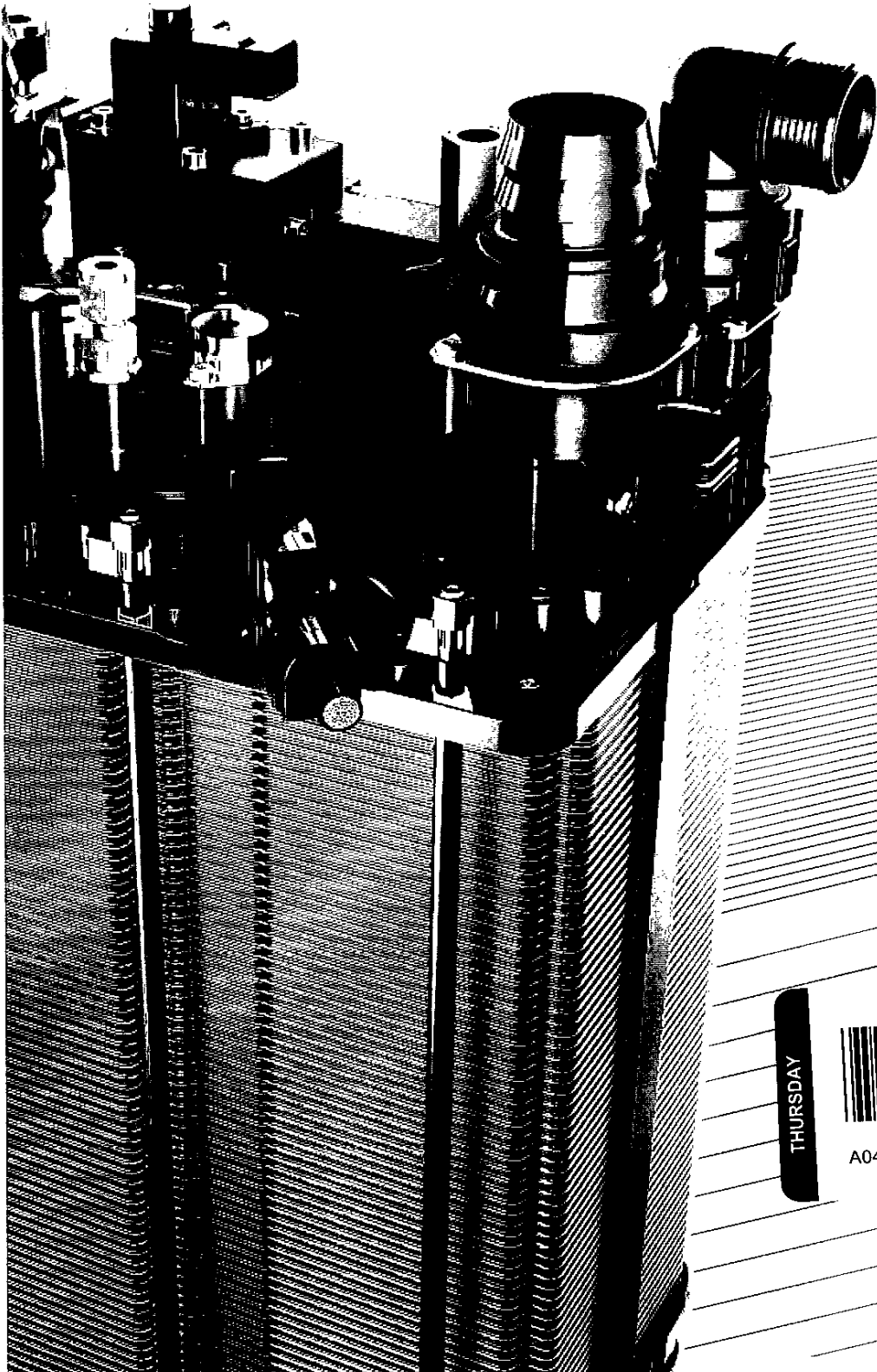


# ANNUAL REPORT 2019



THURSDAY



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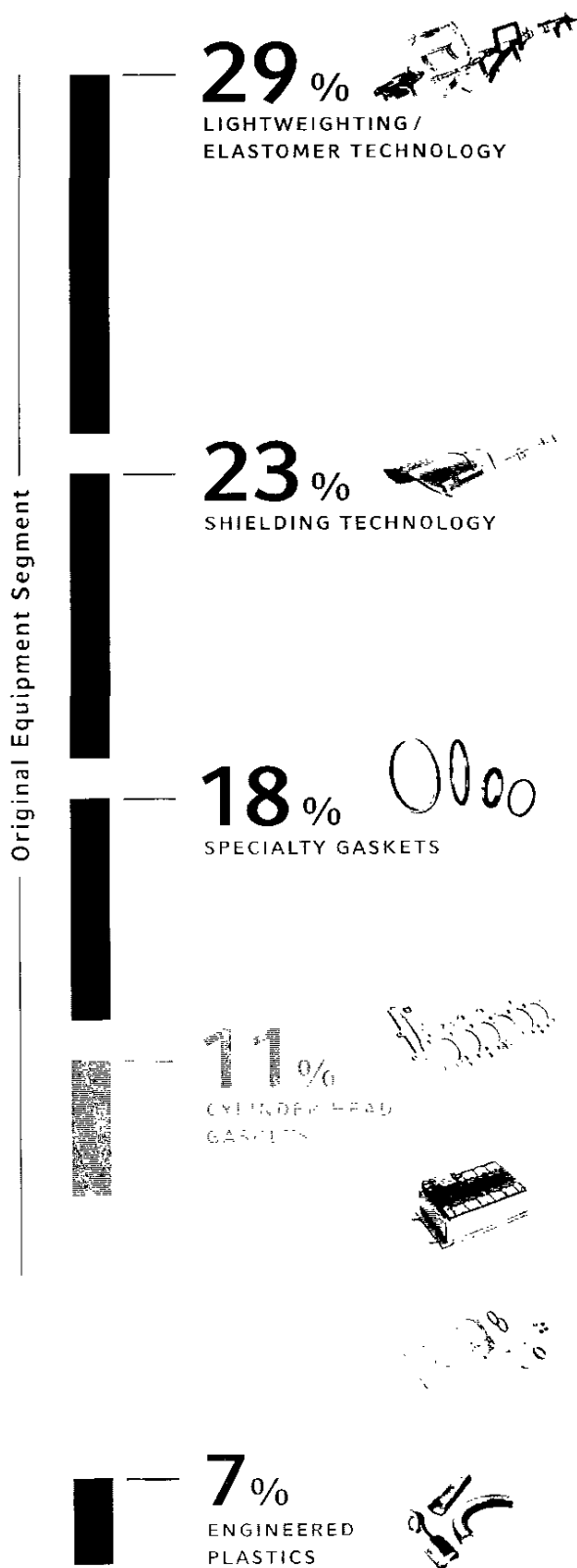
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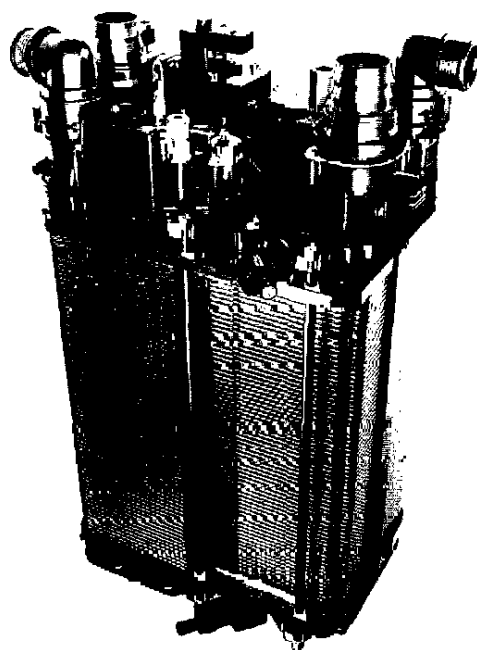
**elringklinger**

## Key areas of business



## Experience mobility – Drive the future.

As an independent and globally positioned supplier, ElringKlinger is a strong and reliable partner to the automotive industry. Combining superior quality, outstanding technologies, and exceptional innovatory prowess, the Group is actively shaping sustainable mobility. Whether it's a combustion engine, hybrid drive, or all-electric technology – ElringKlinger offers matching solutions for all types of drive systems in passenger cars and commercial vehicles. The company's advanced lightweighting concepts help to lower the overall weight of vehicles. This, in turn, reduces fuel consumption and CO<sub>2</sub> emissions, while alternative drive systems benefit from an extended range. In the field of battery and fuel cell technology as well as electric drive units, the Group was among the frontrunners when it came to positioning itself as an e-mobility specialist with regard to both components and systems. At the same time, ElringKlinger has been steadily evolving its sealing technology for a wide range of applications. The Group applies its pronounced expertise in temperature and acoustic management to shielding technology products. Its portfolio is complemented by engineering services, tooling technology, and products made of high-performance plastics – also for industries beyond the automotive sector – as well as a successful aftermarket business. The ElringKlinger Group employs more than 10,000 people at 45 sites around the globe.



The image on the cover depicts an ElringKlinger fuel cell stack consisting of metallic bipolar plates, membrane electrode assemblies, seals, and end plates as well as a tensioning system.

The plastic media module performs important system functions by integrating sensors, valves, and water management, for example.

In addition to standardized fuel cell stacks with power ratings of up to 150 kW, ElringKlinger offers complete fuel cell systems as well as customized solutions based on almost 20 years of R&D experience within this area. The stacks can be used in cars, buses, and commercial vehicles, but also in trains, ships, and aircraft.

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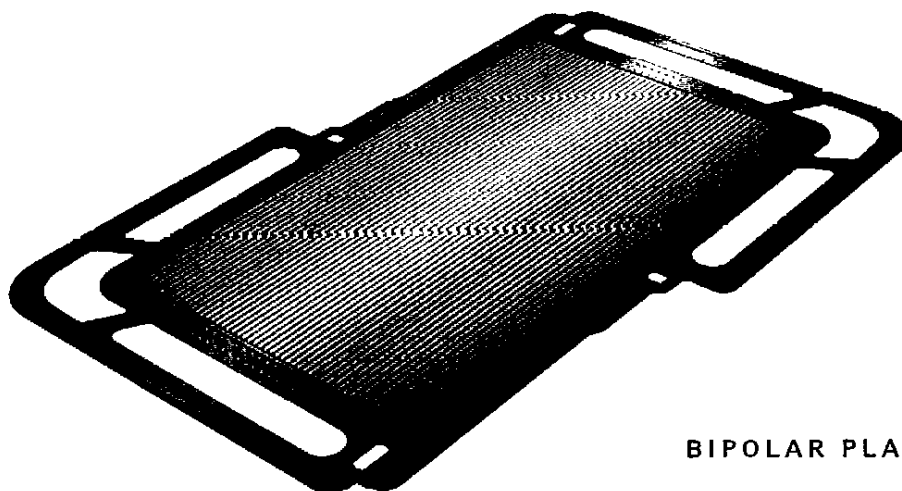
### COMBINED MANAGEMENT REPORT

## 01

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### BIPOLAR PLATE

The image shows a metallic bipolar plate, which is a core element within the fuel cell system. Layered in stacks, bipolar plates provide the hydrogen and oxygen supply to the cells and distribute the coolant. Find out more in the article entitled »Cell growth« in our magazine »pulse«.

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## The Management Board of ElringKlinger AG

### THEO BECKER

#### Corporate units

Purchasing  
Real Estate & Facility  
Management  
Tool Shop/Technology

#### Business units

Battery Technology  
Fuel Cell Technology  
Drive Train

### DR. STEFAN WOLF (Chairman)

#### Corporate units

Legal & Compliance  
Human Resources  
Strategic Communications  
Marketing & Communications  
Business Development  
Original Equipment Sales

#### Business units

Aftermarket

#### Group companies

### THOMAS JESSULAT

#### Corporate units

Finance  
Operational IT  
Strategic IT  
Logistics

#### Business units

Industrial Parks

### REINER DREWS

#### Corporate units

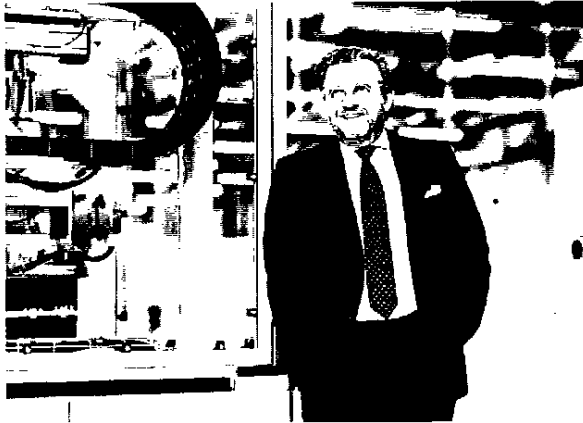
Production  
Quality & Environmental  
Management

#### Business units

Cylinder-head Gaskets  
Specialty Gaskets  
Lightweighting/Elastomer  
Technology  
Shielding Technology

#### Domestic plants

of the Original Equipment  
segment



Dr. Stefan Wolf, CEO/Chairman



Reiner Drews, COO and Theo Becker, CTO



Thomas Jessulat, CFO

## Letter to Shareholders

Dear Shareholders,  
Ladies and gentlemen,

The world of today holds many challenges in store, particularly for the automotive industry. The transformation within our sector is far-reaching, and we are currently experiencing a period of significant change. Besides autonomous driving and connectivity, the focus is firmly on drive systems.

It was important that we at ElringKlinger took an early lead in preparing for this transition. We embraced new technologies long before the issue of transformation had even surfaced in the public domain. Indeed, we have been involved in fuel cell development for some 20 years now and have been mass-producing battery components for nearly a decade. In doing so, we have established ourselves as a supplier in the field of e-mobility and have carved out many opportunities. In Asia, for instance, we are currently contributing to more than 20 development projects in the area of fuel cell technology. Elsewhere, we have already secured two major orders for battery systems, the first of which will be ramped up at the end of this year. The current year will also see the launch of initial series production in the field of electric powertrains. What is more, we are committed to further exploiting this potential in the area of alternative drive technology.

At the same time, we have developed innovative solutions for new types of drive systems in our long-standing areas of business. In this context, we were able to successfully contribute our expertise and know-how in combustion engine technology to such projects. Our Specialty Gaskets division, for instance, supplies disk carriers for an electric vehicle developed by a German sports car manufacturer. Elsewhere, our Lightweighting/Elastomer Technology division mass-produces battery seals for one of Germany's premium carmakers. Examples such as these illustrate that we are not only supplementing our range with innovative products in the field of alternative drive systems, but also continuing to advance in our traditional areas of application in support of next-generation mobility.

We have made substantial investments in recent years in an effort to position ElringKlinger as a global player. Today, we operate with the requisite capacity levels in all of the major automotive markets around the world. This expansion was essential in order to ensure that the Group can remain successful in a globalized world of manufacturing. This is demonstrated not least by the contracts we have been able to secure for structural lightweight components. At the same time, we have invested in modern machinery in order to implement technological advances in the fields of development and production. At the height of this spending program, capital expenditure on property, plant, and equipment and investment property amounted to more than 10% of Group revenue.

Today, we are reaping the rewards of these measures. In view of the fact that ElringKlinger combines the benefits of globalization and state-of-the-art operations, we are able to manage growth in our classic fields of business in such a way as to unlock potential in the area of alternative technologies. For this reason, too, the investment ratio in the financial year under review amounted to 5.3%. It was due to this spending discipline and the efficient management of working capital management that operating free cash flow increased significantly in the period under review. While the figure had still been in negative territory in 2018, it improved by more than EUR 260 million to EUR 176 million in the reporting period. As a result, we reduced our net financial liabilities substantially in order to continue to guide the Group safely and purposefully through the process of transformation. In the coming years, we will continue to pursue this objective in a determined manner as we move forward.



Group revenue rose by 1.6% in 2019, taking the total to EUR 1,727 million, while global automobile production shrank by 5.6%. This disproportionately large increase in revenue illustrates that our choice of product portfolio is a wise one. Having initiated rapid countermeasures in response to persistently strong demand in North America, we recorded positive effects on earnings as our action plan proved successful in 2019.

The route charted for the future includes the goal of a sustained improvement in our earnings performance. Although we achieved an acceptable result with an EBIT margin before purchase price allocation of 3.7% in a difficult market environment – prime examples include economic weakening within our industry, more pronounced trade conflicts, elevated commodity prices, and protracted negotiations over Brexit – we are far from satisfied with this performance. After all, our ambition is to translate our high-tech product solutions and process expertise into solid profits. With this in mind, we will continue to pursue measures aimed at raising efficiency levels in 2020.

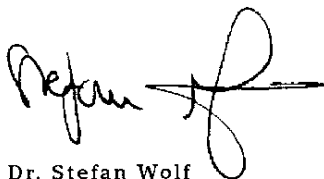
In the financial year just ended, we divested ourselves of our industrial park in Hungary. The disposal was a logical step forward in the context of focusing on our core business. In doing so, we reached another milestone in the strategic orientation of our business towards promising fields of the future.

ElringKlinger's success is heavily dependent on the people who make this performance possible. We would not be in a position to tackle the challenges and tasks in such an accomplished manner and steadily evolve ElringKlinger as a Group were it not for the expertise, dedication, and courage of our employees. Allow me to express my sincere thanks to our entire team, also on behalf of my fellow Board members. My gratitude also goes to you, our valued shareholders, for the trust you have placed in the ElringKlinger Group.

We will continue to experience challenges within the market over the course of this financial year. It will not be an easy year. The global spread of the coronavirus pandemic will leave noticeable traces in respect of economic performance. Many vehicle manufacturers in Europe and North America have now announced or already implemented plant closures, as a result of which we have also had to adjust our production in line with demand during the second half of March. At present, it is impossible to predict the duration of plant closures by manufacturers. The same applies to potentially more extensive measures in the ensuing weeks – also from a political perspective. ElringKlinger has taken appropriate measures to mitigate the risks to the largest extent possible.

ElringKlinger is very well positioned when it comes to the future of mobility. The transformation within this industry offers tremendous opportunities in the field of new drive technology – especially for those who have prepared themselves for it. We at ElringKlinger are primed and ready. I invite you to explore this for yourself in our annual report and the accompanying magazine, which I hope you will enjoy reading.

Dettingen/Erms, March 2020  
Yours sincerely,



**Dr. Stefan Wolf**  
Chairman of the Management Board

## Report by the Supervisory Board 2019

The financial year just ended again proved to be a challenging period not only for ElringKlinger but for the automotive industry as a whole. Key markets such as China saw a downturn in demand. Trade disputes and geopolitical risks led to uncertainty and higher costs, e.g., due to the introduction of new tariffs. ElringKlinger, too, was not immune to these developments. In order to meet the challenges, business processes were optimized and costs were scaled back comprehensively. The main topics in 2019 included the sustained improvement of cash flow, the focus on innovative products, and continuous improvement in all areas.

The Supervisory Board of ElringKlinger AG discharged the full range of duties incumbent on it according to the law, the Articles of Association, the rules of procedure, and the German Corporate Governance Code. It monitored and advised the Management Board in its governance of the company. Furthermore, the Management Board briefed the Supervisory Board in an appropriate manner on key performance indicators, occurrences, and circumstances as part of monthly written reports. In addition to the monthly written reports and the Supervisory Board meetings, as in previous years, the Chairman of the Supervisory Board remained in regular contact with the Chairman of the Management Board. These ongoing exchanges covered the current economic situation, important business developments, and other events of particular significance. The Chairman of the Supervisory Board informed his Board colleagues of significant occurrences. Thus, the Supervisory Board was always informed about intended business policies, corporate planning, profitability, and the situation of the company and the Group. The Supervisory Board was involved at an early stage in all decision-making processes deemed to be of fundamental importance to the company. These decisions were the subject of thorough and in-depth discussion with the Management Board. To the extent that decisions or measures taken by the management required the approval of the Supervisory Board, such approval was obtained accordingly.

The Supervisory Board convened for five meetings in the reporting period. At the meetings, the Management Board provided a detailed overview of business developments, particularly as regards the direction taken by revenue and earnings as well as the cash flows and financial performance of the Group, ElringKlinger AG, and its subsidiaries. The

Management Board presented its latest projections together with its evaluation of the economic, market, and competitive situation. In addition, the Management Board supplied regular information on the current risk situation, relevant compliance-related issues, significant legal disputes, and other matters of critical importance. Last but not least, reporting encompassed strategic projects. The issues were presented and discussed during the sessions of the full Supervisory Board. A particular focus of the Supervisory Board's activities in the past financial year was the improvement of profitability and optimization programs at individual Group companies.

In the year under review, the Supervisory Board dealt with the following topics at its meetings, alongside the recurring agenda items already mentioned:

- On March 22, 2019, the Supervisory Board focused on the annual financial statements and the combined management report of ElringKlinger AG and the Group as of December 31, 2018, the 2018 annual report, including the Supervisory Board report, the corporate governance report, the compensation report, the combined non-financial statement, and the auditor's report compiled by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The Supervisory Board adopted the annual financial statements of ElringKlinger AG, endorsed the consolidated financial statements together with the combined management report, and approved the non-financial statement. It approved the items on the agenda for the Annual General Meeting.
- At the Supervisory Board meeting held on May 16, 2019, which took place immediately upon conclusion of the Annual General Meeting, Messrs. Klaus Eberhardt and Markus Siegers were elected Chairman and Deputy Chairman of the Supervisory Board respectively. The course of the Annual General Meeting was also discussed.
- At the extraordinary meeting convened on July 24, 2019, the Management Board explained the cost-cutting program and the effects of US customs policy on the US-based group companies. Detailed reports were given on the major projects currently under way in the field of new drive technologies.



**Klaus Eberhardt**  
Chairman of the Supervisory Board

- At its meeting on September 20, 2019, the Supervisory Board also received reports on the status of the cost reduction program and the new ElringKlinger Operating System (EKOS). It also dealt with the draft of the revised German Corporate Governance Code.
- As scheduled, the agenda for the meeting on November 27, 2019, included the 2020 budget and medium-term business planning. The Supervisory Board also dealt with matters relating to the audit and compliance report. The Supervisory Board decided to commission Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft to assist it in reviewing the combined non-financial statement. In addition, the full Supervisory Board was informed about the Audit Committee's deliberations with regard to the forthcoming audit of the annual financial statements.

*All members of the Supervisory Board usually attended the meetings, unless individual members were prevented from attending for good cause. In this context, each one*

*Supervisory Board member was unable to attend the meetings on July 24, 2019, and September 20, 2019, and two Supervisory Board members were unable to attend the meeting on November 27, 2019.*

*The Audit Committee convened on two occasions during the year under review. The meeting in March 2019 was devoted to in-depth discussion relating to the auditor's report on the 2018 annual financial statements. The agenda of the November 2019 meeting convened by the Audit Committee included the task of defining the focal points of the audit for the financial year 2019 as well as the supervision of the financial reporting process and the internal control and compliance system. Both meetings were attended by the auditors of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft who were responsible for the audit. In particular, the Audit Committee also monitored the independence and efficiency of the auditor. Additionally, as in previous years, the CEO reported regularly to the Chairman of the Audit Committee on the results of internal audits.*

The Personnel Committee met on two occasions: September 20, 2019, and November 27, 2019. Topics included the review of the compensation system for the Management Board and Supervisory Board, taking into account the comprehensive new provisions of the German Corporate Governance Code and the Act on the Transposition of the Second Shareholder Rights Directive (ARUG II). A specialized consulting firm was commissioned to prepare an expert opinion. The Mediation Committee did not have to be convened during the fiscal year just ended.

There were no conflicts of interest during financial year 2019 between Supervisory Board members and the company.

The provisions of the Corporate Governance Code, and in particular the scheduled amendment of the Code in 2019, were discussed as described in plenary sessions. At the Supervisory Board meeting in November, the declaration of compliance with the German Corporate Governance Code was approved after extensive discussion. The declaration was then made available to shareholders on the company's website on November 29, 2019.

In December 2019, the Supervisory Board, as stipulated by the provisions set out in the German Corporate Governance Code, conducted an efficiency review in respect of its activities on the basis of a questionnaire issued to all members. In this context, there was no need for action.

The annual financial statements of ElringKlinger AG and the corresponding consolidated financial statements with the combined management report for financial year 2019, as presented by the Management Board, were audited by the auditors Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The audit mandate had been issued by the Supervisory Board in accordance with the appointment of the auditor by the Annual General Meeting on May 16, 2019. In accordance with Section 315e of the German Commercial Code (HGB), the consolidated financial statements of ElringKlinger AG were prepared on the basis of International Financial Reporting Standards (IFRS). The auditing firm issued unqualified audit opinions for the annual financial statements of ElringKlinger AG as well as for the consolidated financial statements, including the combined management report, for financial year 2019. The Supervisory Board was in possession of the documents relating to the financial and consolidated financial statements as well as the two audit reports compiled by the auditor. The aforementioned documents were studied in depth by the Audit Committee and the

Supervisory Board as a whole before being discussed at length and examined in the presence of and in consultation with the responsible auditors. The Supervisory Board concurred with the outcome of the audit. No objections were raised. At its meeting on March 26, 2020, the Supervisory Board adopted the annual financial statements of ElringKlinger AG and endorsed the consolidated financial statements together with the combined management report. Additionally, the Supervisory Board approved the combined non-financial statement.

The Supervisory Board would like to thank the Management Board and all members of staff at ElringKlinger AG and its subsidiaries in Germany and abroad for their active contribution and solid, constructive cooperation.

Dettingen/Erms, March 26, 2020

On behalf of the Supervisory Board



Klaus Eberhardt  
Chairman of the Supervisory Board

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# ElringKlinger and the Capital Markets

Despite a number of political and economic uncertainties, global stock markets managed to advance significantly year on year in 2019. This upward trend was reflected to a slightly lesser extent by cyclical equities such as those associated with the automotive industry. Over the course of fiscal year 2019, ElringKlinger again gave a full and transparent account of the Group's business performance and its prospects for the future. The company engaged in regular dialogue with capital market players as part of investment conferences and road shows.

## Stock markets buoyed by expansive central bank approach and trade deal in 2019

Stock markets rallied quite significantly as early as the first quarter, fueled by the prospect of an expansive monetary policy adopted by central banks as well as the de-escalation of the international trade conflict between the United States and China. This positive trend continued in the second quarter. Equity markets were impacted only temporarily by negative factors such as disappointing economic data from China in combination with persistently weak production output within the automobile sector as well as a delay to the decision on Brexit. In the third quarter, negative influencing factors were largely outweighed by positive effects. On the upside, two reductions in benchmark interest rates by the US Federal Reserve, the resumption of the ECB's bond buying program, robust US labor market data, and China's interest rate reform helped to ease concerns among investors. On a less positive note, the situation deteriorated in August with the introduction of punitive tariffs in China and the United States. The fourth quarter saw substantial gains on the back of an initial partial agreement between the United States and China, the passing of the Brexit deal by the House of Commons in the United Kingdom, and a third reduction in benchmark interest rates in the United States.

Against this backdrop, Germany's stock market recorded significant gains in 2019. Its blue chip index, the DAX, rose by 25.5% within a twelve-month period to reach a two-year high. Representing the market's mid- and small-caps, the MDAX (31.2%) and the SDAX (31.6%) recorded even larger gains. By contrast, the Prime Automobile Performance Index, which covers the most important equities within the German automobile and automotive supply industry, rose by only 15.5%. This was the result of divergent trends within the

vehicle industry as a whole. Analyzing market data in more detail, the share prices of automobile manufacturers continued to rise, in some cases significantly, whereas stocks of some of the automotive suppliers trended downward, as in the previous year.

## ElringKlinger share gains 20% during trading year

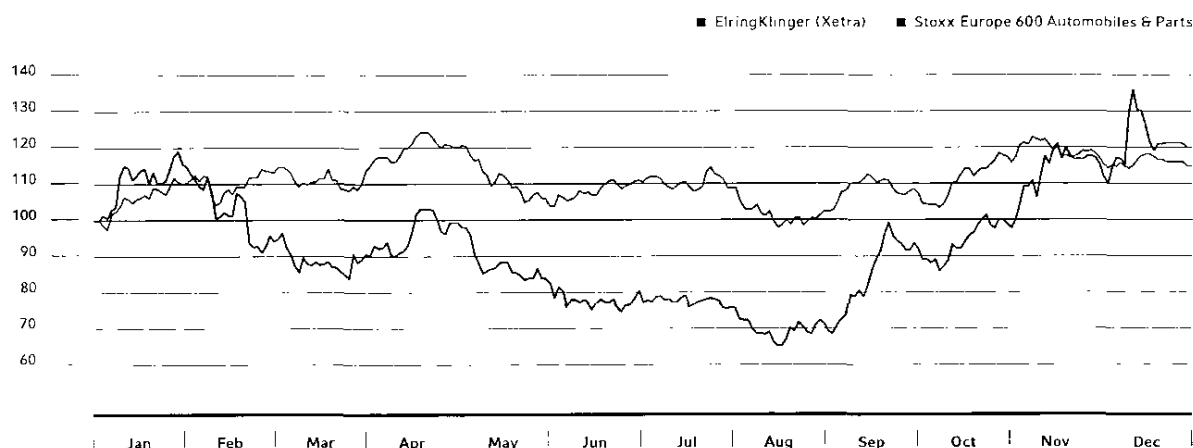
In line with the general market trend, ElringKlinger's share gained some forward momentum at the beginning of the year. News of the successful conclusion of a syndicated loan agreement was well received by the markets in February. Subsequently, however, the company's shares came under pressure following the announcement of ElringKlinger's preliminary annual results. The publication of the Group's results for fiscal year 2018 and the outlook for 2019 prompted a recovery in its share price, taking ElringKlinger's stock to EUR 6.06 at the end of the first quarter.

Signs pointing to a global slowdown in the automobile sector became more noticeable over the course of the second quarter. The resulting uncertainty among investors prompted a sustained dip in demand for shares issued by vehicle manufacturers and suppliers. This coincided with the publication of ElringKlinger's annual results at the beginning of May. At the end of the first half of 2019, the company's share price gained some ground again and closed at EUR 5.32.

In the run-up to the publication of the results for the first half of the financial year, scheduled for early August, ElringKlinger's shares then fell below the supporting level of EUR 5.00, thus generating more pronounced sell-side pressure. In mid-August, the share recorded its annual low of EUR 4.42. Having bottomed out, the share price recovered

### ElringKlinger's share price performance (XETRA) from January 1 to December 31, 2019 (indexed)

in %



steadily and returned to a level of between EUR 6.00 and EUR 7.00 at the end of the quarter.

The fourth quarter saw a more or less sustained upturn in the company's share price. Against the backdrop of a favorable trading environment, it climbed to an annual high of EUR 9.25 in mid-December, supported to some extent by a

new assessment by analysts as well as press releases published in November with regard to a further high-volume lightweighting contract and an award in recognition of the company's fuel cell system. Overall, shares issued by ElringKlinger AG made a gain of 20.0% over the course of the 2019 trading year, rising from EUR 6.80 to EUR 8.16.

### Key Indicators for ElringKlinger's Stock

	2019	2018
Earnings per share* IFRS* (after non-controlling interests, in EUR)	0.06	0.69
Shareholder's equity per share as of Dec. 31 (in EUR)	13.48	13.46
High (in EUR) <sup>1</sup>	9.25	19.37
Low (in EUR) <sup>1</sup>	4.42	6.76
Closing price as of Dec. 31 (in EUR) <sup>1</sup>	8.16	6.80
Price earnings ratio as of Dec. 31	136.0	9.86
Dividend per share (in EUR)	0.00 <sup>2</sup>	0.00
Average daily trading volume (German stock exchanges; volume of shares traded)	104,900	152,800
Average daily trading value (German stock exchanges; in EUR)	662,400	1,894,700
Market capitalization as of Dec. 31 (EUR millions) <sup>1</sup>	517.0	430.8

<sup>1</sup> Xetra trading

<sup>2</sup> In view of the net loss reported by ElringKlinger AG for the annual period, the dividend for the 2019 financial year will be suspended.

### Trading volume in 2019 down on previous year

The trading volume of the ElringKlinger share fell short of the prior-year level in fiscal year 2019. The average daily volume of ElringKlinger shares traded was 104,900 (152,800) units. Correspondingly, the average daily value of ElringKlinger shares traded on German stock exchanges was approx. EUR 0.7 (1.9) million, i.e., lower than in the previous year. Despite the lower trading volume compared to the previous year, ElringKlinger's share again offered sufficiently high levels of liquidity for institutional investors to conduct larger share transactions.

### Big response to 2019 AGM

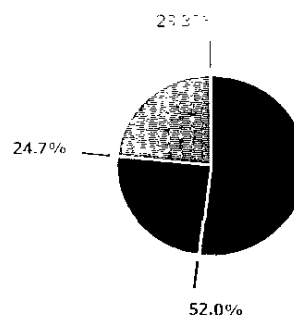
In his speech at the Annual General Meeting of ElringKlinger AG, which was held on May 16, 2019, CEO Dr. Stefan Wolf looked back on a fiscal year that was dominated by challenging conditions – both for the automobile industry and for ElringKlinger. In view of the earnings performance in fiscal year 2018, the Management Board and the Supervisory Board jointly decided to depart from the established dividend policy and suspend the dividend for fiscal year 2018. This was aimed at strengthening the Group's internal financing for its transformation process. The shareholders of ElringKlinger AG voted by a large majority in favor of the proposed resolutions on the approval of the actions of the Management Board and Supervisory Board. In addition, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, was appointed as the auditor for fiscal year 2019.

Based on the earnings situation in the 2019 financial year, the Management Board and Supervisory Board have jointly decided to depart from the Group's previous dividend policy and to suspend the dividend for the 2019 financial year.

### Shareholder structure: more private investors than in the previous year

There was no change in the ratio of shares in free float to those in family ownership. At the end of the year, the ownership interest held by the Lechler families amounted to 52.0% of the 63,359,990 no-par-value shares issued in total. Within the free float (48.0%), the company saw a shift in the overall structure towards private investors. They held 23.3% (21.8%) of shares at the end of the year, while institutional investors accounted for 24.7% (26.2%) of the ownership interests.

### Shareholder Structure as of December 31, 2019



- Estate of Lechler families
- Institutional investors
- Private investors

### Engaged in dialogue with the capital markets

ElringKlinger continued to take an active approach to communicating with key players within the capital markets over the course of fiscal year 2019. The company is committed to reporting on current and future company and market developments regularly, extensively, and in a timely and transparent manner. The company takes a multichannel approach when it comes to market communication. For example, it presented itself at national and international capital market conferences and road shows in Europe and North America during the period under review.

ElringKlinger also regularly participates in events held at local Sparkasse and Volksbank financial institutions in order to establish direct contact with private investors and regional asset managers. In February 2019, the company took part in an event in Metzingen, Germany, organized by Schutzgemeinschaft der Kapitalanleger e.V. (SdK) that attracted an audience of around 120 interested guests. After the presentation, attendees were given the opportunity to discuss specific matters with company representatives.

As part of the International Motor Show (IAA) held in Frankfurt/Main in September 2019, ElringKlinger's Investor Relations team engaged in extensive dialogue with investors, analysts, and representatives of the business press, in addition to conducting guided tours of the exhibition booth. At the heart of the company's trade show efforts were fuel cell systems, products for electric drivetrains as well as systems and components in the area of battery technology.

\* Cf. glossary

As part of its presentation of quarterly results, ElringKlinger regularly organized conference calls for institutional investors and analysts, which included live online coverage. The audio recording of the analysts' conference and the presentation were made available online on the ElringKlinger website after the respective events. ElringKlinger also holds a conference for journalists and a separate event for analysts in order to present its annual financial results. At the end of the conference, the Management Board of ElringKlinger AG engages in dialogue with those in attendance.

ElringKlinger traditionally also offers institutional investors and financial analysts the chance to meet with the company on ElringKlinger's premises in order to familiarize them first-hand with ElringKlinger's latest technologies and production processes.

#### Multiple awards for the ElringKlinger annual report

ElringKlinger AG's 2018 annual report won several awards as part of major communication and design competitions. It gained a gold medal in the Automotive category of the Fox Finance Award. In addition, ElringKlinger was honored with the Good Design Award in the Graphic Design category. As part of the Automotive Brand Contest, ElringKlinger was again among the winners in the Corporate Publishing category. The company also received a gold medal for its annual report in the Automobiles & Components category of the LACP (League of American Communications Professionals) Vision Award.

#### Growing importance of sustainability in capital markets

Issues relating to the environment, climate, and sustainability have recently become increasingly important. Sustainability has also become an integral part of investment efforts in the financial sector. Alongside financial criteria, both environmental and social aspects are also of relevance to a growing number of institutional and private investors. In addition, they often tend to make their investment decisions on the basis of whether a company has embraced the recommendations set out in the German Corporate Governance Code (GCGC).

ElringKlinger shares have become an interesting investment proposition for these groups of investors. As a future-focused company committed to a sustainable approach to business, the ElringKlinger Group consistently operates in line with applicable quality and environmental standards as well as the latest GCGC requirements. At the same time, the Group's pioneering portfolio of products targeted at the key issue of alternative drive technology is making a sizeable contribution when it comes to cutting greenhouse gases and other pollutants.

In April 2019, ElringKlinger took part in the German CSR Forum in Stuttgart as a guest speaker, the theme of which was *The Economics of Climate Change and Sustainable Financial System*. Following a brief presentation, company representatives were on hand to answer questions from interested members of the audience.

ElringKlinger's current sustainability report, which is available on the Group's website, provides a detailed account of its commitment to sustainability. The impacts of the company's operations on environmental matters, social and employee-related matters, respect for human rights, and anti-corruption and bribery matters are discussed separately in the non-financial statement issued by the ElringKlinger Group (available online at [www.elringklinger.com/2019-nfb-en](http://www.elringklinger.com/2019-nfb-en)).



**Key Indicators for ElringKlinger's Stock**

International Security Identification Number	DE0007856023
German Securities Identification Code	785602
Exchange symbol	ZIL2
Ticker symbol Bloomberg	ZIL2
Ticker symbol Reuters	ZILGn.DE
Share capital	EUR 63,359,990
Number of shares outstanding	63,359,990
Stock exchanges	Xetra and all German exchanges
Market segment	Regulated Market
Transparency level	Prime Standard

## Corporate Governance Report

The joint report issued by the Management Board and the Supervisory Board of ElringKlinger AG with regard to corporate governance\*, including the Declaration of Conformity passed on November 29, 2019, in respect of the Code, has

been published online at [www.elringklinger.com/en/company/corporate-governance](http://www.elringklinger.com/en/company/corporate-governance) in accordance with Section 3.10 of the German Corporate Governance Code in connection with the Corporate Governance Statement.

## Sustainability report

Detailed information and key indicators relating to human resources, social commitment, the environment, and quality can be found in ElringKlinger's annual sustainability report.

It is likely to be published in mid-2020 on the Group's website at [www.elringklinger.com](http://www.elringklinger.com) (Sustainability section).

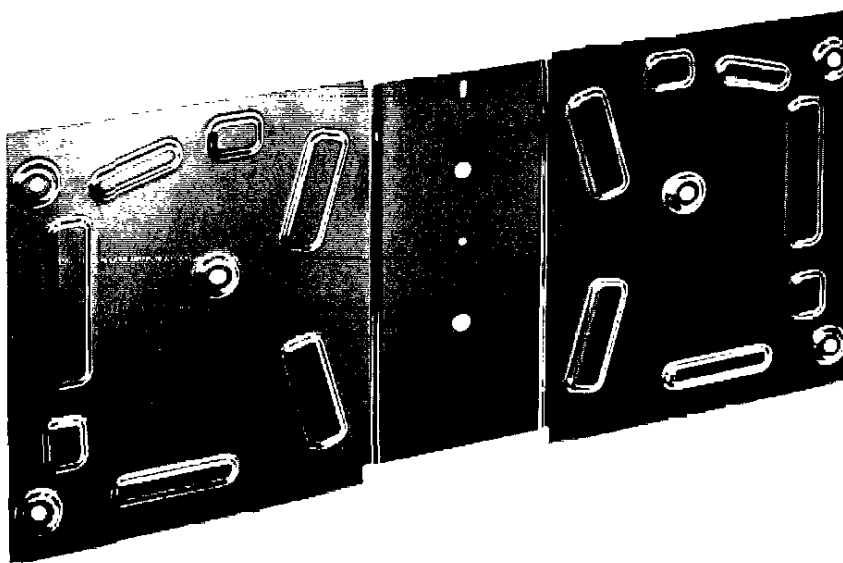
\* Cf. glossary

# Combined Management Report of ElringKlinger AG

FOR THE FINANCIAL YEAR 2019

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## BATTERY SHIELD

Temperature management plays a particularly important role in the field of e mobility. This stainless steel battery shield reliably protects the environment of the lithium-ion battery from potential thermal chain reactions. Read more in our article »The best of both worlds« in »pulse« magazine.

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# Overview of ElringKlinger's Activities and Structure

Operating at a global level, ElringKlinger is an independent automotive supplier and development partner to the vehicle industry. The company develops, produces, and supplies components for passenger cars and commercial vehicles regardless of the type of drive system used. Building on its innovations, ElringKlinger is helping to shape the future of mobility, reduce emissions, advance alternative drive technologies, and bring greater efficiency to the classic field of transport.

## Company profile

Headquartered in Dettingen/Erms, Germany, the ElringKlinger Group is an independent, globally positioned development partner and series supplier to the automotive industry. Today<sup>1</sup>, around 10,400 employees at 45 sites worldwide are making a committed contribution to the company founded in 1879.

Its product portfolio consists of components for the drivetrain, body, underbody, chassis, and exhaust system in passenger cars and commercial vehicles. This encompasses lightweighting concepts, sealing technology, and shielding solutions as well as battery and fuel cell systems. Among the Group's customers are the majority of the world's automobile and engine manufacturers. Marketed under the "Elring – Das Original" brand, ElringKlinger also supplies an extensive range of spare parts. The portfolio is complemented by an array of products made of high-performance plastics, which are also destined for markets beyond those covered by the automobile industry. Correspondingly, the Group's operating activities are represented primarily by the segments Original Equipment, Aftermarket, and Engineered Plastics.

## Business model and core competencies

The trend toward efficient drivetrains that deliver superior driver comfort and the lowest possible – ideally zero – health-damaging and climate-changing emissions is reflected in ElringKlinger's product portfolio. Newly developed products are targeted at modern drive systems or relate to areas of the vehicle that are drivetrain-independent. ElringKlinger is thus supporting automobile manufacturers in their fast-paced efforts to meet the targets set as part of climate protection policies. In strategic terms, ElringKlinger

focuses on four areas: e-mobility, lightweighting, established forms of mobility, and non-automotive applications. Within the long-standing fields encompassing cylinder-head gaskets, specialty gaskets, plastic housing modules, and shielding systems, ElringKlinger has honed its skills as a technological innovator and carved out a solid market position over a period spanning several decades. Without neglecting this mainstay, the Group is taking advantage of this experience to sharpen the focus of its portfolio on e-mobility, encompassing battery and fuel cell technology components as well as electric drive units. In the area of lightweight construction, in particular, ElringKlinger offers components made of modern materials that meet stringent requirements in regard to functionality, safety, stability, and environmental compatibility for vehicles of all drive systems.

Among ElringKlinger's core competencies are extensive know-how relating to materials and processes in the field of metal and plastics processing as well as expertise when it comes to engineering tools for efficient series production. This includes high-precision metal processing, encompassing stamping, embossing, and coating as well as a proven track record in plastic injection-molding. In the Engineered Plastics segment, ElringKlinger can draw on many years of materials, applications, and processing expertise for high-performance engineered plastics.

## Economic and legal influencing factors

Demand for products in the Original Equipment segment is closely linked with global vehicle production. This, in turn, is dependent to a large extent on the direction taken by sales markets and the economy as a whole. Among the specific influencing factors are, in particular, the labor market situation

Signed Tagh D. Jussulat  
(CEO)

Hofer Powertrain Products UK Ltd has taken advantage of exemption from section 479A of the Companies Act 2006. We the parent company have completed an AA06 guarantee for Hofer Powertrain Products UK Ltd (Company No 10338183)

in various regions, consumer spending patterns, fuel prices, and lending terms

Regulations governing climate protection are considered to be a key influencing factor in terms of legislation. Due to ever-stricter emission standards, markets have seen growing demand for products that can help reduce pollutants and comply with limits set within this area. In addition, international trade conditions and customs restrictions have become increasingly important as a factor influencing global activity.

#### Group structure and organization

The parent company of the Group is ElringKlinger AG, which has its registered office in Dettingen/Erms, Germany. It is also the largest operating Group company and performs Group-wide management tasks. In addition to strategic management, it is responsible for the central functions of Purchasing, IT, Communication, Finance, Legal Affairs, and Human Resources. To a large extent, sales activities as well as research and development are also concentrated within the parent company.

The Management Board of ElringKlinger AG consists of four members, each with a specific area of responsibility: that of the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, and the Technology Officer overseeing E-Mobility.

As of December 31, 2019, the ElringKlinger Group comprised 39 fully consolidated companies in 21 countries (cf. notes, "Scope of Consolidation").

#### Sales markets and locations

ElringKlinger has manufacturing operations in all of the world's key vehicle markets. In total, the company is represented at 45 international locations, 39 of which are production sites. Calculated on the basis of revenue, Europe is the most important sales region with a share of 51.5% in Group revenue, followed by North America (26.1% revenue share) and Asia-Pacific (17.9% revenue share).

In the majority of cases, ElringKlinger holds a Tier 1\* supplier position within the automotive industry value chain. This means that it maintains a direct line of contact with nearly all key vehicle and engine manufacturers. In the Engineered Plastics segment, which boasts a wide range of products, ElringKlinger operates as a supplier to various branches of industry.

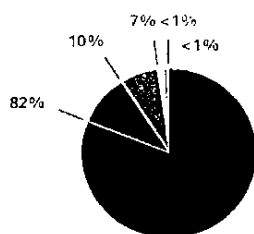
#### Segments and divisions

The Group's operating business is divided into five segments. They also constitute the reportable segments under IFRS:

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

In the **Original Equipment** segment, ElringKlinger develops, manufactures, and sells products and assemblies destined for the automotive industry. It is divided into the following divisions: Lightweighting/Elastomer Technology, Shielding Technology, Specialty Gaskets, Cylinder-head Gaskets,

#### Group sales by segment 2019



	in EUR million (previous year)	
■ <b>Original Equipment</b> Car, truck, and engine manufacturers, automotive suppliers	1,423	(1,408)
■ <b>Aftermarket</b> Independent aftermarket business	173	(159)
■ <b>Engineered Plastics</b> Vehicle industry, mechanical engineering, medical technology	118	(118)
■ <b>Services</b> Vehicle manufacturers and suppliers	9	(10)
■ <b>Industrial Parks</b> Unspecified industries	4	(4)

\* Cf. glossary

E-Mobility, Drivetrain, and Exhaust Gas Purification. These products are used in engine, drivetrain, exhaust system, underbody, chassis, and vehicle body applications. This segment serves both the passenger car and the commercial vehicle segment.

In the **Aftermarket** segment, ElringKlinger offers an extensive range of gaskets, gasket sets, and service parts for the repair of engines, transmissions, exhaust systems, and auxiliary units in cars and commercial vehicles. They are marketed under the "Elring – Das Original" brand. The customer base in the Aftermarket segment covers a global network of wholesalers and major group purchasing organizations. Based on revenue, the principal markets are Western and Eastern Europe, although both the Middle East and North Africa are also considered key sales regions. The markets of North America and China are gaining in significance as a result of more extensive cultivation.

The **Engineered Plastics** segment covers the development, manufacture, and sale of customized products made from various plastics. Revenue is attributable primarily to sales in the mechanical engineering sector and the medical, chemical, and energy industries as well as the vehicle industry. ElringKlinger is pushing ahead with efforts to expand its business in this segment at an international level and also operates production sites in the United States and China.

At 0.8% of Group revenue, the **Services and Industrial Parks** segments account for a relatively small proportion of business. Services include the operation of state-of-the-art engine test benches and measuring equipment for tests on engines, transmissions, and exhaust systems. The segment's customer base includes both vehicle manufacturers and automotive suppliers. This segment also includes logistics services for aftermarket sales and the catering service of a Group subsidiary. The Industrial Parks segment covers the lease and administration of industrial parks.

#### Divisions in the Original Equipment segment

The **Lightweighting/Elastomer Technology** division has an extensive portfolio that includes components made of thermoplastics for drivetrain, vehicle body, and underbody applications. A variety of manufacturing processes and numerous materials or material-specific innovations provide the basis for tailor-made solutions with high functional integration and/or weight savings. This area also includes hybrid technology, i. e., the combination of different materials such

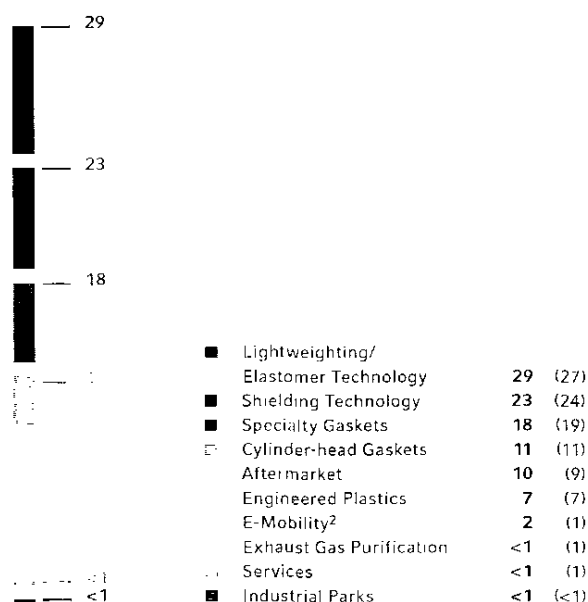
as plastic and metal in one product that is manufactured in a single tool sequence. The key benefits of these manufacturing technologies and material compositions include high growth potential for the division.

The **Shielding Technology** division develops and produces thermal, acoustic, and aerodynamic shielding systems. These specific products handle a wide range of tasks relating to temperature and acoustic management in modern motor vehicles, in addition to contributing to an aerodynamic design of the vehicle underbody. For e-mobility applications, the systems may also include electromagnetic shielding functions. On request, ElringKlinger delivers customized shielding packages for the entire vehicle – from the engine to the underbody and exhaust tract.

The product portfolio in the **Specialty Gaskets** division includes a broad range of gaskets for various locations in the vehicle, including batteries and electric motors as well as transmission control plates and complex formed parts engineered from sheet metal.

#### Group revenue by division<sup>1</sup> 2019

(previous year) in %



<sup>1</sup> as well as the segments Aftermarket, Engineered Plastics, Services, Industrial Parks

<sup>2</sup> incl. Drivetrain

Metallic cylinder-head gaskets represent one of the traditional fields of business for ElringKlinger. In this field, the company has acquired decades of experience in stamping, embossing, and forming processes of metals as well as extensive know-how in coating technology.

The E-Mobility division supplies battery and fuel cell components as well as end-to-end battery and fuel cell systems.

The Drivetrain division develops and markets complete electric drive units.

As a result of the strategic product focus on other areas, the Group's activities in the Exhaust Gas Purification division have been scaled back significantly.

## Internal Control Criteria

The Group mainly uses financial indicators for the purpose of managing the company. Leading indicators that are specific to the company and non-financial indicators also deliver fundamental information for corporate planning and control. The Group also continuously monitors economic forecasts and industry-specific indicators in order to be able to respond to changes in good time.

### Financial control criteria

The key financial indicators used within the ElringKlinger Group are sales revenue, earnings before interest and taxes (EBIT), and return on capital employed (ROCE\*). Sales revenue and EBIT are budgeted, calculated, and continually monitored for the Group, for the individual Group companies, including the parent, and for the five reportable segments and the respective divisions.

As its name suggests, ROCE measures a company's profitability and the efficiency with which its capital is employed. To calculate it, EBIT is divided by capital employed. In this context, ElringKlinger uses average capital employed during the period in question as a basis of calculation. This includes shareholders' equity, financial liabilities, and provisions for pensions. Variable remuneration for the managerial level directly below the Management Board is generally linked to the level of ROCE achieved. In financial year 2019, ElringKlinger recorded ROCE of 3.4% (2018: 5.5%).

In addition, the key indicators of operating free cash flow\*, the consolidated equity ratio, and net debt\*/EBITDA\* are of importance for the Group.

### Calculation of ROCE

in EUR million

EBIT	61.2	
	31.12.2019	31.12.2018
Equity	891.2	890.1
Financial liabilities	730.7	768.8
Provisions for pensions	148.2	124.4
Interest-bearing non-current provisions	-1	13.0
<b>Total</b>	<b>1,770.1</b>	<b>1,796.3</b>
<b>Average capital employed</b>	<b>1,783.2</b>	
<b>ROCE = EBIT / average capital employed</b>	<b>3.4%</b>	

\* As from Jan 1, 2019, this position is no longer considered due to negligible amount

\* Cf. glossary

## Selected financial control criteria of the ElringKlinger Group

			Projections 2019	Actual 2019	2018	2017	2016	2015
<b>Revenue</b>	(in EUR million)	2–4 percentage points above global market growth <sup>1</sup>						
				1,727.0 <sup>2</sup>	1,699.0	1,664.0	1,557.4	1,507.3
				63.2				
<b>EBIT before PPA<sup>3</sup></b>	(in EUR million)	Margin of around 4 to 5%		Margin: 3.7%	100.2	141.8	140.4	140.4
<b>ROCE</b>		Below previous year		3.4%	5.5%	8.2%	8.7%	9.5%
<b>Operating free cash flow</b>	(in EUR million)	Positive		175.8	-86.2	-66.6	-3.8	-65.2
<b>Equity ratio</b>		40 to 50% of total equity and liabilities		41.5%	42.8%	44.0%	47.2%	48.5%
<b>Net debt/EBITDA</b>		Year-on-year improvement		3.3	3.7	2.7	2.3	2.2

<sup>1</sup> Adjusted for the effects of currencies and M&As\* (organic)

<sup>2</sup> Revenue reported; revenue adjusted for effects of currencies and acquisitions (organic): EUR 1,708.1 million (+0.5%/market contraction 5.6%)

<sup>3</sup> PPA (write-downs from purchase price allocation) EUR 1.9 million (2018: EUR 4.0 million); accounted for in various functional categories of the income statement

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

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

## Non-financial control criteria

Non-financial performance indicators also provide management with criteria that help to assess situations and plan measures for the future. They include personnel, quality, and environmental indicators, particularly CO<sub>2</sub> emissions and energy consumption. Further details can be found in the non-financial statement, which will be published by April 30 for the preceding financial year and can be ac-

cessed on the Group's website at [www.elringklinger.com](http://www.elringklinger.com) (Sustainability section).

## Company- and market-specific leading indicators

Order intake and backlog are calculated on a regular basis and are used as indicators for capacity planning and expected revenue performance. They form an important basis for the forecast review of the remaining year in question, but also for the business plan prepared on an annual basis. Revenue budgeting and forecasting are based on planned quantities requested by customers as part of their scheduling less a safety margin and agreed product prices. Forecasts of vehicle demand and production as well as potential market price risks arising from exchange rate movements, changes in interest rates, and increases in the cost of materials are also monitored. Changes in these leading indicators may thus be identified at an early stage and appropriate measures initiated accordingly.



# Research and Development

Strict limits on emissions and government incentives to buy vehicles with alternative drive systems are accelerating the transformation towards e-mobility. ElringKlinger has many years of experience in developing products for sustainable mobility. In 2019, ElringKlinger maintained its focus on research and development relating to new applications in the field of battery and fuel cell technology.

## Research and development ratio just under 5%

In fiscal 2019, ElringKlinger completed a series of development projects to adapt or create new solutions not only in the E-Mobility division but also in the traditional Cylinder-head Gaskets, Specialty Gaskets, Shielding Technology, and Lightweighting/Elastomer Technology divisions. The main focus of research and development (R&D) was on translating existing know-how into new applications for both battery-electric and hydrogen-based drive systems. The company's R&D activities are highly centralized to avoid any loss of expertise. For this reason, the Group has concentrated its main development activities at the German sites operating within the Original Equipment and Engineered Plastics segments and at its US plant in Southfield, Michigan. ElringKlinger built up additional know-how during the year under review, especially in the field of battery and fuel cell technology. As a result, the number of employees working in R&D as of December 31, 2019, stood at 611 (2018: 590).

In financial year 2019, R&D spending (including capitalized development costs) came to EUR 80.8 million (2018: EUR 87.2 million). This corresponds to an R&D ratio of 4.7% (2018: 5.1%), which was within the long-term target range of around 5 to 6% (including capitalized development costs).

ElringKlinger always seeks legal protection for new developments at both a product and a process level. The centralized patents unit is tasked with protecting the company's technological expertise and intellectual property rights. The unit applied for 81 new patents in 2019 (2018: 80).

## Adapting traditional know-how for the future

The pace of change in the automotive industry is unrelenting. The view among industry experts is that the market for vehicles with a combustion engine will only decline gradually as demand for alternative drive systems increases. For a while at least, battery and fuel cell systems are likely to coexist. Accordingly, at Group level, ElringKlinger's objective is to maintain its position as a reliable partner to vehicle manufacturers when it comes to applications for both the conventional and the electric market. On the one hand, ElringKlinger is working hard to optimize modern combustion engines in order to achieve further efficiency gains. At the same time, it is busy developing components, modules, and systems for battery and fuel cell applications in order to cut the emissions of next-generation vehicles to a minimum. From a strategic perspective, the battery, fuel cell, and structural lightweighting markets offer tremendous potential. In 2019, they accounted for around 8% of total revenue, largely mirroring the ratio of new vs. conventional types of powertrain in the global vehicle market.

## Key R&D figures

		2019	2018
R&D costs (incl. capitalized development costs)	(in EUR million)	80.8	87.2
R&D ratio (incl. capitalized development costs)	(in %)	4.7	5.1
Capitalization ratio <sup>1</sup>	(in %)	20.7	12.7

<sup>1</sup> Capitalized development costs in relation to R&D costs, including capitalized development costs

\* Cf. glossary

ElringKlinger AG — Annual Report 2019

#### **Cylinder-head gaskets: greater standardization, less complexity**

Customized cylinder-head gaskets play a key role in combustion-engine technology, especially in the case of direct-injection gasoline and diesel engines that meet the Euro 6d Temp emissions standard and higher. Based on IHS Markit estimates, the industry is likely to see a gradual downturn in annual production figures for combustion engines. For the Cylinder-head Gaskets division, this means that although the overall market will decline in the medium term, ElringKlinger will continue to provide resources for research and development as it wins new contracts. This division's focus in 2019 was on further optimizing existing technology and reducing complexity. Having amassed years of expertise in the field of embossing, forming, and coating, the division was able to provide technical know-how for the development and production of bipolar plates\* and therefore worked more extensively with the Group's fuel cell experts in the period under review.

#### **Specialty gaskets: development focus on e-mobility applications**

Modern sealing systems are used wherever components are joined or located next to each other. The challenge for conventional drive systems lies in sealing different components that, in many cases, operate at very high temperatures and pressures. In 2019, among other products aimed at the market for combustion-engine vehicles, the division developed a sealing system fitted with a compact check valve for exhaust gas recirculation – optimized for installation in a confined space.

In addition, the Specialty Gaskets division focused on the development of products for alternative drive technologies, for example, to improve the cooling efficiency of battery cooling using new and adaptive cell cooling modules.

#### **Shielding technology: delivering integrated functionality**

Demand for customized shielding systems has been growing continuously for many years. This is because tightly packed units, more compact engines, increased levels of turbocharging, and minimized cooling air flows lead to ever higher temperatures in the engine compartment, underbody area, and exhaust tract. ElringKlinger incorporates additional acoustic functions into its thermal shielding systems to reduce noise and therefore make the journey more enjoyable for the occupants of electric vehicles too. The transition towards

hybrid and electric vehicles has also led to an increasing focus on electromagnetic compatibility (EMC\*) within the Shielding Technology division.

A new shielding system offers a solution for reducing emissions in combustion-engine vehicles. The new development actively controls operating temperatures in the exhaust tract and thus helps to ensure improved operational readiness of the vehicle's exhaust gas purification systems.

#### **Lightweighting: hybrid solutions for a lighter vehicle**

Lightweighting plays a central role in reducing vehicle emissions. Besides cutting fuel and energy consumption, other benefits, such as reduced tire abrasion, contribute to a lower environmental impact. Therefore, manufacturers pay attention to every ounce when developing new components. For this and other reasons, ElringKlinger sees lightweighting as an important strategic field for the future.

The Group's expertise in the field of lightweighting is based on many years of experience during which it has continuously expanded its portfolio of plastic components such as cam covers and oil pans to replace conventional metal parts. ElringKlinger entered the lightweighting market in 2015 with the first series production of innovative polymer-metal hybrid components. This technology is currently used to manufacture cockpit cross-car beams\* and front-end carriers\* and adapters. Given the very low weight of such components, they offer the potential to integrate additional functions. In 2019, the company made further design improvements, incorporated new functionality options, optimized the production process, and modified the selection of materials to improve their cost-benefit ratio for customers.

The Lightweighting/Elastomer Technology division has also developed several products for use in battery-powered vehicles. These include, for example, underbody protection for battery systems, which, compared to the aluminum previously used, offer high dielectric strength and fire resistance as well as better thermal and acoustic insulation properties.

In the area of sealing technology, ElringKlinger also offers a solution for large flanges, such as those used in battery system casings, in the form of a metal-elastomer\* gasket with a jigsaw puzzle design. Another advantage of the gasket is that it occupies very little space during storage and shipping compared to its full size when assembled.

### Alternative drive technologies: component, module, and system expertise

The battery and the fuel cell are two of the key technologies involved in the electrification of the powertrain. Battery-powered electric cars are more suitable for short distances, while fuel-cell-powered vehicles come into their own over longer distances because the energy density is higher, the refueling time shorter, and the range longer. ElringKlinger has been actively involved in the field of e-mobility for around twenty years. In the area of battery modules and fuel cell stacks, the Group's R&D activities are concentrated at the E-Mobility Development Center in Dettingen/Erms.

The Group entered the battery market in 2011 when it began series production of cell contact systems\* for the lithium-ion batteries\* used in electric and hybrid vehicles. The Group has evolved over recent years and now supplies entire systems as well as components, including both components and modules as well as complete battery systems for prismatic\* and cylindrical cells. The first contracts for battery systems were secured in 2018. These are currently in the industrialization phase. In 2019, ElringKlinger also worked on refinements to its cell housing components for battery cells\* and on pressure equalization units for specific applications as well as on air-input and venting elements.

With regard to fuel cell technology, ElringKlinger's development activities concentrated on the low-temperature fuel cell PEM\* (Proton Exchange Membrane), which is designed for mobile applications. In this area, too, ElringKlinger has now established itself as a module and system manufacturer, integrating the fuel cell stack, hydrogen and air supply, cooling mechanism, power electronics, and control unit into a standardized system. In 2019, ElringKlinger worked on

the industrialization of the NM5 fuel cell stack series, which can be used, for example, as a range extender\* in hybrid vehicles. At the World Smart Energy Week 2019 in Tokyo, Japan, the Group unveiled the new NM12 stack series, which is suited for use in cars, commercial vehicles, and other applications on account of its power density. The stack consists of 450 layered metallic bipolar plates and has a capacity of up to 150 kWel.

ElringKlinger expanded its e-mobility portfolio in 2017 by forging a strategic partnership with the engineering specialist hofer. The Nürtingen-based company operates in the field of electric drives, and its product portfolio includes e-machines, power electronics, transmissions, thermal management/cooling, and safety concepts. ElringKlinger's contribution to the joint projects set up by the two companies lies in its experience in industrializing customer orders.

### Engineered Plastics: Wide range of applications

*In the Engineered Plastics segment, innovation starts with the materials used.* Almost all the company's high-performance plastics, which are characterized by a high level of chemical and thermal stability, are designed to meet specific customer and industry requirements. Thanks to these properties, they can be adapted for use in other industries such as medical technology and mechanical engineering as well as the automotive sector.

The Engineered Plastics division benefits from the different trends affecting individual sectors. The Group's R&D activities in the automotive industry, for instance, focus on the transformation towards e-mobility, in the medical technology sector on miniaturization, and in the field of mechanical engineering on sensor technology.

\* Cf. glossary

## Macroeconomic Conditions and Business Environment

The world economy was in a poor state over the course of 2019. Persistent trade and geopolitical tensions caused uncertainty, which in turn made investment decisions more difficult and proved detrimental to global business. The manufacturing industry was most heavily affected by this malaise, while the service sector and consumer demand in large parts of the world managed to stand their ground. Key central banks around the globe counteracted these downside risks by taking a highly expansive approach in terms of monetary policy. In the majority of cases, automobile markets trended lower in 2019. Global vehicle production contracted by around 6% year on year. Particularly China, which ranks as the world's largest single market, saw its vehicle demand and production output fall by a substantial margin.

In the eurozone, domestic demand and the service sector were propped up by the extremely loose monetary policy favored by the European Central Bank. By contrast, export-driven industrial production was down in the period under review, having been adversely affected mainly by weak global demand. Germany's economy, too, was bifurcated, with GDP expanding only marginally. While consumer spending was buoyant and the construction sector continued to boom, the automobile industry struggled over the course of the year.

The US economy recorded more expansive growth compared to the European average, but it, too, lost some of its forward momentum. As was the case in Europe, companies scaled back their capital expenditure on the back of growing uncertainty, and the economy as a whole was driven largely by consumption and domestic trade. In an effort to support the economy, the US administration expanded government spending at the possible expense of further deficits in the national budget. The US Federal Reserve reduced its benchmark interest rate corridor by 75 basis points in order to underpin economic growth.

### GDP growth rates

Year-on-year change (in %)	2019	2018
<b>World</b>	<b>2.9</b>	<b>3.6</b>
Advanced economies	1.7	2.2
Emerging and developing countries	3.7	4.5
Germany	0.5	1.5
Eurozone	1.2	1.9
USA	2.3	2.9
Brazil	1.2	1.3
China	6.1	6.6
India	4.8	6.8
Japan	1.0	0.3

Source: International Monetary Fund (January 2020)

China's economy, by contrast, showed signs of significant cooling in 2019. Efforts by the government to curb the significant expansion in corporate debt with the help of restrained lending and structural expenditure had a dampening effect. In addition, China was impacted by the economic repercussions of its trade conflict with the United States. Uncertainty in the wake of this dispute exerted downward pressure on domestic demand and trade, while also contributing to a slowdown in investment spending.

The emerging markets again recorded above-average growth rates by global standards. Having said that, the pace of growth in India slowed down more sharply in response to the crisis in its financial sector, coupled with highly restrictive lending and low consumer spending. Brazil saw a gradual improvement in its economy on the back of reforms introduced by the government.

**Global vehicle market in negative territory at end of 2019**  
2019 proved to be a difficult year overall for the automobile industry. Vehicle markets were susceptible to trade and geopolitical developments, with the result that forecasts had to be steadily lowered in the course of the year. Having originally anticipated a slight increase in both global vehicle sales and vehicle production, at the end of the twelve-month period, new vehicle registrations were down by around 5% worldwide and automobile production had fallen by around 6% year on year.

This negative trend was attributable primarily to the market downturn in China, which had a disproportionately large impact on demand for new vehicles. As China – with 21.0 million newly registered cars in 2019 – accounts for around one-quarter of global volume, the market contraction of -9.5% had a palpable effect on the vehicle sector as a whole. Compared to 2018, the country saw a downturn in car sales by 2.2 million units, which essentially accounts for the global decline. In addition to the trade disputes with the United States, as a result of which imported goods became more expensive due to higher customs duties and hesitant Chinese consumers became increasingly anxious, the reduction in state subsidies for so-called NEVs (New Energy Vehicles\* – essentially electric vehicles) also exerted downward pressure on demand. This was compounded by the transition to the stricter CN6 emission standard. Premium-class models continued to be in demand, enabling German OEMs to partially increase their sales in China.

Fewer light vehicles (passenger cars and light commercial vehicles) were produced and sold in the United States in 2019 than in the previous year. For the first time since 2014, the volume of newly registered light vehicles fell below the mark of 17 million. The overall decline of 1.4% is attributable solely to the passenger car sector, however, as continued buoyancy in sales of highly sought-after SUVs resulted in +3% within the light truck segment, which accounts for 72% of the market. In the third quarter of 2019, a protracted strike at a leading US manufacturer had an additional dampening effect.

Thanks to a strong final spurt in December, the European passenger car market (EU28 & EFTA\*) recorded a slight increase of 1.2% in 2019, taking the total to 15.8 million newly registered vehicles. Germany, by far the largest EU car market, ended the year at +5.0%. France and Italy were also just within positive territory at 1.9% and 0.3% respectively, while registrations in the United Kingdom were down by 2.4% and in Spain by 4.8% on the previous year. The new EU countries, with Poland as the highest-volume market, recorded a total increase of 6.2% in newly registered passenger cars in 2019.

With the exception of Brazil, which recorded impressive growth of 7.7% in light vehicle sales, no other BRICS state was able to match the previous year's level. In India, the decline in passenger car sales of -12.7% was unexpectedly high.

#### Light vehicle production

Million units

Region	2019	2018	Change in %
Europe <sup>1</sup>	21.1	22.0	-4.0%
China <sup>2</sup>	24.7	26.9	-8.1%
Japan/Korea	13.1	13.2	-0.7%
Middle East & Africa	2.0	2.6	-22.3%
North America	16.3	17.0	-3.8%
South America	3.3	3.4	-4.5%
South East Asia	8.4	9.2	-8.2%
<b>World</b>	<b>88.9</b>	<b>94.2</b>	<b>-5.6%</b>

Source: IHS Feb. 2020

<sup>1</sup> Incl. Russia

<sup>2</sup> Greater China

\* Cf. glossary

Vehicle production, which is closely linked to economic and market developments, declined across all regions in 2019.

#### E-mobility influenced by regulatory conditions

In 2019, registration figures for electric vehicles were still of minor significance. Compared to vehicles powered by an internal combustion engine, the cost of purchasing an electric car is often higher, which is compounded by the fact that the ranges achieved are still relatively short and charging infrastructures are as yet insufficient. Overall, it was evident that regional trends were influenced by government support measures, while consumer acceptance can vary considerably from country to country. In Europe, Norway and the Netherlands lead the way in terms of market share.

Calculated on the basis of the number of new registrations in 2019, China, the United States, and Germany are the front runners in electric mobility. According to the German industry institute Center of Automotive Management (CAM), the share of total registrations in 2019 was 4.7% in China, 1.9% in the United States, and 3.0% in Germany. In China, the market declined to a figure of 1.2 million so-called New Energy Vehicles\* (NEV), which is due in part to a reduction in government subsidies. Car buyers in the United States continue to have a strong preference for vehicles with internal

combustion engines, as a result of which sales of electric vehicles in 2019 actually fell by 10% to 324,000 new registrations. In Germany, on the other hand, new registrations surged by 50% to 109,000 vehicles.

#### Increase in sales of commercial vehicles in Europe

In the European commercial vehicle market (EU28 & EFTA\*), 0.9% more medium and heavy commercial vehicles (>3.5 t) were registered in 2019 than in the previous year. Despite a market slowdown in the second half of the year, four out of five core markets – the UK (+9.5%), Germany (+4.2%), France (+1.5%), and Spain (+1.1%) – trended higher. At -7.6%, only Italy recorded a year-on-year decline. The medium-weight segment was in greater demand than +16-ton trucks. As a new generation of digital tachographs became mandatory in the EU from June onwards, purchases were brought forward in the first half of the year and demand weakened in the second half. In 2019, the North American truck market moved beyond the peak of an upward trend that spans several years. Although truck manufacturers were still able to draw on full order books in 2019 and thus recorded an increase in new registrations of heavy trucks (Class 8), there were signs of a significant market slowdown in the course of the year.

## Significant Events

#### Syndicated loan\* agreement covering EUR 350 million

In February 2019, ElringKlinger AG concluded a syndicated loan agreement with six domestic and international banks, covering a total volume of EUR 350 million. The agreement is based on a minimum term of five years and includes financial covenants\* that are customary in the banking sector. The proceeds will be used by the Group to refinance existing bilateral lines of credit and for the purpose of general Group financing.

#### Activities in Industrial Parks segment scaled back

In the fourth quarter of 2019, ElringKlinger disposed of an industrial park in Kecskemét, Hungary. The property, which had previously been under lease, originated from the former parent company ZWL Grundbesitz und Beteiligungsgesellschaft Holding. In transacting this sale, the Group scaled back its activities in the Industrial Parks segment, which is not part of its core business, and is instead concentrating on aligning its product portfolio around e-mobility.

## Sales and Earnings Performance

The ElringKlinger Group managed to increase its revenues by 1.6% in a market that shrank by 5.6% as a whole. After a difficult start, the Group saw a gradual improvement in earnings before interest and taxes (EBIT) on the back of several measures aimed at cost streamlining. Overall, the Group recorded EBIT\* before purchase price allocation of EUR 63.2 million and an EBIT margin of 3.7%, which was within the targeted corridor of around 4 to 5%.

### Group revenue up slightly despite difficult market conditions

The ElringKlinger Group continued on its trajectory of growth in 2019 and generated revenues of EUR 1,727.0 million (2018: EUR 1,699.0 million). This represents an increase of 1.6% or EUR 28.0 million. The effects of currency translation – primarily relating to the US dollar, but also the Mexican peso and the Swiss franc – made a significant contribution of EUR 25.1 million or 1.5%. Additionally, the Group was faced with changes to the scope of consolidation as a result of M&A\* transactions relating to the sale of Hug in 2018, the effects of which amounted to EUR -6.2 million or -0.4%. In organic terms, i.e., without the effects of currencies and acquisitions, revenues were up by EUR 9.1 million or 0.5%. Thus, ElringKlinger again managed to outpace the market as a whole in 2019, calculated on the basis of global automobile production, which declined by 5.6%. In doing so, the Group exceeded its target of outperforming market growth by 2 to 4 percentage points in terms of organic sales.

### Sustained revenue surge in North America

The strong performance in North America was driven by the supply of components used in vehicles for which demand in the American market was more buoyant than originally planned. In addition, the start-up of the new production

plant in Fort Wayne, USA, provided the basis for a number of new product roll-outs that generated higher tool-related revenues. The associated tool revenues were billed accordingly at the start of production. Therefore, despite a downturn in the North American vehicle market (-3.8%), ElringKlinger managed to generate revenues of EUR 450.9 million (2018: EUR 360.3 million), which corresponds to year-on-year growth of 25.1%. Adjusted for currency effects, growth stood at 20.1%. With a share of 26.1% (2018: 21.2%), North America now ranks as the Group's second-largest sales region.

In the Asia-Pacific region, the strong recovery trends originally expected for the second half of the year failed to materialize within the market as a whole. Operating in this challenging climate, ElringKlinger managed to generate revenue of EUR 310.0 million (2018: EUR 314.5 million), which corresponds to a decline of 1.4%. Adjusted for currency effects, revenue was down by as much as 3.6%. This region's share of total revenue was 18.0% (2018: 18.5%).

The general malaise seen in ElringKlinger's largest sales market, the Rest of Europe, as well as Germany had a tangible impact on business. ElringKlinger recorded the biggest decline in its home market of Germany, down by 7.8%.

### Factors influencing Group revenue

In EUR million	2019	2018	Change, absolute	Change, relative
Group revenue	1,727.0	1,699.0	+28.0	+1.6%
of which currency effects			+25.1	+1.5%
of which M&A			-6.2	-0.4%
of which organic			+9.1	+0.5%

\* Cf. glossary

## Group sales by region 2019



Here, the Group generated sales revenue of EUR 395.0 million in the period under review (2018: EUR 428.5 million). The Group also failed to match the previous year's figure in the Rest of Europe, where revenue totaled EUR 494.2 million (2018: EUR 515.6 million). The share of total revenue attributable to the Rest of Europe fell to 28.6% (2018: 30.3%), while the share of the domestic market was down to just 22.9% (2018: 25.2%).

In South America and the rest of the world, revenues fell by 4.0% to EUR 76.9 million in 2019 (2018: EUR 80.1 million). Adjusted for currency effects, the region was down by 2.7%. This region's share of total Group revenue fell to 4.5% (2018: 4.7%).

Overall, business in the international markets continued to gain in importance, with the share of foreign sales in total Group revenue increasing from a high base to 77.1% (2018: 74.8%).

#### Original Equipment segment expands in strategic fields of the future

Accounting for 82.4% (2018: 82.9%) of total revenue, the Original Equipment segment is the largest segment within the ElringKlinger Group. Its performance was mixed in 2019. While the Lightweighting/Elastomer Technology and E-Mobility divisions recorded significant revenue growth, the other divisions centered around long-standing areas of business were faced with a downturn in sales. In total, segment revenues rose by 1.1% or EUR 15.7 million to EUR 1,423.4 million (2018: EUR 1,407.7 million). The segment

recorded by far the largest increase of 9.4% within the Lightweighting/Elastomer Technology division in 2019. Growing by 31.7% in the year under review, the area of structural lightweighting included in this figure showed a particularly strong performance. This reflects more expansive customer demand for innovative lightweight components made of high-performance plastics.

The classic divisions focusing on cylinder-head gaskets and specialty gaskets saw a reduction in revenue by 5.6% and 2.7% respectively in 2019. At EUR 399.2 million (2018: EUR 400.1 million), the Shielding Technology division came close to matching its prior-year performance. In all three divisions, weaker market trends compared to the previous year and currency effects in particular had a negative impact on overall sales performance.

E-Mobility, a division representing the future of business in strategic terms, saw revenue grow by 9.7% to EUR 27.1 million (2018: EUR 24.7 million). ElringKlinger has established a broad technological foundation in this field with components, modules, and systems for battery and fuel cell technology as well as electric drive units. In 2019, the focus was on process optimizations relating to existing installations for the production of cell contact systems\*. In addition, expenses were incurred for the commissioning of the division's new area of battery prototype construction. In the area of electric drive systems, ElringKlinger established production capacity in the United Kingdom and Germany in preparation for new orders. In total, the division therefore recorded negative earnings before interest and taxes in financial year 2019.

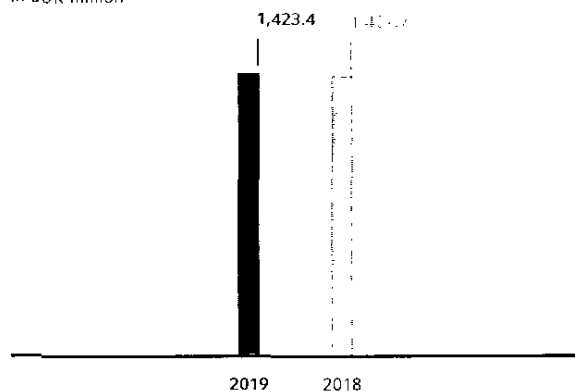


In the Exhaust Gas Purification division, revenue fell to EUR 10.4 million in 2019 (2018: EUR 19.6 million), as the majority of business activities in this field had previously been attributable to the Hug subgroup, which was sold in 2018.

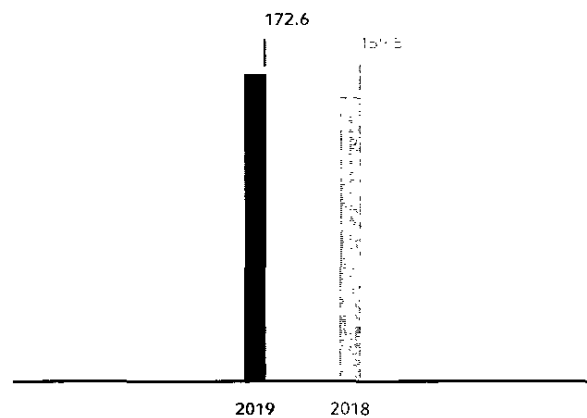
Persistently strong demand in North America again resulted in high capacity utilization at local plants in 2019. In the previous year, work began on implementing countermeasures to stabilize processes, particularly in production and logistics. Furthermore, additional production lines were installed, product prices for order renewals were adjusted to the current level, personnel received intensive training, and new employees were hired. Overall, the measures had a significant impact, with the result that noticeable improvements in earnings were recorded by the local companies in the course of the second half of the year.

Despite the positive direction taken by revenue in the strategic fields of the future, the persistently high level of capacity utilization in North America, market weakness in the traditional areas of business, and elevated commodity prices had a negative impact on earnings in the Original Equipment segment. In addition, trade conflicts led to additional customs duties in 2019, which were partially refunded. Therefore, *segment earnings before interest and taxes fell to EUR 5.1 million (2018: EUR 50.7 million)*. The EBIT margin in this segment thus stood at 0.4% (2018: 3.6%). However, it should be noted that the prior-year figure included a one-time gain of EUR 24.5 million on the disposal of the Hug subgroup.

**Sales in the Original Equipment segment**  
in EUR million



**Sales in the Aftermarket segment**  
in EUR million



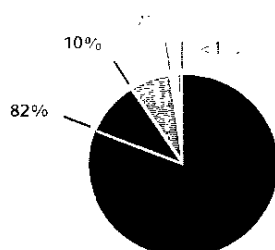
#### Strong earnings contribution by the Aftermarket segment

Despite a number of geopolitical hotspots and sluggish European markets, particularly in the first half of the year, ElringKlinger managed to increase its segment revenues by 8.2% or EUR 13.1 million to EUR 172.6 million in the year as a whole (2018: EUR 159.5 million) in the Aftermarket segment. *The Aftermarket segment recorded its biggest gains in the Middle East as well as Eastern and Western Europe, whereas Germany fell short of the prior-year figure.* In North America and Asia, meanwhile, ElringKlinger continued its active pursuit of market cultivation.

Segment earnings before interest and taxes rose to EUR 30.4 million (2018: EUR 24.9 million), fueled primarily by a strong flow of revenue. Correspondingly, the EBIT margin increased to 17.6% in 2019 as a whole (2018: 15.6%).

\* Cf. glossary

## Group sales by segment 2019



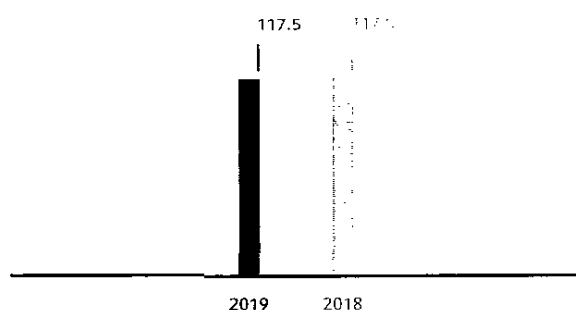
	in EUR million (previous year)	
■ <b>Original Equipment</b>	<b>1,423.4</b>	<b>(1,407.7)</b>
– Lightweighting/Elastomer Technology	<b>494.3</b>	<b>(451.7)</b>
– Shielding Technology	<b>399.2</b>	<b>(400.1)</b>
– Specialty Gaskets	<b>308.5</b>	<b>(317.0)</b>
– Cylinder-head Gaskets	<b>182.7</b>	<b>(193.5)</b>
– E-Mobility	<b>27.1</b>	<b>(24.7)</b>
– Exhaust Gas Purification	<b>10.4</b>	<b>(19.6)</b>
– Other	<b>1.2</b>	<b>(1.1)</b>
■ <b>Aftermarket</b>	<b>172.6</b>	<b>(159.5)</b>
▨ <b>Engineered Plastics</b>	<b>117.5</b>	<b>(117.8)</b>
■ <b>Services</b>	<b>9.4</b>	<b>(9.7)</b>
■ <b>Industrial Parks</b>	<b>4.1</b>	<b>(4.3)</b>

## Engineered Plastics segment impacted by higher commodity prices

Revenues in the Engineered Plastics segment fell slightly to EUR 117.5 million (2018: EUR 117.8 million). Sales revenue was up substantially only in Asia, while all other regions saw declines. As soon as the first signs of subdued demand became apparent after nine years of continuous growth, the management initiated immediate countermeasures in the form of far-reaching cost savings. This, together with the optimization measures introduced in production, led to the first positive effects on earnings. However, due to persistently high commodity prices, it was not possible to fully offset the effects of existing cost structures. Therefore, segment earnings before interest and taxes fell to EUR 15.9 million (2018: EUR 19.5 million). Correspondingly, the EBIT margin stood at 13.5% (2018: 16.6%).

## Sales in the Engineered Plastics segment

in EUR million



## Earnings up after the sale of the industrial park

Neither the Industrial Parks segment nor the Services segment belongs to the core business of the ElringKlinger Group. The Services segment contributed revenue of EUR 9.4 million (2018: EUR 9.7 million) and, as in the previous year, segment earnings before interest and taxes of EUR 0.7 million. The Industrial Parks segment generated revenue of EUR 4.1 million (2018: EUR 4.3 million). As the Group's strategic focus is on the future-oriented fields of lightweighting and e-mobility, it disposed of its industrial park in Kecskemét, Hungary, in 2019. The gain of EUR 8.6 million from this divestment has been included in segment earnings before interest and taxes, which stood at EUR 9.2 million in total (2018: EUR 0.3 million).

## EBIT benefits from cost-reduction measures

In financial year 2019, the management introduced an optimization program aimed at consistently reducing costs within the Group. The positive effect of the measures implemented is reflected in selling and general and administrative expenses, which were scaled back compared to the previous year, in some cases significantly, or rose at a lower rate than revenue growth. Additionally, the sites in North America and Switzerland continued to optimize their cost structures. As a result, earnings improvements were achieved in the course of 2019, even though the general conditions for a sustained improvement in earnings performance were significantly impeded by market turbulence.

**Gross profit margin affected by high material expenses**

Rising at a faster rate than revenue, the cost of sales increased by 5.5% to EUR 1,401.7 million in 2019 (2018: EUR 1,328.9 million). As a result, the Group's gross profit fell by 12.1% to EUR 325.3 million (2018: EUR 370.1 million). Correspondingly, the gross profit margin declined to 18.8% (21.8%).

The rise in the cost of sales was attributable, among other factors, to increased expenses from warranties, which are offset by corresponding income from insurance benefits below gross profit in other operating income. The largest proportion of the increase in the cost of sales, however, is attributable to material expenses of EUR 800.7 million (2018: EUR 747.0 million). In addition to a significant rise in tool costs, higher raw material prices also contributed to the increase in the cost-of-materials ratio to 46.4% (2018: 44.0%).

The key raw materials needed by ElringKlinger to manufacture its products include aluminum, alloyed high-grade steels (and especially chromium-nickel alloys), carbon steel, polyamide-based polymer granules, and elastomers\* as well as polytetrafluoroethylene (PTFE\*) in the Engineered Plastics segment. In addition, materials and components required for the production of battery and fuel cell systems are becoming increasingly important.

Commodity prices developed along different lines in the period under review. Prices on the steel market fell in 2019 due to lower world market demand. Prices for aluminum, which is required by ElringKlinger for the production of shielding parts, also trended lower. In the first half of 2019, surcharges for high-grade steel alloys, which the Group uses to manufacture gaskets, were still 6% below the 2018 level on average. However, a sharp rise in the nickel price in the second half of the year meant that alloy surcharges were on average 7% higher than in the previous year. Furthermore, strong global demand for polyamide\*, which is used by ElringKlinger to produce lightweight components, drove the price up markedly in 2019.

Financial year 2019 saw staff costs within the Group rise by 2.5% to EUR 544.4 million (2018: EUR 531.2 million). Under the cost-of-sales (also referred to as function-of-expense) method, staff costs were distributed across all operational

expense items in the income statement. This increase was attributable, among other reasons, to the collectively agreed pay increase for domestic companies of 4.3%, which has been in effect since the second quarter of 2018, as well as the annual collectively agreed supplemental allowance of 27.5% of a monthly salary. In total, staff costs in relation to Group revenue increased slightly to 31.5% (2018: 31.3%).

Selling expenses fell markedly in 2019 by EUR 13.1 million or 8.9% to EUR 133.4 million (2018: EUR 146.5 million). This trend clearly illustrates that the expansion, automation, and efficiency enhancement measures implemented for the purpose of addressing the issue of capacity bottlenecks at the North American plants increasingly took effect over the course of the year. In particular, ElringKlinger managed to rein back costs significantly for non-standard deliveries and freight movements compared to the previous year.

General and administrative expenses rose at a slower rate than revenue growth in the period under review, up by 1.0% to EUR 84.8 million (2018: EUR 84.0 million). The slight increase was attributable primarily to higher staff costs.

**R&D ratio within the target range**

In response to the far-reaching process of transformation in the automotive industry, ElringKlinger is focusing its research and development (R&D) activities primarily on solutions for alternative drive technologies. R&D expenses amounted to EUR 64.1 million in financial year 2019 (2018: EUR 76.1 million). In total, EUR 16.7 million (2018: EUR 11.1 million) in development costs were capitalized, as they met the relevant criteria for recognition. This contrasted with amortization of capitalized development costs totaling EUR 5.7 million (2018: EUR 6.2 million). Taking into account development costs capitalized by the Group, the R&D ratio, i.e., R&D costs relative to Group revenue, fell to 4.7% (2018: 5.1%).

In 2019, ElringKlinger again received government grants, primarily for research projects in the field of battery and fuel cell technology. Funds granted with regard to R&D projects and recognized in profit or loss totaled EUR 5.6 million (2018: EUR 5.3 million). In parallel, the company incurred project-related expenses at a comparable level for development work and prototyping.

\* Cf. glossary

At EUR 33.5 million (2018: EUR 45.6 million), other operating income was substantially lower year on year, as expected, mainly due to the fact that this figure had been influenced by the sale of the Hug subgroup and the disposal of new enerday GmbH. The figure for the annual period under review, however, included more substantial income relating to insurance claims and compensation for damages, counter-balanced by corresponding expenses accounted for in the cost of sales. Moreover, other operating income included the gain on disposal of an industrial park in Hungary, totaling EUR 8.6 million. Other operating expenses rose to EUR 15.2 million (2018: EUR 12.8 million).

#### **Gradual improvement in earnings over the course of the year**

A major contribution to the continuous improvement over the course of the year was made by the cost-cutting program with its array of measures that helped to streamline costs. Despite the savings achieved, the Group's earnings before interest, taxes, depreciation, and amortization (EBITDA\*) of EUR 181.0 million (2018: EUR 196.6 million) failed to reach the previous year's level, mainly due to the substantial material expenses in the year under review, as outlined above, and the disposal of two subsidiaries in the previous year. The initial application of IFRS 16 contributed to an increase in depreciation and amortization to EUR 119.7 million (2018: EUR 100.4 million). Thus, the ElringKlinger Group recorded earnings before interest and taxes (EBIT) of EUR 61.2 million (2018: 96.2 million). Including depreciation/amortization relating to purchase price allocation, EBIT before purchase price allocation totaled EUR 63.2 million (2018: EUR 100.2 million). This corresponds to an EBIT margin before purchase price allocation of 3.7% (2018: 5.9%). Therefore, the Group met its target of an EBIT margin before purchase price allocation of around 4 to 5%.

#### **Net finance costs\* up by EUR 5 million**

As in the previous year, foreign exchange gains and losses largely offset each other in 2019. The net result for the year was a foreign exchange loss of EUR -0.2 million (2018: EUR +0.8 million). Interest expenses, on the other hand, increased, as the application of the new International Financial Reporting Standard 16 and the syndicated loan\* agreement

concluded in February 2019 in particular had an accretive effect. As a result, net finance costs rose to EUR -19.6 million (2018: EUR -14.7 million).

Correspondingly, earnings before taxes declined to EUR 41.7 million (2018: EUR 81.4 million).

#### **Effective tax rate at a high level**

In financial year 2019, income tax expenses rose to EUR 36.6 million (2018: EUR 33.5 million). The effective tax rate for the year increased to 88.0% (2018: 41.2%). The higher tax rate was attributable primarily to losses incurred by subsidiaries for which no deferred tax assets were recognizable. Furthermore, ElringKlinger earned most of its profits in countries whose tax rates tend to be higher than the German tax rate.

Having deducted income taxes, net income stood at EUR 5.0 million (2018: EUR 47.9 million). Net income attributable to non-controlling interests fell to EUR 0.9 million (2018: EUR 4.1 million). Eliminating these interests, net income attributable to the shareholders of ElringKlinger AG amounted to EUR 4.1 million (2018: EUR 43.8 million). Correspondingly, earnings per share\* were down year on year at EUR 0.06 (2018: EUR 0.69). As of December 31, 2019, the number of shares outstanding that were entitled to a dividend remained unchanged at 63,359,990.

#### **Suspension of the dividend**

As in the previous year, the annual financial statements approved by the Supervisory Board show a net loss for the year. In order to further strengthen internal financing for the transformation process of the company, no revenue reserves were released. The annual financial statements of ElringKlinger AG as of December 31, 2018, which were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB) and are relevant for the payment of dividends, showed a net loss of EUR 17.1 million as of December 31, 2019 (2018: EUR -5.3 million). Therefore, the dividend for financial year 2019 has been suspended. The loss will be carried forward to new account.

# Financial Position

**With an equity ratio of 42% and substantial cash and cash equivalents, the financial position of the ElringKlinger Group remained robust as of December 31, 2019. Targeted measures had a positive effect on the balance sheet structure in financial year 2019. These include the significant reduction in net working capital<sup>1</sup>, the disciplined management approach to investments, and the marked decline in net debt.**

## 61% of assets are non-current

At the end of 2019, the total assets of ElringKlinger AG amounted to EUR 2,146.5 million, compared to EUR 2,079.7 million a year earlier. The year-on-year expansion is due mainly to IFRS 16 Leases, which was applied for the first time in 2019 and generally leads to an increase in total assets, as well as being attributable to currency changes. Without these effects, total assets would have been lower compared to the previous year.

As a result of IFRS 16, which has been mandatory since January 1, 2019, rights of use in regard to leased assets were capitalized under property, plant, and equipment and future lease payments were recognized as liabilities. As a result, the balance sheet total increased by EUR 45.4 million as of the changeover date of January 1, 2019. Further details are presented in the Notes to the Consolidated Financial Statements. Currency translation also resulted in an increase in total assets of around EUR 30 million due to changes in exchange rates compared to the previous year's reporting date.

At EUR 1,314.0 million, non-current assets represented a share of 61.2% of total assets as of December 31, 2019. Of these, property, plant, and equipment with a carrying amount of EUR 1,043.7 million (December 31, 2018: EUR 997.8 million) is by far the largest item. Due to the highly disciplined approach of management to new investments in financial year 2019, the Group recorded significantly fewer additions to property, plant, and equipment in 2019 than in the previous year. Adjusted for IFRS 16 items, additions from capital expenditure on property, plant, and equipment in 2019 amounted to EUR 91.9 million (2018: EUR 163.0 million), which was also slightly below the

systematic depreciation of property, plant, and equipment of EUR 96.5 million (2018: EUR 87.8 million). The total additions to and depreciation of property, plant, and equipment were nearly balanced in the fiscal year so that the change compared to the previous year's reporting date essentially corresponded to the IFRS 16 effect described above. As a result of this effect, property, plant, and equipment rose by EUR 45.9 million as of December 31, 2019.

In the fourth quarter of 2019, the Group sold its industrial park in Kecskemét, Hungary (cf. "Significant Events" and details presented in the Notes to the consolidated financial statements, page 96). The corresponding real estate assets had been recognized as "Investment property" in the previous year's statement of financial position. This item of the statement of financial position includes Group assets attributable to the Industrial Parks segments, which is not part of the Group's core business. Primarily as a result of this sale, investment property declined by EUR 13.3 million to EUR 3.3 million at the end of 2019 (December 31, 2018: EUR 16.6 million).

Intangible assets increased by EUR 17.8 million year on year to EUR 208.1 million. The increase mainly includes capitalized development costs and currency changes. The main item under intangible assets is goodwill from previous M&A\* activities with a carrying amount of EUR 166.3 million as of December 31, 2019.

## Significant reduction in net working capital\*

A large proportion of current assets constitutes working capital\*, which comprises inventories, current contract assets, and trade receivables. In financial year 2019, it was reduced significantly by EUR 113.4 million to EUR 600.6 million. If trade payables and current contract liabilities are deducted

<sup>1</sup> Inventories and current contract assets as well as trade receivables less trade payables and current contract liabilities

\* Cf. glossary

from this figure, the result is net working capital\*, which represents the operating resources required for the ongoing procurement, production, and sales process. Compared to the level at the end of 2018 (EUR 568.0 million), net working capital as of December 31, 2019, was scaled back significantly by EUR 144.5 million to EUR 423.5 million.

This positive trend is the result of a comprehensive optimization program by the management with a number of different measures. Inventories were reduced at almost all manufacturing companies worldwide with the help of a more centralized approach to the management of Group-wide inventories. The plants currently under construction – specifically the facility in Fort Wayne, USA, and the sites of subsidiaries specializing in electric drive units (hofer powertrain products) – were an exception. The more pronounced reduction in tool-related items, which are generally accounted for in inventories until the start of series production, also helped to scale back stock levels. Overall, inventories were reduced by EUR 44.9 million at the end of 2019 compared to the reporting date of the previous year to a total volume of EUR 356.5 million (December 31, 2018: EUR 401.4 million). At the same time, strict receivables management, the use of factoring instruments, and not least the lack of market recovery in Asia in the second half led to an even steeper decline in trade receivables. They decreased by EUR 73.1 million year on year to EUR 233.2 million as of December 31, 2019. In addition, payment terms with suppliers were extended. This increased trade payables on the liabilities side, meaning that the Group had to raise the necessary funds at a later date. At the end of 2019, trade payables of EUR 157.1 million (December 31, 2018: EUR 135.6 million) were recognized in the Group statement of financial position.

Other current assets amounted to EUR 88.7 million as of December 31, 2019, compared to EUR 48.4 million at the prior-year reporting date. The increase is based, among other

items, on retained default risks for transferred assets, an outstanding claim from a warranty case, and other receivables.

The high cash position of EUR 135.5 million at the end of 2019 (December 31, 2018: EUR 45.3 million) includes the purchase price payment from the sale of the industrial park in Hungary (EUR 21.6 million), which was made shortly before the reporting date, as well as receivables settled by customers of the Chinese subsidiaries.

The total carrying amount of current assets was EUR 832.5 million (December 31, 2018: EUR 816.3 million). This corresponded to a share of 38.8% (December 31, 2018: 39.3%) of total assets. The carrying amount reported under assets held for sale in the previous year (EUR 6.0 million) related to a property sold in 2019.

#### Equity ratio at 42%

Equity held by the ElringKlinger Group rose slightly year on year to EUR 891.2 million at the end of 2019 (December 31, 2018: EUR 890.1 million). The change results primarily from the allocation of net income for the period of EUR 5.0 million as well as from foreign exchange translation differences recognized in other reserves (EUR 12.7 million) and postings from the revaluation of pension provisions (EUR -15.6 million). The equity ratio was 41.5% (December 31, 2018: 42.8%) and thus still within the corridor of 40 to 50% targeted by the management.

The carrying amount of pension provisions at the end of 2019 was EUR 148.2 million (December 31, 2018: EUR 124.4 million). The increase of EUR 23.8 million was mainly due to changes in parameters – including in particular lower market interest rates – on which the regular revaluation of future obligations as of the reporting date was based (cf. Note 25 in the Notes to the consolidated financial statements).

Other current and non-current provisions rose by EUR 5.8 million year on year to EUR 36.2 million (December 31, 2018: EUR 30.4 million). The largest items here are obligations relating to personnel, which are formed for partial retirement purposes, among other things, followed by warranty obligations. Provisions for warranty obligations and for obligations arising from other risks were higher compared to the previous year's reporting date.

#### Net debt\* down significantly

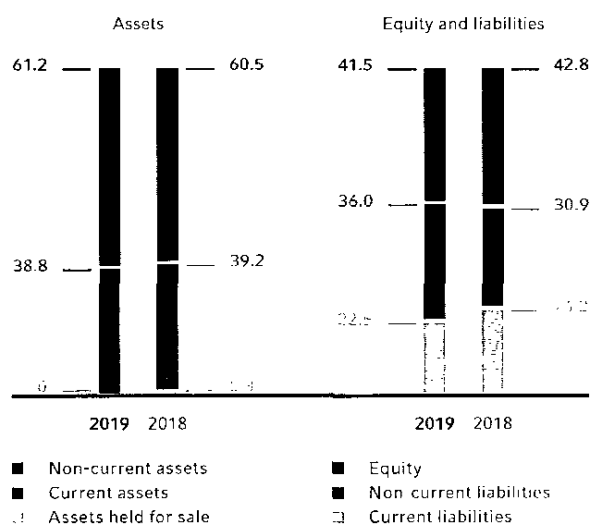
The Group used the substantial cash inflow from operating activities achieved in financial year 2019 (cf. Cash Flows, page 38) to reduce its financial liabilities. Compared to the end of 2018, net debt (current and non-current financial liabilities less cash) thus fell by EUR 128.2 million to EUR 595.3 million. Financial liabilities amounted to EUR 730.7 million at the end of 2019 (December 31, 2018: EUR 768.8 million). Here, too, the effect of the application of IFRS 16 from 2019 onwards must be taken into account in a year-on-year comparison. As a result of this new accounting treatment of leasing transactions, financial liabilities increased by EUR 46.7 million.

#### Improved maturity structure through syndicated loan

In February 2019, ElringKlinger concluded a syndicated loan\* agreement with six national and international banks covering a total volume of EUR 350.0 million and spanning a minimum term of five years. At the end of the year, EUR 235.3 million had been utilized. This enabled the Group to improve the maturity structure of existing financial liabilities. This is also illustrated by the fact that there was a more pronounced shift from short-term to long-term loans in financial year 2019.

Other non-current and current liabilities amounted to EUR 117.8 million at the 2019 reporting date (December 31, 2018: EUR 90.0 million) and include a number of different deferrals such as customer payments yet to be passed on and accounts receivable with credit balances. In

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



addition, the item includes public grants that have been deferred and will be reversed to profit or loss in future periods. They include funds granted for the purpose of ensuring compliance with an energy efficiency program at the site in Dettingen/Erms, Germany, and for structural development measures at the site in Kecskemét, Hungary. The current item also includes a long-standing purchase price liability of EUR 30.3 million for the non-controlling interests of ElringKlinger Marusan Corporation, Japan.

#### Improvement in the level of debt

As a result of the developments described above, the level of debt (net debt in relation to EBITDA\*) improved to 3.3 at the end of 2019 (December 31, 2018: 3.7) despite the effects from the first-time application of IFRS 16.

\* Cf. glossary

## Cash Flows

At EUR 277.6 million, net cash generated by the ElringKlinger Group from operating activities was substantial in financial year 2019. This was underpinned by a comprehensive package of measures implemented by Group management to reduce net working capital<sup>1</sup>. As investment spending was also scaled back substantially in the period under review, the Group recorded operating free cash flow<sup>2</sup> of EUR 175.8 million. Taking undrawn credit lines into account, the ElringKlinger Group's situation in terms of liquidity remains solid.

### Cash flow from operating activities increases to EUR 278 million

In financial year 2019, the ElringKlinger Group achieved substantial net cash from operating activities of EUR 277.6 million (2018: EUR 91.6 million). This dynamic upturn was fueled in particular by improvement measures aimed at optimizing net working capital (cf. Financial Position, page 35). Within the statement of cash flows, this is reflected by the change in items allocated to net working capital, i. e., primarily inventories and trade receivables and payables. Including other assets and liabilities not attributable to investing or financing activities, the resulting cash inflow amounted to EUR 150.1 million in financial year 2019, compared to cash outflow of EUR 32.0 million in the previous year.

Due to the provisions of IFRS 16, since 2019 lease payments have been allocated – at the point of time of the corresponding repayment of financial liabilities – mainly to cash flow from financing activities and no longer primarily to cash flow from operating activities as in the past. In determining the operating cash flow\*, this fact is reflected particularly in higher depreciation and amortization compared to the previous year, which are eliminated. In 2019, depreciation and amortization (less write-ups) of non-current assets amounted to EUR 119.7 million (2018: EUR 100.5 million). This figure includes an amount of EUR 12.9 million (2018: EUR 0 million) relating to IFRS 16.

### Significant reduction in investments

The Group had initiated an intensive investment cycle in recent years for the purpose of establishing an efficient global network of production sites. On this basis, the Group can now focus its investment activities primarily on projects in the strategic business fields of e-mobility and structural lightweighting. As a result of this disciplined investment approach, cash outflows for capital expenditure on property, plant, and equipment and investment property fell noticeably to EUR 92.2 million in 2019 (2018: EUR 163.5 million). The investment ratio (capital expenditure on property, plant, and equipment and on investment property relative to Group sales revenue) fell to 5.3% (2018: 9.6%).

One of the largest investments in 2019 was that relating to the technology center for e-mobility currently being built at the main site in Dettingen/Erms, Germany. After its completion scheduled for spring 2020, the research and development activities in battery and fuel cell\* technology will be based there. Another focus of investment spending was on the North American plants, where capacity adjustments, automation, and product ramp-ups were necessary. The new plant built in Fort Wayne, USA, in financial year 2018 saw the ramp-up of serial production of thermal and acoustic shielding systems in 2019.

<sup>1</sup> Inventories and current contract assets as well as trade receivables less trade payables and current contract liabilities

<sup>2</sup> Cash flow from operating activities less cash flow from investing activities, adjusted for cash flows in respect of acquisition activities and changes in financial assets



At the German site in Thale, the introduction of series production capabilities for complete battery systems progressed over the course of the period under review. In addition to new assembly lines for battery modules and components at the site in Dettingen/Erms, Germany, other capital expenditure on property, plant, and equipment mainly related to equipment directly connected with series ramp-ups or the improvement of efficiency and operational performance.

Payments for intangible assets amounted to EUR 19.1 million (2018: EUR 15.1 million) in 2019 and included software licenses and similar rights as well as, in particular, capitalized development costs.

The Group received EUR 21.6 million from the disposal of subsidiaries (2018: EUR 56.8 million). This relates to the sale of the industrial park in Kecskemét, Hungary (cf. Significant Events and details presented in the Notes to the consolidated financial statements). The prior-year payment related to the sale of the Hug Group, Switzerland, and new energyday GmbH, Neubrandenburg.

The disposal of property, plant, and equipment, intangible assets, and investment property generated cash inflows of EUR 9.6 million for the Group in 2019 (2018: EUR 0.8 million). This includes the proceeds from land that was sold in 2019.

In total, net cash used in investing activities amounted to EUR -84.5 million, after EUR -120.7 million in the previous year.

#### Operating free cash flow at EUR 176 million

As both operating cash flow improved significantly in 2019 compared to the previous year and investment outflows decreased, operating free cash flow increased substantially to EUR 175.8 million. The prior-year figure was EUR -86.2 million.

#### Financing activities benefit from strengthened internal financing

The Group used the capital inflow from operating cash flow to finance capital expenditure and also to repay borrowings. On balance, funds of EUR 103.8 million were used to reduce financing activities in 2019, whereas EUR 30.0 million had to be raised in 2018. The company's financial strength was also underpinned by the fact that no dividend was paid to shareholders of ElringKlinger AG in 2019 in respect of the previous financial year (2018: EUR 31.7 million).

As of December 31, 2019, the Group had access to approved yet undrawn lines of credit totaling EUR 150.5 million (December 31, 2018: EUR 190.2 million).

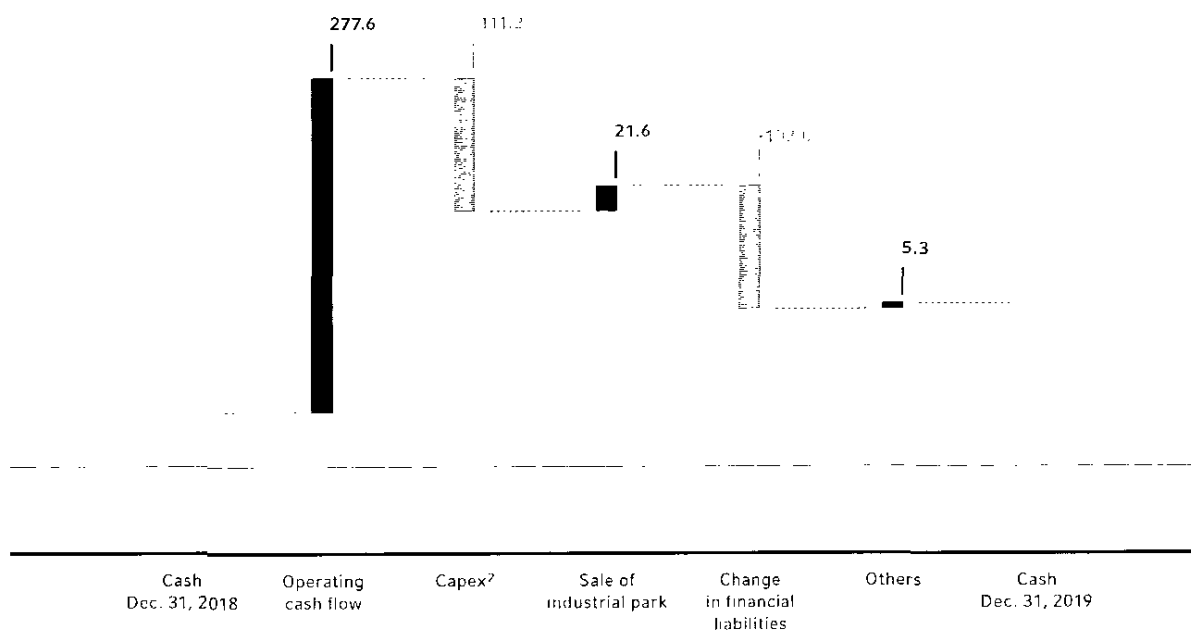
#### Investment<sup>1</sup> spending by region



<sup>1</sup> Investments in property, plant, and equipment, investment property, and intangible assets

\* Cf. glossary

### Changes in cash 2019<sup>1</sup> in EUR million



<sup>1</sup> Does not correspond to IAS 7 presentation

<sup>2</sup> Investments in property, plant, and equipment, investment property, and intangible assets

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

Group revenue again developed better than the global vehicle market as a whole in financial year 2019. Despite the worldwide decline in vehicle production by -5.6%, ElringKlinger increased its revenues by 1.6% in 2019, taking the total to EUR 1,727.0 million. On the cost side, the efficiency program launched at the beginning of 2019 took effect, so that additional charges such as higher customs duties and personnel costs were counteracted by cost streamlining. At EUR 63.2 million and a margin of 3.7%, earnings before interest, taxes, and purchase price allocation\* (EBIT\* before purchase price allocation) were at the lower end of the targeted range of around 4 to 5% – an unsatisfactory result from the management's point of view, but acceptable in view of the difficult market environment.

The Group performed particularly well when it came to bolstering its financial strength in 2019. Targeted measures to optimize inventories as well as trade receivables and payables helped to free up liquidity reserves and strengthen

ElringKlinger's internal financing. As a result, the Group achieved a substantial inflow of cash from operating activities, while net debt\* was scaled back significantly. New investments were made with a clear focus on future-proof projects. Management will continue to pursue this disciplined approach and carefully monitor and control changes in net working capital\*.

ElringKlinger was quick off the mark in its efforts to position itself favorably in a fast-paced automotive industry driven by change. As a result, the company already offers customer-specific solutions not only for classic fields of application but also for vehicles powered by alternative drive systems. In the area of novel drive technology, ElringKlinger has established a portfolio consisting of components, modules, and entire systems. This includes complete battery systems as well as fuel cell stacks ready for series production, for example. Together with the broad customer base, which includes both established and new manufacturers, and the strong global network of production sites, management believes that this forms an excellent basis for consistently solid business development.

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

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

ElringKlinger AG recorded a slight downturn in revenue in 2019, but nevertheless managed to exceed the change in global vehicle production by a good 4 percentage points. The cost streamlining program initiated in 2019 showed initial positive effects. Despite this, earnings performance was adversely affected by lower sales revenue and higher personnel expenses in the period under review.

## Revenue down slightly

ElringKlinger AG failed to match the strong surge in revenue seen in the previous financial year and recorded a slight downturn of 1.6% in 2019, taking the figure to EUR 709.1 million (2018: EUR 720.5 million). As a result, the company reached the upper end of its projected target of boosting revenue by 2 to 4 percentage points above the global market growth rate (-5.6%).

Revenue generated in the Rest of Europe (without Germany), ElringKlinger AG's largest sales region, rose slightly by 0.9% to EUR 308.6 million (2018: EUR 305.8 million). The Asia-Pacific region also developed well. In a market characterized by a significant decline in vehicle production output of more than -8%, revenue increased by 3.7% to EUR 59.6 million (2018: EUR 57.5 million). At EUR 73.5 million (2018: EUR 77.3 million), by contrast, the sales region of North America was noticeably weaker than in the previous year. In total, revenue from foreign sales was up by 0.3%, taking the figure to EUR 467.3 million (2018: EUR 466.0 million). Thus, the share of foreign sales rose to 65.9% (64.7%).

In line with the current market weakness in Germany, ElringKlinger AG, too, saw revenue from domestic sales fall in the period under review, down by 5.0%. The total of EUR 241.8 million (2018: EUR 254.4 million) also includes revenues from products incorporated into vehicles and engines that are subsequently exported.

## Original Equipment sees dip in revenue

The Original Equipment segment recorded a downturn in revenue of 4.2% to EUR 550.7 million in 2019 (2018: EUR 574.8 million). The segment's contribution to the total revenue generated by ElringKlinger AG fell to 77.7% (2018: 79.8%). The Shielding Technology and Cylinder-head Gaskets divisions accounted for the largest decline in revenue, whereas the Lightweighting/Elastomer Technology division continued to expand. The E-Mobility division also delivered revenue growth, recording a percentage increase from a low base.

\* Cf. glossary

### Significant growth in Aftermarket revenue

Overall, the Aftermarket segment moved forward dynamically despite geopolitical tensions in many regions. ElringKlinger AG saw revenues increase by 8.9% to EUR 158.3 million (2018: EUR 145.4 million). The segment's contribution to total revenue rose to 22.3% (2018: 20.2%). With the exception of Germany, Iran, and Australia, business in the Aftermarket segment continued to expand in all sales regions. ElringKlinger AG recorded particularly strong revenue growth from sales in Eastern Europe and the Middle East. Sales in both Asia and North America ended the year up – from a low base – and efforts are being made to achieve greater market penetration in these regions.

### Year-on-year decline in total operating revenue

Having recorded inventory increases of EUR 4.8 million in 2018, ElringKlinger AG managed to scale back inventories by EUR 2.4 million in the reporting period due to the reduction in business volume. At the same time, other own work capitalized fell to EUR 0.2 million (2018: EUR 0.3 million). At EUR 706.9 million (2018: EUR 725.6 million), total operating revenue was down EUR 18.7 million on the prior-year figure.

Other operating income amounted to EUR 12.5 million (2018: EUR 46.9 million). This reduction was mainly due to lower income from asset disposals of EUR 0.4 million (2018: EUR 29.8 million), which primarily related to the sale of the Hug Group in financial year 2018. In addition, income from foreign exchange differences fell by EUR 2.9 million to EUR 5.5 million (2018: EUR 8.4 million).

Other operating expenses fell by EUR 10.1 million to EUR 108.5 million (2018: EUR 118.6 million). The year-on-year reduction is attributable, among other factors, to the cost streamlining program implemented by ElringKlinger AG in 2019. This had a particular impact on travel, general and administrative, and other personnel expenses, which fell significantly compared to the previous year.

### Commodity prices develop along different lines

In 2019, there was a significant downturn in the price of key input materials such as aluminum and steel, which are required by ElringKlinger AG in large quantities for production. By contrast, polyamide\*, a plastic material used by the Group for the production of lightweight components, was more expensive. Due to the lower volume of revenue and a reduction in tool costs, the cost of materials recorded by ElringKlinger AG fell to EUR 299.6 million (2018: EUR 326.2 million). This corresponds to a year-on-year

decrease of 8.2%. The cost-of-materials ratio (cost of materials in relation to total operating revenue) thus fell to 42.4% (2018: 45.0%).

### Headcount expanded in new business areas

The policy of restraint by the Group with regard to new hires also had an impact on ElringKlinger AG. Expanding by ten, the headcount at the end of the reporting period remained largely unchanged year on year at 3,367 (December 31, 2018: 3,357). A large proportion of the new hires related to the promising areas of battery and fuel cell\* technology and electric drive units. In addition to the slight increase in personnel, the collectively agreed salary increase of 4.3%, which has been in effect since the second quarter of 2018, and the additional 27.5% collectively agreed annual supplemental allowance led to an increase in personnel expenses in financial year 2019. Personnel expenses rose by 3.1% to EUR 245.2 million (2018: EUR 237.9 million), thus outpacing the increase in revenue. At 34.7% (2018: 32.8%), the personnel expense ratio was significantly higher as a proportion of total operating revenue.

### Significant reduction in write-downs

Systematic depreciation and amortization of intangible and tangible fixed assets remained largely unchanged year on year at EUR 36.8 million (2018: EUR 36.7 million). In 2018, the company had to make additional write-downs of receivables from affiliated companies totaling EUR 24.2 million. As a result, the overall figure for depreciation/amortization and write-downs fell by EUR 24.1 million in total in the period under review (excluding write-downs of financial assets).

### Earnings before interest, taxes, and equity investments slightly up on the previous year

As outlined above, earnings generated by ElringKlinger AG were diluted by higher personnel expenses and lower other operating income in 2019. However, the significant reduction in the cost of materials and lower depreciation and amortization ultimately meant that earnings before interest, taxes, and equity investments were slightly up on the previous year at EUR 29.4 million (2018: EUR 28.9 million). This is equivalent to an EBIT margin\* (as a proportion of total operating revenue) of 4.2% (2018: 4.0%). As such, the company was able to exceed its target of maintaining the margin at the same level as in 2018.

### Lower net income from equity investments

Income from equity investments declined in the reporting period and amounted to EUR 30.3 million (2018:

EUR 35.0 million). Additionally, write-downs on financial assets pushed the net figure down by EUR 55.2 million (2018: EUR -53.5 million). Net income from equity investments fell to EUR -24.9 million (2018: EUR -18.5 million). Interest and similar expenses rose to EUR -16.0 million (2018: EUR -12.2 million), partly due to the conclusion of the syndicated loan\* agreement in February 2019.

#### Post-tax profit down after higher tax expenses

As a result of negative net income from equity investments, earnings before taxes were also in negative territory at EUR -3.6 million, down on the figure of EUR 4.1 million recorded in the previous year. There was no reduction in income taxes compared to the previous year because the write-downs on financial assets are not tax-deductible. Total income taxes for 2019 amounted to EUR 13.3 million (2018: EUR 9.2 million). Income taxes include taxes relating to other periods in the amount of EUR 1.8 million (2018: EUR 0.1 million). As a result, post-tax profit at the end of the reporting period was negative at EUR -16.9 million (2018: EUR -5.1 million). After deducting other taxes, ElringKlinger AG posted a net loss of EUR 17.1 million for the financial year under review. Taking into account the loss carried forward of EUR 5.3 million from the previous year, the accumulated loss in 2019 amounts to EUR 22.4 million (2018: EUR -5.3 million).

#### Suspension of the dividend

As in the previous year, no reversals of revenue reserves were made in 2019, the aim being to further strengthen internal financing for the transformation process of the company. Financial year 2019 produced a net loss of EUR 17.1 million (2018: EUR -5.3 million). The Management Board and Supervisory Board have therefore jointly decided to again suspend the dividend for financial year 2019. The accumulated loss will be carried forward to new account.

### Net assets of ElringKlinger AG

ElringKlinger AG's position in terms of net assets remains very solid with an equity ratio of 40.2% (2018: 40.0%). ElringKlinger AG has a twin role within the Group, as it is not only the largest manufacturing entity but also the parent company. This is reflected in the balance sheet by the fact that, alongside assets required for operating activities, it primarily includes financial assets and receivables from affiliated companies. Total assets, i.e., the balance sheet

total, amounted to EUR 1,319.3 million at the end of 2019 (December 31, 2018: EUR 1,370.4 million).

#### Fixed assets account for 56% of total assets

Fixed assets represented 55.8% of total assets at the end of the reporting period and amounted to EUR 735.7 million (December 31, 2018: EUR 807.7 million). The year-on-year decline is essentially due to two factors. Firstly, the company's investment activities were scaled back significantly in financial year 2019 as planned, with the result that systematic depreciation exceeded the new additions from investments (EUR 25.9 million). This also takes into account a disposal of land and several disposals of assets of minor importance. As a result, tangible fixed assets decreased by EUR 15.5 million to EUR 352.2 million compared to the prior-year carrying amount.

Secondly, the carrying amount of financial assets declined, which, at EUR 375.6 million (December 31, 2018: EUR 431.4 million), accounts for around 50% of fixed assets and essentially represents interests in affiliated companies. These were reduced by EUR 55.2 million as part of the annual impairment test, as interests in five subsidiaries were impaired. There were no reversals of impairments.

Inventories primarily comprise raw materials for the production process as well as semi-finished and finished products, including stocks relating to the spare parts business. Despite the overall rise in material prices over the course of the year, total inventories were reduced slightly to EUR 147.8 million as of December 31, 2019, down from the figure of EUR 153.5 million at the prior-year reporting date.

The majority of receivables and other assets totaling EUR 417.3 million (December 31, 2018: EUR 406.5 million) are short-term loans to subsidiaries. As ElringKlinger AG is responsible for central finance and liquidity management within the Group, it generally raises the necessary external funds and makes them available to Group companies. These loans are mainly recognized in receivables from affiliated companies, which amounted to EUR 336.0 million at the end of the year (December 31, 2018: EUR 299.6 million). Trade receivables at ElringKlinger AG fell by EUR 35.5 million year on year (December 31, 2018: EUR 92.3 million) to EUR 56.8 million. The sharp decline resulted from the use of various instruments to selectively reduce capital tied up in current assets and thus scale back financing requirements.

\* Cf. glossary

### Equity ratio of ElringKlinger AG at 40%

ElringKlinger AG's shareholder equity totaled EUR 530.5 million as of December 31, 2019, which equates to an equity ratio of 40.2% (2018: 40.0%). As the company suspended its dividend payment for financial year 2018, the change in shareholders' equity compared to the end of the previous year (EUR 547.6 million) was attributable solely to the net loss for financial year 2019 (EUR -17.1 million).

Provisions recognized by ElringKlinger AG rose to EUR 124.2 million as of December 31, 2019 (December 31, 2018: EUR 116.8 million). The year-on-year change is mainly due to pension provisions, which account for around two-thirds and were revalued as scheduled at the end of the year on the basis of several parameters such as interest rates.

ElringKlinger AG used the substantial cash flow\* generated from operating activities in financial year 2019 to reduce its liabilities to banks. As of December 31, 2019, these amounted to EUR 519.4 million and were thus EUR 80.1 million lower than in the previous year. Part of the existing borrowing relates to a syndicated loan concluded with six national and international banks in February 2019. Trade payables increased year on year to EUR 53.7 million (December 31, 2018: EUR 44.8 million). This reflects the fact that extended payment terms were specifically agreed with suppliers. In total, ElringKlinger AG's receivables amounted to EUR 664.4 million at the end of the reporting period (December 31, 2018: EUR 705.5 million), thus accounting for 50.4% of total liabilities. This was lower than in the previous year (51.5%).

### Cash Flows\* of ElringKlinger AG

#### Substantial operating cash flow of EUR 139 million

Although the net result of ElringKlinger AG for the period under review was lower than last year's negative net result, cash flow from operating activities, which had already been high in the previous year, at EUR 94.2 million, grew substantially to EUR 138.5 million in financial year 2019.

The year-on-year increase is mainly attributable to the lower absorption of funds in net working capital\* (inventories and trade receivables less trade payables). After an improvement

had already been achieved in the previous year compared to the prior-period figure, further progress was made in the past financial year. In financial year 2019, for instance, ElringKlinger AG recorded a cash inflow of EUR 53.6 million (December 31, 2018: cash outflow of EUR 7.4 million) due to the reduction in net working capital\*, including changes in other assets and liabilities not attributable to investing activities. This includes above-average incoming payments from customers that are attributable to factors relating to the end of the reporting period; they also account for the comparatively high cash balance of EUR 15.0 million as of December 31, 2019 (December 31, 2018: EUR 0.1 million).

#### Investments scaled back significantly

ElringKlinger AG invested a total of EUR 25.9 million in tangible fixed assets in 2019, which was less than half as much as the prior-year figure of EUR 52.1 million. The company thus successfully implemented its disciplined approach to investments. This was also one of the measures taken in an effort to reduce the need for external funds. Capital expenditure was directed, among other things, at the construction of a new technology center for electromobility at the main site in Dettingen/Erms, which will commence operations in 2020. As part of the focus on electromobility within the portfolio, a large proportion of the newly acquired technical equipment was used on production and assembly lines for battery manufacture. A series production facility for complete battery systems is under construction at the plant in Thale, Germany. In addition, state-of-the-art equipment was purchased for further automation in the core area of business.

Taking into account the other matters relating to investing activities, net cash used in investing activities was EUR -20.4 million (December 31, 2018: EUR -30.6 million). This includes proceeds from the disposal of tangible fixed assets in the amount of EUR 6.9 million, including a sale of land. The prior-year figure includes cash inflows and outflows from the sale of two subsidiaries and capital increases at several subsidiaries.

As no dividend was paid in 2019 for the previous financial year (2018: EUR 31.7 million), the company used the capital surplus from operating and investing activities to repay borrowings. A total of EUR 103.3 million (December 31, 2018: EUR 63.6 million) was used in financing activities.

As of December 31, 2019, the undrawn lines of credit available to ElringKlinger AG totaled EUR 100.4 million (December 31, 2018: EUR 136.3 million).

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

## People

**Against the backdrop of an evolving world of work, the company is experiencing a stronger and changing demand for skilled workers. ElringKlinger is committed to retaining employees with the company over the long term and uses a number of targeted measures to achieve this.**

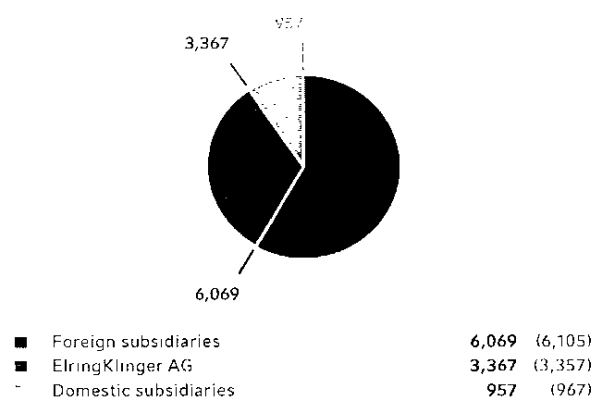
### Conservative HR policy

The comprehensive cost reduction program implemented by ElringKlinger in financial year 2019 also had an impact on personnel policies in Germany and abroad. Despite revenue growth, for example, the headcount within the ElringKlinger Group fell to 10,393 (2018: 10,429) as of December 31, 2019. This equates to a slight reduction in staffing levels by 36. An average of 10,461 (2018: 10,033) people were employed by the Group in 2019. At the end of the reporting period, 3,367 (2018: 3,357) staff members were working at the sites of the parent company ElringKlinger AG (Dettingen/Erms, Gelting, Runkel, Langenzenn, Lenningen, and Thale). At the Dettingen/Erms headquarters, in particular, newly recruited employees consisted primarily of skilled workers for the new business areas of battery and fuel cell technology.

In Europe, ElringKlinger reduced its headcount in Switzerland, the United Kingdom, and Turkey, as planned. By contrast, new hires were needed in response to a high volume of business in Hungary and Spain. ElringKlinger employed around 15% of its personnel in the Asian markets. In line with the weaker economic situation in Asia compared to the previous year, the Group adjusted the number of employees slightly at most companies in this region. The North America region accounted for the largest increase in personnel. In the United States and Canada, in particular, additional employees

were hired in order to respond to persistently high levels of demand. The total headcount abroad was 6,069 (2018: 6,105). As a result, the proportion of Group employees based outside Germany fell to 58.4% (2018: 58.5%), a slightly lower figure relative to the previous year. Thus, the share of staff members employed at domestic facilities was 41.6% (2018: 41.5%).

**ElringKlinger Group employees worldwide**  
as of December 31, 2019 (previous year)



\* Cf. glossary

## Headcount data for the ElringKlinger Group

	2019	2018
Absolute number of employees	10,393	10,429
of which men (in %)	70.0	71.0
of which women (in %)	30.0	29.0
Absolute number of employees	10,393	10,429
of which domestic (in %)	41.6	41.5
of which abroad (in %)	58.4	58.5
Average number of employees	10,461	10,033

## Report on Opportunities and Risks

ElringKlinger has established an extensive risk management system, the aim being to identify risks at an early stage, evaluate them, and mitigate them with the help of appropriate instruments and measures. In addition to external factors, such as economic or technological factors, internal factors, such as strategic, operational, or financial factors, also influence the risk positions. The Group has a comprehensive set of instruments aimed at preventing the occurrence of such an event or, in the event of its occurrence, minimizing its impact on the company.

### Risk management system

By monitoring markets, customers, and suppliers on a continual basis and maintaining detailed internal reporting and controlling processes, the company is able to gauge risk in a timely manner and seize market opportunities. The effectiveness and suitability of the risk management system itself is continually adapted and refined in accordance with new requirements as they arise.

The risk management system is made up of various tools and control systems. Among the key components are strategic Group planning and internal reporting. Planning enables potential risks to be identified and taken into account when making critical and significant decisions. All key areas within the Group are involved in strategic Group planning. Within this context, information is retrieved, collated, and evaluated in a standardized process. The Management Board bears

overall responsibility. Internal reporting is used to monitor and control business performance. A key component of the risk management system is regular reporting by the management of the respective domestic and foreign Group companies as well as the divisions, which is performed on a half-yearly basis. It covers developments in all fields relevant to the Group that can affect business activity and, in particular, the continuation of the ElringKlinger Group as a going concern. The focus is primarily on changes to the economic or political situation, new regulatory requirements, technological developments, commodities markets, and internal risks. This reporting system involves identifying and evaluating all risks and subsequently drafting recommendations on how to prepare for and protect against them. The Chief Financial Officer is responsible for coordinating these activities. This approach is designed to ensure that risks are identified at an even earlier stage and measures aimed at avoiding or



mitigating such risks can be implemented rapidly. The risk structure of the Group and the AG does not differ significantly overall.

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

Alongside regular reporting, internal audits are an important control mechanism and thus an essential element of the risk management system. Audits are carried out in the business and service divisions of ElringKlinger AG as well as at the Group companies. They are conducted by the Audit department in cooperation with external accountancy firms commissioned by ElringKlinger AG. The rationale behind the use of internal and external specialists is to ensure that risks are identified, statutory requirements met, internal processes reviewed, and potential for improvement recognized. The findings of such audits are compiled in reports, which are directed in particular at the Management Board and the Chairperson of the Supervisory Board's Audit Committee. The reports are evaluated, whereupon necessary measures are initiated. The execution of measures is monitored by the Management Board member whose remit covers this area; this Management Board member is also responsible for reviewing assessments conducted with regard to risk positions identified by the company. All relevant findings are discussed with the areas concerned in order to bring about *improvements or rectify any weaknesses. None of the audits conducted in 2019 gave rise to any significant objections. Both statutory regulations and internal requirements were consistently met. The recommendations submitted with regard to potential areas for optimization have been put in place or are currently being implemented.*

In accordance with the existing compliance system, the Chief Compliance Officer reports directly to the Chief Executive Officer. Additional Compliance Officers have been appointed for individual regions in which ElringKlinger is active; they report to the Chief Compliance Officer. *The ElringKlinger*

*Code of Conduct forms an important part of the compliance system. It sets out binding rules for all employees of the ElringKlinger Group. Among other aspects, the code covers issues such as fair competition, corruption, discrimination and the protection of confidential data. The code is distributed to all employees in the language of the country in which they are based. Staff members, and particularly management personnel, receive training relating to these issues. Training courses are held on a regular basis in order to prevent compliance-related infringements.*

*ElringKlinger's Whistleblower System allows employees to report any irregularities they may come across. This gives them a safe line of communication in order to pass on information on misconduct, violations of statutory provisions, and policy infringements. The Chief Compliance Officer responded to all indications of compliance-related infringements in order to investigate the circumstances and initiate requisite measures. Where evidence suggested that an infringement may have occurred, the Management Board was informed accordingly. No significant infringements were reportable for 2019. The Management Board is committed to adapting and refining the existing compliance system to changing circumstances and the possibility of evolving risk exposure.*

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

#### Control and risk management system with regard to accounting

*With regard to accounting and external financial reporting within the Group, the internal control and risk management system may be described with reference to the basic characteristics outlined below. The system is geared toward the identification, analysis, valuation, risk control, and monitoring of these activities. The structuring of the system in line with the specific requirements of the company is the responsibility of the Management Board and Supervisory Board. In accordance with the distribution of responsibilities within the company, the Finance department, which is in charge of accounting, comes under the remit of the Chief Financial Officer. This department, which also includes Corporate*

Investment Management, controls accounting within the Group and ElringKlinger AG and compiles the information required for the preparation of the consolidated financial statements and the annual financial statements of ElringKlinger AG. Corporate Investment Management is responsible, in particular, for monitoring and supporting the accounting processes of the Group companies. The Group companies report to the Chief Executive Officer.

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

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

SAP is used by all the German and the majority of the foreign subsidiaries within the ElringKlinger Group. As for the other companies, various IT systems are currently in use. SAP is to be introduced at other key companies within the Group. All implemented systems feature hierarchical access systems; all clearances are documented in the system. For companies

that use SAP, access rights are managed centrally according to established rules. Access decisions are the responsibility of the Chief Financial Officer. Local management makes decisions on access in those companies that use other systems.

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

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

#### Assessment of opportunities and risks

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

financial impact. The assessment of opportunities and risks was performed as of the end of the reporting period, i.e.,

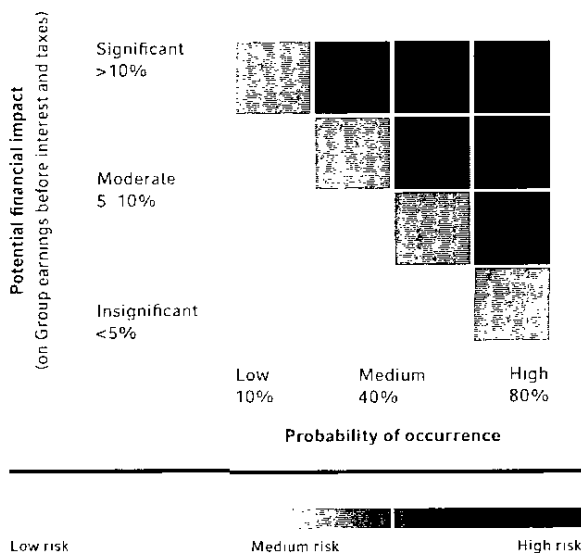
December 31, 2019. Reporting in respect of opportunities and risks is always based on a period of one year.

### Opportunity and risk profile of the ElringKlinger Group

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

\* Cf. glossary

### Risk matrix of the ElringKlinger Group



### Economic risks

#### Economic and industry risks

The global vehicle markets tend to perform in line with prevailing economic trends. A substantial downturn in the economy represents a risk to demand and, ultimately, to vehicle production. This, in turn, could possibly result in lower demand for the product portfolio of the ElringKlinger Group.

Based on the Group's most recent year-end assessment, there is a risk of a general slowdown in global market growth. This is due to the expected decline in the Chinese automobile market as well as possible exceptional economic effects caused by the coronavirus, which has been spreading since the beginning of 2020 and has prompted the introduction of special protective measures for the population. Effects on the economy in general and the automotive industry in particular are likely, but their extent cannot yet be estimated at the time of writing this report. In addition, there are a number of unresolved global trade conflicts, especially between the United States and China as key economic powers.

For 2020, industry experts predict that, rather than growing, global automobile production will decline. Despite these forecasts, a sustained sharp decline in global vehicle

production is not very probable based on the information currently available. ElringKlinger anticipates that global vehicle production will shrink by at least 4% in 2020 (cf. "Report on Expected Developments"). This assessment may turn out to be even more unfavorable if stronger distortions materialize in the global economy due to the coronavirus pandemic.

Due to its customer structure, ElringKlinger is not dependent on specific markets or individual manufacturers. Given its global presence with production and sales locations in 21 countries, the Group is relatively well prepared to handle potential stagnation or waning demand in specific vehicle markets. Therefore, the effects of an economic slump in a particular region can be offset at least in part. Due to its cost structures, ElringKlinger would be able to respond immediately to market conditions in the event of more severe economic turbulence. Instruments available to the company include flexitime accounts and flexible shift models as well as the option of issuing an application for short-time work. Furthermore, the company can react to changing market conditions by adjusting its staffing levels to demand patterns and by pooling the production quantities of individual plants. The central purchasing department works in close cooperation with suppliers for the purpose of continuously assessing and adjusting procurement volumes. ElringKlinger factors in economic risks to an appropriate extent at the forward planning stage. The company always takes a cautious view of each macroeconomic scenario when drawing up budgets.

The automobile industry is undergoing a far-reaching process of transformation. Autonomous driving, connectivity and, last but not least, alternative forms of propulsion are an integral part of the discussion about the mobility of the future. This gives rise to industry-specific risks, which, given ElringKlinger's product portfolio, mainly relate to the speed of change from internal combustion engines to alternative drive systems such as batteries or fuel cells\*. If the speed of transition decelerates, the Group will be able to act in line with its established market position for combustion engine components. In response to a more dynamic pace of change, the company has a wide range of products for alternative drive systems in its portfolio, such as cell contact systems, pressure equalization elements, bipolar plates, disk carriers, and metal-elastomer seals for batteries.

This illustrates that the ElringKlinger Group has aligned its product range to the requirements of all types of drive

systems. The Group has also responded to the risks it faces in relation to battery and fuel cell technology by establishing separate monitoring mechanisms for its new business areas within the broader risk management system.

Diesel technology continues to be a major topic of public debate. The resulting uncertainty among end consumers is having a noticeable effect on purchasing behavior: the diesel share of new vehicle registrations is significantly lower than in previous years. This does not have a major impact on ElringKlinger, as most of the company's product range is not dependent on a particular fuel type. However, it is impossible to rule out specific repercussions for the automotive industry as a whole, also as a result of the increasing number of driving bans in major German cities.

#### Political risks

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

Due to the increasingly noticeable effects of climate change, the issue of environmental protection has become more significant, especially among the younger generation. As a result, various social initiatives have formed – evolving to some extent on the back of dissatisfaction with the current lack of desire among ruling political parties to pursue change. Overall, this has raised awareness of climate change and measures to protect the earth and has become part of the social discourse. Although political attitudes vary widely, not only within European countries, but also globally, the World Economic Forum in Davos, as a multilateral institution, noted that “the near-term impacts of climate change add up to a planetary emergency that will include loss of life, social and geopolitical tensions and negative economic impacts.” Failure to deal with climate change in a targeted manner is seen as the greatest risk for the next decade. Overall, political radicalization of the issue and/or far-reaching reactive measures at the expense of the automotive industry could have consequences for the entire industry.

There are numerous trouble spots around the world at the geopolitical level. The situation has deteriorated in large parts of the Middle East, especially in Syria; peace plans continue to fail. Previous protective powers are withdrawing from the region, while new ones are emerging. The balance of power is being redistributed by military measures. The North African countries, especially Libya, also remain politically unstable.

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

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

Despite the UK's withdrawal from the European Union (“Brexit”), which has now been concluded, specific uncertainties remain. The question of “regulated or unregulated withdrawal” has now been replaced by the open question of concluding a trade agreement in order to settle the economic relationship between the EU and the United Kingdom on a lasting basis. As there continues to be uncertainty with regard to a conclusion within the transitional period before the end of 2020, there is still a risk that cannot be clearly assessed. While the ElringKlinger Group is undoubtedly affected by the issue of Brexit, given its existing customer relationships and UK-based operations, the overall extent of risk exposure associated with its UK subsidiary is considered manageable in relation to the Group as a whole.

\* Cf. glossary

## General internal risks

### General internal risks, work-related accidents, fire

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

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

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

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

## Operational risks

### Price-related pressure/Competition

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

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

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

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

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

### Material risks/Supplier risks

Overall, the prices of raw materials used by ElringKlinger are at an elevated level compared to previous years. This is partly due to the global trade conflicts involving short-term and drastic tariff increases on cross-border raw material transports. In this context, there are still potential risks of punitive, countervailing, or compensatory duties (anti-dumping and countervailing duties\*) on raw materials imported into the USA. The risks created by excessive rises in material prices would have a direct and – depending on the extent of any such increases – potentially considerable impact on the Group.

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

In its negotiations with its raw material suppliers, ElringKlinger generally concludes contractual agreements that are as long term as possible. Any additional quantities required are procured at prevailing market prices. Alloys such as nickel are exclusively traded on the stock exchange and cannot be fixed in framework agreements. In order to respond to the high level of raw material prices in financial year 2019 and be prepared for possible price declines, contracts with shorter terms were also agreed.

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

Although high material prices have an adverse impact on the Group's earnings, ElringKlinger benefits from the same high prices when it sells the metal residues produced during stamping processes. All metal residues are recycled and sold

by the Group's in-house scrap management unit. Potential cost increases can be offset, at least in part, by the proceeds from scrap sold in this way.

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

Alongside the materials needed for its traditional product portfolio (e.g., alloyed high-grade steel, C-steel, aluminum, polyamides, and elastomers), the Group uses other types of commodities and materials for battery and fuel cell components and systems in its new business areas. With regard to these inputs, it is difficult to estimate future volumes, price movements, and supplier structures based on the information currently available, partly because of the lack of certainty over future demand for vehicles with alternative drive systems. ElringKlinger counters this uncertainty and therefore minimizes its exposure to risk by minimizing its own inventories and by also requesting these input materials as required from the supplier's consignment warehouse, i.e., the supplier retains ownership of the goods until they are requested by ElringKlinger. Furthermore, escalation clauses are used for the material price, which are synchronized between Sales and Purchasing.

To assess material risks, the inventories held by the Group are regularly reviewed with regard to their turnover rate. Stocks with a low turnover rate are evaluated to determine whether they should be used, sold, or scrapped.

### Customer risks

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

\* Cf. glossary

In order to minimize the company's dependence on individual customers, also with a view to alleviating potential pricing pressure, ElringKlinger has continuously extended its customer base in recent years.

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

As a consequence, ElringKlinger may lose existing development projects or orders secured from such players. In addition, the company may potentially be adversely affected in financial terms in the form of expense items. The Group has established business relationships with several customers in this category and therefore classifies the corresponding projects as being exposed to the risks outlined above. In these cases, ElringKlinger counters the increased counterparty risk with a risk-minimizing customer strategy. Among other things, the aim is to agree payment terms that correspond largely to project progression and therefore cover any investment and development amounts outstanding.

#### Labor cost risks

At 41.6% (2018: 41.5%), a significant share of the Group's overall workforce is employed at sites in Germany. Fundamentally, persistent wage increases at a domestic level or the reduction in working hours covered by collective bargaining agreements could have a visibly negative impact on the earnings performance of the Group. Therefore, as illustrated by the progression of staff cost ratios at German sites, the competitive position of ElringKlinger AG would deteriorate further in relation to its international peers. The next round of collective bargaining will take place in 2020; the current collective agreement ends on March 31, 2020. If the trade unions aim to push through comparatively high wage agreements, Germany as an industrial location will continue to suffer noticeably.

The level of labor costs in emerging countries such as China, South Korea, India, and Turkey, where on average around 15% (2018: around 14%) of ElringKlinger's workforce is employed, is well below the Group average. A positive aspect is that both revenue and staffing levels in these regions are expanding at a faster rate than in Germany. In these markets too, however, the dynamics of wage development are to be viewed critically with regard to the financial performance of the regional companies.

In the event of an unexpectedly strong downturn in customer demand, the staff cost ratio may increase dramatically. Capacity constraints caused by a possible outage of machinery may also result in higher staff costs (temporary labor, night-shifts, and weekend work). ElringKlinger has a number of instruments at its disposal with regard to strategic HR planning (such as working time accounts, shift systems, and temporary employment contracts) that allow the company to respond rapidly and flexibly to such scenarios.

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

#### Personnel risks

The far-reaching transformation process in the automotive industry requires qualified and motivated employees. They provide the know-how and are a key success factor for an automotive supplier like ElringKlinger. It is of importance that any risk of losing expertise through workforce fluctuation be mitigated to the greatest extent possible. Staff turnover rates are to be kept at a low percentage level in the low-double-digit range by establishing a socially balanced and motivating working environment.

At the same time, it is important to attract qualified personnel to the Group. This is comparatively difficult at some locations and in certain specialist areas of the Group. ElringKlinger has conducted targeted recruitment campaigns for some years to ensure that it is able to compete successfully in the difficult search for next-generation talent. The company attends career fairs, where it showcases itself as an attractive employer to graduates. It also meets the needs of university and college students by offering internships and thesis topics in order to retain their services in the long term. Furthermore, the Group has taken on young people as technical and



commercial apprentices to secure talent for the future. In order to retain staff in the long term, ElringKlinger offers internal and external training courses and programs for personal advancement.

#### IT risks

In the digital age, companies' IT infrastructure is constantly exposed to potential risks such as cybercrime and hacking attacks. The confidentiality, integrity, and availability of data are considered to be a precious commodity. Protection within this area requires an increasing number of preventative and corrective measures. Any disruption to IT systems and application software can lead to tangible delays to individual processes – from the handling of purchase orders and ongoing production control through to activities in the supply chain. Such a scenario would have a negative impact on operations, which may also affect revenue and earnings. Successful attacks by Trojans, which cannot be ruled out in principle and always represent a potential threat, would have similar effects.

The Group aims to minimize these risks by maintaining an IT infrastructure divided into a strategic and an operational unit. Data that is of importance to operational processes is always stored twice or redundant systems are deployed. Additional back-up systems and bridging solutions are also in place to deal with potential risks for specific projects and processes. In addition, employees are constantly sensitized and trained for malware or Trojan attacks through simulation measures.

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

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

#### Quality/Warranty risks

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

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

ElringKlinger uses appropriate quality assurance systems to prevent and mitigate the aforementioned risks. As an element of the Group-wide risk management system, significant quality and warranty risks are covered to a large extent by insurance policies, e.g., product liability insurance. The type and scope of insurance coverage is regularly reviewed and adjusted if necessary. Where possible, agreements on limitation of liability are also concluded between ElringKlinger and the contracting party in question.

There are isolated risks within the Group with regard to inadequate product quality. In order to minimize these risks, ElringKlinger has introduced a variety of improvement measures at project and process levels. Cases of deficient quality are tackled, for example, by tightening up procurement specifications for input materials and by continuously upgrading production equipment and increasing the level of automation. The Group also optimizes its logistics processes.

## Legal risks

### Legal risks/Compliance risks

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

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

## Strategic risks

### Technology risks

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

At around 5 to 6% of its total Group revenue, ElringKlinger invests a substantial sum in research and development in order to develop new technologies and innovations. Furthermore, substantial investments have been channeled into the expansion of the Group's technology portfolio in recent years. ElringKlinger protects significant technologies and

processes in the form of property rights and patents in order to combat the risk of damages caused by me-too products and imitations.

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

The technology risks of significance to the ElringKlinger Group consist of unforeseeable changes in the area of drive technologies as well as excessively stringent legislation with regard to emission standards that do not correspond to the transformation process scenarios anticipated to date. Even if, as planned, the E-Mobility business area generates a greater contribution to total Group revenue over the next few years, any abrupt shift in technology or further tightening of the regulations on CO<sub>2</sub> emissions would have a substantial impact on revenue from the Group's traditional business areas. In turn, this would lead to severe pressure on prices. ElringKlinger counters these risks by consistently expanding its product portfolio, which, in addition to traditional combustion engine components, also includes components, modules, and systems for alternative drive technologies such as batteries or fuel cells.

### External growth/Acquisitions

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

Prior to an acquisition, ElringKlinger invariably conducts extensive due diligence investigations. As a matter of principle, all projects are also reviewed by a company and/or external team of experts. Financial plans and technical details are checked and evaluated thoroughly for plausibility. As part of mandatory annual impairment tests, it may be necessary to recognize impairment losses in connection with goodwill or investees, which would in turn adversely affect annual Group earnings.

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

## Financial risks

### Bad debt loss

Overall, the risk of bad debts among customers in the Group's Original Equipment segment is classified as moderate. The risk of substantial bad debt losses attributable to individual customers is mitigated by a broadly diversified customer base.

Compared to the OEM segment, there is a higher risk of bad debts in the Aftermarket business area due to activities in the core sales regions of North Africa, Eastern Europe, and the Middle East. However, the customer base is much more diversified thanks to a larger number of customers. The ElringKlinger Group counters impending bad debt losses in the aftermarket business by making advance payments as a condition of payment or by taking out trade credit insurance.

### Liquidity and financing risks

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

The Group's financing requirements are largely determined by the company's growth and the development of new technologies. In recent years, it has been possible to obtain credit on relatively favorable market terms. If, in the future, rating agencies were to downgrade the automotive industry as a whole in response to a generally less favorable risk profile, credit terms for the sector and ultimately also for

ElringKlinger would be adversely affected. Against this backdrop, despite relatively low market interest rates and the industry's continued ability to generate healthy levels of revenue, the company is constantly exposed to an implicit financing risk.

Thanks to its strong balance sheet, the ability of the ElringKlinger Group to refinance itself remains solid. At 41.5% (2018: 42.8%), the equity ratio still lies within the Group's medium-term target corridor of 40–50% of total assets. The debt factor (net debt\* in relation to EBITDA\*) in the period under review was 3.3, which is an improvement on the prior-year figure (3.7). At the year end, the Group's undrawn credit lines totaled EUR 150.5 million (2018: EUR 190.2 million).

At the end of the reporting period, the loan agreements of the ElringKlinger Group mainly included standard bank contractual clauses relating to compliance with certain financial requirements (financial covenants\*). As of December 31, 2019, no circumstances were present that would have justified the exercise of unilateral termination rights by banks. In the opinion of the Management Board, these are also not to be expected in financial year 2020. The company has identified no immediate risks that could jeopardize the financing of major projects planned by ElringKlinger or prevent the company from meeting its payment deadlines. From today's perspective, financing risks that could jeopardize the company's existence as a going concern can be ruled out.

### Currency risks

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

ElringKlinger is also exposed to currency translation risks when local results are consolidated in the Group currency. Therefore, changes in the average exchange rates can have an accretive or a dilutive effect on the Group's revenue and earnings.

\* (cf. glossary)

Exchange rate movements also have an impact on the net finance result. These factors are mainly associated with the funding of Group entities by the parent company as well as with the measurement of accounts receivable and payable.

In order to limit currency risks, ElringKlinger employs hedging instruments depending on necessity and the risk profile. A summary of the quantitative impact of an appreciation or a depreciation of the euro against the key international Group currencies on the comprehensive income of the ElringKlinger Group can be found in the sensitivity analysis contained in the Notes to the consolidated financial statements.

#### Interest-rate risk

*The ElringKlinger Group funds itself through cash flow\** generated from operating activities as well as through borrowings from banks. A detailed overview of current and non-current financial liabilities categorized by maturity as of December 31, 2019, can be found in the Notes to the consolidated financial statements.

The bonded loan (Schuldscheindarlehen) granted in 2017 was used to optimize the term structure of the Group's interest expenses and therefore make them easier to plan. In total, a volume of EUR 200 million was issued in tranches covering maturities of five, seven, and ten years and with an average rate of interest of 1.23%. In addition, a syndicated loan\* agreement was concluded with six domestic and international banks in February 2019, covering a sum of EUR 350 million over a minimum term of five years. The current level of interest rates within the market is low when viewed over an extended period of time. A marked increase in interest rates would feed into variable rate loans and would ultimately also have an impact on ElringKlinger's net finance result. To a large extent, however, fixed interest rates have been agreed in respect of the financing liabilities of the ElringKlinger Group (cf. notes: "Non-current and current financial liabilities").

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

#### Use of derivative financial instruments

ElringKlinger only makes use of derivative financial instruments in isolated cases, e.g., for the purpose of protecting the company against price fluctuations relating to high-grade steel alloys (particularly nickel). Where hedging contracts

are employed as a protective instrument against commodity price volatility, they are always based on the actual quantity of physical materials required by the company.

## Opportunities

#### Climate change/Emission laws

Debate surrounding climate change and environmental protection has intensified in recent months and has become an issue that is of importance to society as a whole. In many areas of life, particularly in Europe, there is evidence of heightened awareness in politics, business, and the population – whether through stricter environmental regulations, a greater focus on environmental indicators or sustainable projects, or through broad-based protest movements for eco-friendly action.

This also affects the automobile industry. The reduction of emissions continues to be at the heart of the transformation process, which is also influenced by environmental factors such as sustainability relating to drive technology. The European Union is subject to strict emission regulations that are more far-reaching than those in many other regions of the world. In the EU, cars and light commercial vehicles have been subject to CO<sub>2</sub> regulation since 2009. The EU Commission has specified that average fleet emissions of CO<sub>2</sub> must be reduced to 95 g/km or below by 2021. Should these requirements not be met by the specified dates, car manufacturers face severe fines.

In December 2018, even lower limits were adopted as from 2021. According to this agreement, the CO<sub>2</sub> emissions of vehicles newly registered in 2025 are to be reduced by a further 15% throughout the EU compared to 2021. In the period up to 2030, the figure is to be scaled back by 37.5% compared to 2021. Statutory limits on emissions are also being tightened up even in North America and Asia. China and Japan aim to limit emissions to 117 g/km and 105 g/km respectively by 2020. The United States have set a fleet target of 121 g/km to be reached by 2020. Furthermore, many emerging countries tend to look at the Euro standards as a basis for their own policy making. For example, India has set an average limit of 113 g/km of CO<sub>2</sub>. This comes into force in 2022.

For the ElringKlinger Group, this legislative framework offers business potential for the coming years. The trend toward

fuel-efficient, low-emission engines is further heightening the requirements for sealing technology and shielding systems. This translates into greater demand for products that help manufacturers to meet the more stringent standards.

Hybrid vehicles, i.e., the combination of a combustion engine and an electric motor, are gaining market share. Many car makers are extending their product portfolio to include such hybrids, the aim being to achieve the strict CO<sub>2</sub> limits applied to their vehicle fleets. For ElringKlinger, hybrid concepts open up the opportunity to generate higher revenue per vehicle. In addition to the components installed in the combustion engine, hybrid vehicles can also be supplied with parts for the battery-electric section of the drivetrain, such as cell contact systems or pressure equalization modules.

Government subsidies can boost sales of vehicles powered by alternative drives. For example, the German federal government is currently subsidizing pure electric vehicles with funds ranging from EUR 5,000 to EUR 6,000, while incentives for hybrid vehicles are between EUR 3,750 and EUR 4,500. *In order to bring electric mobility to the mass market*, the Federal Cabinet has adopted a master plan for the nation's recharging infrastructure for up to 10 million vehicles by 2030. The aforementioned purchase incentives and efforts to improve the general infrastructure for e-mobility solutions are designed to prompt a sea change in consumer behavior and boost sales of cars powered by alternative drive systems.

In order to limit pollutant and greenhouse gas emissions in pursuit of climate protection and the promotion of sustainable drive technologies, more and more countries in Europe are proposing to ban classic combustion engines from a certain date. In Sweden, for example, the government is looking to prohibit the sale of new cars with combustion engines after 2030. Denmark plans to take the same approach as from 2030. In Norway, meanwhile, new cars powered by fossil fuels will no longer be registered from 2025. France, by contrast, is looking to implement this policy in 2040, while the United Kingdom plans to introduce such measures in 2035. Even China, the world's biggest vehicle market, is preparing to phase out combustion engines. Effective from 2019, car makers are obliged by law to ensure that at least 10% of their newly registered vehicles are equipped with an alternative drive system.

The shift towards battery technology in the automotive industry continues to accelerate. Gradually, models are being introduced to the market that are either partially or fully electrically powered. Further progress in the development of battery technology, e.g., to improve vehicle range and bring down the price, would help to stimulate demand and persuade buyers to invest in electric vehicles. ElringKlinger would benefit directly from growing sales in the e-mobility market as its product portfolio includes a range of components for battery-powered vehicles. In fact, the company's E-Mobility unit has been supplying various car makers and automotive suppliers with series products for battery-driven and hybrid models for some years.

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

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

#### Technology trends

As a result of increasingly strict international emissions standards, the probability of the technology trends outlined above actually coming to fruition is considered to be high by the ElringKlinger Group. The industry will have to focus on efficient engines, lightweight engineering, and the use of alternative drive technologies if it is to have any chance of achieving the ambitious CO<sub>2</sub> targets set by policymakers.

\* Cf. glossary

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

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

#### Extension of the product and service portfolio

The majority of the divisions within the Group are well positioned to apply their decades-long expertise and existing know-how in materials and processes for the purpose of transforming the product range or expanding the portfolio in a targeted manner.

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

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

#### New sales markets

Opportunities for significant revenue and earnings growth in the coming years are offered by additional incoming orders, including high-volume orders, especially for the two promising pillars of electromobility, i.e., fuel cell and battery technology, and structural lightweight construction. First and foremost in this context is the Chinese vehicle market, where numerous initiatives for the development of battery and fuel-cell-powered vehicles have emerged, partly as a result of government subsidy policies. Also due to existing

projects in this region, the Group sees the potential for considerable growth in sales volumes in the coming years.

There are also opportunities for further expansion in the Aftermarket business, particularly by tapping new sales regions in North America and Asia. Trading under the "Elring – Das Original" brand, for instance, the Aftermarket segment within the ElringKlinger Group has been ratcheting up its activities in Asia. The Group has also systematically improved the processes and structures in its Aftermarket business in North America.

For the Engineered Plastics segment, with its product portfolio based around the high-performance plastic PTFE, future growth potential is also opening up in the Asian and US markets.

#### Industry consolidation/M&A\*

In the medium term, globalization poses significant challenges for many small and medium-sized enterprises that currently have either an insufficient international presence or none whatsoever. They have to invest more in research and development due to the far-reaching transformation process and are increasingly confronted with financing risks due to the numerous changes seen within the markets, e.g., in relation to customer structures or their own share of value added. It can therefore be assumed that consolidation in the supply industry will continue in the coming years. Against this backdrop, the risk of insolvencies cannot be ruled out.

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

significant when measured on the basis of revenue and earnings contributions to the Group.

## Overall assessment of risks and opportunities

The conclusion drawn by the Management Board from scrutinizing the opportunities and risks in their entirety is that the situation of the ElringKlinger Group in respect of risk exposure remains similar to that of the previous year, despite some changes in general conditions that have a direct impact on the automotive industry. Some of the risks to which the Group is exposed are of a geopolitical or external nature, and ElringKlinger therefore has either no or a very limited capacity to control these risks in an active manner. When weighing the relevance of risk in respect of the possible impact on Group earnings, the principal risks to which the ElringKlinger Group is exposed are, in particular, a sudden global slump in the market, an unexpected transformation scenario in relation to drive technology, as well as external attacks on the IT infrastructure. In addition, the worldwide spread of the coronavirus has prompted special protective measures, which are also leading to production shutdowns and interrupted supply chains. Economic and industry-specific effects are probable, although their extent cannot be estimated at present.

Economic conditions in Europe, North America, and much of Asia remain solid, even though growth in China is returning to more normal levels compared to recent years. By contrast, the political situation in large parts of the Middle East remains a source of risk. The ongoing global trade dispute between the USA and China as well as unresolved trade relations following the United Kingdom's withdrawal from the European Union must be regarded as political risks with the capacity to exert a direct impact on the ElringKlinger Group. Additionally, specific strategic and operational risks continue to exist within the Group. They include financial opportunities and risks associated with exchange rate fluctuations. Prices for raw materials of relevance to the Group are also at a high

level. The process of transition seen within the automotive industry has meant changes to ElringKlinger's product portfolio. Products in the area of structural lightweighting and electromobility, which are considered promising fields for the future in strategic terms, are gaining in importance, while conventional products associated primarily with the combustion engine will become less relevant in the years ahead.

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

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

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

# Compensation report

## Compensation structure for members of the Management Board

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

Management Board compensation for financial year 2019 is presented in accordance with the provisions set out in two different standards: first, the applicable financial reporting standards (IAS 17) and secondly, the German Corporate Governance\* Code in the version of February 7, 2017.

### System of compensation

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

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

### Fixed annual salary

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

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

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

### Long-term incentive II (LTI II)

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

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

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



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

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

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

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

#### Fringe benefits

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

#### D&O insurance

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

AktG (German Stock Corporation Act) in the applicable version.

#### Retirement pension

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

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

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

#### Review and adjustment of compensation

The salary components are to be reviewed by the company's Supervisory Board every two years. The Supervisory Board has the right to grant the Management Board special

\* Cf. glossary

remuneration for exceptional accomplishments. The Supervisory Board is also authorized to reduce the Management Board's total compensation to an appropriate level if the company's situation deteriorates to such an extent that continued payment of the former remuneration would be unreasonable.

#### Severance pay cap

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

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

#### Loans to Management Board members

No advances were granted to members of the Management Board in 2019. In the previous year, an advance of EUR 50 k was granted to the Chief Executive Officer (CEO), which

was offset in the month in which the bonus payment was made. The company provided no guarantees or similar commitments.

### Management Board compensation in 2019

Management Board compensation for financial year 2019 has been presented pursuant to the applicable financial reporting standards (GAS 17) as well as in accordance with the recommendations of the German Corporate Governance Code in the version dated February 7, 2017. Average EBIT of the years 2017–2019 totaling EUR 98,244 k was used as a basis for calculating I.T.I. I. Of this, the respective members of the Management Board receive the following percentage shares:

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

Based on the calculation of the Economic Value Added (EVA) bonus (I.T.I. II), no compensation is payable for financial year 2019, as the targeted return is below the Group WACC.

### Management Board compensation 2019 pursuant to financial reporting standard GAS 17

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

in EUR k	Dr. Stefan Wolf		Theo Becker		Reiner Drews		Thomas Jessulat		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<b>Short-term compensation</b>										
Fixed compensation	593	613	485	449	299	226	365	367	1,742	1,655
Variable performance-related compensation	786	981	589	736	393	369	393	490	2,161	2,576
<b>Total</b>	<b>1,379</b>	<b>1,594</b>	<b>1,074</b>	<b>1,185</b>	<b>692</b>	<b>595</b>	<b>758</b>	<b>857</b>	<b>3,903</b>	<b>4,231</b>
<b>Long-term compensation</b>										
Long-term performance-related compensation	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total compensation</b>	<b>1,379</b>	<b>1,594</b>	<b>1,074</b>	<b>1,185</b>	<b>692</b>	<b>595</b>	<b>758</b>	<b>857</b>	<b>3,903</b>	<b>4,231</b>

### Pension obligations

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

in EUR k	Dr. Stefan Wolf		Theo Becker		Reiner Drews		Thomas Jessulat		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Current service cost	258	268	168	176	205	162	207	206	838	812
Present value (DBO)	6,897	5,601	4,951	4,058	462	151	1,026	615	13,336	10,425

### Management Board compensation pursuant to the German Corporate Governance Code

The following presentation of compensation granted to and received by the Management Board members for financial year 2019 is based on the recommendations of the German Corporate Governance Code (GCGC) in the version dated February 7, 2017.

The following table presents benefits granted to the members of the Management Board in respect of financial year 2019, as disclosable under the provisions of the German Corporate Governance Code:

#### Benefits granted (Pursuant to GCGC)

in EUR k	Dr. Stefan Wolf				Theo Becker			
	2019	Min. 2019	Max. 2019	2018	2019	Min. 2019	Max. 2019	2018
<b>Non-performance-based compensation</b>								
Fixed annual salary	556	556	556	558	432	432	432	432
Fringe benefits	37	37	37	55	53	53	53	17
<b>Total</b>	<b>593</b>	<b>593</b>	<b>593</b>	<b>613</b>	<b>485</b>	<b>485</b>	<b>485</b>	<b>449</b>
<b>Performance-based compensation</b>								
One-year variable compensation	786	0	1,674	981	589	0	1,296	736
Multi-year variable compensation 2016–2018	0	0	0	0	0	0	0	0
Multi-year variable compensation 2017–2019	0	0	0	0	0	0	0	0
Multi-year variable compensation 2018–2020	0	0	0	0	0	0	0	0
Multi-year variable compensation 2019–2021	0	0	1,116	0	0	0	864	0
<b>Total</b>	<b>786</b>	<b>0</b>	<b>2,790</b>	<b>981</b>	<b>589</b>	<b>0</b>	<b>2,160</b>	<b>736</b>
Service cost	258	258	258	268	168	168	168	176
<b>Total compensation</b>	<b>1,637</b>	<b>851</b>	<b>3,641</b>	<b>1,862</b>	<b>1,242</b>	<b>653</b>	<b>2,813</b>	<b>1,361</b>

In contrast to GAS 17, the table presents long-term compensation granted in 2019 for LTI II. In addition, the minimum and maximum amounts achievable have been listed. The benefit expense, which is presented in the form of the current service cost in the above table, has been included in total compensation.

The following table presents the allocation in/for financial year 2019. As regards fixed annual salary, fringe benefits, the annual management bonus, and LTI II 2019, the table presents the allocation for financial year 2019.

#### Allocation pursuant to GCGC

in EUR k	Dr. Stefan Wolf		Theo Becker	
	2019	2018	2019	2018
<b>Non-performance-based compensation</b>				
Fixed annual salary	556	558	432	432
Fringe benefits	37	55	53	17
<b>Total</b>	<b>593</b>	<b>613</b>	<b>485</b>	<b>449</b>
<b>Performance-based compensation</b>				
One-year variable compensation	786	981	589	736
Multi-year variable compensation 2016–2018	0	0	0	0
Multi-year variable compensation 2017–2019	0	0	0	0
<b>Total</b>	<b>786</b>	<b>981</b>	<b>589</b>	<b>736</b>
Service cost	258	268	168	176
<b>Total compensation</b>	<b>1,637</b>	<b>1,862</b>	<b>1,242</b>	<b>1,361</b>

	Reiner Drews				Thomas Jessulat				Total			
	2019	Min. 2019	Max. 2019	2018	2019	Min. 2019	Max. 2019	2018	2019	Min. 2019	Max. 2019	2018
	288	288	288	216	317	317	317	317	1,593	1,593	1,593	1,523
	11	11	11	10	48	48	48	50	149	149	149	132
	299	299	299	226	365	365	365	367	1,742	1,742	1,742	1,655
	393	0	864	369	393	0	950	490	2,161	0	4,784	2,576
	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	576	0	0	0	634	0	0	0	3,190	0
	393	0	1,440	369	393	0	1,584	490	2,161	0	7,974	2,576
	205	205	205	162	207	207	207	206	838	838	838	812
	897	504	1,944	757	965	572	2,156	1,063	4,741	2,580	10,554	5,043

	Reiner Drews		Thomas Jessulat		Total	
	2019	2018	2019	2018	2019	2018
	288	216	317	317	1,593	1,523
	11	10	48	50	149	132
	299	226	365	367	1,742	1,655
	393	369	393	490	2,161	2,576
	0	0	0	0	0	0
	0	0	0	0	0	0
	393	369	393	490	2,161	2,576
	205	162	207	206	838	812
	897	757	965	1,063	4,741	5,043

## Compensation structure for members of the Supervisory Board

Supervisory Board compensation is governed by the provisions set out in Section 13 of the Articles of Association of ElringKlinger AG. The level of compensation is determined by the Annual General Meeting. Within this context, the most recent resolution was passed on May 13, 2015. In accordance with the requirements of the German Corporate Governance Code, compensation is divided into a fixed and a variable component. The members of the Supervisory Board receive fixed compensation of EUR 20k (2018: EUR 20k) for each full financial year they have served on the Supervisory Board. Additionally, the members of the Supervisory Board receive a lump-sum payment of EUR 1k for each Supervisory Board meeting they attend as well as fixed compensation of EUR 4k for membership of a committee. The variable component of compensation is based on average IFRS Group earnings before taxes in respect of the last three financial years and is calculated as 0.02% of the aforementioned amount. As of financial year 2015, it is limited to EUR 40k per member of the Supervisory Board.

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

### Supervisory Board compensation in 2019

In the period under review, total compensation for the Supervisory Board of ElringKlinger AG was EUR 589k (2018: EUR 672k). In addition, travel expenses totaling EUR 2k (2018: EUR 4k) were reimbursed. Compensation payable to the individual members of the Supervisory Board was as follows:

In EUR k	Fixed compensation		Variable compensation		Total compensation	
	2019	2018	2019	2018	2019	2018
Klaus Eberhardt	70	68	30	44	100	112
Markus Siegers	46	44	23	33	69	77
Nadine Boguslawski	25	23	15	22	40	45
Armin Diez	29	28	15	22	44	50
Pasquale Formisano	24	24	15	22	39	46
Rita Forst	25	24	15	22	40	46
Andreas Wilhelm Kraut	23	24	15	22	38	46
Gerald Müller	25	24	15	22	40	46
Paula Monteiro-Munz	29	28	15	22	44	50
Prof. Hans-Ulrich Sachs	25	24	15	22	40	46
Gabriele Sons	33	32	15	22	48	54
Manfred Strauß	32	32	15	22	47	54
<b>Total compensation</b>	<b>386</b>	<b>375</b>	<b>203</b>	<b>297</b>	<b>589</b>	<b>672</b>

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

## Details in accordance with Sections 289a(1) and 315a of the German Commercial Code (HGB\*), particularly with regard to share capital and disclosure of potential takeover obstacles

As of December 31, 2019, the nominal capital of ElringKlinger AG was EUR 63,359,990, divided into 63,359,990 registered shares, each furnished with one vote. The notional interest in the company's nominal capital is EUR 1.00 per registered share. Profits are distributed in accordance with Section 60 of the German Stock Corporation Act (Aktiengesetz – AktG) in conjunction with Section 23 no. 1 of the Articles of Association.

The persons or entities with a direct and/or indirect interest in capital who, according to the details of the Stock Register, held voting rights in excess of 10% as of December 31, 2019, are presented in the table below. These relate solely to interests attributable to family ownership.

Lechler Beteiligungs GmbH, Stuttgart, Germany	Total of 28.991%, of which indirectly 18.960%
KWL Beteiligungs-GmbH, Neuhausen auf den Fildern, Germany	Total of 28.991%, of which indirectly 28.986%
Klaus Lechler Beteiligungs-GmbH, Neuhausen auf den Fildern, Germany	Total of 28.991%, of which indirectly 18.990%
Elrena GmbH, Basel, Switzerland	Total of 28.991%, of which indirectly 20.075%
Eroca AG, Basel, Switzerland	Total of 28.991%, of which indirectly 28.991%
Lechler GmbH, Metzingen, Germany	Total of 10.013%

No shareholder is equipped with special rights constituting controlling powers.

resolution of the Annual General Meeting with a majority of three-quarters.

ElringKlinger does not operate any employee profit-sharing schemes.

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

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

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

As stipulated by Section 179 of the Stock Corporation Act in conjunction with Section 20 of the Articles of Association, all amendments to the Articles of Association require a

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

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

## Corporate Governance Statement

The Corporate Governance\* Statement pursuant to Section 315d in conjunction with Section 289f of the German Commercial Code (Handelsgesetzbuch – HGB\*) has been pub-

lished on the ElringKlinger website at <https://www.elringklinger.de/en/company/corporate-governance/corporate-governance-statement>.

\* C.f. glossary

## Combined Non-Financial Report

For financial year 2019, ElringKlinger has prepared a separate non-financial report for the exchange-listed parent company ElringKlinger AG in accordance with Section 289b HGB\*, which has been combined with the separate non-financial

Group report pursuant to Section 315b HGB. The combined non-financial report of ElringKlinger for financial year 2019 will be published by April 30, 2020, on the corporate website at [www.elringklinger.com/2019-nfb-en](http://www.elringklinger.com/2019-nfb-en).

## Report on Expected Developments

After decelerated growth within the global economy as a whole in 2019, markets are unlikely to see any upturn in 2020, particularly due to the effects of the coronavirus pandemic that has been apparent since early 2020. In January 2020, the International Monetary Fund (IMF) was still expecting global gross domestic product (GDP) to rise by 3.3% in the current year. At the end of February, however, it revised downward this estimate by 0.1 percentage points. In the meantime, it can be assumed that the adverse effects are likely to be even more pronounced. Global vehicle production, which according to original forecasts was expected to decline slightly in 2020, will also see a more significant downturn as a result of the coronavirus crisis. ElringKlinger anticipates a decline in global vehicle production of at least 4%.

### Outlook – Market and Sector

#### Sluggish recovery of global economy

Without the possible effects of the coronavirus on the business sector, which are difficult to assess at present, analysts believed there was evidence to suggest a moderate upward trend in the global economy. The Phase 1 trade agreement concluded between the United States and China in January 2020 and the UK's withdrawal from the European Union (EU) effective from January 31, 2020, provided some initial relief. At present, however, it is impossible to predict whether the recovery of the manufacturing industry will materialize to the extent originally anticipated. Many administrations are currently adopting a package of measures to support the

economy and counter the negative consequences of the coronavirus pandemic. Governments have announced that they will provide further cash injections, thereby extending the ultra-loose monetary policy and favourable financing terms adopted by the world's key central banks. At the time of preparing this report it is not possible to reliably estimate the extent to which potential catch-up trends in the further course of the year and government countermeasures will take effect. Other risks include a renewed escalation in trade disputes and geopolitical tensions as well as anti-government protests in emerging markets. Despite the fact that the United Kingdom has already withdrawn from the EU, there are still unresolved issues regarding the specific shape of future trade relations between the UK and the EU.



## GDP growth projections

Year-on-year change in %	2019	Projections 2020	Projections 2021
<b>World</b>	<b>2.9</b>	<b>3.2</b>	<b>3.4</b>
Advanced economies	1.7	1.6	1.6
Emerging and developing countries	3.7	4.4	4.6
<b>Germany</b>	<b>0.5</b>	<b>1.1</b>	<b>1.4</b>
<b>Eurozone</b>	<b>1.2</b>	<b>1.3</b>	<b>1.4</b>
<b>USA</b>	<b>2.3</b>	<b>2.0</b>	<b>1.7</b>
<b>Brazil</b>	<b>1.2</b>	<b>2.2</b>	<b>2.3</b>
<b>China</b>	<b>6.1</b>	<b>5.6</b>	<b>5.8</b>
<b>India</b>	<b>4.8</b>	<b>5.8</b>	<b>6.5</b>
<b>Japan</b>	<b>1.0</b>	<b>0.7</b>	<b>0.5</b>

Source: International Monetary Fund (Jan. 2020; in conjunction with statements from Feb. 2020)

Growth forecasts for the individual countries differ considerably in some cases. Whereas the US economy was expected to weaken somewhat based on initial forecasts, the rate of growth in the eurozone and also in Germany was likely to pick up slightly. In Asia, and primarily China, the epidemic is expected to have a noticeable impact. Overall, the emerging and developing countries are again likely to expand at more pronounced rates in 2020.

### Car market bottoms out in 2020

Global automobile production looks set to fall for the second year in succession in 2020. Following the outbreak of the coronavirus pandemic in the first quarter of 2020, distortions in global demand are to be expected, at least in regional and seasonal terms. In February 2020, the German industry association VDA forecast a contraction of around 3% within the global passenger car market, taking the figure of new registrations to 78.2 million units in 2020. ElringKlinger anticipates a decline of at least 4% in global vehicle production.

The downward growth trajectory within the market also reflects difficult economic, political, and regulatory conditions with which the automotive industry is having to contend alongside the fundamental transition witnessed in the world of mobility. In the European Union, for example, a new average fleet restriction of 95 g/km CO<sub>2</sub> emissions for newly registered passenger cars will apply from the end of 2020 as part of CO<sub>2</sub> legislation. Compared with the limit of 130 g/km in force until then, this regulation represents a major change that harbors the potential for noticeable distortions in the demand for vehicle models and drive systems, but also in

seasonal terms due to possible supply bottlenecks. As a consequence, all forecasts relating to the likely direction taken by the vehicle industry in Europe are subject to significant uncertainty. However, alongside more efficient combustion engines, it is likely that the market will experience a boost in e-mobility, especially in Europe. Global demand for electromobility is influenced by government regulations and subsidies as well as the growing range of models offered by manufacturers.

For Europe (EU + EFTA), the VDA anticipates a market decline in new passenger car registrations of around 3% to 15.4 million units. This includes a downturn of 3% for the United Kingdom, which is subject to additional downside risks due to the as yet unresolved issues surrounding post-Brexit trade relations. Furthermore, the markets of Germany (-6%), France (-3%), Italy (-2%), and Spain (-3%) are expected to be positioned below the levels of 2019. In the United States, meanwhile, the association predicts a decline of 3% to 16.5 million new light vehicles, mainly prompted by a cyclical downturn. China is likely to see its vehicle market decline for a third consecutive year in 2020, possibly by 7% according to industry experts, particularly on the back of what appears to be a sharp downturn in the first quarter of 2020.

With regard to vehicle production, analysts expect volumes to decline yet again in most of the regions, while in Brazil more light vehicles are likely to be produced again than last year. Following plant closures in parts of China due to the virus pandemic, the first quarter of 2020 in particular will see a significant decline there.

\* c.f. glossary

### Waning momentum in commercial vehicle markets

In Western Europe, the truck market showed signs of a cyclical downturn at the end of 2019, with a further decline expected in 2020. The US market for commercial vehicles, which has enjoyed several years of dynamic growth, is also expected to be well below the previous year's level in 2020. After several years of malaise, Brazil saw a substantial recovery in 2019, which is expected to continue in 2020.

## Outlook – Company

### Challenging market conditions

Market conditions will remain difficult in the current financial year. Alongside the effects of the far-reaching process of transformation within the industry, the vehicle sector will also have to contend with the anticipated economic slowdown, which will again be reflected in automobile production output. In addition, the economic effects of the coronavirus, which has been keeping global markets on tenterhooks in the first half of the year, will impact global growth in automobile production. The New Year vacation in China was extended, production facilities of vehicle manufacturers and suppliers were temporarily shut down, and supply chains were interrupted. During the first quarter of 2020, the coronavirus spread to Europe and North America, where extensive measures have now been taken to contain and slow down the pandemic. Border controls have been reintroduced, public life has been severely restricted, and in some cases a state of emergency has been declared. Both global economic interdependencies and the cross-border spread of the virus are expected to have a significant impact on the world economy, which will be difficult to reverse in the course of the year.

The other influencing factors that heighten the degree of political and, above all, economic uncertainty are thus almost relegated to the sidelines: trade conflicts have yet to be resolved, tariffs on cars are still a distinct threat, the conclusion of a trade agreement with the United Kingdom awaits conclusion, and commodity prices in general remain high. And last but not least, by the end of 2020 the strict CO<sub>2</sub> emission guidelines will take full effect in the EU.

Market conditions are very challenging in view of these influencing factors. Therefore, the task of issuing accurate and meaningful forecasts remains difficult. These uncertain-

ties are further exacerbated by the strong dynamics of the coronavirus pandemic.

### Intensive research and development efforts

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

### Order books robust to date

Despite the failure of global automobile markets to recover, ElringKlinger's order books remained solid in the period under review. The company's products make it a sought-after partner within the industry. In the financial year just ended, order intake, i.e., the volume of units requested by customers as part of their production scheduling, increased slightly by EUR 1.9 million to EUR 1,737.2 million. Excluding favorable currency effects, order intake would have been EUR 1,696.9 million. Order backlog rose marginally by EUR 10.2 million or 1.0% to EUR 1,030.3 million. This includes currency translation effects of 1.2 percentage points. However, due to the closure of plants by numerous manufacturers, the order situation is expected to deteriorate in the course of the year.

### Revenue trend roughly at market level

Against the background of the very high degree of uncertainty relating to both general economic effects and industry-specific developments, the market is faced with a wide range of possible scenarios. Having considered both risks and opportunities, the Group assumes from today's perspective that, in organic terms, revenue in fiscal 2020 will develop at approximately the same level as the market. ElringKlinger concurs with expert estimates that point to a decline in global automobile production by at least 4% in 2020. In the medium term, the Group expects to expand at a faster rate, organically, than global market growth.

Given the raft of influencing factors and growing uncertainty, currency effects are very difficult to predict. Acquisitions cannot be ruled out for the current financial year, as management assesses such opportunities continuously. In this case, the emphasis is on companies that either complement the existing

product portfolio in an appropriate manner or allow improved market access. It is unlikely, however, that the scope of such transactions will exceed that of previous activities by a considerable extent. From today's perspective, it is also impossible to rule out divestments within subsegments that are not part of the Group's core business.

#### Various influencing factors

In recent years, the price of commodities used by the Group has risen significantly in some cases. In fiscal 2020, the overall level is expected to remain high, even if the price of some raw materials is likely to fall. At the same time, more intense trade conflicts could have a detrimental effect.

While the headcount at German sites will remain largely unchanged as planned, the company expects the number of employees to increase slightly overall, also due to ramp-ups, e.g., at the site in Fort Wayne, USA. As part of the cost-cutting program, it is planned to keep personnel costs more or less *stable throughout the Group despite the slight expansion*. In this context, the focus will be on cost awareness and process optimization. Optimization will be supported by the implementation of the same production standards at all locations in order to harmonize processes and avoid inefficiencies.

#### Stable earnings performance

In response to persistently strong demand, improvements in cost structures are being sought at the North American sites in particular, the aim being to unlock positive earnings potential. This contrasts with the effects of an anticipated economic slowdown and the global spread of the coronavirus. Additionally, the Group will no longer have the benefit of proceeds from the sale of real estate, as was the case in 2019. Taking these factors into account, the Group had initially expected to achieve an EBIT margin before purchase price allocation\* in fiscal 2020 that was roughly at the level recorded in the previous year.

However, the strong dynamics of the coronavirus pandemic meant that numerous manufacturers in Europe and North America had announced or already implemented plant closures during the finalization of this report. As a result, ElringKlinger AG, too, had to adjust its production in line with requirements. The duration of plant closures by manufacturers cannot be predicted at the time of compiling this report. The same applies to potentially more extensive

measures in the ensuing weeks – also from a political perspective. In view of these considerable uncertainties and significant dynamics, the economic effects on the Group cannot currently be determined with sufficient reliability and accuracy.

The Group still anticipates that it will be in a position to gradually improve its EBIT margin before purchase price allocation in the medium term.

#### Targeted investments

Following the global expansion of the Group's production network in recent years, investments (in property, plant, and equipment and investment property) were scaled back significantly compared with previous years. With the investment ratio (as a percentage of Group revenue) – excluding additions from the application of IFRS 16 – standing at 5.3%, the Group fully met its target of a figure below 9%. In pursuing this disciplined approach, the Group will continue to *actively manage growth in its long-standing areas of business* in order to unlock the growth potential associated with strategic fields of the future. ElringKlinger always conducts thorough assessments concerning the necessity, timing of execution, and funding requirements of such measures. Essentially, ElringKlinger will maintain its policy of disciplined investment spending. The Group therefore anticipates an investment ratio (as a percentage of Group revenue) of less than 7% for the current financial year.

#### Low level of working capital

The Group's net working capital\* essentially comprises inventories as well as trade receivables and payables. It should be noted that inventory levels are expanded by tools which the Group has already manufactured and used for the first time for prototypes, but which have not yet been invoiced to customers as part of series production. The measures taken last year to extend payment terms on the liabilities side, optimize inventories, and reduce receivables will be continued in the coming year. In view of this, the Group expects the net working capital ratio (net working capital as a percentage of Group revenue) to remain roughly at the previous year's level (2019: 24.5%). In the medium term, the level of net working capital as a percentage of consolidated revenue is expected to be around 25%.

\* Cf. glossary

### Operating free cash flow\* remains in positive territory

Having improved its operating free cash flow by more than EUR 250 million in the financial year just ended, the Group will continue its approach of optimizing net working capital and managing capital expenditure in a disciplined manner. At the same time, the Group expects earnings to remain at a stable level. Overall, the Group had therefore initially anticipated that operating free cash flow would again be in positive territory in 2020, reaching a figure in the double-digit million euro range. However, the uncertainties in the wake of the coronavirus pandemic are significant. As a result of plant closures by numerous manufacturers, cash flow is also expected to be impaired. However, in view of the considerable uncertainties and strong dynamics, it is currently not possible to determine these effects with sufficient reliability and accuracy.

In the medium term, the Group will be looking to record positive operating free cash flow.

### Lower net financial liabilities

Benefiting from the syndicated loan\* agreement, ElringKlinger managed to improve its maturity structure significantly in the year just ended. In addition, the Group used operating free cash flow, which was well within positive territory, to scale back its net financial liabilities by a considerable margin. At the same time, EBITDA\* was marginally affected compared to the previous year. As a result, the ratio of net debt\* to EBITDA was noticeably reduced to 3.3.

Essentially, the Group also expects positive operating free cash flow for the current year, which it plans to use mainly for the repayment of financial liabilities. In combination with earnings matching the prior-year level, the Group had initially anticipated a slight year-on-year improvement in this area. However, due to plant closures by manufacturers in the wake of the coronavirus pandemic, ElringKlinger was also forced to adjust its production in line with demand. In view of the considerable uncertainties and strong dynamics, the economic effects on the Group cannot currently be determined with sufficient reliability and accuracy. Factoring in the extensive measures being implemented, the ratio is likely to remain below 2.0 in the medium term.

As regards its equity ratio, the Group remains committed in the short to medium term to a target range of 40 to 50% – a corridor within which it has been moving for several years.

### Slight improvement in return on capital employed

The Group uses return of capital employed (ROCE\*) to measure its profitability and the efficiency with which its capital is used. As regards the 2020 financial year, the Group expects ROCE to improve slightly year on year against the backdrop of its projected earnings performance and challenging market conditions. The medium-term plan is to improve ROCE compared with the respective prior-period figures.

### Original Equipment segment

At 80%+ of Group revenue, Original Equipment represents the largest segment within the Group based on sales revenue. As regards its product portfolio, the segment is heavily dependent on the automobile market. Taking into account the uncertainties associated with an economy-driven market, high commodity prices, and the effects of the coronavirus, organic revenue growth can therefore be expected to remain at the level of global automotive production. The EBIT margin of this segment is likely to be below that of the Group average.

### Engineered Plastics segment

Business relating to high-performance plastics is expected to generate further revenue growth. This is also to be seen against the backdrop of the continued cultivation of the North American and Asian markets. The EBIT margin will remain at a level that is well above the Group average.

### Aftermarket segment

On the back of expansive revenue from the Original Equipment segment in North America and China over recent years, the Aftermarket segment can look forward to more considerable potential with its “Elring – Das Original” brand. Therefore, revenue is likely to grow slightly. The EBIT margin will remain well above the Group average.

### Parent company ElringKlinger AG

With a revenue share of more than two-thirds, the parent company ElringKlinger AG continues to play a prominent role within the Group. This will also be the case in the current financial year. The sites operated by the parent company – alongside fundamentally robust business within well-established areas – will see strong growth in the fields considered promising for the future in strategic terms, such as e-mobility and structural lightweighting. Production of a battery system will commence at the Thale site, and a technology center has been set up at the Group's headquarters in Dettingen/Erms, which is also being prepared for the series

production of fuel cell modules and systems. Overall, the direction taken by sales revenue within the parent company is expected to be roughly at market level in 2020.

Order backlog remains solid, although the first instances of an economic slowdown have become visible. At the end of 2019 the company had an order backlog of EUR 391.3 million (December 31, 2018: EUR 399.2 million).

While the company will benefit from the positive impact of cost savings, it will also have to contend with the aforementioned economic effects as well as persistently high commodity prices and ramp-up costs for serial production within the area of battery and fuel cell technology. Especially against the background of the anticipated downturn in the economy – also given the impact of the coronavirus – no improvement in earnings is expected in 2020. On the contrary, under these assumptions it is more likely that the EBIT margin will stand at a level below that of the previous year.

\* Cf. glossary

### Outlook for 2020

The following table reflects the outlook for the 2020 financial year as originally estimated by the Group up to the extensive plant closures by numerous manufacturers in the wake of the coronavirus pandemic. In response, ElringKlinger was also forced to adjust its production in line with demand.

The duration of plant closures by manufacturers cannot be predicted at the time of compiling this report. The same applies to potentially more extensive measures in the ensuing weeks – also from a political perspective. In view of these considerable uncertainties and significant dynamics, the economic effects on the Group cannot currently be determined with sufficient reliability and accuracy.

### OUTLOOK 2020

#### Significant financial control criteria

Actual 2019

Sales revenue	Organic growth roughly at global market level. Assumption: market downturn of at least 4%	Organically +0.5% Market: -5.6%
EBIT	Margin before purchase price allocation roughly at prior-year level	3.7%
ROCE	Slight year-on-year improvement	3.4%

#### Other control criteria and indicators

R&D costs	Around 5 to 6% of Group revenue (incl. capitalization)	4.7%
Investments (in property, plant, and equipment and investment property)	Under 7% of Group revenue	5.3%
Net working capital	Roughly at prior-year level (in % of Group revenue)	24.5%
Operating free cash flow	Positive in double-digit million euro range	EUR 175.8 million
Equity ratio	40 to 50% of total assets	41.5%
Net debt/EBITDA	Year-on-year improvement	3.3

### MEDIUM-TERM TARGETS

Actual 2019

Sales revenue	In organic terms, faster in relation to global market growth	Organically +0.5%
EBIT	Gradual improvement in margin before purchase price allocation	3.7%
ROCE	Year-on-year improvement	3.4%
R&D costs	Around 5 to 6% of Group revenue (incl. capitalization)	4.7%
Investments (in property, plant, and equipment and investment property)	Continuation of disciplined approach	5.3%
Net working capital	Around 25% of Group revenue	24.5%
Operating free cash flow	Positive	EUR 175.8 million
Equity ratio	40 to 50% of total assets	41.5%
Net debt/EBITDA	Under 2.0	3.3

Dettingen/Erms, March 25, 2020

The Management Board



Dr. Stefan Wolf  
CEO



Theo Becker



Thomas Jessulat



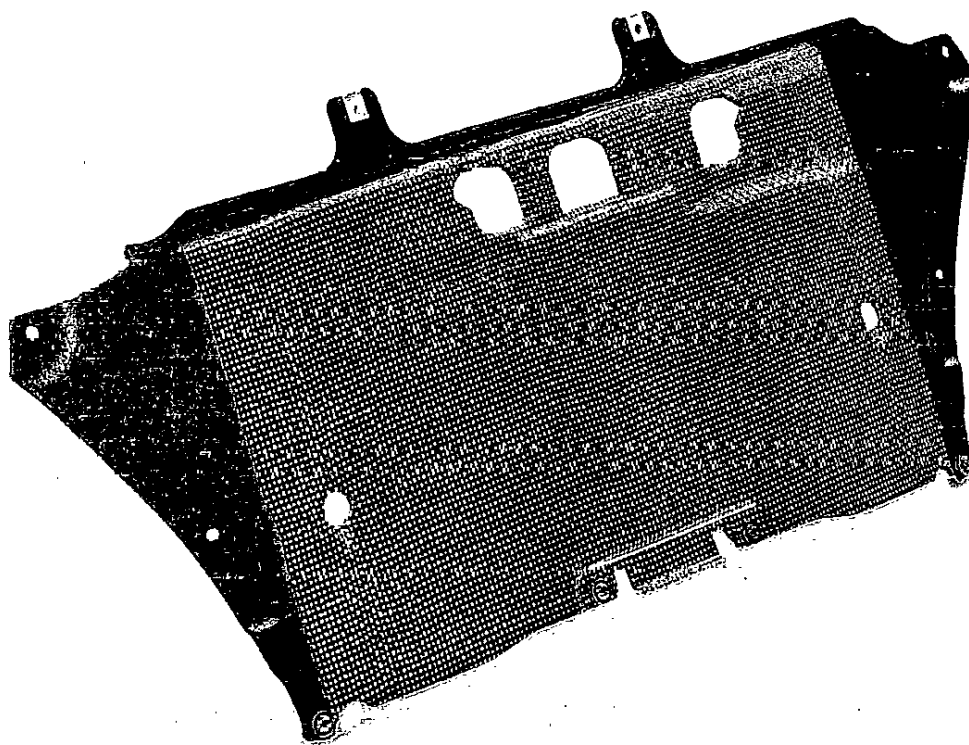
Reiner Drews

# Consolidated Financial Statements of ElringKlinger AG

FOR THE FINANCIAL YEAR 2019

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## UNDERBODY PROTECTION

This underbody protection made of ultra-light plastic is capable of withstanding extreme loads – properties that make it particularly interesting for electric vehicles. Go to »The power of a light touch« in our magazine »pulse« for further insights.

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# Group Income Statement

of ElringKlinger AG, January 1 to December 31, 2019

EUR k	Note	2019	2018
<b>Sales revenue</b>	(1)	<b>1,727,025</b>	<b>1,699,000</b>
Cost of sales	(2)	-1,401,746	-1,328,917
<b>Gross profit</b>		<b>325,279</b>	<b>370,083</b>
Selling expenses	(3)	-133,435	-146,516
General and administrative expenses	(4)	84,823	-84,046
Research and development costs	(5)	64,071	-76,116
Other operating income	(6)	33,506	45,599
Other operating expenses	(7)	15,223	-12,824
<b>Operating result/EBIT</b>		<b>61,233</b>	<b>96,180</b>
Finance income		23,104	33,157
Finance costs		43,214	-42,608
Share of result of associates	(8)	538	-5,283
<b>Net finance costs</b>	(9)	<b>-19,572</b>	<b>-14,734</b>
<b>Earnings before taxes</b>		<b>41,661</b>	<b>81,446</b>
Income tax expense	(10)	36,649	-33,543
<b>Net income</b>		<b>5,012</b>	<b>47,903</b>
of which: attributable to non-controlling interests	(23)	944	4,068
<b>of which: attributable to shareholders of ElringKlinger AG</b>	(23)	<b>4,068</b>	<b>43,835</b>
Basic and diluted earnings per share in EUR	(11)	0.06	0.69

# Group Statement of Comprehensive Income

of ElringKlinger AG, January 1 to December 31, 2019

EUR k	2019	2018
<b>Net income</b>	<b>5,012</b>	<b>47,903</b>
Currency translation difference	17,880	-5,083
Reclassification of foreign exchange losses included in the income statement	0	-6,365
Share of other comprehensive income of associates	-106	-6
<b>Gains and losses that can be reclassified to the income statement in future periods</b>	<b>12,774</b>	<b>-11,454</b>
Remeasurement of defined benefit plans, net	15,892	2,332
<b>Gains and losses that cannot be reclassified to the income statement in future periods</b>	<b>-15,892</b>	<b>2,332</b>
<b>Other comprehensive income after taxes</b>	<b>-3,118</b>	<b>-9,122</b>
<b>Total comprehensive income</b>	<b>1,894</b>	<b>38,781</b>
of which: attributable to non-controlling interests	750	4,032
<b>of which: attributable to shareholders of ElringKlinger AG</b>	<b>1,144</b>	<b>34,749</b>

# Group Statement of Financial Position

## of ElringKlinger AG, as at December 31, 2019

EUR k	Note	Dec. 31, 2019	Dec. 31, 2018
<b>ASSETS</b>			
Intangible assets	(12)	208,149	190,307
Property, plant and equipment	(13)	1,043,736	997,843
Investment property	(14)	3,263	16,567
Financial assets	(15)	3,551	2,663
Shares in associates	(8)	23,706	23,274
Non-current income tax assets	(16)	295	98
Other non-current assets	(16)	5,420	8,116
Deferred tax assets	(10)	14,964	11,805
Contract performance costs	(17)	9,428	5,427
Non-current contract assets	(18)	1,512	1,319
<b>Non-current assets</b>		<b>1,314,024</b>	<b>1,257,419</b>
Inventories	(19)	356,477	401,391
Current contract assets	(18)	10,891	6,297
Trade receivables	(20)	233,231	306,351
Current income tax assets	(20)	1,739	8,531
Other current assets	(20)	88,683	48,432
Cash and cash equivalents	(21)	135,450	45,314
<b>Current assets</b>		<b>832,471</b>	<b>816,316</b>
<b>Assets held for sale</b>	(22)	<b>0</b>	<b>5,966</b>
		<b>2,146,495</b>	<b>2,079,701</b>

EUR k	Note	Dec. 31, 2019	Dec. 31, 2018
<b>LIABILITIES AND EQUITY</b>			
Share capital		63,360	63,360
Capital reserves		118,238	118,238
Revenue reserves		725,128	721,060
Other reserves		-52,486	-49,562
<b>Equity attributable to the shareholders of ElringKlinger AG</b>	<b>(23)</b>	<b>854,240</b>	<b>853,096</b>
Non-controlling interest in equity	(24)	36,980	37,014
<b>Equity</b>		<b>891,220</b>	<b>890,110</b>
Provisions for pensions	(25)	148,215	124,401
Non-current provisions	(26)	18,503	19,603
Non-current financial liabilities	(27)	570,416	472,005
Non-current contract liabilities	(28)	11,997	2,614
Deferred tax liabilities	(10)	16,168	14,949
Other non-current liabilities	(29)	8,204	8,915
<b>Non-current liabilities</b>		<b>773,503</b>	<b>642,487</b>
Current provisions	(26)	17,713	10,769
Trade payables	(29)	157,119	135,560
Current financial liabilities	(27)	160,307	296,786
Current contract liabilities	(28)	19,995	10,469
Tax payable	(10)	17,060	12,470
Other current liabilities	(29)	109,578	81,050
<b>Current liabilities</b>		<b>481,772</b>	<b>547,104</b>
<b>Liabilities relating to assets held for sale</b>	<b>(22)</b>	<b>0</b>	<b>0</b>
		<b>2,146,495</b>	<b>2,079,701</b>

# Group Statement of Changes in Equity

of ElringKlinger AG, January 1 to December 31, 2019

EUR k	Share capital	Capital reserves	Revenue reserves
<b>Balance as of Dec. 31, 2017</b>	<b>63,360</b>	<b>118,238</b>	<b>710,885</b>
Application of new standards <sup>1</sup>			-2,062
<b>Balance as of Jan. 1, 2018</b>	<b>63,360</b>	<b>118,238</b>	<b>708,823</b>
Dividend distribution			-31,680
Purchase of shares from non-controlling interests			
Change in scope of consolidated financial statements			82
<b>Total comprehensive income</b>			<b>43,835</b>
Net income			43,835
Other comprehensive income			
<b>Balance as of Dec. 31, 2018</b>	<b>63,360</b>	<b>118,238</b>	<b>721,060</b>
<b>Balance as of Dec. 31, 2018/Jan. 01, 2019</b>	<b>63,360</b>	<b>118,238</b>	<b>721,060</b>
Dividend distribution			
<b>Total comprehensive income</b>			<b>4,068</b>
Net income			4,068
Other comprehensive income			
<b>Balance as of Dec. 31, 2019</b>	<b>63,360</b>	<b>118,238</b>	<b>725,128</b>

<sup>1</sup> IFRS 15 and IFRS 9

Other reserves						
Remeasurement of defined benefit plans, net	Equity impact of controlling interests	Currency translation differences	Equity attributable to the shareholders of ElringKlinger AG	Non-controlling interests in equity	Group equity	
-39,512	-212	-460	852,299	37,368	889,667	
			-2,062	57	-2,005	
-39,512	-212	-460	850,237	37,425	887,662	
			-31,680	-1,898	-33,578	
	-210		-210	210	0	
-82			0	-2,755	-2,755	
2,278		-11,364	34,749	4,032	38,781	
			43,835	4,068	47,903	
2,278		-11,364	-9,086	-36	-9,122	
-37,316	-422	-11,824	853,096	37,014	890,110	
-37,316	-422	-11,824	853,096	37,014	890,110	
			0	-784	-784	
-15,593		12,669	1,144	750	1,894	
			4,068	944	5,012	
-15,593		12,669	-2,924	-194	3,118	
-52,909	-422	845	854,240	36,980	891,220	

# Group Statement of Cash Flows

## of ElringKlinger AG, January 1 to December 31, 2019

EUR k	Note	2019	2018
Earnings before taxes		41,661	81,446
Depreciation/amortization (less write-ups) of non-current assets	(12)–(15)	119,679	100,466
Net interest	(9)	19,486	15,070
Change in provisions		6,121	-5,946
Gains/losses on disposal of non-current assets		1,689	-48
Share of result of associates		538	5,283
Dividends from associates		0	0
Change in inventories, trade receivables and other assets not resulting from financing and investing activities		83,407	-51,698
Change in trade payables and other liabilities not resulting from financing and investing activities		66,670	19,743
Income taxes paid	(10)	-27,717	-30,843
Interest paid		-16,845	-12,461
Interest received		1,200	540
Other non-cash expenses and income		-17,736	-30,000
<b>Net cash from operating activities</b>		<b>277,577</b>	<b>91,552</b>
Proceeds from disposals of property, plant and equipment, intangible assets and investment property		9,559	846
Proceeds from disposals of financial assets		5,795	2,960
Proceeds from the disposal of subsidiaries		21,550	56,802
Payments for investments in intangible assets	(12)	-19,091	-15,061
Payments for investments in property, plant and equipment and investment property	(13), (14)	92,224	-163,506
Payments for investments in financial assets	(15)	10,044	-2,770
<b>Net cash from investing activities</b>		<b>-84,455</b>	<b>-120,729</b>
Dividends paid to shareholders and to non-controlling interests		-784	-33,578
Proceeds from the addition of long-term loans	(27)	167,016	76,718
Payments for the repayment of long-term loans	(27)	-106,707	-72,834
Change in current loans		-163,315	59,703
<b>Net cash from financing activities</b>		<b>-103,790</b>	<b>30,009</b>
Changes in cash		89,332	832
Effects of currency exchange rates on cash		804	-1,016
Cash at beginning of period	(21)	45,314	45,498
Cash at end of period		135,450	45,314
<b>Cash at end of period as per statement of financial position</b>	<b>(21)</b>	<b>135,450</b>	<b>45,314</b>

# Notes to the Consolidated Financial Statements

## for the Financial Year 2019

### 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, 2019, 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 (IFRS IC), the supplementary commercial law regulations pursuant to Sec. 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 2019 have been observed.

On March 25, 2020, the Management Board of ElringKlinger AG submitted the consolidated financial statements to the Supervisory Board, which will meet on March 26, 2020 to approve them.

The consolidated financial statements have been prepared in euros. Unless otherwise stated, all amounts are in thousands of euro (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 2019 for the first time:

IFRS pronouncement (published on)	Title	To be applied for financial years beginning on or after
Annual IFRS Improvements 2015–2017 Cycle (December 12, 2017)	Annual IFRS Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 (February 7, 2018)	Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	January 1, 2019
Amendments to IAS 28 (October 12, 2017)	Amendments to IAS 28: Long-term Interests in Associates and Joint Venture	January 1, 2019
IFRS IC Interpretation 23 (June 7, 2017)	IFRIC 23 Uncertainty over Income Tax Treatments	January 1, 2019
Amendments to IFRS 9 (October 12, 2017)	Amendments to IFRS 9: Prepayment Features with Negative Compensation	January 1, 2019
IFRS 16 Leases (January 13, 2016)	IFRS 16 Leases	January 1, 2019

The first-time application of the regulations listed in the table had, except for the first-time application of IFRS 16, no or no material effect on the presentation of financial performance, net assets and cash position.

#### Annual Improvements to IFRSs (2015–2017)

The pronouncement contains amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23. The amendments are effective as of January 1, 2019. The ElringKlinger Group does not anticipate any effects on the financial performance, net assets and cash position from the amendments.

#### Amendments to IAS 19 Employee Benefits

In February 2018, the IASB published amendments to IAS 19 “Employee Benefits”. The amendments prescribe the treatment of plan amendments, curtailments and settlements of defined benefit plans. The amendments to IAS 19 relate to plan amendments, curtailments or settlements made at or after the start of a financial year beginning on or after January 1, 2019. The amendments have no significant effect on the consolidated financial statements.

#### Amendments to IAS 28 Investments in Associates

In October 2017, the IASB published amendments to IAS 28 "Investments in Associates". The amendments include the requirement that an entity has to apply IFRS 9 "Financial Instruments" to long-term interests in associates or joint ventures which are not accounted for using the equity method. The ElringKlinger Group has adopted the amended standard as of the date it is due to become effective. The amendments have no significant effect on the consolidated financial statements.

#### IFRIC 23 Uncertainty over Income Tax Treatments

In June 2017, the IFRS Interpretations Committee (IFRS IC) 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.

The Interpretation addresses the accounting for income taxes in accordance with IAS 12 "Income Taxes" when income tax treatments involve uncertainty. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies significant judgment in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. Upon adoption of the Interpretation, it was considered whether there are any uncertain tax treatments, particularly relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing. The taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation does not have an impact on the consolidated financial statements of the Group.

#### IFRS 16 Leases

In January 2016, the IASB published IFRS 16 "Leases", which was incorporated into European law in November 2017. IFRS 16 "Leases" is mandatory for financial years beginning on or after January 1, 2019 and regulates the recognition, measurement, presentation and disclosure requirements of leases in the financial statements of companies that are accounted for in accordance with IFRSs.

In particular, IFRS 16 replaces the previous lease standard IAS 17 "Leases" and introduces one uniform accounting model (right-of-use model), according to which all leases are to be recognized in the statement of financial position. An accounting option is available for short-term leases or leases of low-value assets. The Group exercises this option by not accounting for such leases.

'Leases' in accordance with IFRS 16 are all contracts from January 1, 2019, which grant the ElringKlinger Group the right to control a certain asset over a period of time in exchange for payment. As of January 1, 2019, for all lease contracts of the Group it was assessed whether the lease contracts of the ElringKlinger Group constitute a lease in accordance with IFRS 16 or contain such a lease.

For all lease contracts previously classified as operating leases, as of January 1, 2019, ElringKlinger measures lease liabilities at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the time of first-time application. Correspondingly, right-of-use assets are accounted for on the assets side. Right-of-use assets as of January 1, 2019 are initially measured at the amount of lease liabilities.

ElringKlinger applied the new lease standard for the first time from January 1, 2019 using as a practical expedient the modified retrospective method in accordance with the transitional provisions. In agreement with the options provided in IFRS 16, the ElringKlinger Group does not recognize leases ending within 12 months from the date of first-time application (short-term leases) and low-value assets that are under the threshold of EUR 5 k (small ticket leases).

The first-time application of IFRS 16 as of January 1, 2019 resulted in adjustments being made to the opening statement of financial position. This can be seen in the table below. The prior-year figures have not been adjusted.

EUR k	Dec. 31, 2018	Adjustment due to IFRS 16	Jan. 1, 2019
<b>ASSETS</b>			
Property, plant and equipment	997,843	45,407	1,043,250
<b>EQUITY AND LIABILITIES</b>			
Non-current financial liabilities	472,005	36,133	508,138
Current financial liabilities	296,786	9,274	306,060

Right-of-use assets are measured at amortized cost, taking into account amortization, depreciation and impairment.

Lease liabilities are remeasured using recognized financial methods. They increase in the amount of the periodic interest expenses and decrease in the amount of lease payments made.

Further explanations on right-of-use assets, the corresponding financial liabilities and the effects on the cash flow are contained in Note (13), (30), (31), (32) and (34) in the notes to the financial statements.

The following regulations or amendments of existing provisions are not yet mandatory and have not been applied by the ElringKlinger Group:

IFRS pronouncement (published on)	Title	To be applied for financial years beginning on or after
<b>Incorporated in European law</b>		
Amendments to IFRS 9 (September 26, 2019)	Amendments to IFRS 9: Interest Rate Benchmark Reform	January 1, 2020
Amendments to IAS 39 (September 26, 2019)	Amendments to IAS 39: Interest Rate Benchmark Reform	January 1, 2020
Amendments to IFRS 7 (September 26, 2019)	Amendments to IFRS 17: Interest Rate Benchmark Reform	January 1, 2020
Amendments to IAS 1 (October 31, 2018)	Amendments to IAS 1: Definition of Material	January 1, 2020
Amendments to IAS 8 (October 31, 2018)	Amendments to IAS 8: Definition of Material	January 1, 2020
Amendments to References to the Conceptual Framework (March 29, 2019)	Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020
<b>Incorporation in European law still outstanding</b>		<b>Endorsement expected</b>
Amendments to IFRS 3 (October 22, 2018)	Amendments to IFRS 3 Business Combinations	First quarter 2020
IFRS 17 (May 18, 2017)	Insurance Contracts	Not yet published
Amendments to IAS 1 (January 23, 2020)	Amendments to IAS 1 Classification of Liabilities as Current or Non-Current	Not yet published

For standards that are yet to be adopted by the EU, the initial date for first-time application is assumed to be the date approved by the IASB.

Provisions whose application will or may have an effect on the presentation of financial performance, net assets and cash position are described further below. As far as the explanations hereinafter do not contain any statements on possible effects, ElringKlinger, after performing a review, has come to the conclusion that their application will have no or no significant influence on the financial performance, net assets and cash position.

#### Amendments to IFRS 9, IAS 39 and IFRS 7

In September 2019, the IASB published the amendments to IFRS 9, IAS 39 and IFRS 7 in respect of the Interest Rate Benchmark Reform. The amendments represent the first phase of IASB's work regarding the effects of the reform of the Interbank Offered Rates (IBOR reform). The amendments provide for temporary exemptions in IFRS 9 as well as in IAS 39, which should allow hedge accounting to be retained in the period of the formal replacement of the existing interest benchmark by alternative, almost risk-free rates (RFR). The exemptions apply to all hedging relationships that are directly affected by the reform of the interest benchmark. The same applies to the assessment of the economic relationship in accordance with IFRS 9 or effectiveness assessment in accordance with IAS 39. The amendments are to be applied retrospectively for the first time as of January 1, 2020. Early adoption is permitted. The ElringKlinger Group does not anticipate any significant effects.

#### Amendments to IAS 1 and IAS 8

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 "Definition of Material" and thus providing a more precise definition of materiality of financial information. In this context, the definitions used in the Conceptual Framework, IAS 1, IAS 8 and IFRS Practice Statement 2 Making Materiality Judgments were aligned. The amendments are effective as of January 1, 2020. Early adoption is permitted. The ElringKlinger Group does not anticipate any significant effects as the expected requirements have already been fulfilled.

#### Amendments to IFRS 3

In October 2018, the IASB published amendments to IFRS 3 "Definition of a Business". With this amendment, the IASB clarifies whether a company has acquired business operations or a group of assets as part of a business combination. The amendment is to be applied to business combinations with the acquisition date as of or after January 1, 2020.

#### 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 for the ElringKlinger Group and will therefore not have any effect on the financial performance, net assets and cash position of the Group.

#### Amendment to IAS 1

On January 23, 2020, the IASB published amendment to IAS 1 under the title "Classification of Liabilities as Current or Non-Current". The amendments contain selective adjustments to the criteria for the classification of liabilities as current or non-current.

#### Scope of consolidated financial statements

The consolidated financial statements of ElringKlinger AG as of December 31, 2019, include the annual financial statements of 6 (2018: 7) domestic and 32 (2018: 32) foreign subsidiaries in which ElringKlinger AG holds, either directly or indirectly, more than 50% of the shares or is able to control the entity's financial and business policy for other reasons. Inclusion begins at the time the control relationship comes into being and ends when control is deemed to no longer exist.

The interest in hofer AG, Nürtingen, Germany, decreased from 28.89% to 24.71% compared to December 31, 2018 due to a capital increase at hofer AG. The shares in hofer AG, Nürtingen, continue to be recorded as an associate in non-current group assets, as ElringKlinger has a significant influence on the business and financial policies. A significant influence is assumed for associates with voting rights ranging from 20% to 50%.

As of December 31, 2019, the following companies made use of the exemption provisions provided by § 264 (3) HGB:

- ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen,
- ElringKlinger Logistic Service GmbH, Rottenburg/Neckar,
- Kochwerk Catering GmbH, Dettingen/Erms,
- ElringKlinger Motortechnik GmbH, Idstein.

Furthermore, ElringKlinger (Great Britain) Ltd., hofer powertrain products UK limited and Elring Parts Ltd. made use of the exemption provided by the UK Companies Act 2006 regarding the audit of financial statements as of December 31, 2019.

An overview of the 38 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, 2019

Name of company	Registered office	Share of capital in %
<b>Parent company</b>		
ElringKlinger AG <sup>1</sup>	Dettingen/Erms	
<b>Shares in affiliated companies (fully consolidated in the consolidated financial statements)</b>		
<b>Germany</b>		
Gedachtnisstiftung KARL MULLER BELEGESCHAFTSHILFE 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
hofer powertrain products GmbH	Nürtingen	53.00
KOCHWERK Catering GmbH	Dettingen/Erms	100.00
<b>Shares in affiliated companies (fully consolidated in the consolidated financial statements)</b>		
<b>Foreign</b>		
ElringKlinger Abschirmtechnik (Schweiz) AG	Sevelen (Switzerland)	100.00
Elring Klinger (Great Britain) Ltd.	Redcar (UK)	100.00
hofer powertrain products UK Ltd.	Warwick (UK)	53.00
ElringKlinger Italia Srl	Settimo Torinese (Italy)	100.00
Technik-Park Heliport Kft.	Kecskemét-Kádafalva (Hungary)	100.00
ElringKlinger Hungary Kft.	Kecskemét-Kádafalva (Hungary)	100.00
Elring Parts Ltd.	Gateshead (UK)	100.00
Elring Klinger, S.A.U	Reus (Spain)	100.00
ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş.	Bursa (Turkey)	100.00
ElringKlinger Meillor SAS	Nantiat (France)	100.00
ElringKlinger Fuelcell Systems Austria GmbH	Wels (Austria)	100.00
ElringKlinger Silicon Valley, Inc.	Fremont (USA)	100.00
HURO Supermold S.R.L.	Timisoara (Romania)	100.00
ElringKlinger Canada, Inc.	Leamington (Canada)	100.00
ElringKlinger USA, Inc.	Buford (USA)	100.00
ElringKlinger Automotive Manufacturing, Inc.	Southfield (USA)	100.00
ElringKlinger Manufacturing Indiana, Inc.	Fort Wayne (USA)	100.00
Elring Klinger México, S.A. de C.V.	Toluca (Mexico)	100.00
EKASER, S.A. de C.V.	Toluca (Mexico)	100.00
Elring Klinger do Brasil Ltda.	Piracicaba (Brazil)	100.00
ElringKlinger South Africa (Pty) Ltd.	Johannesburg (South Africa)	100.00
ElringKlinger Automotive Components (India) Pvt. Ltd.	Ranjangaon (India)	100.00

Changchun ElringKlinger Ltd.	Changchun (China)	88.00
ElringKlinger Korea Co., Ltd.	Gumi-si (South Korea)	100.00
ElringKlinger China, Ltd.	Suzhou (China)	100.00
ElringKlinger Chongqing Ltd.	Chongqing (China)	100.00
ElringKlinger Engineered Plastics North America, Inc. <sup>2</sup>	Buford (USA)	77.50
ElringKlinger Engineered Plastics (Qingdao) Co., Ltd. <sup>2</sup>	Qingdao (China)	77.50
ElringKlinger Marusan Corporation <sup>3</sup>	Tokyo (Japan)	50.00
Marusan Kogyo Co., Ltd. <sup>5</sup>	Tokyo (Japan)	23.45
PT ElringKlinger Indonesia <sup>4</sup>	Karawang (Indonesia)	50.00
ElringKlinger (Thailand) Co., Ltd. <sup>4</sup>	Bangkok (Thailand)	50.00

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

<b>Germany</b>		
hofer AG	Nürtingen	24.71

<sup>1</sup> ElringKlinger AG prepares the consolidated financial statements for the largest and smallest group of subsidiaries to be consolidated

<sup>2</sup> Wholly owned subsidiary of ElringKlinger Kunststofftechnik GmbH

<sup>3</sup> Consolidated due to contractual possibility of exercising control

<sup>4</sup> Wholly owned subsidiary of ElringKlinger Marusan Corporation

<sup>5</sup> 46.9% subsidiary of ElringKlinger Marusan Corporation, consolidated due to majority of voting rights.

#### Notes on non-controlling interests in subsidiaries

In ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen (Germany), ElringKlinger AG holds, with its 2 subsidiaries

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

(EKT subgroup) controlling interests of 77.5% (unchanged). 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 2019 is EUR 2,636 k (2018: EUR 3,109 k).

A dividend of EUR 0 k (2018: EUR 1,575 k) was distributed to the non-controlling interests in the financial year 2019. The remaining EUR 0 k (2018: EUR 5,425 k) was distributed to the parent company ElringKlinger AG.

Cash flow of the subgroup:

<b>Cash flow of the subgroup</b>			
EUR k		2019	2018
Operating activities		26,087	16,661
Investing activities		8,725	-4,905
Financing activities		16,041	-11,487
<b>Changes in cash</b>		<b>1,321</b>	<b>269</b>
<b>Effects of currency exchange rates on cash</b>		<b>7</b>	<b>-1</b>

ElringKlinger Kunststofftechnik GmbH is integrated in the monetary transactions of the ElringKlinger Group. Cash and cash equivalents are continuously made available to or called from ElringKlinger AG. They are reported under cash flow from financing activities.

**Summarized key financial information of the subgroup**  
 EUR k

	2019	2018
Non-current assets	65,122	62,627
Current assets	57,471	48,233
Non-current liabilities	15,809	13,827
Current liabilities	11,950	11,065
Sales revenue	110,110	111,775
Earnings before taxes (EBT)	14,025	17,424
<b>Net income</b>	<b>10,145</b>	<b>12,623</b>
<b>Total comprehensive income</b>	<b>8,867</b>	<b>12,885</b>

**Further detailed information**  
 EUR k

	2019	2018
Cash and cash equivalents	4,012	2,683
Cash in hand	9	6
Bank deposits	4,003	2,677
Non-current financial liabilities	396	225
to associates	0	225
Current financial liabilities	274	138
to banks from loans	0	0
from overdraft facilities (only affiliated companies)	0	138
Interest income	255	183
Interest expenses	220	255
Depreciation and amortization	6,274	5,709

**Newly formed company 2019**

TPH Asset Management Kft., based in Kecskemét, Hungary, a wholly owned subsidiary of Technik-Park Heliport Kft., also based in Kecskemét, Hungary, was founded with effect from August 10, 2019.

**Divestitures 2019**

The Group primarily focuses its strategic direction on areas of the future: lightweighting, electromobility and electric drive systems. Against this background, in October 2019 the Group reached an agreement with two Hungarian entities on the sale of TPH Asset Management Kft., based in Kecskemét, Hungary, a wholly owned subsidiary of Technik-Park Heliport Kft., also based in Kecskemét, Hungary. The acquisition agreement was signed on October 14, 2019. The transaction was closed on December 20, 2019 with immediate effect. The selling price is EUR 21,550 k. 100% of the shares previously held in TPH Asset Management Kft. were transferred in full to the ownership of the contracting partners. The net gain on disposal of EUR 8,616 k is included in other operating income. Ancillary costs of EUR 397 k have been incurred for the disposal of TPH Asset Management Kft. These have been reported in administrative expenses.



**Merger 2019**

Effective January 1, 2019, Polytetra GmbH, based in Mönchengladbach, Germany, a wholly owned subsidiary of ElringKlinger Kunststofftechnik GmbH, based in Bietigheim-Bissingen, Germany, was merged into ElringKlinger Kunststofftechnik GmbH.

**Newly formed company 2018**

ElringKlinger Manufacturing Indiana, Inc., based in Fort Wayne, USA, was formed effective Feb February 28, 2018. ElringKlinger AG holds a 100% interest in the company.

ElringKlinger Fuelcell Systems Austria GmbH, headquartered in Wels, Austria, was formed effective December 18, 2018. ElringKlinger AG holds a 100% interest in the company.

**Merger 2018**

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

**Divestitures 2018**

In December 2017 the Group reached an agreement with a French automotive supplier on the sale of the Hug Group with registered offices in Elsau, Switzerland. The acquisition agreement was signed on December 21, 2017. The transaction was closed on February 28, 2018, with effect from March 1, 2018. The selling price is EUR 55,802 k. The 93.67% share that ElringKlinger held in Hug Engineering AG was transferred in full to the contracting party.

The net gain on disposal of EUR 24,534 k is included in other operating income. Ancillary costs of EUR 1,272 k have been incurred for the disposal of the Hug Group. These have been reported in administrative expenses.

As part of its strategic orientation in the area of electromobility, ElringKlinger AG has decided to concentrate on the low-temperature fuel cell PEMFC (Proton Exchange Membrane Fuel Cell) relevant for mobile applications in fuel cell technology. Against this backdrop, ElringKlinger is selling its current activities related to the high-temperature fuel cell SOFC (Solid Oxide Fuel Cell) and as a result, its investment in new enerday GmbH in Neubrandenburg, Germany.

In a first step, ElringKlinger AG acquired 20% of the shares in new enerday GmbH as of September 30, 2018. Subsequently, the 100% share held by ElringKlinger was transferred in its entirety to the contracting party at the same time.

The purchase contract was signed on September 19, 2018, the transaction was closed on September 30, 2018. The selling price amounts to EUR 1,288 k. As of the acquisition date, EUR 1,000 k of the purchase price was paid, the other components of the selling price are long-term and depend on the defined sales revenue of the years 2019 to 2021.

The net gain on disposal of EUR 975 k is included in other operating income.

**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 through other comprehensive income.

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.

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

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associates. 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 generally identical to the relevant national currency of the company. The expenses and income from financial statements of entities included in the consolidated financial statements which were originally prepared in foreign currencies are translated at the average rate for the year. The average rate for the year is calculated on the basis of daily rates. Assets and liabilities are translated at the closing rate. Currency differences are reported in other comprehensive income and as a separate item in equity.

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

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

Currency	Abbr.	Closing rate		Average rate	
		Dec. 31, 2019	Dec. 31, 2018	2019	2018
US dollar (USA)	USD	1.12340	1.14500	1.11945	1.17932
Pound sterling (UK)	GBP	0.85080	0.89453	0.87587	0.88595
Franc (Switzerland)	CHF	1.08540	1.12690	1.11114	1.15158
Canadian dollar (Canada)	CAD	1.45980	1.56050	1.48271	1.53288
Real (Brazil)	BRL	4.51570	4.44400	4.41745	4.32938
Peso (Mexico)	MXN	21.22020	22.49210	21.60815	22.65759
RMB (China)	CNY	7.82050	7.87510	7.72366	7.81563
WON (South Korea)	KRW	1,296.28000	1,277.93000	1,303.16917	1,295.97500
Rand (South Africa)	ZAR	15.77730	16.45940	16.17013	15.61657
Yen (Japan)	JPY	121.94000	125.85000	121.95917	130.00583
Forint (Hungary)	HUF	330.53000	320.98000	325.75167	319.97250
Turkish lira (Turkey)	TRY	6.68430	6.05880	6.35774	5.68349
Leu (Romania)	RON	4.78300	4.66350	4.75011	4.65583
Indian rupee (India)	INR	80.18700	79.72980	78.77538	80.62578
Indonesian rupiah (Indonesia)	IDR	15,595.60000	16,500.00000	15,800.49750	16,788.76417
Baht (Thailand)	THB	33.41500	37.05200	34.59233	38.05167
Swedish krona (Sweden)	SEK	10.44680	10.25480	10.58238	10.29367

## Accounting policies

### Goodwill

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

EUR k	2019	2018
Original Equipment	158,338	149,834
Engineered Plastics	6,313	6,313
Aftermarket	1,658	1,658
<b>Total</b>	<b>166,309</b>	<b>157,805</b>

### Testing for impairment

Annual impairment testing of goodwill is performed as of the closing date on December 31. An impairment is recognized in the consolidated income statement through profit or loss if the recoverable amount, which is the higher of fair value less costs of disposal and value in use, is lower than the carrying amount of the cash-generating unit.

Impairment of goodwill is not reversed, even if the impairment has ceased to apply. The recoverable amount of the respective cash-generating unit for impairment testing as of December 31, 2019, is determined using the respective value in use as present value of forecast future cash inflows. For this purpose, the value in use of the cash-generating unit is determined by discounting future cash flows. 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.

Planning is based on expectations and assumptions of the Management Board regarding future market developments, taking into consideration the business development to date. Significant assumptions relate to the future development of sales revenue and earnings after taxes. Sales revenue and cost planning at the ElringKlinger Group is performed at individual component level.

Both historical data as well as the expected market performance are taken into account for determining the value in use of the cash-generating units. With regard to short-term sales revenue planning, the current order backlog, information on the respective manufacturer and information from independent sources, such as advisory firms or automobile associations, is used. In its sales revenue planning for the medium term, ElringKlinger assumes that it will be able to outpace global growth in automotive production. The figures allocated to the key assumptions are generally in line with external sources of information, e.g., production and expected sales for the respective regional sales markets and customer-specific budgets.

Cost planning takes into account both efficiency gains as well as cost increases.

The cost of capital of the cash-generating unit is calculated as the weighted average cost of equity and debt capital. Capital structure, equity and debt capital are based on the Company's peer group and are derived from the available capital market information. The WACC (weighted average cost of capital) applied in each case is determined on the basis of the risk-free rate according to the method of the IDW ["Institut der Wirtschaftsprüfer in Deutschland e.V.": Institute of Public Auditors in Germany], 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 the peer group.

As in the previous year, the discount rate was used without applying a growth discount to determine the terminal value, i.e., a growth rate of 0% is applied in the model.

The discount factor applied as of December 31, 2019 was the WACC before taxes of 10.40% (2018: 11.12%).

The following significant assumptions have been applied for the projections of cash-generating units:

#### **Original Equipment**

The Original Equipment unit suffered a few operative setbacks once again in the financial year 2019. Although these led to an increase in sales revenue, due to difficult circumstances, they had a noticeably negative impact on earnings after taxes. While the conventional business fields recorded losses in sales revenue, particularly the strategic fields of the future gained significantly. Due to the non-recurring effects in various plants, e.g., capacity bottlenecks, and the high level of commodity prices, the planning in terms of earnings was not achieved. The impairment test as of December 31, 2019, in addition to the historical development of the unit, included the development of the peer group as well as the general market outlook. The strategy of the Management Board is still to capture further market share, to increase the sales revenue and to implement margin improvements. Therefore, in the planning period it was assumed that margin improvements can also be realized with rising sales and the margins will again be higher than the margins of the peer group.

#### **Engineered Plastics**

Among other things, due to a very positive market response and successful development in the past financial years, Engineered Plastics in its planning still assumes an increase in sales revenue and a constant positive development in margin.

#### **Aftermarket**

The Aftermarket planning also assumes an increase in sales revenue and the related constant positive development in margin. The planned growth is to be realized through further expansion of business relationships with existing and new customers.

The impairment test performed as of December 31, 2019, did not result in any impairment of goodwill.

The value in use, determined on the basis of the abovementioned assumptions for Original Equipment as the cash-generating unit, exceeds the carrying amount by around EUR 118 million. Slight changes in cost of capital or profit margin can meanwhile lead to the situation where the carrying amount exceeds the recoverable amount. In the case of an isolated increase in cost of capital by around 0.5 percentage points, the recoverable amount would correspond to the carrying amount. An isolated reduction of the profit margin in the terminal value by around 0.5 percentage point would have the same effect.

#### **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.

All intangible assets in the Group – with the exception of goodwill – 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:

Class 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 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 of impairments are recorded through profit or 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

According to IFRS 9, financial assets are measured at either amortized cost or fair value, depending on the business model of the Group with regards to the control and on the cash flow characteristics of financial assets.

Debt instruments are measured **at amortized cost** if they meet two conditions. First, for a financial asset the business model determines collecting cash flows from the financial asset exclusively. Second, the contractual terms determine specified dates that are solely for payments of interest and principal on the principal amount outstanding. By contrast, if the business model does not exclusively provide for the collection of cash flows, but also the sale financial assets, then a financial asset is measured **at fair value through other comprehensive income**. If these conditions are not fulfilled, it is measured **at fair value through profit or loss**. However, there is an option for first-time recognition to designate the financial asset as **at fair value through profit or loss**, provided this designation eliminates or significantly reduces the accounting mismatch. This option was not exercised in the Group.

In general, equity instruments are measured **at fair value through profit or loss**. An exception is formed by equity instruments that are held for trading and classified by the Group as **recognized through other comprehensive income**. Recycling does not take place in this case.

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

- Financial assets measured at amortized cost
- Financial assets at fair value through profit or loss
- Financial assets at fair value through other comprehensive income
- Financial liabilities measured at amortized cost
- Financial liabilities measured at fair value through profit or loss

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

Financial assets include cash and cash equivalents, trade receivables, financial investments, long-term securities, other loans and receivables as well as derivative financial assets held for trading.

The financial liabilities include trade payables, liabilities to banks, derivative financial liabilities held for trading as well as other financial liabilities.

#### Financial assets

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Groups' business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or at fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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.

The fair values recognized in the statement of financial position generally correspond to the market prices of the financial assets. 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 measured at amortized cost** are financial assets resulting from money transfer, the rendering of services or the procurement of merchandise involving third parties are classified as loan 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.

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**. At ElringKlinger, these are derivatives which do not meet the prerequisites for hedge accounting.

Financial assets measured **at fair value through other comprehensive income** if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. In the same manner, equity instruments are measured as financial instruments at fair value through other comprehensive income if they fulfill the definition of equity according to IAS 32 and are not held for trading.

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

Applying the expected credit loss model (ECL), the future expected credit loss is material for impairment losses in accordance with IFRS 9. Valuation allowances will be recognized for all financial assets measured at historical cost as well as for debt instruments measured at fair value through other comprehensive income. For the measurement, external measurement sources are consulted for the counterparties. IFRS 9 outlines a three-step model. A risk provision will either be recognized on the basis of the 12-month expected credit loss (step I) or on the basis of the lifetime expected credit loss, if the credit risk has significantly increased since the first-time recognition (step II) or if there is a deterioration in the credit rating (step III). The changes in measurement between the individual steps are determined according to external ratings and based on the model of established rating agencies: investment grade (step I), speculative grade (step II) and risk/default grade (step III).



The simplified procedure is applied to trade receivables. According to this, expected credit losses are calculated over the entire lifetime of receivables.

Impairments on doubtful receivables involve to a considerable extent estimates and judgments of the individual receivables based on the creditworthiness of the customer concerned. Should this not be possible or appropriate under certain circumstances, an average rating (which is based on the average of all the ratings obtained in the reporting period) is applied. ElringKlinger considers this estimate regarding ratings as appropriate.

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 through profit or loss. The expected credit loss methodology (ECL) in accordance with IFRS 9 does not rely on historical figures as previously under IAS 39, but instead applies forward-looking indicators. These not only consider the micro- and macroeconomic aspects, but also the expected development of the individual borrower. For determining risk provisions, ElringKlinger uses the assessment of recognized rating agencies (S&P, Moody's, Fitch, etc.). Impairments of trade receivables are initially recognized in an adjustments account. The impaired receivable is derecognized when it is considered unrecoverable. An irrecoverability is indicated in case of a "D" rating (according to S&P), or insolvency of the debtor has been made public or if there are specific payment defaults.

#### 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, liabilities to banks and other financial liabilities. They are measured at amortized cost using the effective interest method. Gains or losses are recognized through profit or loss 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 through profit or loss.

#### 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 interests 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 IFRS 9, 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 through 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.

**Costs to fulfill a contract**

According to IFRS 15, the costs that are not within the scope of another standard can be recognized as an asset, if the costs relate directly to a contract and generate or enhance resources that will be used in satisfying performance obligations of a contract, and they are expected to be recovered as part of a contract.

Costs to fulfill a contract are determined on the basis of directly attributable individual costs and their proportion of attributable overheads.

The capitalized contract costs are amortized on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer. Amortization is recognized in cost of sales.

Furthermore, costs to fulfill a contract are amortized affecting cash if the carrying amount of an asset exceeds the amount of consideration the entity expects to receive in exchange for providing the associated goods and services, less the remaining costs that relate directly to providing those goods and services.

**Contract assets and contract liabilities**

A contract asset is the right to consideration in exchange for goods or services already transferred to the customer. Contract assets are reported as receivables when they have been billed.

Contract liabilities are recognized for prepayments received from customers before performing the contractually agreed service. On satisfying the performance obligations, these contract liabilities are recognized as revenue.

**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. Cost of conversion of work in progress and finished goods is 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. Cost of conversion does not include selling expenses and borrowing cost. Administrative expenses are included in cost of conversion 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 recorded for detectable impairment due to lack of marketability and quality defects, and to account for declining sales prices.

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 include cash in hand, checks and bank deposits available on demand. There are cash equivalents. 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.

*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, particularly compensation and severance payments as well as 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.*

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

IFRS 16 abolishes the previous classification of lease contracts by the lessee in operating and finance leases. Instead, IFRS 16 introduces a uniform accounting model for lessees, according to which the lessee is required to recognize a right-of-use asset for all leases as well as a lease liability for the outstanding lease payments. The lease liability is recognized at the present value of the future lease payment, discounted with the term-based incremental rate, and reported under financial liabilities. The rights of use reported under property, plant and equipment are recognized at cost less accumulated amortization and any accumulated impairment losses necessary. The acquisition cost of the right-of-use asset is determined as the present value of all future lease payments plus the lease payments that are made at or before the beginning of the lease as well as the costs to conclude the contracts and the estimated costs for dismantling or restoring the lease asset. All lease incentives received are deducted.

Practical expedients provided by IFRS 16 are applied for low-value assets and short-term leases (with a term of up to 12 months). The lease payments associated with these leases are charged to profit or loss for the reporting period on a straight-line basis over the lease term. In the statement of cash flows, the payments are reported under cash flow from operating activities.

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 transaction price 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 control has passed to the buyer and receipt of the payment can be reliably expected.

A portion of income from development services is to be recognized over time because the customer simultaneously receives and consumes the benefits provided by the ElringKlinger Group. The progress of development services is determined using the input method because there is a direct relationship between the effort of the ElringKlinger Group and the transfer of service to the customer. The Group recognizes sales revenue on the basis of the costs incurred relative to the total expected costs to complete the service.

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

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 capitalized provided all of the following criteria are fulfilled:

- 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

In accordance with IAS 20, government grants are recognized at fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grant and that the grant will be received.

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.

Grants that relate to the acquisition or production cost of assets are recognized as deferred income and systematically released to income over the expected useful life of the related asset. The item is disclosed in other current and non-current liabilities.

#### 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 2019 amounted to 2.02% (2018: 1.77%). In the financial year 2019, borrowing costs of EUR 358 k (2018: EUR 232 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 in general. If economic development cools down considerably, this represents a risk for demand and ultimately for vehicle production. This could possibly result in lower demand for the product portfolio of the ElringKlinger Group.

According to the assessment as of the reporting date, risks regarding economic development exist in the general slowdown of the global market growth. This is attributable both to the downward trend in the Chinese automotive market and the potential economic effects of the coronavirus. Besides, there are unclear global trade conflicts, particularly between the economic heavyweights, the US and China.

Economic experts predict that global automotive production will not grow in 2020, but will decrease slightly, i.e., in a lower single-digit percentage range. Despite the cautious nature of these forecasts, a more significant decline in vehicle production is not very probable based on the information currently available. ElringKlinger anticipates that global vehicle production will contract by at least 4% in 2020.

With its customer structure, ElringKlinger is not dependent on specific markets or individual manufacturers. Given its global presence with production and sales locations, the Group is well positioned to handle potential stagnation or waning demand in individual vehicle markets.

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. The central purchasing department works in close cooperation with suppliers for the purpose of assessing and adjusting procurement volumes continuously.

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.

## Individual disclosures on the Group Income Statement

### 1 — Sales revenue

EUR k	2019	2018
Lightweighting/Elastomer Technology	494,299	451,651
Shielding Technology	399,161	400,069
Special Gaskets	308,500	317,007
Cylinder-head Gaskets	182,686	193,482
E-Mobility	27,133	24,708
Exhaust Gas Purification Technology	10,388	19,611
Other	1,281	1,190
<b>Segment Original Equipment</b>	<b>1,423,448</b>	<b>1,407,718</b>
Segment Original Equipment	1,423,448	1,407,718
Segment Aftermarket	172,610	159,497
Segment Engineered Plastics	117,451	117,824
<b>Sale of goods</b>	<b>1,713,509</b>	<b>1,685,039</b>
Sale of goods	1,713,509	1,685,039
Proceeds from the rendering of services	9,400	9,659
<b>Revenue from contracts with customers</b>	<b>1,722,909</b>	<b>1,694,698</b>
Revenue from contracts with customers	1,722,909	1,694,698
Income from rental and leasehold	4,116	4,302
<b>Total</b>	<b>1,727,025</b>	<b>1,699,000</b>

## Breakdown by geographical markets:

EUR k	2019	2018
Revenue from contracts with customers	394,978	428,356
Income from rental and leasehold	18	189
<b>Total Germany</b>	<b>394,996</b>	<b>428,545</b>
Revenue from contracts with customers	1,327,931	1,266,342
Income from rental and leasehold	4,098	4,113
<b>Total other countries</b>	<b>1,332,029</b>	<b>1,270,455</b>
<b>Total</b>	<b>1,727,025</b>	<b>1,699,000</b>

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 (35) Segment reporting.

## Contract balances

EUR k	Dec. 31, 2019	Dec. 31, 2018
Trade receivables	233,231	306,351
Contract assets	12,403	7,616
Contract liabilities	31,992	13,083

Sales revenue of EUR 10,469 k (2018: EUR 7,230 k) was recorded in the reporting period, which, at the beginning of the financial year, was included in contract liabilities.

A contract asset is the right to consideration in exchange for goods or services already transferred to the customer. This mainly takes place through sales revenue that is to be recognized over time. Contract assets are reported as receivables when billed. This is generally performed on a short-term basis within a month.

Contract liabilities include long-term prepayments for customer-specific provisions of additional production capacity and short-term prepayments for customer-specific tools. The increase in contract liabilities in the financial year 2019 was mainly due to the EUR 9,384 k long-term advances received from a customer as well as due to prepayment received on account of orders of customer-specific systems and tools of EUR 9,525 k.



## Reconciliation of contract balances

The changes in contract assets and contract liabilities in the reporting period result from the following matters:

EUR k	Contract assets	Contract liabilities
<b>As of Jan. 1, 2018</b>	<b>7,112</b>	<b>7,230</b>
Revenue that was included in the contract liability balance at the beginning of the reporting period		7,230
Reclassification of contract assets reported at the beginning of the reporting period to trade receivables	5,737	
Additions from payments received less amounts reported as sales revenue in the reporting period		13,083
Additions from performance completed not yet billed in the reporting period	6,241	
<b>As of Dec. 31, 2018</b>	<b>7,616</b>	<b>13,083</b>
Revenue that was included in the contract liability balance at the beginning of the reporting period		10,469
Reclassification of contract assets reported at the beginning of the reporting period to trade receivables	6,297	
Additions from payments received less amounts reported as sales revenue in the reporting period		29,378
Additions from performance completed not yet billed in the reporting period	11,084	
<b>As of Dec. 31, 2019</b>	<b>12,403</b>	<b>31,992</b>

## Performance obligations

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as of December 31, 2019 are as follows:

EUR k	Dec. 31, 2019	Dec. 31, 2018
Within one year	6,489	3,426
More than one year	3,780	3,740

Limited variable consideration is not taken into account in the disclosed amounts. Furthermore, no information is included for performance obligations from contracts with an expected original term of a maximum of one year. Similarly, no disclosures on performance obligations are included that are satisfied over a certain period and for which the entitlement of a consideration is equivalent to the amount that corresponds directly to the value of the performance already completed and for which revenue can be realized to that amount that can be billed.

**2 — Cost of sales**

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

Cost of sales includes:

EUR k	2019	2018
Cost of materials	800,720	746,994
Personnel expenses	369,284	362,368
Depreciation and amortization	104,206	88,572
Reversal of costs to fulfill a contract	1,053	123
Other expenses	126,483	130,860
<b>Total</b>	<b>1,401,746</b>	<b>1,328,917</b>

**3 Selling expenses**

Compared to 2018, selling expenses decreased by EUR 13,080 k to EUR 133,435 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 777 k compared to 2018 to reach EUR 84,823 k.

**5 Research and development costs**

Research and development costs include the personnel expenses, amortization and depreciation 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 2018, research and development costs decreased by EUR 12,045 k to EUR 64,071 k. Development costs of EUR 16,695 k (2018: EUR 11,073 k) were capitalized in the financial year 2019.

**6 — Other operating income**

EUR k	2019	2018
Income from first-time consolidation	8,616	25,508
Insurance reimbursements/claims reimbursements	7,832	2,187
Government grants	5,581	5,348
Reimbursements from third parties	3,549	4,217
Other taxes (excl. income tax)	5,241	1,873
Income from disposals of non-current assets	423	291
Reversal of impairments on receivables	147	259
Other	2,117	5,916
<b>Total</b>	<b>33,506</b>	<b>45,599</b>

Other taxes mainly contains EUR 4,012 k from the income of ElringKlinger do Brasil Ltda., based in Piracicaba, Brazil. These relate to an impermissible double taxation of past transactions, which have now been confirmed as impermissible by the supreme court in Brazil.

## 7 — Other operating expenses

EUR k	2019	2018
Other taxes (excl. income tax)	7,122	4,141
Losses on disposal of non-current assets	2,113	244
Other fees	1,417	885
Impairment of receivables	1,222	2,136
Expenditures for claims	1,000	928
Defaults on receivables	515	359
Recognition of provisions/deferred liabilities	365	968
Selling costs for machinery	243	556
Other	1,226	2,607
<b>Total</b>	<b>15,223</b>	<b>12,824</b>

## 8 — Associates

ElringKlinger holds a share of 24.71% in hofer AG, Nürtingen. The hofer Group is a competent systems developer for drive train systems in the automotive sector. ElringKlinger continues to use 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.

As of July 19, 2019, hofer AG reduced its share of treasury shares by EUR 860 k to EUR 6 k. As of July 30, 2019, the share capital of hofer AG was increased by EUR 1,230 k to EUR 14,451 k. This increased the capital reserves by EUR 40,906 to EUR 60,434. ElringKlinger did not participate in the capital increase; the interest held in hofer AG therefore decreased from 28.89% to 24.71%.

The gain arising from the disposal amounts to EUR 8,022 k.

EUR k	2019	2018
Non-current assets	56,724	52,297
Current assets	90,421	35,789
Non-current liabilities	19,371	15,403
Current liabilities	46,496	29,131
<b>Net assets</b>	<b>81,278</b>	<b>43,552</b>
Group share (24.71%; 2018: 28.89%)	20,081	12,582
Goodwill	13,432	15,704
Accumulated impairment loss previous years	1,287	0
Impairment loss current year	5,523	-5,012
<b>Carrying amount of the Group's share</b>	<b>23,706</b>	<b>23,274</b>
Sales revenue	109,759	65,465
<b>Comprehensive income for the financial year</b>	<b>-4,965</b>	<b>-938</b>
thereof other comprehensive income	-455	22
<b>Group share in profit/loss</b>	<b>-1,961</b>	<b>-271</b>
Dividends received	0	0

As of December 31, 2019, the associate had contingent liabilities of EUR 497 k (2018: EUR 0 k) and liabilities to banks of EUR 2,486 k (2018: EUR 19,663 k).

According to IAS 28.42, the total carrying amount of the investment in an associate pursuant to IAS 36 is tested for impairment as a single asset. The regular testing for impairment is performed as of the closing date on December 31. Here the recoverable amount of the net investment is compared to its carrying amount. The value in use is applied as the recoverable amount. The value in use of the net investment is determined by discounting future cash flows expected to be generated by the associate.

This calculation is based on the following key assumptions:

A detailed plan of the cash flows is established over a 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 discount factor applied as of December 31, 2019 was the weighted average cost of capital (WACC) before taxes of 9.75% (2018: 10.61%). The WACC is determined on the basis of the risk-free rate according to the method of the IDW I ["Institut der Wirtschaftsprüfer in Deutschland e.V.": Institute of Public Auditors in Germany], 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.

The test for impairment performed as of December 31, 2019 revealed that the recoverable amount of the net investment (2019: EUR 23,706 k) is lower than the carrying amount taking into account its increase as *part of capital measures at hofer AG, resulting in a need to recognize an impairment of EUR 5,523 k (2018: EUR 5,012 k)*. The recoverable amount is mainly attributable to the current assessment by management in the form of its updated budget. hofer AG is assigned to the Original Equipment segment.

## 9 — Net finance costs

EUR k	2019	2018
<b>Finance income</b>		
Income from currency differences	20,852	27,796
Interest income	2,245	500
Income from a put option	0	4,861
Other	/	0
<b>Finance income, total</b>	<b>23,104</b>	<b>33,157</b>
<b>Finance costs</b>		
Expenses from currency difference	-21,097	-26,977
Interest expenses	21,730	-15,569
Other	387	-62
<b>Finance costs, total</b>	<b>-43,214</b>	<b>-42,608</b>
Expenses from associates	-7,484	-5,283
Income from associates	8,022	0
<b>Share of result of associates</b>	<b>538</b>	<b>-5,283</b>
<b>Net finance costs</b>	<b>-19,572</b>	<b>-14,734</b>

Of the interest expenses, EUR 2,513 k (2018: EUR 2,285 k) relate to interest portions of pension plans and the remainder to bank interest and interest expense from the reversal of discounts on non-current provisions. The application of IFRS 16 resulted in interest expenses of EUR 1,299 k due to the roll forward in accordance with the effective interest method. Borrowing costs for qualifying assets in the amount of EUR 358 k were capitalized in the reporting year (2018: EUR 232 k); this represents a corresponding improvement in the result.

The expenses from associates contain the roll forward of the carrying amount affecting income of EUR -1,961 k as well as the impairment on the recoverable amount, determined as value in use, of EUR 5,523. The income from associates result from the deemed disposal of shares of EUR 8,022 k, as ElringKlinger AG did not participate in the capital increase of hofer AG.

#### 10 — Income taxes

Income taxes break down as follows:

EUR k	2019	2018
Current tax expense	32,549	27,301
Deferred taxes	4,100	6,242
<b>Tax expense reported</b>	<b>36,649</b>	<b>33,543</b>

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 28.7% (2018: 29.6%). Foreign taxation is calculated at the rates applicable in the countries concerned and lies between 9.0% and 34.7% (2018: between 9.0% and 34.7%). The average foreign tax rate is 23.3% (2018: 23.7%).

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 24.2% (2018: 24.9%) and the income tax expense actually reported.

EUR k	2019	2018
Earnings before taxes	41,661	81,446
<b>Expected tax rate</b>	<b>24.2%</b>	<b>24.9%</b>
<b>Expected tax expenses</b>	<b>10,082</b>	<b>20,272</b>
Change in the expected tax rate due to:		
– Permanent differences	1,399	-6,610
– Difference in basis of assessment of local taxes	449	1,084
– Use of non-capitalized or forfeiture of capitalized tax loss carryforwards	-389	-932
– Addition to non-current tax loss carryforwards (relating to the period)	15,750	13,286
– Taxes relating to other periods	3,851	446
– Deviations due to changes in tax rate	4,199	5,219
– Deviations on account of withholding taxes	1,880	783
– Other effects	-572	-5
<b>Tax expense reported</b>	<b>36,649</b>	<b>33,543</b>
<b>Actual tax rate</b>	<b>88.0%</b>	<b>41.2%</b>

Retained earnings of EUR 28,447 k (2018: EUR 26,147 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 1,238 k (2018: EUR 1,083 k) and was recorded as a deferred tax liability. Further retained earnings of domestic and foreign subsidiaries of EUR 189,217 k (2018: EUR 229,943 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 8,063 k (2018: EUR 12,176 k). No deferred tax assets were recognized in respect of tax loss carryforwards amounting to EUR 198,706 k (2018: EUR 128,442 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 loss carryforwards not recognized for tax purposes will be forfeited as follows:

Loss carryforwards are forfeited within EUR k	Dec. 31, 2019	Dec. 31, 2018
One year	0	0
Two years	0	0
Three years	0	0
Four years	8,789	1,071
Five years	9,916	11,814
More than five years	79,583	76,250
Non-forfeitable	100,418	39,307
<b>Total</b>	<b>198,706</b>	<b>128,442</b>

Tax deferrals relate to the following line items:

Line items EUR k	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Intangible assets	873	871	11,416	8,339
Property, plant and equipment	2,878	4,465	45,033	36,593
Investment property	82	82	1,933	1,959
Financial assets	5	7	0	0
Other non-current assets	21	73	2,495	1,362
Inventories	7,737	4,758	0	103
Current contract assets	0	0	2,533	1,259
Trade receivables	913	1,464	144	213
Other current assets	1,551	328	200	2,171
Cash and cash equivalents	0	0	0	0
Provisions for pensions	26,681	20,587	0	0
Non-current provisions	2,967	2,833	5	0
Non-current financial liabilities	1,431	28	0	170
Other non-current liabilities	604	458	0	70
Current provisions	1,497	1,373	0	0
Trade payables	1,101	195	133	96
Current financial liabilities	3,601	1,320	3,887	2,061
Current contract liabilities	153	0	0	0
Other current liabilities	2,836	1,912	2,052	594
Deferred taxes associated with investments in subsidiaries	0	0	1,238	1,083
Tax loss carryforwards	8,063	12,176	0	0
Tax credits	871	0	0	0
<b>Total</b>	<b>69,865</b>	<b>52,930</b>	<b>71,069</b>	<b>56,073</b>
Offsetting of deferred tax assets against deferred tax liabilities	54,901	-41,125	54,901	-41,125
<b>Recognized in the statement of financial position</b>	<b>14,964</b>	<b>11,805</b>	<b>16,168</b>	<b>14,948</b>

Deferred taxes totaling EUR 5,913 k (2018: EUR -266 k) were recognized in other comprehensive income. Of this amount EUR 5,894 k (2018: EUR -1,115 k) relates to pension provisions and EUR 19 k (2018: EUR 70 k) to exchange rate differences. In addition, deferred taxes of EUR 779 k were recognized in equity in 2018 due to the first-time application of IFRS 9 and IFRS 15.

#### 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:

	2019	2018
Profit/loss attributable to the shareholders of ElringKlinger AG (EUR k)	4,068	43,835
Average number of shares	63,359,990	63,359,990
<b>Earnings per share in EUR</b>	<b>0.06</b>	<b>0.69</b>

## 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 (purchased)	Total
Acquisition/production cost as of Jan. 1, 2019	48,995	171,327	50,930	1,386	272,638
Adjustment carryforward new standards	0	0	0	0	0
Acquisition/production cost as of Jan. 1, 2019	48,995	171,327	50,930	1,386	272,638
Currency changes	695	8,580	49	0	9,324
Additions	16,695	0	2,082	314	19,091
Reclassifications	0	0	1,590	-1,362	228
Disposals	6,424	0	910	0	7,334
As of Dec. 31, 2019	59,961	179,907	53,741	338	293,947
Write-downs as of Jan. 1, 2019	30,431	13,523	38,377	0	82,331
Adjustment carryforward new standards	0	0	0	0	0
Write-downs as of Jan. 1, 2019	30,431	13,523	38,377	0	82,331
Currency changes	641	75	30	0	746
Additions	5,719	0	4,385	0	10,104
Reclassifications	0	0	0	0	0
Write-ups	0	0	55	0	55
Disposals	6,424	0	904	0	7,328
As of Dec. 31, 2019	30,367	13,598	41,833	0	85,798
Net carrying amount as of Dec. 31, 2019	29,594	166,309	11,908	338	208,149



EUR k	Development costs (internally developed)	Goodwill (purchased)	Patents, licenses, software and similar rights (purchased)	Intangible assets under construction (purchased)	Total
<b>Acquisition/production cost as of Jan. 1, 2018</b>	<b>44,205</b>	<b>169,765</b>	<b>57,767</b>	<b>815</b>	<b>272,552</b>
Adjustment carryforward new standards	0	0	-9,699	0	-9,699
<b>Acquisition/production cost as of Jan. 1, 2018</b>	<b>44,205</b>	<b>169,765</b>	<b>48,068</b>	<b>815</b>	<b>262,853</b>
Currency changes	623	1,925	-36	0	2,512
Change in consolidated group	-451	-363	-305	0	-1,119
Additions	11,073	0	2,949	1,039	15,061
Reclassifications	0	0	622	-468	154
Disposals	6,455	0	368	0	6,823
<b>As of Dec. 31, 2018</b>	<b>48,995</b>	<b>171,327</b>	<b>50,930</b>	<b>1,386</b>	<b>272,638</b>
<b>Write-downs as of Jan. 1, 2018</b>	<b>29,907</b>	<b>13,409</b>	<b>38,696</b>	<b>0</b>	<b>82,012</b>
Adjustment carryforward new standards	0	0	-5,555	0	5,555
<b>Write-downs as of Jan. 1, 2018</b>	<b>29,907</b>	<b>13,409</b>	<b>33,141</b>	<b>0</b>	<b>76,457</b>
Currency changes	522	114	-45	0	591
Change in consolidated group	0	0	-255	0	255
Additions	6,232	0	5,902	0	12,134
Reclassifications	0	0	0	0	0
Disposals	6,230	0	366	0	6,596
<b>As of Dec. 31, 2018</b>	<b>30,431</b>	<b>13,523</b>	<b>38,377</b>	<b>0</b>	<b>82,331</b>
<b>Net carrying amount as of Dec. 31, 2018</b>	<b>18,564</b>	<b>157,804</b>	<b>12,553</b>	<b>1,386</b>	<b>190,307</b>

Purchase commitments to acquire intangible assets amounted to EUR 1,502 k as of December 31, 2019 (December 31, 2018: EUR 339 k).

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

EUR k	2019	2018
Cost of sales	6,110	6,752
Selling expenses	1,650	3,170
General and administrative expenses	1,527	978
Research and development costs	817	1,234
<b>Total</b>	<b>10,104</b>	<b>12,134</b>

## 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
<b>Acquisition/production cost as of Jan. 1, 2019</b>	<b>496,537</b>	<b>1,137,450</b>	<b>206,816</b>	<b>110,727</b>	<b>1,951,530</b>
Adjustment carryforward new standards	39,062	405	5,940	0	45,407
<b>Acquisition/production cost as of Jan. 1, 2019</b>	<b>535,599</b>	<b>1,137,855</b>	<b>212,756</b>	<b>110,727</b>	<b>1,996,937</b>
Currency changes	4,852	12,968	842	1,785	20,447
Additions	18,400	42,498	21,300	28,334	110,532
Reclassifications	13,510	62,083	3,959	-79,780	-228
Disposals	10,043	13,851	5,337	10	29,241
<b>As of Dec. 31, 2019</b>	<b>562,318</b>	<b>1,241,553</b>	<b>233,520</b>	<b>61,056</b>	<b>2,098,447</b>
<b>Write-downs as of Jan. 1, 2019</b>	<b>113,369</b>	<b>705,902</b>	<b>134,416</b>	<b>0</b>	<b>953,687</b>
Adjustment carryforward new standards	0	0	0	0	0
<b>Write-downs as of Jan. 1, 2019</b>	<b>113,369</b>	<b>705,902</b>	<b>134,416</b>	<b>0</b>	<b>953,687</b>
Currency changes	1,370	7,315	494	0	9,179
Additions	21,260	69,297	18,803	0	109,360
Reclassifications	0	30	-30	0	0
Disposals	496	12,183	4,836	0	17,515
<b>As of Dec. 31, 2019</b>	<b>135,503</b>	<b>770,361</b>	<b>148,847</b>	<b>0</b>	<b>1,054,711</b>
<b>Net carrying amount as of Dec. 31, 2019</b>	<b>426,815</b>	<b>471,192</b>	<b>84,673</b>	<b>61,056</b>	<b>1,043,736</b>

EUR k	Land and buildings	Plant and machinery	Other equipment, furniture and fixtures	Property, plant and equipment under construction	Total
<b>Acquisition/production cost as of Jan. 1, 2018</b>	<b>473,383</b>	<b>1,049,277</b>	<b>193,340</b>	<b>89,854</b>	<b>1,805,854</b>
Adjustment carryforward new standards	0	-3,925	0	0	-3,925
<b>Acquisition/production cost as of Jan. 1, 2018</b>	<b>473,383</b>	<b>1,045,352</b>	<b>193,340</b>	<b>89,854</b>	<b>1,801,929</b>
Currency changes	2,146	4,722	84	-689	6,263
Change in consolidated group	-67	-873	-797	0	-1,737
Additions	8,568	51,705	8,384	94,296	162,953
Reclassifications	18,811	44,332	9,434	-72,731	-154
Disposals	110	7,788	3,629	3	11,530
Reclassification Assets held for sale	6,194	0	0	0	6,194
<b>As of Dec. 31, 2018</b>	<b>496,537</b>	<b>1,137,450</b>	<b>206,816</b>	<b>110,727</b>	<b>1,951,530</b>
<b>Write-downs as of Jan. 1, 2018</b>	<b>100,543</b>	<b>652,256</b>	<b>123,485</b>	<b>0</b>	<b>876,284</b>
Adjustment carryforward new standards	0	-1,694	0	0	-1,694
<b>Write-downs as of Jan. 1, 2018</b>	<b>100,543</b>	<b>650,562</b>	<b>123,485</b>	<b>0</b>	<b>874,590</b>
Currency changes	672	2,542	17	0	3,231
Change in consolidated group	-4	-303	-395	0	-702
Additions	12,493	60,576	14,684	0	87,753
Reclassifications	0	1	-1	0	0
Disposals	107	7,476	3,374	0	10,957
Reclassification Assets held for sale	228	0	0	0	228
<b>As of Dec. 31, 2018</b>	<b>113,369</b>	<b>705,902</b>	<b>134,416</b>	<b>0</b>	<b>953,687</b>
<b>Net carrying amount as of Dec. 31, 2018</b>	<b>383,168</b>	<b>431,548</b>	<b>72,400</b>	<b>110,727</b>	<b>997,843</b>

As in the previous year, no impairment losses were recognized on property, plant and equipment in the financial year 2019.

Purchase commitments to acquire property, plant and equipment from third parties amounted to EUR 34,212 k as of December 31, 2019 (December 31, 2018: EUR 35,283 k).

Due to the first-time application of IFRS 16, right-of-use assets were reported in non-current assets for the first time. As regards property, the ElringKlinger Group primarily rents production halls, office space as well as parking spaces. The rented technical equipment primarily comprises machines, which are deployed in production. The operating and office equipment comprises leased vehicles and forklifts. Lease contracts can include extension and termination options. All lease contracts are negotiated individually and contain a number of different conditions.

IFRS 16 matters disclosed under property, plant and equipment break down as follows:

EUR k	Land and buildings	Plant and machinery	Other equipment, furniture and fixtures	Total
<b>Acquisition/production cost as of Jan. 1, 2019</b>	<b>39,062</b>	<b>405</b>	<b>5,940</b>	<b>45,407</b>
Currency changes	1,170	4	67	1,241
Additions	9,534	281	8,857	18,672
Disposals	6,656	237	906	7,799
<b>As of Dec. 31, 2019</b>	<b>43,110</b>	<b>453</b>	<b>13,958</b>	<b>57,521</b>
<b>Write-downs as of Jan. 1, 2019</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Currency changes	44	0	18	62
Additions	8,093	426	4,346	12,865
Disposals	355	204	702	1,261
<b>As of Dec. 31, 2019</b>	<b>7,782</b>	<b>222</b>	<b>3,662</b>	<b>11,666</b>
<b>Net carrying amount as of Dec. 31 2019</b>	<b>35,328</b>	<b>231</b>	<b>10,296</b>	<b>45,855</b>

For further comments on IFRS 16, please refer to Note (30), (31) and (32) in the notes to the financial statements.

## 14 — Investment property

EUR k	Investment property	Investment property under construction	Total
<b>Acquisition/production cost as of Jan. 1, 2019</b>	<b>28,185</b>	<b>106</b>	<b>28,291</b>
Currency changes	-564	-3	567
Additions	106	261	367
Reclassifications	263	-263	0
Disposals	0	90	90
Reclassification Assets held for sale	19,227	0	19,227
<b>As of Dec. 31, 2019</b>	<b>8,763</b>	<b>11</b>	<b>8,774</b>
<b>Write-downs as of Jan. 1, 2019</b>	<b>11,724</b>	<b>0</b>	<b>11,724</b>
Currency changes	-187	0	-187
Additions	267	0	267
Disposals	0	0	0
Reclassification Assets held for sale	6,293	0	6,293
<b>As of Dec. 31, 2019</b>	<b>5,511</b>	<b>0</b>	<b>5,511</b>
<b>Net carrying amount as of Dec. 31, 2019</b>	<b>3,252</b>	<b>11</b>	<b>3,263</b>
<b>Acquisition/production cost as of Jan. 1, 2018</b>	<b>28,293</b>	<b>99</b>	<b>28,392</b>
Currency changes	-652	-3	-655
Additions	544	10	554
Reclassifications	0	0	0
<b>As of Dec. 31, 2018</b>	<b>28,185</b>	<b>106</b>	<b>28,291</b>
<b>Write-downs as of Jan. 1, 2018</b>	<b>11,362</b>	<b>0</b>	<b>11,362</b>
Currency changes	-197	0	-197
Additions	559	0	559
<b>As of Dec. 31, 2018</b>	<b>11,724</b>	<b>0</b>	<b>11,724</b>
<b>Net carrying amount as of Dec. 31, 2018</b>	<b>16,461</b>	<b>106</b>	<b>16,567</b>

The Idstein industrial park is reported under investment property in the current financial year. In the previous year, in addition to the Idstein industrial park, the Kecskemét-Kádafalva (Hungary) industrial park was included under investment property.

Investment property has a fair value of EUR 5,344 k as of the reporting date (2018: EUR 25,615 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 2.78% (2018: 3.22%). Measurement of the fair values was not performed by an independent expert.

All investment property is rented out under leases. The resulting rental income came to EUR 4,116 k (2018: EUR 4,302 k). Expenses directly connected with these financial investments amounted to EUR 4,048 k (2018: EUR 4,508 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 salability of investment property.

## 15 — Financial assets and shares in associates

EUR k	Shares in associates	Non-current securities	Other financial assets	Total
<b>Acquisition cost as of Jan. 1, 2019</b>	<b>28,286</b>	<b>729</b>	<b>2,016</b>	<b>31,031</b>
Currency changes	-106	-1	0	107
Additions	0	1,020	0	1,020
Changes in value	6,061	-18	0	6,043
Disposals	0	111	0	111
<b>As of Dec. 31, 2019</b>	<b>34,241</b>	<b>1,619</b>	<b>2,016</b>	<b>37,876</b>
<b>Depreciation and amortization as of Jan. 1, 2019</b>	<b>5,012</b>	<b>82</b>	<b>0</b>	<b>5,094</b>
Currency changes	0	-1	0	-1
Additions	5,523	10	0	5,533
Changes in value	0	0	0	0
Write-ups	0	7	0	7
Disposals	0	0	0	0
<b>As of Dec. 31, 2019</b>	<b>10,535</b>	<b>84</b>	<b>0</b>	<b>10,619</b>
<b>Net carrying amount as of Dec. 31, 2019</b>	<b>23,706</b>	<b>1,535</b>	<b>2,016</b>	<b>27,257</b>
Fair value Dec. 31, 2019		1,540	2,016	
<b>Acquisition cost as of Jan. 1, 2018</b>	<b>28,563</b>	<b>1,083</b>	<b>16</b>	<b>29,662</b>
Currency changes	-5	7	0	2
Additions	0	0	2,000	2,000
Changes in value	-272	-37	0	309
Disposals	0	324	0	324
<b>As of Dec. 31, 2018</b>	<b>28,286</b>	<b>729</b>	<b>2,016</b>	<b>31,031</b>
<b>Depreciation and amortization as of Jan. 1, 2018</b>	<b>0</b>	<b>63</b>	<b>0</b>	<b>63</b>
Currency changes	0	0	0	0
Additions	5,012	19	0	5,031
Changes in value	0	0	0	0
Disposals	0	0	0	0
<b>As of Dec. 31, 2018</b>	<b>5,012</b>	<b>82</b>	<b>0</b>	<b>5,094</b>
<b>Net carrying amount as of Dec. 31, 2018</b>	<b>23,274</b>	<b>647</b>	<b>2,016</b>	<b>25,937</b>
Fair value Dec. 31, 2018		647	2,016	

Of the non-current securities, EUR 309 k (2018: EUR 549 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) Pvt. Ltd., based in Ranjangaon, India, of EUR 295 k (2018: EUR 98 k).

Other non-current assets include a receivable of ElringKlinger do Brasil Ltda., based in Piracicaba, Brazil, of EUR 1,785 k, which results from a tax recoverable from the Brazilian government. This will be offset against the ongoing local tax gradually over a period of one year.

Other non-current assets also include a receivable due to a warranty event. Due to a technical evaluation, the liability has decreased in this case, decreasing the receivable in the current financial year to EUR 750 k (2018: EUR 4,500 k).

**17 — Costs to fulfill a contract**

In accordance with IFRS 15, costs associated with fulfilling contracts with customers are capitalized if certain requirements are satisfied. As of December 31, 2019, the carrying amount of costs to fulfill a contract have increased to EUR 9,428 k (December 31, 2018: EUR 5,427 k).

**18 — Non-current and current contract assets**

As of December 31, 2019, the rolled forward carrying amount of the contract assets came to EUR 12,403 k (December 31, 2018: EUR 7,616 k). No significant events for impairment pursuant to IFRS 9 were identified.

**19 — Inventories**

EUR k	Dec. 31, 2019	Dec. 31, 2018
Raw materials, consumables and supplies	124,768	132,344
Work in progress	66,747	78,537
Finished goods and merchandise	155,953	172,305
Advance payments	9,009	18,205
<b>Total</b>	<b>356,477</b>	<b>401,391</b>

Impairments of EUR 17,765 k were recognized on inventories due to market risks and obsolescence (2018: EUR 16,910 k). Impairments and write-ups of inventories are recognized in cost of sales.

**20 — Trade receivables, current income tax assets and other current assets**

For trade receivables, valuation allowances of EUR 3,708 k (2018: EUR 3,492 k) were recognized for future credit risks.

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	2019	2018
As of Jan. 1	3,492	2,642
considering IFRS 9 adjustments	0	-3,118
Transfer in provisions	0	-358
Additions	770	2,136
Reversals/utilizations	-541	-259
Change of risk parameters (IFRS 9)	0	-453
Exchange rate effects	-13	-216
<b>As of Dec. 31</b>	<b>3,708</b>	<b>3,492</b>

The development in impairments is mainly attributable to the change in receivables structure.

As of December 31, 2019, trade receivables with a carrying amount of EUR 60,448 k (2018: 0 k) were sold as part of an ABCP program (Asset Backed Commercial Papers).

In the reporting period, receivables with a carrying amount of EUR 515 k (2018: EUR 359 k) were written-down, which are currently being enforced.

The impairment model introduced for trade receivables by IFRS 9 in 2018 remains unchanged. The impairment model takes into account the expected credit losses (expected credit loss model (ECL)), where mainly forward-looking information is used. ElringKlinger applies the simplified impairment model of IFRS 9 and considers the lifetime expected losses from all receivables and active contract items.

The ratings from Standard & Poor's (S&P) or other well-known rating agencies are used as the basis for the impairment model. Future impairments are determined using these ratings and with the help of probability of default, also published by S&P.

The risk categories used for the model are also used as internal risk categories:

Internal credit rating	External rating by S&P	Probability of default	Basis of recognition of risk provision	Gross carrying amount
High creditworthiness	AAA – A	0.0%	Lifetime expected credit loss	69,551
Medium creditworthiness	BBB – B	0.0% – 9.7%	Lifetime expected credit loss	167,387
Low creditworthiness	CCC – C	9.7% – 27.2%	Lifetime expected credit loss	–
Default	D	100.0%	Write-down of asset	2,841
Risk provision pursuant to IFRS 9				866
<b>Total</b>				<b>233,231</b>



Other current assets include tax receivables from VAT and other taxes of EUR 18,240 k (2018: EUR 16,985 k), time deposits and securities of EUR 8,724 k (2018: EUR 5,259 k) and other receivables from third parties including claims from the sale of receivables of EUR 61,720 k (2018: EUR 26,188 k), of which EUR 12,920 k (2018: EUR 6,110 k) relates to financial assets, EUR 15,882 k (2018: EUR 0 k) to other assets from factoring and EUR 832 k (2018: EUR 12 k) to financial derivatives.

Current income tax assets mainly contain the corporate income tax credits of ElringKlinger Mexico, S.A. de C.V., based in Toluca, Mexico, of EUR 4,240 k (2018: EUR 4,076 k) and ElringKlinger TR Otomotiv Sanayi ve Ticaret A.S., based in Bursa, Turkey, of EUR 1,278 k (2018: EUR 1,494 k) as well as of ElringKlinger AG of EUR 1,418 k (2018: EUR 1,989 k).

## 21 — 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. No significant events for impairment pursuant to IFRS 9 were identified.

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

## 22 — Assets and liabilities held for sale

EUR k	Dec. 31, 2019	Dec. 31, 2018
Property, plant and equipment	0	5,966
<b>Non-current assets</b>	<b>0</b>	<b>5,966</b>
<b>ASSETS</b>	<b>0</b>	<b>5,966</b>

In the previous year, in accordance with IFRS 5, one land right was reported under assets held for sale. This was sold in the financial year 2019.

## 23 — 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, 2019 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 Sec. 60 AktG (“Aktiengesetz”: German Stock Corporation Act) in conjunction with Sec. 23 no. 1 of the Articles of Association.

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the Company's share capital by issuing new shares for cash and/or in-kind contributions on one or 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 provision 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, either on the date on which this authorization takes effect or on the date on which it is exercised.
- if the new shares are issued against cash contributions and if the issue price per new share does not fall significantly below the quoted price of shares already listed, and the shares issued without subscription

rights pursuant to Sec. 186 (3) sentence 4 AktG, do not represent more than 10% of the share capital, either on the date on which this authorization takes effect or on the date on which it is exercised. The upper limit of 10% of share capital includes any shares issued or sold during the term of this authorization in exclusion of shareholders' subscription rights in direct or indirect application of Sec. 186 (3) sentence 4 AktG. The Management Board has not exercised the authorization to date.

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 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 view of the Group's earnings performance in fiscal 2018, the Management Board and the Supervisory Board have jointly agreed to depart from the Group's established dividend policy and to suspend the dividend for the financial year 2018. Accumulated loss of EUR 17,112 k (2018: EUR 5,291 k) is reported in the financial year 2019. Therefore, Management Board and Supervisory Board have decided jointly not to distribute a dividend for the financial year 2019. The loss will be carried forward to new account.*

## 24 — 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.

## 25 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 the group company 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 26,589 k (2018: EUR 25,554 k) and are allocated to the relevant function costs.

The Group accounts for **defined benefit plans** by creating provisions for pensions that are calculated using the projected unit credit method pursuant to 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 number of years with the Company and the final 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, the 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 company 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, 2019	Dec. 31, 2018
Discount rate (vesting period)	0.90%	1.78%
Discount rate (pension period)	0.74%	1.46%
Expected salary increases (in %)	2.69%	2.67%
Future pension increases	1.50%	1.52%

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

EUR k	2019	2018
<b>Present value of pension benefits as of Jan. 1</b>	<b>152,966</b>	<b>152,879</b>
Current service cost	5,417	5,508
Past service cost	0	161
Plan participant contributions	1,847	2,580
Interest expense	2,513	2,285
Disbursements/utilization	7,507	-8,216
Actuarial gains/losses	21,911	-3,557
Currency differences	994	1,170
Other changes	26	156
<b>Present value of pension benefits as of Dec. 31</b>	<b>178,167</b>	<b>152,966</b>
of which (partially) covered by plan assets	58,765	49,731
of which not covered	119,402	103,235

The average weighted term of the defined benefit obligation amounts to 19 years (2018: 18 years).

Actuarial gains and losses arise from the following effects:

EUR k	2019	2018
Effects from changes in the interest rate	23,318	-3,200
Effects from changes in demographic assumptions	-47	191
Effects from other experience-based adjustments	-1,360	-548
<b>Actuarial gains/losses</b>	<b>21,911</b>	<b>-3,557</b>

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

EUR k	2019	2018
<b>Market value as of Jan. 1</b>	<b>28,565</b>	<b>26,880</b>
Interest income	334	281
Employer contributions	2,250	2,397
Plan participant contributions	1,847	2,580
Service costs	-3,796	-4,311
Actuarial gains/losses	9	-9
Currency effects	743	747
<b>Market value as of Dec. 31</b>	<b>29,952</b>	<b>28,565</b>

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

EUR k	2019	2018
<b>Present value of pension benefits as of Dec. 31</b>		
Germany	142,096	120,371
Switzerland	29,943	27,127
Other	6,128	5,468
<b>Present value of pension benefits as of Dec. 31</b>	<b>178,167</b>	<b>152,966</b>
<b>Market value of plan assets as of Dec. 31</b>		
Germany	8,453	7,762
Switzerland	21,001	20,414
Other	498	389
<b>Market value of plan assets as of Dec. 31</b>	<b>29,952</b>	<b>28,565</b>

The actual return on plan assets amounts to EUR 347 k (2018: EUR 272 k).

In 2020, 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 6,494 k (2018: EUR 5,149 k). The future payments from pension obligations are as follows:

EUR k	2019	2018
For the next 12 months	6,494	5,149
Between one and five years	65,274	69,291
More than five years	257,853	271,684

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

EUR k	2019	2018
Current service cost	5,417	5,508
Net interest expenses	2,179	2,004
Past service cost	0	161
<b>Total pension expense</b>	<b>7,596</b>	<b>7,673</b>

Net interest expenses comprise interest expenses of EUR 2,513 k (2018: EUR 2,285 k) as well as interest income from plan assets of EUR 334 k (2018: EUR 281 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	2019	2018
Actuarial gains (–) and losses (+) recognized in other comprehensive income	21,911	-3,493
Deferred taxes on actuarial gains (–) and losses (+) recognized under other comprehensive income	6,019	1,161

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

EUR k	2019	2018
Present value of pension obligation	178,167	152,966
Fair value of plan assets	29,952	28,565
<b>Reported pension provision</b>	<b>148,215</b>	<b>124,401</b>

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 33,440 k/ EUR 38,372 k.

A 0.5% increase/decrease in future salary increases would lead to an increase/decrease in the DBO of EUR 6,382 k/ EUR 6,058 k.

A change in future pension developments of +0.25%/- 0.25% would lead to an increase/decrease in the DBO of EUR 7,275 k/ EUR 6,995 k.

## 26 — Other provisions

Other provisions can be broken down as follows:

EUR k	Dec. 31, 2019	Dec. 31, 2018
Current provisions	17,713	10,769
Non-current provisions	18,503	19,603
<b>Total</b>	<b>36,216</b>	<b>30,372</b>

### Current provisions:

EUR k	Personnel obligations	Warranty obligations	Potential losses from customer contracts	Litigation costs	Other risks	Total
<b>As of Dec. 31, 2018</b>	<b>2,864</b>	<b>2,299</b>	<b>4,133</b>	<b>198</b>	<b>1,275</b>	<b>10,769</b>
Currency changes	9	11	26	-2	32	76
Utilization	3,371	395	3,276	5	201	7,248
Reversal	96	928	21	164	834	2,043
Addition	2,888	6,787	3,752	94	2,600	16,121
Reclassifications	0	6	0	0	32	38
<b>As of Dec. 31, 2019</b>	<b>2,294</b>	<b>7,780</b>	<b>4,614</b>	<b>121</b>	<b>2,904</b>	<b>17,713</b>

The increase in current warranty provisions in the reporting year is mainly attributable to warranty incidents at a foreign entity. Current warranty obligations are counterbalanced by insurance reimbursements claims of EUR 4,670 k. They are reported under other current assets.

**Non-current provisions:**

EUR k	Personnel obligations	Warranty obligations	Litigation costs	Other risks	Total
<b>As of Dec. 31, 2018</b>	<b>13,373</b>	<b>5,560</b>	<b>26</b>	<b>644</b>	<b>19,603</b>
Currency changes	15	0	0	11	26
Utilization	402	27	5	8	442
Reversal	0	4,090	21	2	4,113
Unwinding of discount/discounting	137	0	0	0	137
Addition	1,453	225	15	1,636	3,329
Reclassifications	0	-5	0	-32	-37
<b>As of Dec. 31, 2019</b>	<b>14,576</b>	<b>1,663</b>	<b>15</b>	<b>2,249</b>	<b>18,503</b>

Non-current warranty obligations are counterbalanced partially by a claim of insurance reimbursement, which is reported under other non-current assets. Due to a technical evaluation performed by ElringKlinger AG, the liability has decreased in this case, decreasing the provision in the current financial year to EUR 750 k (2018: EUR 4,500 k).

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

The provision for warranties represents the most current 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.

## 27 Non-current and current financial liabilities

EUR k	Domestic (Germany)	Foreign	Total Dec. 31, 2019	Domestic (Germany)	Foreign	Total Dec. 31, 2018
Overdrafts	11,631	4,262	15,893	169,740	9,256	178,996
Lease liabilities with a residual term of less than one year	2,847	8,202	11,049	0	0	0
Financial liabilities with a residual term of less than one year	80,096	53,269	133,365	70,074	47,716	117,790
<b>Current financial liabilities</b>	<b>94,574</b>	<b>65,733</b>	<b>160,307</b>	<b>239,814</b>	<b>56,972</b>	<b>296,786</b>
Lease liabilities with a residual term of more than one year and less than five years	3,851	21,114	24,965	0	0	0
Financial liabilities with a residual term of between one and five years	412,057	96,711	508,768	253,309	95,692	349,001
Lease liabilities with a residual term of more than five years	198	10,495	10,693	0	0	0
Financial liabilities with a residual term of more than five years	25,990	0	25,990	123,004	0	123,004
<b>Non-current financial liabilities</b>	<b>442,096</b>	<b>128,320</b>	<b>570,416</b>	<b>376,313</b>	<b>95,692</b>	<b>472,005</b>
<b>Total</b>	<b>536,670</b>	<b>194,053</b>	<b>730,723</b>	<b>616,127</b>	<b>152,664</b>	<b>768,791</b>

Lease liabilities from IFRS 16 are described in more detail in Note (30) Hedging policy and financial instruments.

The average interest rates were:

in %	Dec. 31, 2019	Dec. 31, 2018
<b>Overdrafts:</b>		
Domestic (Germany)	4.08	2.13
Foreign	3.06	3.15
<b>Financial liabilities:</b>		
Domestic: less than one year	1.69	1.75
Domestic: between one and five years	1.68	1.32
Domestic: more than five years	1.85	1.44
Foreign: less than one year	3.50	2.74
Foreign: between one and five years	3.73	2.57
Foreign: more than five years		



Fixed interest rates have been agreed for financial liabilities amounting to EUR 446,349 k (2018: EUR 573,870 k).

Land charges on company land with a carrying amount of EUR 130,694 k (2018: EUR 159,533 k) are recognized as collateral. The secured liabilities amounted to EUR 38,291 k (2018: EUR 23,711 k) as of December 31, 2019.

As of December 31, 2019, the Group had unused lines of credit amounting to EUR 150,487 k (2018: EUR 190,200 k).

On February 15, 2019, ElringKlinger AG concluded a syndicated loan with a banking syndicate of seven national and international banks. The syndicate comprises Commerzbank, Landesbank Baden-Württemberg and Deutsche Bank, who have arranged the financing jointly. In addition, DZ Bank, HSBC, Banque Européenne du Crédit Mutuel and Credit Suisse (Schweiz) AG are also involved. The agreement comprises a total volume of EUR 350 million over a minimum term of five years. EUR 235,253 k had been drawn as of December 31, 2019.

#### 28 — Current and non-current contract liabilities

Contract liabilities include long-term prepayments for customer-specific provisions of additional production capacity and short-term prepayments for customer-specific tools. As of December 31, 2019, the carrying amount of contract liabilities came to EUR 31,992 k (December 31, 2018: EUR 13,083 k). The increase in contract liabilities in the financial year 2019 was mainly due to the EUR 9,384 k long-term advances received from a customer as well as due to prepayment received on account of orders of customer-specific systems and tools of EUR 9,525 k.

#### 29 — 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 51,882 k (2018: EUR 43,275 k).

In the financial year 2019, government grants of EUR 6,231 k (2018: EUR 6,478 k) were recognized as deferred income. This includes an investment allowance and a repayment allowance for a loan. These grants were provided for property, plant and equipment, particularly buildings and machinery at the locations in Dettingen/Erms, Germany and Kecskemét, Hungary. In the reporting period, a total of EUR 313 k (2018: EUR 247 k) of the deferred item was released through profit or loss. The release takes place in cost of sales.

### 30 — 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 IFRS 9 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 currency other than that in which the related costs are incurred. Sales revenue is generally generated in the functional currency (which is the relevant local 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, 2019**

EUR k

Local currency	EUR	MXN	USD	GBP	BRL	Other	Total
<b>Local currency + 10%</b>							
Consolidated net income	-9,171	4,999	3,086	1,101	677	2,340	3,032
<b>Local currency - 10%</b>							
Consolidated net income	8,990	-4,999	-3,086	-1,101	-677	-2,340	-3,213

**Dec. 31, 2018**

EUR k

Local currency	EUR	MXN	USD	CHF	HUF	Other	Total
<b>Local currency + 10%</b>							
Consolidated net income	-3,606	4,772	2,676	2,673	2,302	934	9,751
<b>Local currency - 10%</b>							
Consolidated net income	3,606	-4,772	-2,676	-2,673	-2,302	-934	-9,751

**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 as of December 31, 2019, earnings would have been EUR 509 k (2018: EUR 551 k) lower. Had market interest rates been 30 basis points lower, earnings would have been EUR 191 k (2018: EUR 34 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 one 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. The nickel hedge ended on September 30, 2019. There was no other nickel hedging contract as of the reporting date.

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.

**Credit risk**

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

Credit risk involves both the direct risk of default and the risk of a deterioration in creditworthiness as well as risks of a concentration of individual 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.

As part of an ABCP program, the ElringKlinger Group sold a part of trade receivables to a structured entity. The sale will be on a revolving basis at the nominal value of receivables less variable reserves. The financing volume committed under the ABCP program is EUR 100 million. The structured entity is not controlled and therefore not consolidated.

As of December 31, 2019, trade receivables with a carrying amount of EUR 60,448 k were sold. They were derecognized with the exception of the ongoing interest of EUR 1,207 k. A corresponding liability was recognized in the same amount. In connection with the provisional withholding of variable reserves, other current assets of EUR 15,882 k are reported as of December 31, 2019. In addition, customers payments received for receivables sold, which are yet to be forwarded to the purchaser, of EUR 16,075 k are reported under other current liabilities.

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 10,645 k (2018: EUR 12,178 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 (20).

In 2019, the two largest customers accounted for 10.5% and 9.8% of sales, respectively (2018: 9.5% and 9.2%).

### 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	Liabilities from IFRS 16	Derivatives	Other current liabilities	Total
<b>As of Dec. 31, 2019</b>						
Carrying amount	157,119	684,015	46,707	1,210	51,882	940,933
Expected outflows:	157,119	690,905	52,203	1,210	51,882	953,319
– less than one month	100,688	23,223	998	0	0	124,909
– between one and three months	51,835	29,086	2,007	0	15,144	98,072
– between three months and one year	2,998	101,022	9,048	1,210	36,738	151,016
– between one and five years	1,298	500,585	28,089	0	0	529,972
– more than five years	300	36,989	12,061	0	0	49,350

EUR k	Trade payables	Financial liabilities	Finance leases	Derivatives	Other current liabilities	Total
<b>As of Dec. 31, 2018</b>						
Carrying amount	135,560	768,482	309	122	43,275	947,748
Expected outflows:	135,560	787,219	318	122	43,275	966,494
– less than one month	100,328	73,883	17	14	0	174,242
– between one and three months	31,707	25,837	38	27	9,659	67,268
– between three months and one year	2,617	205,016	153	81	33,616	241,483
– between one and five years	659	358,184	110	0	0	358,953
– more than five years	249	124,299	0	0	0	124,548

Further disclosures on financial liabilities are provided under note (27).

### 31 – 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
<b>As of Dec. 31, 2019</b>			
Financial assets measured at amortized cost	135,450	233,231	22,294
Financial assets at fair value through profit or loss	0	0	0
Financial assets measured at fair value through other comprehensive income	0	0	0
<b>Total</b>	<b>135,450</b>	<b>233,231</b>	<b>22,294</b>
<b>As of Dec. 31, 2018</b>			
Financial assets measured at amortized cost	45,314	306,351	11,490
Financial assets at fair value through profit or loss	0	0	0
Financial assets measured at fair value through other comprehensive income	0	0	0
<b>Total</b>	<b>45,314</b>	<b>306,351</b>	<b>11,490</b>

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

	Other current liabilities	Current financial liabilities	Short-term financial leases		Short-term financial leases liabilities IFRS 16	Trade liabilities
EUR k	CA	CA	CA	FV	CA	CA
<b>As of Dec. 31, 2019</b>						
Financial liabilities measured at amortized cost	51,882	149,181	0	0	11,049	157,119
Financial liabilities measured at fair value through profit or loss	0	0	0	0	0	0
<b>As of Dec. 31, 2018</b>						
Financial liabilities measured at amortized cost	43,275	296,584	0	0	0	135,560
Financial liabilities measured at fair value through profit or loss	0	0	0	0	0	0
No IFRS 9 measurement category	0	0	202	209	0	0

	Derivatives	Non-current securities		Other financial investments		Total
	CA	CA	FV	CA	FV	CA
	0	1,438	1,443	2,008	2,008	394,471
	832	0	0	0	0	832
	0	97	97	8	8	105
	832	1,535	1,540	2,016	2,016	395,358
	0	549	438	2,008	2,008	365,712
	12	0	0	0	0	12
	0	98	98	8	8	106
	12	647	536	2,016	2,016	365,830

	Derivatives		Non-current financial liabilities		Long-term lease liabilities IFRS 16	Long-term financial leases		Total
	CA	FV	CA	FV	CA	CA	FV	CA
	0	0	534,724	489,862	35,658	0	0	939,613
	1,210	1,210	0	0	0	0	0	1,210
	0	0	471,898	430,639	0	0	0	947,317
	165	165	0	0	0	0	0	165
	0	0	0	0	0	107	109	309

Other current liabilities contain a purchase price liability of EUR 30,252 k (2018: EUR 29,921 k) from a put option which is measured at amortized cost.

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

ElringKlinger determines the market value of non-current fixed-interest liabilities to banks 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, Tokyo, Japan, on their shares contained in other current liabilities is based on forecasts of its 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 3,025 k (2018: 2,992 k).

Equity instruments of the measurement category **at fair value recognized through other comprehensive income**:

	Fair value Dec. 31, 2019
EUR k	
Non-current securities	97
Other financial assets	8
<b>Total</b>	<b>105</b>

These equity instruments were allocated to the measurement category **at fair value recognized through other comprehensive income**. Generally speaking, ElringKlinger holds its equity interests as a complement to the operating activities for strategic reasons.



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, 2019:

EUR k	Level 1	Level 2	Level 3
<b>Dec. 31, 2019</b>			
Financial assets			
Non-current securities	97	0	0
Other financial assets	8	0	0
Derivatives*	0	832	0
<b>Total</b>	<b>105</b>	<b>832</b>	<b>0</b>
Financial liabilities			
Derivatives*	0	1,210	0
<b>Total</b>	<b>0</b>	<b>1,210</b>	<b>0</b>
<b>Dec. 31, 2018</b>			
Financial assets			
Non-current securities	98	0	0
Other financial assets	8	2,000	0
Derivatives*	0	12	0
<b>Total</b>	<b>106</b>	<b>2,012</b>	<b>0</b>
Financial liabilities			
Derivatives*	0	165	0
<b>Total</b>	<b>0</b>	<b>165</b>	<b>0</b>

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

The following table presents the allocation of financial assets and liabilities not measured at fair value, but for which fair value is disclosed, to the 3-level fair value hierarchy as of the measurement date December 31, 2019:

EUR k	Level 1	Level 2	Level 3
<b>Dec. 31, 2019</b>			
Financial assets			
Non-current securities	1,443	0	0
Other financial assets	0	0	2,008
<b>Total</b>	<b>1,443</b>	<b>0</b>	<b>2,008</b>
Financial liabilities			
Non-current financial liabilities	0	502,152	0
Purchase price liability from written put option	0	0	30,252
<b>Total</b>	<b>0</b>	<b>502,152</b>	<b>30,252</b>
<b>Dec. 31, 2018</b>			
Financial assets			
Non-current securities	549	0	0
Other financial assets	0	0	8
<b>Total</b>	<b>549</b>	<b>0</b>	<b>8</b>
Financial liabilities			
Non-current liabilities from financial leases	0	0	109
Non-current financial liabilities	0	456,640	0
Purchase price liability from written put option	0	0	29,921
<b>Total</b>	<b>0</b>	<b>456,640</b>	<b>30,030</b>

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.

The liabilities of fair value level 3 developed as follows:

EUR k	2019	2018
<b>As of Jan. 1</b>	<b>30,030</b>	<b>35,008</b>
Change in fair value	222	-4,978
<b>As of Dec. 31</b>	<b>30,252</b>	<b>30,030</b>

## Net gains/losses on financial instruments:

EUR k	2019	2018
At fair value recognized in profit or loss*	-755	-153
Financial assets measured at amortized cost	1,894	1,877
Financial liabilities measured at amortized cost	1,084	3,219

\* 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 and losses from financial assets measured at amortized cost primarily consist of currency effects.

Net gains from financial liabilities measured at amortized 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	2019	2018
Total interest income	1,200	562
Total interest expense	-18,699	-13,388

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

## 32 — Leases

Due to the provisions of IFRS 16 to be applied for the first-time from January 1, 2019, a reconciliation of the existing leases in the ElringKlinger Group is presented below.

Based on the operating lease obligations as of December 31, 2018, they were reconciled to the opening balance of lease liabilities as of January 1, 2019 as follows:

EUR k	
Operating lease obligations as of December 31, 2018	35,059
Minimum lease payments of liabilities from finance leases as of December 31, 2019	318
Discounting	-6,689
Practical expedients relating to short-term leases	-1,059
Practical expedients for small ticket leases	-114
Service components	-329
Reasonably certain contract extension options/other <sup>1</sup>	18,530
Present value of liabilities from finance leases as of December 31, 2018	-309
<b>Additional lease liabilities due to the first-time application of IFRS 16 as of January 1, 2019</b>	<b>45,407</b>

The lease liabilities were discounted using the weighted average incremental borrowing rate as of January 1, 2019. Reference interest rates for a period of up to 15 years from the return on government bonds in the countries concerned were used to determine the incremental borrowing rate. The development of the corresponding currencies was thus taken into account. The reference interest rates were extended by a lease risk premium on the basis of Euler Hermes assessment of the ElringKlinger Group. The weighted average interest rate amounted to 3.55%.

The IFRS matters contained in the income statement for the first time are as follows:

EUR k	2019
<b>Cost of sales</b>	
Expenses relating to short-term leases	1,543
Expenses from small ticket leases	250
Expenses from variable lease payments	0
Other expenses from leases (ancillary costs)	411
<b>Depreciation and amortization</b>	
Amortization of right-of-use assets	12,865
Impairment of right-of-use assets	0
<b>Net finance costs</b>	
Interest expenses from lease liabilities	1,299
Income from currency translation of lease liabilities	344
Expenses from currency translation of lease liabilities	4

Information on expected cash outflows is contained in Note (30) Hedging policy and financial instruments.

### 33 — 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 Board is authorized to buy back company shares up to a total amount of 10% of share capital existing at the date on which this resolution was passed (May 13, 2015). 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, debt and total capital as of December 31, 2019 as compared to December 31, 2018.

EUR million	2019	2018
<b>Equity</b>	<b>891.2</b>	<b>890.1</b>
as % of total capital	41.52%	42.80%
Non-current liabilities	773.5	642.5
Current liabilities	481.8	547.1
<b>Liabilities</b>	<b>1,255.3</b>	<b>1,189.6</b>
as % of total capital	58.48%	57.20%
<b>Total capital</b>	<b>2,146.5</b>	<b>2,079.7</b>

The change in equity from December 31, 2018 to December 31, 2019 was due primarily to a decrease in other reserves. Debt increased year-on-year by 5.23%.

At 41.52%, the Group equity ratio reached the 40% target equity ratio set by the Supervisory Board and Management Board.

For one loan at a subsidiary, 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, 2019, there were no issues prevailing that would have justified banks exercising their unilateral right of termination. The Management Board expects that the financial covenants agreed will be reached in the financial year 2020.

### 34 — 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 in 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 basis of consolidation 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, 2018	472,005	296,786
Adjustment carryforward new standards*	36,133	9,274
Changes in cash	127,428	-230,435
Exchange rate differences	2,578	2,155
Non-cash changes	-67,728	82,527
<b>Dec. 31, 2019</b>	<b>570,416</b>	<b>160,307</b>
Dec. 31, 2017	478,811	221,944
Changes in cash	-7,812	71,400
Exchange rate differences	3,547	2,226
Change in fair value	0	0
Other changes	-2,541	1,216
<b>Dec. 31, 2018</b>	<b>472,005</b>	<b>296,786</b>

\* IFRS 16

## Cash outflows from leases are contained in the statement of cash flows as follows:

EUR k	2019
Repayments for lease liabilities (cash flow from financing activities)	11,758
Interest paid (cash flow from operating activities)	1,299
Short-term or small ticket leases (cash flow from operating activities)	1,793
<b>Total</b>	<b>14,850</b>

### 35 — Segment reporting

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

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

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

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

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

The “Consolidation” column in the “Segment reporting” table below provides an overview of consolidation entries between the segments. Internal control and reporting are based on IFRS. 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.

10.5% or EUR 182,043 k of the Group sales revenue (2018: 9.5% or EUR 161,747 k) was generated with one customer in the Segment Original Equipment.

## Segment Reporting

Segment EUR k	Original Equipment		Aftermarket		Engineered Plastics		Industrial Parks	
	2019	2018	2019	2018	2019	2018	2019	2018
External revenue	1,423,448	1,407,718	172,610	159,497	117,451	117,824	4,116	4,302
Intersegment revenue	23,012	20,321	0	0	66	25	509	530
<b>Segment revenue</b>	<b>1,446,460</b>	<b>1,428,039</b>	<b>172,610</b>	<b>159,497</b>	<b>117,517</b>	<b>117,849</b>	<b>4,625</b>	<b>4,832</b>
<b>EBIT<sup>1</sup></b>	<b>5,123</b>	<b>50,716</b>	<b>30,406</b>	<b>24,919</b>	<b>15,850</b>	<b>19,543</b>	<b>9,193</b>	<b>324</b>
Depreciation and amortization	106,812	88,376	3,862	2,975	6,681	6,104	315	1,069
Capital expenditures <sup>2</sup>	115,804	163,422	4,773	6,546	7,043	5,285	360	561
Segment assets	1,894,357	1,824,420	107,569	116,016	131,011	118,597	27,954	19,401

Segment EUR k	Services		Other		Consolidation		Group	
	2019	2018	2019	2018	2019	2018	2019	2018
External revenue	9,400	9,659	0	0	0	0	1,727,025	1,699,000
Intersegment revenue	7,443	7,260	0	0	-31,030	-28,136	0	0
<b>Segment revenue</b>	<b>16,843</b>	<b>16,919</b>	<b>0</b>	<b>0</b>	<b>-31,030</b>	<b>-28,136</b>	<b>1,727,025</b>	<b>1,699,000</b>
<b>EBIT<sup>1</sup></b>	<b>661</b>	<b>678</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>61,233</b>	<b>96,180</b>
Depreciation and amortization	2,062	1,923	0	0	0	0	119,732	100,447
Capital expenditures <sup>2</sup>	2,011	2,753	0	0	0	0	129,991	178,567
Segment assets	16,197	16,052	0	0	-30,593	-14,785	2,146,495	2,079,701

<sup>1</sup> Earnings before interest and taxes

<sup>2</sup> Investments in intangible assets and property, plant and equipment and investment property



## Segment reporting by region

Region EUR k		Sales revenues <sup>1</sup>	Non-current assets	Investments
Germany	2019	394,996	548,261	57,991
	2018	428,545	535,477	74,092
Rest of Europe	2019	494,234	268,761	15,536
	2018	515,574	271,528	19,013
North America	2019	450,871	243,816	37,505
	2018	360,287	203,974	53,486
Asia-Pacific	2019	309,996	207,640	17,232
	2018	314,509	201,829	26,299
South America and rest of the world	2019	76,928	23,355	1,727
	2018	80,085	23,273	5,677
<b>Group</b>	<b>2019</b>	<b>1,727,025</b>	<b>1,291.833<sup>2</sup></b>	<b>129,991</b>
	<b>2018</b>	<b>1,699,000</b>	<b>1,236.081<sup>2</sup></b>	<b>178,567</b>

<sup>1</sup> The location of the customer is used to determine allocation of sales revenues to the regions

<sup>2</sup> This includes financial assets of EUR 3,551 k (2018: EUR 2,662 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.

### Other financial commitments

#### Energy purchase commitments

EUR k	Dec. 31, 2019	Dec. 31, 2018
Less than one year	13,180	11,954
Between one and five years	12,863	21,489
<b>Total</b>	<b>26,043</b>	<b>33,443</b>

**Proceeds from lease agreements**

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

EUR k	Dec. 31, 2019	Dec. 31, 2018
Less than one year	18	1,658
Between one and five years	9	1,675
More than five years	0	0
<b>Total</b>	<b>27</b>	<b>3,333</b>

The Kecskemét-Kádafalva (Hungary) industrial park was sold in the financial year 2019.

**Contingent assets and liabilities**

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

**Number of employees**

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

	2019	2018
Employees	10,247	9,670
Trainees	210	363
<b>Total</b>	<b>10,457</b>	<b>10,033</b>

**Personnel expenses**

Personnel expenses in the reporting year amounted to EUR 544,394 k (2018: EUR 531,175 k) and break down as follows:

EUR k	Dec. 31, 2019	Dec. 31, 2018
Wages and salaries	464,854	454,366
Social security contributions	70,506	66,354
Post-employment benefit	9,034	10,455
<b>Total</b>	<b>544,394</b>	<b>531,175</b>

### 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. Other than these, 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. The deceased Prof. Walter H. Lechler held a significant interest in ElringKlinger AG and control over Lechler GmbH. The testamentary disposition of Prof. Lechler regarding the shares he held has yet to be conclusively implemented. ElringKlinger AG earned EUR 52 k during the reporting year (2018: EUR 42 k). Receivables outstanding amounted to EUR 10 k (2018: EUR 10 k) as of the reporting date.

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 281 k in rental income including ancillary costs in the reporting year (2018: EUR 300 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 (EKLS), and Lechler GmbH, Metzingen, regarding assembly activities and the storage of components. This agreement gave rise to EUR 550 k in sales revenue during the reporting year (2018: EUR 533 k). As of December 31, 2019, there were open receivables of EUR 33 k (2018: EUR 33 k).

Business relations between the ElringKlinger subsidiary, Changchun ElringKlinger Ltd., China, (CEK), and Changchun Hongyu Automobile Parts Co., Ltd. (CHYAP), controlled by Ms. Liu, a close relative of Mr. Huang, who is a joint partner in CEK. CEK procured EUR 12 k worth of services under these business relations in 2019 (2018: EUR 76 k). As of December 31, 2019, there are liabilities of EUR 1 k (2018: EUR 4 k). CEK did not sell any goods and raw materials to CHYAP in the reporting year (2018: 89 k). As in the previous year, there are no outstanding trade receivables as of the reporting date.

Loan agreement between Lechler GmbH and ElringKlinger AG. Lechler GmbH granted ElringKlinger AG loans totaling EUR 12,000 k (2018: EUR 17,000 k). A loan of EUR 7,000 k with indefinite term carries an interest rate of 2.10% p.a. Another loan of EUR 5,000 k carries an interest rate of 0.90% p.a. and has a term until June 19, 2020.

Supply agreement between Lechler GmbH and KOCHWERK Catering GmbH, (EKKW), Dettingen/Erms, a wholly owned subsidiary of ElringKlinger AG. EKKW supplies Lechler GmbH with canteen food. Sales revenue of EKKW amounted to EUR 134 k in the reporting year (2018: EUR 127 k). As of the end of the reporting period, outstanding receivables came to EUR 12 k (2018: EUR 10 k).

Relationships in the course of ordinary activities exist between various subsidiaries of hofer AG, Nürtingen, and the ElringKlinger subsidiary hofer powertrain products GmbH, Nürtingen, as well as hofer powertrain products UK Ltd., Warwick. The business dealings pertain to services received and other expenses of EUR 2,119 k (2018: EUR 6,204 k). Outstanding liabilities come to EUR 788 k (2018: EUR 2,372 k) as of December 31, 2019. At EUR 1,850 k (2018: EUR 5,871 k), the services received mainly relate to services for sales, project management and product development and an amount of EUR 269 k (2018: 309 k) for a rent agreement between hofer powertrain products GmbH, Nürtingen and the subsidiary of hofer AG, hofer Immobilien UG & Co. KG, Nürtingen, for the rent of office and production space in Nürtingen. The goods and services received and other expenses are counterbalanced by income from development services rendered or from delivery of machines and tools of EUR 1,750 k (2018: EUR 2,971 k). Outstanding liabilities come to EUR 1,707 k (2018: EUR 3,179 k) as of December 31, 2019.

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

## Corporate Bodies

### Supervisory board

Klaus Eberhardt Lindau, Chairman	Independent consultant, Lindau Former CEO of Rheinmetall AG, Düsseldorf <b>Governance roles:</b> a) MTU Aero Engines AG, Munich b) n/a
Markus Siegers* Nürtingen, Deputy Chairman	Chairman of the Works Council of ElringKlinger AG, Dettingen/Erms
Nadine Boguslawski* Stuttgart	Principal Authorized Representative of IG Metall Stuttgart, Stuttgart <b>Governance roles:</b> a) Robert Bosch Automotive Steering GmbH, Schwäbisch Gmünd Robert Bosch GmbH, Gerlingen-Schillerhöhe Mercedes-Benz AG, Stuttgart b) n/a
Armin Diez* Lenningen	Vice president of the Battery Technology/E-Mobility Division at ElringKlinger AG, Dettingen/Erms <b>Governance roles:</b> 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	Independent consultant, Dörsdorf Former member of the Management Board of Adam Opel AG, Rüsselsheim <b>Governance roles:</b> a) NORMA Group SE, Maintal b) AerCap Holdings N. V., Dublin, Ireland Joh. Winklhofer Beteiligungs GmbH & Co. KG, Munich Westport Fuel Systems, Inc., Vancouver, Canada

Andreas Wilhelm Kraut Rottenburg	Chairman and CEO of Bizerba SE & Co. KG, Balingen
Gerald Müller* Reutlingen	Trade union secretary of IG Metall Reutlingen-Tübingen, Reutlingen
Paula Monteiro-Munz* Grabenstetten	Deputy chairwoman of the Works Council of ElringKlinger AG, Dettingen/Erms
Prof. Hans-Ulrich Sachs Bremen	Managing Partner of betec Umformtechnik GmbH, Adelmansfelden
Gabriele Sons Berlin	Lawyer, Berlin Former member of the management board of thyssenKrupp Elevator AG, Essen <b>Governance roles:</b> a) n/a b) Verwaltungsrat TÜV Rheinland Berlin Brandenburg Pfalz e. V., Cologne
Manfred Strauß Stuttgart	Managing Partner of M&S Messebau und Service GmbH, Neuhausen a. d. F. <b>Governance roles:</b> a) n/a b) Pro Stuttgart Verwaltungs GmbH, Stuttgart Pro Stuttgart Verkehrsverein, Stuttgart Lechler GmbH, Metzingen Eroca AG, Basel, Switzerland

\* Employee representative

a) Membership in statutory Supervisory Boards as defined by Sec. 125 AktG

b) Membership in comparable domestic and foreign control bodies as defined by Sec. 125 AktG

**Remuneration of the Supervisory Board**

In the period under review, total compensation for the Supervisory Board of ElringKlinger AG was EUR 589 k (2018: EUR 672 k). Additionally, travel expenses totaling EUR 2 k (2018: EUR 4 k) were reimbursed. The remuneration of the employee representatives in the Supervisory Board amounted to EUR 714 k in 2019 (2018: EUR 719 k) for their activities as employees.

**Management Board**

Dr. Stefan Wolf, Bad Urach,  
Chairman

Responsible for Group companies and the corporate units of Legal Affairs & Compliance, Human Resources, Investor Relations, Business Development, Strategic Communication, Marketing and Communication and Sales of Original Equipment, as well as the Aftermarket division.

Theo Becker, Metzingen

Responsible for the divisions Battery Technology & E-Mobility, Drive Train as well as the corporate units of New Business Areas, Purchasing, Real Estate & Facility Management as well as Tool Shop/Technology.

Reiner Drews, Dettingen/Erms

Responsible for the divisions Lightweighting/Elastomer Technology, Shielding Technology, Special Gaskets and Cylinder-head Gaskets as well as the corporate units of Production, Quality & Environmental Management as well as the plants of ElringKlinger AG.

Thomas Jessulat, Stuttgart

Responsible for the corporate functions Finance, Controlling, IT, Logistics and the Industrial Parks division.

**Governance roles in supervisory boards and other supervisory bodies**

Dr. Stefan Wolf, Bad Urach,  
Chairman

Member of the Supervisory Board of ALLGAIER Werke GmbH, Uhingen, and member of the supervisory board of Duale Hochschule Baden-Württemberg (DHBW) KÖR, Stuttgart

Theo Becker, Metzingen

Member of the Supervisory Board of BLANC & FISCHER Familienholding GmbH, Oberderdingen

Thomas Jessulat, Stuttgart

Chairman of the Supervisory Board of hofer AG, Nürtingen

**Remuneration of the Management Board**

The remuneration of the Management Board amounted to:

EUR k	2019	2018
Short-term fixed remuneration	1,742	1,655
Short-term variable performance-based remuneration	2,161	2,576
Long-term variable performance-based remuneration	0	-66
Long-term variable share-based remuneration	0	0
Severance payments	0	0
Expenses from post-employment benefits	838	812
<b>Total</b>	<b>4,741</b>	<b>4,977</b>

In the financial year, total Management Board remuneration pursuant to Sec. 314 (1) no. 6a sentence 1 to 4 HGB came to EUR 3,903 k (2018: EUR 4,231 k). The present value (DBO) of the pension provisions amounted to EUR 13,336 k (2018: EUR 10,425 k).

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

Provisions of EUR 17,050 k (2018: EUR 15,449 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 890 k (2018: EUR 869 k) in the financial year 2019.

The auditor fees amounted to:

EUR k	2019	2018
Audit of the annual financial statements	770	732
Other assurance services	33	29
<b>Total</b>	<b>803</b>	<b>761</b>

The audit services include fees for mandatory and voluntary audits of financial statements as well as fees for the mandatory audit of the consolidated financial statements. The other assurance services comprise fees for review work in connection with the non-financial statement and assurance services related to the syndicated loan agreement.

## Declaration of compliance with the German Corporate Governance Code

The Management Board and Supervisory Board issued a declaration of compliance pursuant to Sec. 161 AktG on the German Corporate Governance Code in the version dated February 7, 2017 and published it on the ElringKlinger AG website on November 29, 2019. This declaration of compliance will be available on the ElringKlinger AG website and therewith made permanently available to shareholders.

## Events after the end of the reporting period

The coronavirus, which has been spreading since the beginning of 2020 and has led to special protection measures for the population, production shutdowns and interrupted supply chains worldwide, poses major challenges for the global economy. A large number of automobile manufacturers have suspended production at many of their sites or have announced such stoppages. In response, the Management Board of ElringKlinger AG acting in consultation with the Group works council, has decided to adjust Group production in line with requirements. Among the sites primarily affected are those in Europe and North America, but also the plant in India and that in Brazil. Production will either be scaled down, e.g. in Germany all necessary preparations for short-time work are now being made, or halted temporarily. Financial effects on the net assets, financial position and results of operations of the Group are probable, but their extent cannot yet be estimated at the time the consolidated financial statements are prepared.

There were no further significant events after the reporting date that would require additional disclosures.

Dettingen/Erms, March 25, 2020

The Management Board



Dr. Stefan Wolf  
CEO



Theo Becker



Thomas Jessulat



Reiner Drews



# 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 to December 31, 2019, the consolidated statement of financial position as of December 31, 2019, the consolidated statement of cash flows and the consolidated statement of changes in equity for the financial year from January 1 to December 31, 2019, 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 to December 31, 2019. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance published on the website, which is a component of the Group management report.

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, 2019, and of its financial performance for the financial year from January 1 to December 31, 2019, 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. Our opinion on the Group management report does not cover the content of the Group statement on corporate governance referred to above.

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) 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 1 January to 31 December 2019. 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, the Management Board tests the capitalized goodwill annually in accordance with IAS 36 for its recoverability for the cash-generating unit. 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 internal budgets, which in turn are based on the budgets prepared by the Management Board and approved by the Supervisory Board. The discounting is based on the weighted average cost of capital (WACC) for each cash-generating unit. The result of these measurements depends chiefly on the executive directors' estimates of the future cash flows of the respective cash-generating units as well as the discount rate applied and is thus subject to judgment. In addition, the reporting year was marked by a general weakening of the economic environment in the automotive sector. The manifestations of this weakening in geographic regions, in which the Group entities operate, varied. Against this backdrop, the measurement of goodwill is a key audit matter.

##### 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 and investigated whether these were calculated using the relevant financial reporting standards in accordance with IAS 36. We examined whether the valuation models were applied consistently. We also examined whether the underlying medium-term budget planning reflects general and industry-specific market expectations. We compared the budget values used for the measurement with the medium-term planning prepared by the Management Board and approved by the Supervisory Board. We performed a target-actual comparison of the historical forecast data and the actual results on a sample test basis to assess forecast accuracy by comparing the medium-term planning of the previous years with the actual values of the financial year. 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. In addition, we performed our own sensitivity analyses for the cash-generating units in order to estimate the influence of certain parameters on the valuation model and any potential impairment risk.

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

Reference to related disclosures:

For disclosures on the recognition and measurement policies applied for goodwill impairment, please refer to the sections "Accounting policies" and "Goodwill" in the notes to the consolidated financial statements.

#### **Revenue recognition pursuant to IFRS 15 "Revenue from Contracts with Customers"**

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

The business activities of the Group mainly comprise manufacturing of series parts for the automotive industry, development and manufacturing of tools as well as contract-related work. In accordance with IFRS 15, revenue is recognized when the Group satisfies a performance obligation by transferring a promised good or service based on a contract with a customer. A good or service is considered to have been transferred when the customer obtains control. The transfer of control can lead to recognition of revenue at a point in time or over time, which is to be recognized in the amount to which the Group expects to be entitled.

On the basis of the inflow of revenue identified by the Group, the assessment includes existence of prerequisites for revenue recognition at a point in time or over time, the treatment of contract costs and the accompanying effects on the consolidated financial statements. Considering the diversity of different contractual customer relationships taking into account customer-specific general business conditions and the application of different delivery terms (incoterms) and the related complexity, this was subject to a higher risk and is therefore a key audit matter.

Auditor's response

During our audit, based on our understanding of the business and process, we obtained an understanding of the contractual arrangements with the customers, especially the contractual arrangements governing the time of transfer of risk, as well as the arrangements regarding the billing procedure. Against this background, we assessed the processes established for the application of IFRS 15 by the executive directors.

We examined, on a sample basis, whether the requirements for revenue recognition at a point in time or over time are met. We verified the requirements for revenue recognition over time for performing series deliveries by particularly assessing to what extent the series parts do not have an alternative use and there is an enforceable right to payment.

Using the contractual basis we verified to what extent the incurred costs fulfill the capitalization criteria as costs to fulfill a contract and which method was used for the depreciation of these contract costs. For the cash flow for revenue of development services, on the basis of contracts and internal calculations, we assessed the time of revenue recognition as well the amount of income realized and the related contract assets using internal project budgets.

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

Reference to related disclosures:

For accounting policies applied in the course of revenue recognition, please refer to the disclosures in the notes to the consolidated financial statements in "Financial reporting" and "(1) Sales revenue".

#### Other information

The Supervisory Board is responsible for the Report by the Supervisory Board. In all other respects, the executive directors are responsible for the other information. Other information comprises the Group statement on corporate governance, which is a component of the Group management report, and the non-financial Group report, which is combined with the non-financial report of ElringKlinger AG, as well as the components of the annual report, particularly the "Responsibility statement" pursuant to Section 297 (2) sentence 4 HGB, the "Letter to Shareholders" section of the annual report and the Report by the Supervisory Board pursuant to Section 171 (2) AktG, but not the consolidated financial statements, not the disclosures in the Group management report included in the audit of content and not our auditor's report. 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, 2019. We were engaged by the Supervisory Board on June 27, 2019. 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 25, 2020

Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

Göhner  
Wirtschaftsprüfer  
(German Public Auditor)

Vögele  
Wirtschaftsprüferin  
(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 25, 2020  
Management Board



Dr. Stefan Wolf  
CEO



Theo Becker



Thomas Jessulat



Reiner Drews



# Glossary

## Financials

### C — Cash flow

Figure used to determine a company's financial strength. It measures the extent to which cash received as a result of the company's operating activities exceeds its cash outflows and shows the amount of cash generated by the company itself. For the purpose of determining cash flow, an entity's profit for the annual period is adjusted for items that do not produce an inflow or outflow of cash, such as depreciation or changes in provisions. Net cash from operating activities is the surplus of cash generated by operating activities.

### Corporate Governance

Includes the entirety of rules, regulations, and values for corporate management and supervision that should be as responsible as possible and focused on sustainability and value generation over the long term.

### Countervailing duties

Countervailing duties are trade import duties imposed under World Trade Organization rules to neutralize the adverse effects of state subsidies.

### E — Earnings per share

Earnings per share (EPS) are calculated by dividing the profit attributable to shareholders of a stock corporation by the number of shares outstanding. It is used for the purpose of analyzing profitability and – at a cross-sector level – for evaluating a company.

### EBIT/Operating result

Abbreviation for earnings before interest and taxes. EBIT corresponds to the operating result before taking into account net finance costs. At an international level, this figure is commonly used to compare companies' operating earnings power.

### EBIT margin

EBIT expressed as a percentage of total Group sales revenue. The EBIT margin shows the profitability of a company's operating business over a specific period of time.

### EBITDA

Abbreviation for earnings before interest, taxes, depreciation, and amortization. EBITDA is a financial indicator used for the

purpose of measuring the profitability of a company at the operating level, as the indicator does not include any elements influencing profit, for example, in terms of the financing structure, national jurisdiction, or reporting standards applicable to the entity.

### EFTA

Abbreviation of European Free Trade Association; it consists of Iceland, Liechtenstein, Norway, and Switzerland, i.e., countries that are not members of the European Union (EU). EFTA pursues economic policy objectives that are less far-reaching than those in the EU.

### F — Financial covenants

Refer to contractual clauses in loan agreements. Under these terms, companies obligate themselves to meet specific financial requirements.

### H — HGB

Abbreviation for Handelsgesetzbuch (German Commercial Code). The financial statements of the parent company, ElringKlinger AG, are prepared in accordance with HGB.

### I — IFRS

Abbreviation for International Financial Reporting Standards. They contain internationally valid accounting provisions for exchange-listed entities. The application of IFRS has been mandatory in the EU since January 2005. ElringKlinger has been reporting in accordance with IFRS since 2004.

### M — M&A

Abbreviation for "Mergers & Acquisitions." The term generally refers to a legal consolidation or amalgamation of two entities into one entity (merger), whereas an acquisition occurs when one entity takes ownership of another entity's stock, equity interests, or assets (acquisition). M&A encompasses all activities relating to the transfer and encumbrance of ownership rights in entities, including the formation of groups of companies, the restructuring of groups of companies, mergers and conversions in the legal sense, squeeze-outs, the financing of corporate acquisitions, the formation of joint ventures, and the acquisition of entities.

### N — Natural hedging

For the purpose of reducing transaction costs and risk, transactions leading to income and expenses of a foreign subsidiary can be made in the same currency, usually the local currency, as a form of natural hedge.

**Net debt**

Figure that describes the level of indebtedness of a company if all current assets were taken into account for the purpose of repaying its liabilities. Net debt is calculated on the basis of interest-bearing liabilities (primarily bank borrowings) less cash and cash equivalents.

**Net finance income/cost**

Profit or loss arising from financial transactions, e.g., interest income and expenses, income and expenses attributable to investments, or income and expenses attributable to exchange rate differences. Net finance income or cost is a component of pre-tax earnings presented in the income statement.

**Net Working Capital**

Indicator used for the purpose of monitoring changes in liquidity. It is calculated on the basis of inventories, current contract assets and trade receivables less trade payables and current contract liabilities.

**O — Operating free cash flow (before acquisitions)**

Operating free cash flow represents the funds freely available to the company for distribution. It is calculated by subtracting capital expenditure payments from net cash from operating activities. Operating free cash flow does not include cash payments in respect of acquisitions, cash payments for investments in financial assets and incoming payments from divestments.

**P — Purchase price allocation**

Purchase price allocation (PPA) refers to the allocation of the price paid in the purchase of a company or an interest in a company to the individual identifiable assets and liabilities acquired as part of this transaction. As part of the formal procedure of consolidation within the Group, for example, it is possible to capitalize assets of an acquired entity, such as the customer base and order backlog, which would not otherwise qualify for capitalization in normal business. This leads to write-downs that have a dilutive effect on operating profit at Group level.

**R — ROCE**

Abbreviation for return on capital employed. ROCE measures a company's profitability and the efficiency with which its capital is employed. In this context, EBIT is divided by average capital employed. At ElringKlinger, capital employed includes shareholders' equity, financial liabilities and provisions. The average value is calculated as the aggregate of the carrying amounts at the end of the reporting period of the previous year and the current year, divided by two.

**S — Statement of cash flows**

The statement of cash flows shows the calculations for the flow of funds generated by a company from operating, investing, and financing activities during the reporting period. The statement of cash flows helps determine the company's ability to generate cash and cash equivalents.

**Syndicated loan**

A syndicated loan, also known as a syndicated bank facility, is financing offered by at least two lenders – referred to as a syndicate – who work together to provide funds for a single borrower. The focus of syndicated loans tends to be on largescale financing. At the same time, syndicating the loan allows lenders to spread risk.

**W — Working Capital**

Indicator used for the purpose of monitoring changes in liquidity. It is calculated on the basis of inventories, current contract assets and trade receivables.

**Technology****B — Battery cells**

The designs of larger batteries can be divided into three categories: round cells, prismatic cells, and coffee-bag cells. Round cells and prismatic cells have a (stable) sheet metal housing, whereas flat cells (= coffee-bag or pouch cells) have a casing made of foil. Round cells and prismatic cells differ in terms of the way the foil packets, i.e., the foils in which the energy is actually stored, are designed. The cells also have different exterior shapes: a round cell is similar to a cylinder and has a circular base, whereas a prismatic cell has a square base.

**Bipolar plates**

The key mechanical components in fuel cell stacks. Their function is to create an electrical interconnection between two cells. In other words, they transmit the electricity generated, supply the cells with hydrogen and oxygen, and distribute the coolant. ElringKlinger develops and manufactures metal bipolar plates. Among the technical requirements for these components are high-precision metal-forming within the contact area (in the micrometer range), accurate, low-distortion laser welding of the cathode and anode plates, and suitable conductive and anti-corrosion coatings.

**C — Cell contact system**

The cell contact systems developed by ElringKlinger for lithium-ion batteries consist of cell connectors and a cell carrier in which the connectors are integrated as a robust laser-welded construction. Via the cell connectors, the individual battery cells are connected both in a row and parallel to one another. They act as conductors, absorb cell energy and contain sensors. The system consists of a control interface with thermal and electric monitoring.

**Cockpit cross-car beam**

Structural component located behind the interior panel of the vehicle's cockpit; it supports elements such as the dashboard, steering column, heating modules, glove compartment, etc. Applying HFH technology (hydroformed hybrids), ElringKlinger manufactures cockpit cross-car beams as light-weight components. This involves producing so-called hybrid parts from polymer and metal materials by means of the hydro-forming method and plastic injection molding in a single step. Similar structural components include front-end carriers, to which the headlights or other vehicle parts are fitted.

**E — Elastomer**

Plastics/polymers can be divided into three main categories depending on their processing properties: thermoplasts, duroplasts, and elastomers. The distinctive feature of elastomers is that their shape can be changed temporarily through the application of pressure or stretching before they return to their original form (rubber). The final material varies depending on the raw materials, manufacturing process, and additives used. In the field of sealing technology, ElringKlinger utilizes its own elastomers that have been specially developed and optimized to meet individual customer requirements.

**Electromagnetic compatibility (EMC)**

The ability of electrical equipment to operate in an electromagnetic environment without causing interference with the environment or other equipment.

**F — Front end carrier**

cf. Cockpit cross-car beam

**Fuel cell**

Converts chemical fuel energy into electrical energy to a highly effective degree. In order to perform this reaction, the cell requires oxygen and hydrogen. The hydrogen can also be

obtained from a hydrocarbon-based fuel. This involves a so-called reformer providing the cell with hydrogen gas derived from diesel or natural gas, for example. Unlike batteries, fuel cells do not store energy, but rather convert it. ElringKlinger focuses on the development and production of components for PEM low-temperature fuel cells (cf. PEM fuel cell), which are of relevance to mobile applications.

**Fuel cell stack**

In a fuel cell context, the term "stack" refers to a complete stack of individual fuel cells, including bipolar plates and retaining and connecting devices. To boost performance, the individual fuel cells are connected in series.

**H — Hybrid drive**

In the automotive industry, the term refers to the use of two different energy sources to drive a vehicle. This usually involves combining a combustion engine with an electric motor. Vehicles can be categorized according to the level of hybridization:

- Micro hybrids feature an automatic start-stop system and, additionally, a brake energy regeneration system to charge the starter battery.
- Mild hybrids have an electric drive that supports the combustion engine for more performance.
- Full hybrids deliver an output of 20 kW/t, which makes them capable of being propelled solely by an electric engine.
- Plug-in hybrids are comparable to full hybrids. In addition, the accumulator (i.e., the rechargeable battery) can be charged via the combustion engine or the electrical grid.

**L — Lithium-ion battery**

Lithium-based batteries are rechargeable, durable, high-energy batteries with high energy density. They are primarily used in electric and hybrid vehicles. ElringKlinger develops and produces, among other products, modular cell contact systems for such batteries.

**N — New Energy Vehicle**

In China, the term "New Energy Vehicle" (NEV) refers to vehicles that are powered either partly or entirely by an electric drive, e.g., battery electric vehicles (BEV) or plug-in hybrids (PHEV). In 2009, the Chinese government launched its NEV program for the purpose of promoting the development and introduction of New Energy Vehicles.

**P — PEM fuel cell**

PEM stands for "Proton Exchange Membrane." PEM fuel cells work at low temperatures of around 90°C and have a polymer membrane as their central element. In the synthetic reaction known as cold combustion, oxygen and hydrogen react with one another, aided by a catalyst, releasing electricity and causing water to form. For PEM fuel cells used in passenger cars, ElringKlinger has developed metal bipolar plates. Several hundred such plates are incorporated within a single cell stack.

**Polyamide**

Polyamides are polymers (plastics) and usually refer to synthetic thermoplastics. ElringKlinger uses polyamides in the production of lightweight plastic housing modules.

**Prismatic battery cells**

See "battery cells"

**PTFE**

Abbreviation for "polytetrafluoroethylene". PTFE is a thermoplastic high-performance plastic – commonly known by the trade name Teflon – that has a very low coefficient of friction and is particularly resistant to most aggressive chemicals and external influences such as moisture and UV radiation. PTFE is resistant to temperatures as low as 200°C and only melts at over 320°C. With its modified material Moldflon®, which is registered as a trademark, ElringKlinger has an injection-moldable PTFE high-performance material with a wide range of potential applications, for instance in the field of medical technology.

**R — Range extender**

Range extenders are auxiliary power units fitted to electric vehicles, the purpose of which is to increase the range of such vehicles. Among the range extenders frequently used are combustion engines that drive a generator, which in turn supplies electricity to the rechargeable battery and electric motor.

**S — SOFC (Solid Oxide Fuel Cell)**

Solid oxide fuel cells are also known as "high-temperature fuel cells" owing to their high operating temperatures (approx. 800°C). This type of fuel cell can be operated with a wide range of fossil fuels, from which hydrogen gas is obtained using a reformer.

**T — Tier 1/Tier 2**

Automotive companies that supply vehicle manufacturers (OEMs) directly are known as Tier 1 suppliers. These generally source some of their products from their own suppliers, which are then referred to as Tier 2 suppliers, Tier 3, and so on, reflecting their position in the supply chain. Most of ElringKlinger's products go directly to vehicle manufacturers, making it a Tier 1 supplier. With regard to exhaust gas purification technology and transmission components, ElringKlinger mostly acts as a Tier 2 supplier.

# Imprint

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statistics originating from third-party publications.

## Disclaimer – Forward-looking Statements and Forecasts

This report contains forward-looking statements. These statements are based on expectations, market evaluations and forecasts by the Management Board and on information currently available to them. In particular, the forward-looking statements shall not be interpreted as a guarantee that the future events and results to which they refer will actually materialize. Whilst the Management Board is confident that the statements as well as the opinions and expectations on which they are based are realistic, the aforementioned statements rely on assumptions that may conceivably prove to be incorrect. Future results and circumstances depend on a multitude of factors, risks and imponderables that can alter the expectations and judgments that have been expressed. These factors include, for example, changes to the general economic and business situation, variations of exchange rates and interest rates, poor acceptance of new products and services, and changes to business strategy.

## Supplementary Notes

Due to rounding, some of the numbers and percentage figures specified in this document may differ from the actual values, particularly in the case of summation and percentage calculations. For the purpose of readability, we have not used gender-specific forms of grammar when referring to general designations of people. Specific terms relate to all people irrespective of gender.

This report was published on March 30, 2020, and is available in German and English. Only the German version shall be legally binding.

# Financial Calendar 2020

MARCH

**30**

Annual Results 2019,  
Annual Press Conference,  
Analysts' Meeting

MAY

**07**

Financial Results  
on the 1<sup>st</sup> Quarter of 2020

JULY

**07**

115<sup>th</sup> Annual General  
Shareholders' Meeting,  
International Congress  
Center Stuttgart

AUGUST

**11**

Interim Report  
on the 2<sup>nd</sup> Quarter and  
1<sup>st</sup> Half of 2020

NOVEMBER

**10**

Financial Results  
on the 3<sup>rd</sup> Quarter and  
1<sup>st</sup> Nine Months of 2020

MAY 2021

**18**

116<sup>th</sup> Annual General  
Shareholders' Meeting,  
Stuttgart

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Changes to the above dates cannot be ruled out.

We therefore recommend visiting our website to check specific financial dates at: [www.elringklinger.de/en/investor-relations/financial-calendar](http://www.elringklinger.de/en/investor-relations/financial-calendar)

For trade fairs please visit our websites:

[www.elringklinger.de/en/press/dates-events](http://www.elringklinger.de/en/press/dates-events)

[www.elringklinger-engineered-plastics.com/service/trade-fair-dates](http://www.elringklinger-engineered-plastics.com/service/trade-fair-dates)

[www.elring.de/en/press-events/dates-events](http://www.elring.de/en/press-events/dates-events)

# ElringKlinger worldwide

Operating at 45 sites, the ElringKlinger Group has established a corporate presence in 21 countries. The company supplies almost all of the world's vehicle and engine manufacturers from 39 production sites located around the globe.

ELRINGKLINGER WORLDWIDE / KEY FIGURES

## NORTH AMERICA SHARE OF SALES

26 %

## EUROPE (excluding Germany) SHARE OF SALES

29 %

## GERMANY SHARE OF SALES

23 %

## SOUTH AMERICA AND REST OF THE WORLD SHARE OF SALES

4 %

## ASIA-PACIFIC SHARE OF SALES

18 %

### EUROPE (excluding Germany)

Redcar (GB)  
Gateshead (GB)  
Warwick (GB)  
Nantiat/Chamborêt  
(France)  
Poissy (France)  
Reus (Spain)  
Seyelen (Switzerland)  
Wels (Austria)  
Turin (Italy)  
Kecskemét-K. (Hungary)  
Timisoara (Romania)  
Bursa (Turkey)

### ASIA-PACIFIC

Changchun (China)  
Suzhou (China)  
Chongqing (China)  
Qingdao (China)  
Tokyo (Japan)  
Saitama (Japan)  
Takasaki (Japan)  
Gumi (South Korea)  
Ranjangaon (India)  
Bangkok (Thailand)  
Karawang (Indonesia)

### NORTH AMERICA

Leamington (Canada)  
Buford (Georgia, USA)  
Plymouth (Michigan, USA)  
Southfield (Michigan, USA)  
Fort Wayne (Indiana, USA)  
Fremont (California, USA)  
Toluca (Mexico)

### SOUTH AMERICA AND REST OF THE WORLD

Piracicaba (Brazil)  
Alberton (South Africa)

### GERMANY

Dettingen/Erms  
Bietigheim-Bissingen  
Bissingen/Teck  
Geretsried-Gelting  
Heidenheim  
Idstein  
Langenzenn  
Lenningen  
Monchengladbach  
Nürtingen  
Rottenburg/Neckar  
Runkel  
Thale

As at December 31, 2019

# Key Figures

## ElringKlinger Group at a glance

		2019	2018	2017	2016	2015	2014	2013
<b>Order Situation</b>								
Order intake	€ million	1,737.2	1,735.3	1,732.0	1,693.7	1,615.3	1,418.6	1,284.4
Order backlog	€ million	1,030.3	1,020.1	1,000.6	932.5	796.2	688.2	595.4
<b>Sales/Earnings</b>								
Sales revenue	€ million	1,727.0	1,699.0	1,664.0	1,557.4	1,507.3	1,325.8	1,150.1
Cost of sales	€ million	1,401.7	1,328.9	1,255.6	1,161.5	1,133.0	967.4	824.5
Gross profit margin		18.8 %	21.8 %	24.5 %	25.4 %	24.8 %	27.0 %	28.3 %
EBITDA	€ million	181.0	196.6	238.4	231.2	222.8	233.4	238.6 <sup>3</sup>
EBIT/Operating result	€ million	61.2	96.2	137.3	135.6	135.2	154.0	164.2 <sup>3</sup>
EBIT margin		3.5 %	5.7 %	8.3 %	8.7 %	9.0 %	11.6 %	14.3 % <sup>3</sup>
Adjusted EBIT, pre ppa <sup>1</sup>	€ million	63.2	100.2	141.8	140.4	140.4	162.3	149.8
Adjusted EBIT margin, pre ppa <sup>1</sup>		3.7 %	5.9 %	8.5 %	9.0 %	9.3 %	12.2 %	13.0 %
Earnings before taxes	€ million	41.7	81.4	110.1	124.1	128.8	153.1	148.9 <sup>3</sup>
Net income	€ million	5.0	47.9	73.8	82.6	95.8	110.6	111.2 <sup>3</sup>
Net income attributable to shareholders of ElringKlinger AG	€ million	4.1	43.8	69.9	78.6	91.6	105.7	105.4 <sup>3</sup>
<b>Cash Flow</b>								
Net cash from operating activities	€ million	277.6	91.6	95.5	175.7	123.3	149.9	119.0
Net cash from investing activities	€ million	-84.5	-120.7	-193.2	-189.7	-212.7	-168.0	-126.4
Net cash from financing activities	€ million	-103.8	30.0	109.3	4.5	65.3	20.1	14.7
Operating free cash flow <sup>2</sup>	€ million	175.8	-86.2	-66.6	-3.8	-65.2	-12.4	-4.2
<b>Balance Sheet</b>								
Balance sheet total	€ million	2,146.5	2,079.7	2,022.4	1,878.2	1,765.8	1,558.8	1,392.1
Equity	€ million	891.2	890.1	889.7	886.4	855.7	775.2	701.3
Equity ratio		41.5 %	42.8 %	44.0 %	47.2 %	48.5 %	49.7 %	50.4 %
Net Debt	€ million	595.3	723.5	655.3	538.8	486.8	348.3	295.3
<b>Returns</b>								
Return on equity after taxes		0.6 %	5.4 %	8.3 %	9.5 %	11.7 %	15.0 %	16.6 % <sup>3</sup>
Return on total assets after taxes		1.2 %	3.1 %	4.5 %	5.3 %	6.5 %	8.2 %	9.2 % <sup>3</sup>
Return on Capital Employed (ROCE)		3.4 %	5.5 %	8.2 %	8.7 %	9.5 %	12.4 %	14.4 % <sup>3</sup>
<b>Human Resources</b>								
Employees (as at Dec. 31)		10,393	10,429	9,611	8,591	7,912	7,255	6,716
<b>Stock</b>								
Earnings per share	€	0.06	0.69	1.10	1.24	1.45	1.67	1.66 <sup>3</sup>

<sup>1</sup> EBIT adjusted for one-time effects and amortization resulting from purchase price allocation

<sup>2</sup> Net cash from operating activities minus net cash from investing activities (excluding acquisitions/divestments and investments in financial assets)

<sup>3</sup> Including one-time gain from assumption of control of ElringKlinger Marusan Corporation (EUR 17.6 million before taxes, EUR 12.7 million after taxes)





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