital expenditures[2]	760	4,666	0	0	0	0	166,208	183,087
Segment assets	14,238	14,293	0	0	-10,706	-6,202	2,022,380	1,878,169

[1] Earnings before interest and taxes
[2] Investments in intangible assets and property, plant and equipment and investment property

Segment reporting by region

Region EUR k		Sales revenues[1]	Non-current assets	Investments
Germany	2017	426,201	514,447	61,604
	2016	412,254	472,202	72,234
Rest of Europe	2017	521,507	272,922	46,704
	2016	489,099	293,399	36,908
NAFTA	2017	323,277	161,558	32,531
	2016	291,990	155,242	44,152
Asia-Pacific	2017	317,269	195,898	22,686
	2016	298,973	201,057	26,776
South America and rest of the world	2017	75,787	21,914	2,683
	2016	65,127	24,710	3,017
Group	**2017**	**1,664,041**	**1,166,739**[2]	**166,208**
	2016	**1,557,443**	**1,146,610**[2]	**183,087**

[1] The location of the customer is used to determine allocation of sales revenues to the regions.
[2] This includes financial assets of EUR 1,036 k (2016: EUR 1,029 k)

Other disclosures

Contingent liabilities

As in the previous year, the ElringKlinger Group does not have any contingent liabilities stemming from guarantees, performance bonds or bills of exchange issued.

Contingent assets and liabilities

As of the reporting date, there were no contingent assets and liabilities.

Operating leases

Expenses include payments from operating leases of EUR 10,756 k (2016: EUR 10,764 k).

At the end of the reporting period, the Group had outstanding obligations arising from binding operating leases that fall due as follows:

EUR k	Dec 31, 2017	Dec. 31, 2016
less than one year	4,781	4,300
between one and five years	9,212	9,015
more than five years	867	1,973
Total	**14,860**	**15,288**

Of the total, EUR 8,135 k (2016: EUR 8,460 k) is related to outstanding obligations from binding operating leases for commercial premises, EUR 5,236 k (2016: EUR 3,899 k) to office equipment, and EUR 1,490 k (2016: EUR 2,929 k) to other lease arrangements.

Finance leases

Information on the finance lease can be found under note (29).

Other financial commitments

Energy purchase commitments

EUR k	Dec 31, 2017	Dec. 31, 2016
less than one year	10,946	9,496
between one and five years	19,287	19,356
Total	**30,233**	**28,852**

Proceeds from lease agreements

The future lease payments due to ElringKlinger in relation to binding operating leases from letting the industrial parks Idstein and Kecskemét-Kádafalva (Hungary) are due as follows:

EUR k	Dec 31, 2017	Dec. 31, 2016
less than one year	1,753	1,715
between one and five years	2,888	3,109
more than five years	1,792	2,200
Total	**6,433**	**7,024**

Number of employees

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

	2017	2016
Employees	8,628	7,931
Trainees	373	391
Total	**9,001**	**8,322**

Personnel expenses

Personnel expenses in the reporting year amounted to EUR 486,278 k (2016: EUR 445,968 k). Personnel expenses include expenses for wages and salaries, social security and other benefit costs, as well as expenses for post-employment benefits.

Events after the end of the reporting period

On December 21, 2017, the agreement to sell the Hug Group to a French automotive supplier was signed. The transaction was closed on February 28, 2018. The preliminary purchase price is EUR 58,870 k. Further information can be found in note 20 – Assets and liabilities held for sale.

On March 22, 2018, the Management Board of ElringKlinger AG submitted the consolidated financial statements to the Supervisory Board, which will meet on March 23, 2018 to approve them. No other significant events occurred after the reporting date.

Related-party disclosures

Transactions between the parent company, ElringKlinger AG, and its subsidiaries are eliminated in the course of consolidation and are therefore not discussed in this note. In addition, the following business relationships exist between companies of the ElringKlinger Group and related parties and companies controlled by related parties:

Cooperation agreement between ElringKlinger AG and Lechler GmbH, Metzingen, concerning traineeships. Mr. Walter Herwarth Lechler is the Chairman of the Supervisory Board of ElringKlinger AG and holds a significant interest in ElringKlinger AG and in Lechler GmbH. ElringKlinger AG earned EUR 56 k during the reporting year (2016: EUR 47 k). There were no receivables as of the reporting date (2016: EUR 25 k).

Lease agreement between Technik-Park Heliport Kft., Kecskemét-Kádafalva, Hungary (TPH), and the Lechler GmbH subsidiary, Lechler Kft., Kecskemét-Kádafalva, Hungary. Based on this lease, TPH earned EUR 298 k in rental income including ancillary costs in the reporting year (2016: EUR 200 k). As in the previous year, there were no open receivables as of the end of the reporting period.

Agreement between ElringKlinger Logistic Service GmbH, Rottenburg-Ergenzingen, and Lechler GmbH, Metzingen, regarding assembly activities and the storage of components. This agreement gave rise to EUR 542 k in sales revenue during the reporting year (2016: EUR 496 k). There were no outstanding receivables as of December 31, 2017 (2016: EUR 41 k).

Business relations between the ElringKlinger subsidiary, Changchun ElringKlinger Ltd., China, (CEK), and CHYAP, the company controlled by Ms. Liu, a close relative of Mr. Huang, who is a joint partner in CEK. CEK procured EUR 99 k worth of services under these business relations in 2017 (2016: EUR 184 k). As of December 31, 2017, there is EUR 17 k in liabilities (2016: EUR 15 k). Furthermore, CEK sold EUR 62 k worth of goods and raw materials to CHYAP (2016: EUR 169 k). There are no outstanding trade receivables as of the reporting date 2017 (2016: EUR 1 k).

Loan agreement between Lechler GmbH and ElringKlinger AG. Lechler GmbH granted ElringKlinger AG loans totaling EUR 17,000 k (2016: EUR 17,000 k). A loan for EUR 7,000 k carries an interest rate of 1.08% p. a. and has a term until August 17, 2018. An additional loan for EUR 5,000 k carries an interest rate of 0.69% p. a. and has a term until August 15, 2019. A further loan for EUR 5,000 k carries an interest rate of 0.9% p. a. and has a term until June 19, 2020.

Supply agreement between Lechler GmbH and KOCHWERK Catering GmbH, a wholly owned subsidiary of ElringKlinger AG. KOCHWERK Catering GmbH supplies Lechler GmbH with canteen food. KOCHWERK Catering GmbH earned EUR 160 k during the reporting year (2016: EUR 169 k). As of the end of the reporting period, one outstanding receivable came to EUR 1 k (2016: EUR 13 k).

Relationships in the course of ordinary activities exist between the ElringKlinger subsidiary hofer powertrain products GmbH, Nürtingen, and various subsidiaries of hofer AG, Nürtingen. The business dealings pertain to services received and other expenses of EUR 580 k. Outstanding liabilities come to EUR 493 k as of December 31, 2017.

The salaries of the employee representatives to the Supervisory Board are in line with market conditions.

Corporate bodies

Supervisory board

Klaus Eberhardt
Lindau, Chairman
(since May 16, 2017)

Former CEO of Rheinmetall AG, Düsseldorf
Governance roles:
a) MTU Aero Engines AG, Munich
Dürr AG, Bietigheim-Bissingen
Chairman until December 31, 2017
b) n/a

Walter Herwarth Lechler
Stuttgart, Chairman
(since May 16, 2017)

Managing Partner of Lechler GmbH, Metzingen
Governance roles:
a) n/a
b) Lechler Ltd., Sheffield, UK

Markus Siegers*
Nürtingen,
Deputy Chairman

Chairman of the Works Council of ElringKlinger AG

Ernst Blinzinger*
Reutlingen
(since May 16, 2017)

Former Principal Authorized Representative of
IG Metall trade union, Reutlingen-Tübingen branch

Nadine Boguslawski*
Stuttgart

Secretary for the metal and electrical industry of the
IG Metall trade union, Baden-Württemberg district administration
Governance roles:
a) Robert Bosch Automotive Steering GmbH,
Schwäbisch Gmünd
Robert Bosch GmbH, Gerlingen-Schillerhöhe
b) n/a

Armin Diez*
Lenningen

Divisional Director of New Business Areas and
Director of the Battery Technology/E-Mobility Division at
ElringKlinger AG
Governance roles:
a) n/a
b) Member of the Advisory Board of e-mobil BW GmbH,
Stuttgart

Pasquale Formisano*
Vaihingen an der Enz

Chairman of the Works Council of
ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen

Rita Forst Dörsdorf	Former member of the Management Board of Adam Opel AG, Rüsselsheim **Governance roles:** a) n/a b) Joh. Winklhofer Beteiligungs GmbH & Co. KG, Munich Metalsa, S.A. de C. V., Monterrey, Mexico Westport Fuel Systems, Vancouver, Canada
Andreas Wilhelm Kraut Rottenburg (since May 16, 2017)	Chairman and CEO of Bizerba SE & Co. KG, Balingen
Gerald Müller* Reutlingen (since August 3, 2017)	Trade union secretary of IG Metall Reutlingen-Tübingen
Paula Monteiro-Munz* Grabenstetten	Deputy Chairwoman of the Works Council of ElringKlinger AG
Prof. Hans-Ulrich Sachs Bremen	Managing Partner of betec Umformtechnik GmbH, Adelmannsfelden
Gabriele Sons Ratingen	Former member of the management board of ThyssenKrupp Elevator AG, Essen
Manfred Strauß Stuttgart	Managing Partner of M&S Messebau und Service GmbH, Neuhausen a.d.F. **Governance roles:** a) n/a b) Pro Stuttgart Verwaltungs GmbH, Stuttgart Pro Stuttgart Verkehrsverein, Stuttgart Eroca AG, Basel

* Employee representative
a) Membership in statutory Supervisory Boards as defined by § 125 AktG
b) Membership in comparable domestic and foreign control bodies as defined by § 125 AktG

Remuneration of the Supervisory Board

Total remuneration of the supervisory board of ElringKlinger AG amounted to EUR 702 k (2016: EUR 741 k) in the reporting period. In addition, travel expenses in the amount of EUR 1 k (2016: EUR 2 k) were reimbursed. The remuneration of the employee representatives in the Supervisory Board amounted to EUR 667 k in 2017 (2016: EUR 652 k) for their activities as employees.

Management Board

Dr. Stefan Wolf, Sindelfingen, Chairman	Responsible for Group companies, Legal Affairs, Human Resources, Investor Relations, Corporate Communications, Original Equipment Sales and the Aftermarket division
Theo Becker, Metzingen	Responsible for the corporate functions Cylinder-head Gaskets, Special Gaskets, Plastic Housing Modules/Elastomer Technology/Lightweighting, Shielding Technology, Exhaust Gas Purification Technology, E-Mobility, New Business Areas, Tooling Technology divisions as well as the corporate functions Quality and Environment, Materials Management, Logistics and ElringKlinger AG plants
Thomas Jessulat, Stuttgart	Responsible for the corporate functions Finance, Controlling, IT, Business Area Development and the Industrial Parks division

Governance roles in Supervisory Boards and other supervisory bodies

Dr. Stefan Wolf, Sindelfingen, Chairman	Chairman of the supervisory board of NORMA Group AG, Maintal, member of the supervisory board of ALLGAIER Werke GmbH, Uhingen
Theo Becker, Metzingen	Member of the Supervisory Board of E.G.O. Blanc und Fischer & Co. GmbH, Oberderdingen
Thomas Jessulat, Stuttgart	Chairman of the Supervisory Board of hofer AG, Nürtingen (since January 28, 2017)

Remuneration of the Management Board

The remuneration of the Management Board amounted to:

EUR k	2017	2016
Short-term fixed remuneration	1,391	1,354
Short-term variable performance-based remuneration	2,474	2,675
Long-term variable performance-based remuneration	-230	-249
Long-term variable share-based remuneration	-19	-165
Severance payments	0	2,743
Expenses from post-employment benefits	638	532
Total	**4,254**	**6,890**

In the financial year, total Management Board remuneration pursuant to § 314 (1) no. 6a sentence 1 to 4 HGB came to EUR 3,940 k (2016: EUR 4,565 k). The present value (DBO) of the pension provisions amounted to EUR 10,098 k (2016: EUR 8,893 k). Remuneration relating to the retirement of one of the members of the Management Board in accordance with § 314 (1) No. 6a Sentence 6dd HGB amounted to EUR 0 k in the financial year (2016: EUR 2,743 k). The following stock appreciation rights stem from long-term performance-related remuneration:

As part of the long-term variable remuneration, the members of the Management Board were granted stock appreciation rights until the financial year 2013. The previous model was terminated with the introduction of the new remuneration system for members of the Management Board. Tranches that are not yet exercisable remain unchanged. Stock appreciation rights refer to a right to a cash settlement, not, however, for shares of ElringKlinger AG. It was planned that 30,000 stock appreciation rights would be granted to each member of the Management Board on February 1 of each year beginning in 2013. The strike price was calculated using the arithmetic mean of the market price of ElringKlinger shares on the last 60 trading days prior to the grant date. The grant of the stock appreciation rights is subject to an investment by the Management Board members of one-tenth of the number of granted stock appreciation rights in shares of ElringKlinger AG. The holding period for the stock appreciation rights was four years. Within a period of two additional years after the holding period expires, a Management Board member may demand redemption of the stock appreciation rights. The redemption price is calculated using the average market price of ElringKlinger shares of the last 60 trading days prior to redemption. Redemption of the stock appreciation rights may be demanded only if the redemption price exceeds the strike price by 25%. The total redemption price per tranche is limited to two fixed annual salaries at the time of redemption. There are still 90,000 stock appreciation rights remaining from the last tranches issued in 2013, which are valid until February 1, 2019 and have an average strike price of EUR 24.54.

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

Provisions of EUR 16,916 k (2016: EUR 17,619 k) were recognized for pension obligations to former members of the management board, the management of merged companies, and their surviving dependents. The total remuneration of former members of the Management Board – including remuneration of former members of corporate bodies of merged companies – came to EUR 861 k (2017: EUR 3,601 k) during the financial year 2016. Remuneration of former members of the management board from the previous year contain severance payments of EUR 2,743 k, of which EUR 1,434 k was paid out in the reporting year.

The auditor fees amounted to:

EUR k	2017	2016
Audit of the annual financial statements	642	513
Other assurance services	33	4
Tax advisory	40	0
Other services	0	22
Total	**715**	**539**

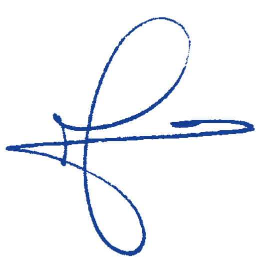
The audit services include fees for mandatory and voluntary audit of annual financial statements as well as fees for the mandatory audit of the consolidated financial statements, furthermore they contain fees for support services for enforcement proceedings.

In addition to the agreed-upon procedures, the other assurance services comprise fees for review work in connection with the non-financial report.

Declaration of compliance with the German Corporate Governance Code

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

Dettingen/Erms, March 22, 2018
Management Board



Dr. Stefan Wolf
Chairman/CEO

Theo Becker

Thomas Jessulat

Audit Opinion

"Independent auditor's report

To ElringKlinger AG

Report on the audit of the consolidated financial statements and of the group management report

Opinions

We have audited the consolidated financial statements of ElringKlinger AG and its subsidiaries (the Group), which comprise the consolidated income statement, and the consolidated statement of comprehensive income for the financial year from January 1, 2017 to December 31, 2017, consolidated statement of financial position as of December 31, 2017, consolidated statement of cash flows and consolidated statement of changes in equity for the financial year from January 1, 2017 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of ElringKlinger AG, which is combined with the management report of the Company, for the financial year from January 1, 2017 to December 31, 2017.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2017, and of its financial performance for the financial year from January 1, 2017 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

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

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate audit opinion on these matters.

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

Impairment testing of goodwill

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

According to IFRS standards, goodwill is not subject to amortization, however, there is an obligation to test it annually for impairment. This involves comparing the recoverable amount of the cash-generating unit with its carrying amount. The recoverable amount is the value in use. As a rule, the basis of these measurements is the present value of future cash flows of cash generating units to be measured to which goodwill was allocated. Measurements are based on budgets, which in turn are based on the budgets approved by the Management Board and Supervisory Board. The result of these measurements depends chiefly on the executive directors' estimates of the future cash flows of the respective companies as well as the discount rate applied and is thus subject to judgment.

Auditor's response:

With regard to the value in use determined by the executive directors, we examined the underlying processes used to calculate the value in use. With the help of internal valuation experts, we obtained an understanding of the underlying valuation models for the determination of the value in use in terms of methodology and calculation. We also examined whether the underlying budget planning reflects general and industry-specific market expectations. We performed a target-actual comparison of the historical forecast data and the actual results on a sample test basis to assess forecast accuracy. We examined the inputs used to measure value in use, such as the applied growth rates and the weighted average cost of capital were compared with publicly available market data and assessed taking into consideration the change in significant assumptions, including future market conditions.

Our audit procedures did not lead to any reservations relating to the assessment of goodwill impairment.

Reference to related disclosures:

For disclosures on the accounting policies applied for goodwill impairment, please refer to the "Accounting policies" section in the notes to the consolidated financial statements.

Accounting treatment of the hofer transaction

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

The review of the date of first-time consolidation and the related purchase price allocation of hofer AG, Nürtingen, and of hofer powertrain products GmbH, Nürtingen, was material for our audit of the consolidated financial statements because the assessment of the subject matter regarding the transfer of control and the related date of first-time consolidation is highly complex due to numerous contractual contingencies and includes a certain degree of judgment.

The purchase price was distributed over assets and liabilities in the purchase price allocation performed by the Company. Due to the complexity underlying the identification of hidden reserves and hidden liabilities in the context of the purchase price allocation and the judgment exercised as regarding the inputs used in the valuation, e.g., the applied weighted average cost of capital or the underlying useful life, the hofer transaction was a key audit matter of our audit.

Auditor’s response:

Based on the explanations of the Management Board, we reviewed their assessment regarding the day of the transfer of control of the acquired company shares using the contractual basis and contingencies as well as the capital measures implemented.

We particularly assessed the sequence of the steps required for the share deal, legal effectiveness of capital increases and the associated creation of new shares as well as the question, whether potential voting rights already emerged before the legal creation of the shares, which could have brought forward the date of first-time consolidation.

With the help of internal valuation experts, we scrutinized the revaluation of statement of financial position prepared as of the date of first-time consolidation, particularly regarding the capitalized assets and liabilities as well as of contingent liabilities. In particular, we reviewed the identification and measurement of intangible assets capitalized in connection with the transaction. Furthermore, we obtained an understanding of the underlying measurements both in terms of methodology and calculation. We examined the valuation inputs used, for example, the growth rates and the weighted average cost of capital were compared with publicly available market data and assessed taking into consideration the change in significant assumptions, including future market conditions.

Moreover, we reviewed the disclosures in the notes to the consolidated financial statements for completeness and checked whether they were appropriately presented.

Reference to related disclosures:

The Group has made disclosures on the contents and sequence of the share deal of hofer AG, Nürtingen, as well as of hofer powertrain products GmbH, Nürtingen, in the “Significant events” and “Net assets” sections of the combined management report as well in the “Basis of consolidation” section in the notes to the consolidated financial statements.

Disposal of shares in Hug Engineering AG, Elsau/Switzerland

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

In connection with further focus on the core business or strategic future orientation, the ElringKlinger Group was in the process of disposing the Hug group. In this context, assets and liabilities of the Hug subgroup allocated to the area of exhaust gas purification were classified as a disposal group (IFRS 5) with effect from December 1, 2017. In our opinion, this subject matter was of particular significance due to the underlying complex contractual agreements and the related definition in terms of content, definition of various IFRS regulations as well as significant implications on the representation of the subject matter in the consolidated financial statements.

Auditor's response:

For the audit of proper accounting treatment of assets and liabilities held for sale of the disposal group, we reviewed the underlying contractual basis as well as approval process from the anti-trust authorities. We obtained an understanding of the fulfillment of requirements for the classification as a disposal group (IFRS 5), the resulting implications on the measurement of assets and liabilities and the recognition and disclosure requirements in the notes to the consolidated financial statements using relevant IFRS criteria. In particular, we reviewed the definition from Group accounting for assets and liabilities of the disposal group by the Company as well as the related IFRS measurement provisions to be applied.

Our audit procedures did not lead to any reservations regarding the accounting for the disposal of the Hug group.

Reference to related disclosures:

For disclosures on the disposal group, please refer to the "Assets and liabilities held for sale" section in the notes to the consolidated financial statements of the Company.

Other information

The Supervisory Board is responsible for the supervisory board report. In all other respects, the executive directors are responsible for the other information. The other information comprises the other components of the annual report, particularly the "Responsibility Statement" pursuant to Section 297 (2) Sentence 4 HGB, the Section "Foreword of the Chairman of the Management Board" of the annual report and the report of the Supervisory Board pursuant to Section 171 (2) AktG ["Aktiengesetz": German Stock Corporation Act]. We received a copy of this 'Other information' by the time this auditor's report was issued.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other legal and regulatory requirements

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

We were elected as auditor by the Annual General Meeting on May 16, 2017. We were engaged by the Supervisory Board on September 4, 2017. We have been the auditor of ElringKlinger AG without interruption since financial year 2013.

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

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Frank Göhner."

Stuttgart, March 22, 2018
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Göhner	Vögele
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report, which has been combined with the management report of ElringKlinger AG, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Dettingen/Erms, March 22, 2018
Management Board

Dr. Stefan Wolf
Chairman/CEO

Theo Becker

Thomas Jessulat