Notes to the Consolidated Financial Statements

of ElringKlinger AG for the Financial Year 2018

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, 2018, 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 financial year 2018 have been observed.

On March 21, 2019, the Management Board of ElringKlinger AG submitted the consolidated financial statements to the Supervisory Board, which will meet on March 22, 2019 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 financial year 2018 for the first time:

IFRS pronouncement (published on)	Title	To be applied for financial years beginning on or after
IFRS 15 (May 28, 2014)	Revenue from Contracts with Customers	January 1, 2018
Amendments to IFRS 15 (September 11, 2015)	Effective Date of IFRS 15	January 1, 2018
Amendments to IFRS 15 (April 12, 2016)	Clarifications to IFRS 15 – Revenue from Contracts with Customers	January 1, 2018
IFRS 9 (July 24, 2014)	Financial Instruments	January 1, 2018
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	January 1, 2018
Amendments to IFRS 4 (September 12, 2016)	Applying IFRS 9 – Financial Instruments with IFRS 4 Insurance Contracts	January 1, 2018
Amendments to IAS 40 (December 8, 2016)	Transfers of Investment Property	January 1, 2018
IFRIC Interpretation 22 (December 8, 2016)	Foreign Currency Transactions and Advance Consideration	January 1, 2018
Annual IFRS Improvements (December 8, 2016)	2014–2016 Cycle (IFRS 1, IAS 28)	January 1, 2018

The first-time application of the regulations listed in the table had, except for IFRS 9 and IFRS 15, no or no material effect on the presentation of financial performance, net assets and cash position.

IFRS 9 Financial Instruments

The IASB completed its project to replace IAS 39 Financial Instruments: Recognition and Measurement in July 2014 by publishing the final version of IFRS 9 Financial Instruments. In the final version of IFRS 9, the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting in particular were thoroughly revised. IFRS 9 is to be applied for the first time for reporting periods beginning on or after January 1, 2018. The first-time application is to be performed retrospectively, although various simplification options are available. The Group applied IFRS 9 retrospectively, i. e. with January 1, 2018 as the time of first-time application. The comparative information of the previous year has not been adjusted and reported unchanged in accordance with IAS 39.

The first-time application of IFRS 9 affects the measurement and classification of financial instruments, especially for trade receivables. A forward-looking approach for valuation allowances is to be applied for trade receivables and not the measurement model applied to date which is based on historical information. The adjustments resulting from the transition yielded income of EUR 3,118 k before deferred taxes and EUR 2,435 k after deferred taxes were posted against revenue reserves as of January 1, 2018.

For further comments on impairments and financial instruments, please refer to Note (20) and (31) in the notes to the financial statements.

IFRS 15 Revenue from Contracts with Customers

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

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

Effects from the first-time application as of January 1, 2018

The current findings confirm that the application of IFRS 15 has not resulted in any significant effects on the consolidated financial statements of ElringKlinger. Revenue reserves as of January 1, 2018 decreased by EUR 5,882 k before deferred taxes and by EUR 4,440 k after deferred taxes. The effects on other items in the statement of financial position are to be found in an increase in contract assets of EUR 7,112 k and contract liabilities of EUR 7,230 k as well as in a decrease in non-current assets by EUR 5,710 k and inventories by EUR 7,284 k. Besides, other current liabilities decreased by EUR 7,230 k.

Effect in financial year 2018

In financial year 2018, the application of IFRS 15 resulted in an increase in sales revenue of EUR 12,832 k and an overall positive effect on earnings of EUR 3,189 k.

Tools used to manufacture components that are also legally and economically owned by customers meet the definition of revenue recognition according to IFRS 15 when control of the tool is transferred, regardless of whether the price of the component is written down or it is directly purchased. As such, it is often the case that revenue is recognized at the time ownership is transferred and thus the profit or loss is recognized in full. The accounting in accordance with IFRS 15 presents a decrease in non-current assets by EUR 2,120 k and in inventories by EUR 3,058 k as well as an increase in contract assets by EUR 2,304 k.

In terms of delivering components, ElringKlinger has come to the conclusion that revenue from agreements with certain customers and business models should be recognized in the period in which it is earned as the units sold by the Group cannot be used otherwise and likewise the Group is owed payments for the services that it has provided. ElringKlinger has come to the conclusion that the Group is owed payments for components that remain in the consignment warehouse until the minimum inventory amount is reached. Compared to the current accounting, according to IFRS 15, this results in an increase of EUR 4,690 k in contract assets and a decrease of EUR 3,149 k in inventories.

A part of the Group's business activities is processed via long-term development contracts. Revenue from long-term contracts in services is recognized in accordance with IFRS 15 based on the percentage of completion. Compared to the current accounting, this results in an increase of EUR 622 k in contract assets and a decrease of EUR 5,838 k in inventories.

The requirement to capitalize costs associated with performing contracts with customers if certain requirements pursuant to IFRS 15 are fulfilled resulted in an increase in non-current assets of EUR 5,427 k.

Compared to the accounting treatment in the past, contract liabilities according to IFRS 15 increased by EUR 13,083 k, while the payments received, which were previously reported under other current liabilities, decreased accordingly by EUR 13,083 k.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

In December 2016, the IASB Interpretations Committee (IFRS IC) published IFRIC 22 Foreign Currency Transactions and Advance Consideration. The interpretation clarifies that for the purposes of determining the exchange rate used for the initial recognition of the relevant assets, expenses or income (or a portion thereof) or the derecognition of a non-monetary asset or a non-monetary liability from a prepayment, the date of the transaction is to match the date of the initial recognition of the non-monetary asset or non-monetary liability from the prepayment. If there are several advance incoming or outgoing payments, the company is to determine the date of the transaction for each of the incoming or outgoing payments of each of the prepayment. Companies can apply the changes retrospectively. Alternatively, the company can apply the interpretations prospectively to all assets, expenses and income denominated in foreign currency that are included in the scope of this interpretation for which the initial recognition on or after the commencement of the first reporting period during which the company applies the interpretation for the first time, or upon commencement of the previous reporting period, which is presented as comparative information. IFRIC 22 is effective for reporting periods beginning on or after January 1, 2018. ElringKlinger adopted the amended standard as of the date it became effective. The amendment did not have any significant effects on the consolidated 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
Incorporated in European law		
IFRS 16 (January 13, 2016)	Leases	January 1, 2019
IFRIC® Interpretation 23 (June 7, 2017)	Uncertainty over Income Tax Treatments	January 1, 2019
Amendments to IFRS 9 (October 12, 2017)	Prepayments Features with Negative Compensation	January 1, 2019
Amendments to IAS 28 (October 12, 2017)	Long-term Interests in Associates and Joint Ventures	January 1, 2019
Amendments to IAS 19 (February 7, 2018)	Plan Amendment, Curtailment of Settlement	January 1, 2019
Incorporation in European law still outstanding		
Annual IFRS Improvements (December 12, 2017)	2015–2017 Cycle	January 1, 2019
Amendments to IFRS Standards (March 29, 2018)	References to the Conceptual Framework in IFRS Standards	January 1, 2020
Amendments to IFRS 3 (October 22, 2018)	Definition of a Business	January 1, 2020
Amendments to IAS 1 and IAS 8 (October 31, 2018)	Definition of Material	January 1, 2020
IFRS 17 (May 18, 2017)	Insurance Contracts	January 1, 2021

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.

IFRS 16 Leases

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

The Group will apply IFRS 16 for the first time as of January 1, 2019, using as a practical expedient the modified retrospective method. The comparative figures of previous-year periods will not be adjusted in the course of first-time application. The analysis as part of a group-wide project for first-time application has revealed that IFRS 16 will only have moderate effects on the components of the consolidated financial statements and the presentation of financial performance, net assets and cash position of the ElringKlinger Group.

Effects on the statement of financial position:

For the lessee IFRS 16 introduces uniform principles for the treatment of leases, according to which right-of-use assets and lease liabilities are to be recognized in the statement of financial position for the obligations undertaken. The exemptions provided by IFRS 16 have been exercised for leases for which the underlying asset is of low-value (with a carrying amount of less than EUR 5 k) and short-term leases (lease term of less than twelve months). For leases that were classified as operating leases applying IAS 17, the lease liability is measured at the present value of the lease payments that are not paid at that date and discounted using the corresponding incremental borrowing rate at the time of first-time application. In the accounting following the first-time application of IFRS 16, the right-of-use asset is measured at the amount of lease liability plus any initial direct costs. Furthermore, prepayments and liabilities that relate to the past financial year have been taken into account.

The analysis as part of the group-wide project for first-time application has revealed that from the transition, lease liabilities and corresponding right-of-use assets in the range of EUR 35–45 million are expected to be reported in the statement of financial position as of January 1, 2019. The application of the simplified retrospective method is not expected to cause any material change in revenue reserves. The deviation in obligations from operating leases reported under other information mainly results from the options to extend leases (those that are classified as highly probable). Due to the increase in total assets, the equity ratio is expected to decrease by rounded one per cent. As a result of the increase in lease liabilities, net debt will increase accordingly.

Effects on the income statement:

Contrary to the current disclosure of expenses from operating leases, in the future, amortization of rights-of-use and interest expenses from unwinding of the discount of lease liability will be reported. These changes will lead to an improvement in the operating result. On the basis of leases existing as of January 1, 2019, Group EBIT is expected to increase by EUR 300–600 k.

Effects on the statement of cash flows

The change in the disclosure of lease expenses from operating leases will have a positive effect on the cash flow from operating activities and a negative effect on the cash flow from financing activities. On the basis of leases existing as of January 1, 2019, the shift between cash flow from operating activities and cash flow from financing activities is expected to be around EUR 11 million.

IFRIC 23 Uncertainty over Income Tax Treatments

In June 2017, the IASB Interpretations Committee (IFRIC) published IFRIC 23 – Uncertainty over Income Tax Treatments. The interpretation clarifies the requirements of the recognition and measurement of uncertain income tax items. A company is to assess the likelihood of the relevant authority accepting the respective tax treatment. The amendment will not have any 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 a company first applies IFRS 9 to financial instruments that are not accounted for using the equity method. The ElringKlinger Group intends to adopt the amended standard as of the date it is due to become effective. No effects are expected for the Group.

Annual Improvements to IFRSs (2015–2017)

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

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. Early adoption is permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

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.

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 Group is currently examining what effects these amendments will have on the consolidated financial statements.

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.

Scope of consolidated financial statements

The consolidated financial statements of ElringKlinger AG as of December 31, 2018, include the annual financial statements of 7 (2017: 9) domestic and 32 (2017: 35) 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 28.89% share in hofer AG, Nürtingen, is recorded as an associate in non-current group assets as ElringKlinger has a significant influence on the business and financial policies. A significant influence in assumed for associates with voting rights ranging from 20% to 50%.

As of December 31, 2018, the following companies made use of the exemption provisions provided by Sec. 264 (3) HGB:

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

Furthermore, ElringKlinger (Great Britain) Ltd. made use of the exemption provisions under s479A of the UK Companies Act 2006 regarding the audit of financial statements for the financial statements as of December 31, 2018.

An overview of the 39 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, 2018

Name of company	Domicile	Capital share in %
Parent		
ElringKlinger AG[1]	Dettingen/Erms	
Shares in affiliated companies (fully consolidated in the consolidated financial statements)		
Domestic		
Gedächtnisstiftung KARL MÜLLER BELEGSCHAFTSHILFE GmbH	Dettingen/Erms	100.00
Elring Klinger Motortechnik GmbH	Idstein	92.86
ElringKlinger Logistic Service GmbH	Rottenburg/Neckar	96.00
ElringKlinger Kunststofftechnik GmbH	Bietigheim-Bissingen	77.50
Polytetra GmbH[2]	Mönchengladbach	77.50
hofer powertrain products GmbH	Nürtingen	53.00
KOCHWERK Catering GmbH	Dettingen/Erms	100.00
Shares in affiliated companies (fully consolidated in the consolidated financial statements)		
Foreign		
ElringKlinger Abschirmtechnik (Schweiz) AG	Sevelen (Switzerland)	100.00
Elring Klinger (Great Britain) Ltd.	Redcar (UK)	100.00
hofer powertain products UK Ltd.	Warwick (UK)	53.00
ElringKlinger Italia Srl	Settimo Torinese (Italy)	100.00
Technik-Park Heliport Kft.	Kecskemét-Kádafalva (Hungary)	100.00
ElringKlinger Hungary Kft.	Kecskemét-Kádafalva (Hungary)	100.00
Elring Parts Ltd.	Gateshead (UK)	100.00
Elring Klinger, S.A.U.	Reus (Spain)	100.00
ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş.	Bursa (Turkey)	100.00
ElringKlinger Meillor SAS	Nantiat (France)	100.00
ElringKlinger Fuelcell Systems Austria GmbH	Wels (Austria)	100.00
ElringKlinger Silicon Valley, Inc.	Fremont (USA)	100.00
HURO Supermold S.R.L.	Timisoara (Romania)	100.00
ElringKlinger Canada, Inc.	Leamington (Canada)	100.00
ElringKlinger USA, Inc.	Buford (USA)	100.00
ElringKlinger Automotive Manufacturing, Inc.	Southfield (USA)	100.00

ElringKlinger Manufacturing Indiana, Inc.	Fort Wayne (USA)	100.00
Elring Klinger México, S.A. de C.V.	Toluca (Mexico)	100.00
EKASER, S.A. de C.V.	Toluca (Mexico)	100.00
Elring Klinger do Brasil Ltda.	Piracicaba (Brazil)	100.00
ElringKlinger South Africa (Pty) Ltd.	Johannesburg (South Africa)	100.00
ElringKlinger Automotive Components (India) Pvt. Ltd.	Ranjangaon (India)	100.00
Changchun ElringKlinger Ltd.	Changchun (China)	88.00
ElringKlinger Korea Co., Ltd.	Changwon (South Korea)	100.00
ElringKlinger China, Ltd.	Suzhou (China)	100.00
ElringKlinger Chongqing Ltd.	Chongqing (China)	100.00
ElringKlinger Engineered Plastics North America, Inc.[2]	Buford (USA)	77.50
ElringKlinger Engineered Plastics (Qingdao) Co., Ltd.[2]	Qingdao (China)	77.50
ElringKlinger Marusan Corporation[3]	Tokyo (Japan)	50.00
Marusan Kogyo Co., Ltd.[5]	Tokyo (Japan)	23.45
PT. ElringKlinger Indonesia[4]	Karawang (Indonesia)	50.00
ElringKlinger (Thailand) Co., Ltd.[4]	Bangkok (Thailand)	50.00
Shares in associates (accounted for in the consolidated financial statements using the equity method)		
Germany		
hofer AG	Nürtingen	28.89

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

Notes on non-controlling interests in subsidiaries

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

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

(EKT subgroup) controlling interest 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 financial year 2018 is EUR 3,109 k (2017: EUR 2,881 k).

A dividend of EUR 1,575 k (2017: EUR 2,025 k) was distributed to the non-controlling interests in financial year 2018. The remaining EUR 5,425 k (2017: EUR 6,975 k) were distributed to the parent company ElringKlinger AG.

Cash flow of the subgroup

EUR k	2018	2017
Operating activities	16,661	17,351
Investing activities	-4,905	-3,906
Financing activities	-11,487	-13,360
Cash change	**269**	**85**
Effects of currency exchange rates on cash	**-1**	**-159**

Summarized key financial information of the subgroup

EUR k	2018	2017
Non-current assets	62,627	63,809
Current assets	48,233	40,227
Non-current liabilities	13,827	13,903
Current liabilities	11,065	10,197
Sales revenue	111,775	105,067
Earnings before taxes (EBT)	17,424	16,730
Net income	**12,623**	**11,922**
Total comprehensive income	**12,885**	**11,833**

Further detailed information

EUR k	2018	2017
Cash and cash equivalents	2,683	2,415
Cash in hand	6	6
Bank deposits	2,677	2,409
Non-current financial liabilities	225	225
to associates	225	225
Current financial liabilities	138	1,000
to banks from loans	0	1,000
from overdraft facilities (only IC)	138	0
Interest income	183	266
Interest expenses	255	290
Depreciation and amortization	5,709	5,582

Newly formed company 2018

ElringKlinger Manufacturing Indiana, Inc. headquartered in Fort Wayne, USA, was formed effective 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

With effect from January 1, 2018, Taiyo Jushi Kakoh Co., Ltd headquartered in Tokyo, Japan, a fully owned subsidiary of ElringKlinger Marusan Corporation, also headquartered in Tokyo, Japan, was merged into ElringKlinger Marusan Corporation.

Divestitures 2018

The Group primarily focuses its strategic direction on areas of the future: lightweighting, electromobility and electric drive systems. In this context, the Group reached an agreement with a French automotive supplier in December 2017 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 completed on February 28, 2018, with effect as of 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.

Business buyouts in 2017

With effect as of March 1, 2017, ElringKlinger AG acquired 27% of the shares in hofer AG with registered offices in Nürtingen, Germany, and 53% of the shares in its subsidiary hofer powertrain products GmbH, also with registered offices in Nürtingen, Germany, with effect as of February 6, 2017. The shares were acquired by subscribing to a capital increase. The imputed share of ElringKlinger in hofer AG increased to a total of 28.89% following the share buy-back of treasury shares by hofer AG in the first half of 2017.

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

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

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

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

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

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

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

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

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

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

Newly formed company 2017

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

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

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. Where necessary adjustments are made to bring the accounting policies in line with those of the Group.

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

Currency translation

The reporting currency of the ElringKlinger Group is the euro.

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

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

The financial statements of the foreign companies are translated into euros since this is the functional currency of the parent company. Since the subsidiaries operate their businesses independently in financial, economic and organizational respects, the functional currency is 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:

		Closing rate		Average rate	
Currency	**Abbr.**	**Dec. 31, 2018**	**Dec. 31, 2017**	**2018**	**2017**
US dollar (USA)	USD	1.14500	1.19930	1.17932	1.13703
Pound sterling (UK)	GBP	0.89453	0.88723	0.88595	0.87572
Franc (Switzerland)	CHF	1.12690	1.17020	1.15158	1.11628
Canadian dollar (Canada)	CAD	1.56050	1.50390	1.53288	1.47253
Real (Brazil)	BRL	4.44400	3.97290	4.32938	3.64344
Peso (Mexico)	MXN	22.49210	23.66120	22.65259	21.42845
RMB (China)	CNY	7.87510	7.80440	7.81563	7.65567
WON (South Korea)	KRW	1,277.93000	1,279.61000	1,295.97500	1,275.34917
Rand (South Africa)	ZAR	16.45940	14.80540	15.61657	15.06342
Yen (Japan)	JPY	125.85000	135.01000	130.00583	127.30417
Forint (Hungary)	HUF	320.98000	310.33000	319.97250	309.31000
Turkish lira (Turkey)	TRY	6.05880	4.54640	5.68349	4.14289
Leu (Romania)	RON	4.66350	4.65850	4.65583	4.57379
Indian rupee (India)	INR	79.72980	76.60550	80.62578	73.78786
Indonesian rupiah (Indonesia)	IDR	16,500.00000	16,239.12000	16,788.76417	15,233.45750
Baht (Thailand)	THB	37.05200	39.12100	38.05167	38.35650

Accounting policies

Goodwill

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

EUR k	2018	2017
Original Equipment	149,834	148,385
Engineered Plastics	6,313	6,313
Aftermarket	1,658	1,658
Total	**157,805**	**156,356**

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, 2018, 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. For the raw materials processed in the cash-generating units, group-wide uniform planning assumptions were applied. Due to the global trade conflicts and the imposition of additional import duties on raw materials currently being discussed, ElringKlinger expects a further increase in procurement prices for the significant groups of raw materials in 2019. In this context, there are also potential risks posed by countervailing duties on raw materials imported to the US. The ElringKlinger Group will be directly, and depending on the development of the price level, significantly affected by the risks arising from excessive increases in the prices of raw materials. We assume a normalized planning for cost types in the medium term.

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 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., Düsseldorf": Institute of Public Auditors in Germany, Düsseldorf], the market risk premium and the beta factor. Beta represents the individual risk of a share as compared to a market index. It is calculated as the average value for the peer group. The credit spread, which expresses the premium over the risk-free rate, was derived from a rating of 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 due to reasons of prudence.

The discount factor applied as of December 31, 2018, was the weighted average cost of capital (WACC) before taxes of 11.12% (2017: 10.22%).

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 in financial year 2018. Although these led to an increase in sales revenue, due to difficult circumstances, they had a noticeably negative impact on earnings after taxes. Due to the one-time effects in various plants, e.g. capacity bottlenecks and the related special runs, the previous-year planning in terms of earnings was not achieved. The impairment test as of December 31, 2018, in addition to the historical development of the unit, included the development of the peer group as well as the general market outlook. Compared to the previous year, to give due consideration to the changing environment in the automotive sector, a significantly lower margin was assumed in the planning period as well as in perpetuity. 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. For the calculation of expected future margins, continuous improvement with regard to the current capacity bottlenecks is also assumed.

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, 2018, 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 73 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 0.3 percentage points, the recoverable amount would correspond to the carrying amount. An isolated reduction of the profit margin in the terminal value by around 0.3 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.

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

Property, plant and equipment

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

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

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

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

Investment property

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

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

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

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

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

Impairments and reversals are recorded through profit and loss.

Assets and liabilities held for sale

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

Financial instruments

The Group applied IFRS 9 for the first time in the current financial year. IFRS 9 establishes new classification and measurement methods for financial instruments and a new model for impairments of financial instruments. The previous-year figures were not adjusted in the course of the transition to IFRS 9 and are still reported according to IAS 39.

Financial instruments pursuant to IAS 39

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

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

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

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

Financial assets include cash, trade receivables and other loans and receivables and derivative financial assets held for trading, furthermore investments and non-current securities.

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

Financial instruments pursuant to IFRS 9

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.

The first-time application of IFRS 9 did not result in any implications on the classification of financial liabilities.

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

- Financial assets measured at amortized cost
- Financial assets measured at fair value through profit or loss
- Financial assets measured at fair value through other comprehensive income
- Financial liabilities measured at acquisition 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 and other loans and receivables as well as derivative financial assets held for trading.

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

Financial assets

Financial assets pursuant to IAS 39

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

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.

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

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

The fair values recognized in the statement of financial position generally correspond to the market prices of the financial 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 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 resulting from money transfer, the rendering of services or the procurement of merchandise involving third parties are classified as loans and receivables. Current assets classified in this category are measured at acquisition cost, the non-current financial assets are measured at amortized cost in accordance with the effective interest method.

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

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

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

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

Financial assets pursuant to IFRS 9

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

While according to IAS 39 impairment losses were only taken into account for any impairment which may have already occurred but were not yet known – Incurred Loss Model (ICL) –, with IFRS 9 the future expected credit loss is material for the valuation allowance. 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 IAS 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 fulfil 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 includes 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.

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

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

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

Leases

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

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

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

Recognition of income and expense

Sales revenue is measured at the fair value of the 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 recognized if all the following criteria are satisfied.

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

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

Government grants

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 financial year 2018 amounted to 1.77% (2017: 1.95%). In financial year 2018, borrowing costs of EUR 232 k (2017: EUR 403 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. This applies even more so to the commercial vehicle segment than to the passenger vehicle segment. If economic development cools down considerably, this represents a risk for 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. Risk in this context arises from possible effects of the global trade conflict, particularly between the economic powers USA and China, the consequences of a no-deal exit of the UK from the European Union as well as from a sustained weakening of economic growth in China.

Due to the increase in economic risks, for 2019, economists forecast a general growth deceleration in large economies. According to the International Monetary Fund’s forecast, total economic output is expected to fall below 2% in the eurozone. The prospects are looking gloomy in Germany as well: the German economy may grow by just 1.5% in 2019, after 2.5% in the year before. At 2.5%, the expected GDP will also weaken slightly compared to the previous year. An increasing normalization of economic growth can be observed in China – growth rate may nevertheless remain constant above 6%. At the beginning of 2019, the International Monetary Fund forecast global economic growth of 3.5% for the year as a whole.

According to the VDA [“Verband der Automobilindustrie”: German Association of the Automotive Industry], 2019 is forecast to be a year of low sales growth, at 1%. While a sideward movement at the level of the previous year is expected for Europe, the US vehicle market is expected to cool down slightly overall. Despite a moderate first half of the year, the majority of the expected growth will be carried by Asia, particularly by the Chinese passenger car market.

ElringKlinger, with its broad customer structure, is neither dependent on individual markets nor on individual manufacturers. Thanks to its global presence with manufacturing and sales locations in the growth regions of the future, the Group is prepared for potential stagnation or declining demand in the traditional vehicle markets.

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

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

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

Individual disclosures on the Group Income Statement

1 — Sales revenue

EUR k	2018	2017
Cylinder-head Gaskets	193,482	204,877
Special Gaskets	317,007	299,241
Lightweighting/Elastomer Technology	451,651	383,399
Shielding Technology	400,069	423,047
E-Mobility	24,708	17,967
Exhaust Gas Purification Technology	19,611	52,981
Other	1,190	864
Segment Original Equipment	**1,407,718**	**1,382,376**
Segment Original Equipment	1,407,718	1,382,376
Segment Engineered Plastics	117,824	111,141
Segment Aftermarket	159,497	156,664
Sale of goods	**1,685,039**	**1,650,181**
Sale of goods	1,685,039	1,650,181
Proceeds from the rendering of services	9,659	9,513
Revenue from contracts with customers	1,694,698	1,659,694
Revenue from contracts with customers	1,694,698	1,659,694
Income from rental and leasehold	4,302	4,347
Total	**1,699,000**	**1,664,041**

Breakdown by geographical markets:

EUR k	2018	2017
Revenue from contracts with customers	428,356	426,025
Income from rental and leasehold	189	176
Total Germany	**428,545**	**426,201**
Revenue from contracts with customers	1,266,342	1,233,669
Income from rental and leasehold	4,113	4,171
Total other countries	**1,270,455**	**1,237,840**
Total	**1,699,000**	**1,664,041**

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, 2018	Jan. 1, 2018
Trade receivables	306,351	302,621
Contract assets	7,616	7,112
Contract liabilities	**13,083**	7,230

Sales revenue of 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 2018 was due to the EUR 2,614 k long-term advances received from customers during the year.

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 2018	Contract liabilities 2018
Revenue that was included in the contract liability balance at the beginning of the 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	
Total	**7,616**	**13,083**

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

EUR k	Dec. 31, 2018
Within one year	3,426
More than one year	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	2018	2017
Cost of materials	746,994	680,856
Personnel expenses	362,368	338,214
Depreciation and amortization	88,572	89,807
Reversal of costs to fulfill a contract	123	0
Other expenses	130,860	146,754
Total	**1,328,917**	**1,255,631**

3 — Selling expenses

Selling expenses increased by EUR 4,657 k compared to 2017 to reach EUR 146,516 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 7,129 k compared to 2017 to reach EUR 84,046 k.

5 — Research and development costs

Research and development costs include the personnel expenses and the cost of experimental materials and tools attributable to these activities, unless these are development costs that are required to be capitalized under the conditions set forth in IAS 38.57. Compared to 2017, research and development costs increased by EUR 4,729 k to EUR 76,115 k. Development costs of EUR 11,073 k (2017: EUR 4,529 k) were capitalized in financial year 2018.

6 — Other operating income

EUR k	2018	2017
Income from first-time consolidation	25,508	0
Government grants	5,348	7,578
Reimbursements from third parties	4,217	4,333
Insurance reimbursements/claims reimbursements	2,187	10,961
Other taxes (excl. income tax)	1,873	1,060
Reversal of provisions/deferred liabilities	1,620	2,509
Income from disposals of non-current assets	291	195
Reversal of impairments on receivables	259	794
Other	4,296	3,812
Total	**45,599**	**31,242**

7 — Other operating expenses

EUR k	2018	2017
Other taxes (excl. income tax)	4,141	4,672
Impairment of receivables	2,136	1,499
Recognition of provisions/deferred liabilities	968	426
Expenditures for claims	928	1,068
Other fees	885	714
Selling costs for machinery	556	115
Defaults on receivables	359	346
Losses on disposal of non-current assets	244	1,541
Other	2,607	1,790
Total	**12,824**	**12,172**

8 — Associates

ElringKlinger holds a share of 28.89% in hofer AG, Nürtingen. The hofer Group is a competent systems developer for drive train systems in the automotive sector. ElringKlinger uses the equity method to account for its share in hofer AG in the consolidated financial statements. The following table provides summarized information of the Group's investment in hofer AG.

EUR k	2018	2017
Non-current assets	52,297	45,078
Current assets	35,789	32,707
Non-current liabilities	15,403	17,412
Current liabilities	29,131	15,862
Net assets	**43,552**	**44,511**
Group share (28.89%)	12,582	12,859
Goodwill	15,704	15,704
Impairment loss	-5,012	0
Carrying amount of the Group's share	**23,274**	**28,563**
Sales revenue	65,465	46,794
Comprehensive income for the financial year	**-938**	**-1,571**
Other comprehensive income	22	0
Group share in profit/loss (28.89%)	**-271**	**-454**
Dividends received	**0**	**0**

The associate had no contingent liabilities or capital commitments as of December 31, 2018.

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. Recoverable amount is measured at value in use. 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, 2018 was the weighted average cost of capital (WACC) before taxes of 10.61% (2017: 10.54%). The WACC is determined on the basis of the risk-free rate according to the method of the IDW ["Institut der Wirtschaftsprüfer in Deutschland e.V., Düsseldorf": Institute of Public Auditors in Germany, Düsseldorf], the market risk premium and the beta factor. Beta represents the individual risk of a share as compared to a market index. It is calculated as the average value for the peer group. The credit spread, which expresses the premium over the risk-free rate, was derived from a rating of a peer group.

The test for impairment performed as of December 31, 2018 revealed that the recoverable amount of the net investment (2018: EUR 20,530 k) is lower than the carrying amount, resulting in the need to recognize an impairment loss of EUR 5,012 k (2017: EUR 0 k). The decrease of the recoverable amount is mainly attributable to the current assessment by management in the form of its updated planning. Necessary investments contained in the business plan were taken into account. hofer AG is assigned to the Original Equipment segment.

9 — Net finance costs

EUR k	2018	2017
Financial income		
Income from currency differences	27,796	20,380
Interest income	500	512
Income from a put option	4,861	0
Other	0	8
Finance income, total	**33,157**	**20,900**
Finance costs		
Expenses from currency difference	-26,977	-31,471
Interest expenses	-15,569	-13,611
Other	-62	-2,628
Finance costs, total	**-42,608**	**-47,710**
Share of result of associates	**-5,283**	**-454**
Net finance costs	**-14,734**	**-27,264**

Of the interest expenses, EUR 2,285 k (2017: EUR 2,281 k) relates to interest portions of pension plans and the remainder to bank interest and interest expense from the reversal of discounts on non-current provisions. Borrowing costs for qualifying assets in the amount of EUR 232 k were capitalized in the reporting year (2017: EUR 403 k); this represents a corresponding improvement in the result. Interest expenses for finance leases are immaterial.

10 — Income taxes

Income taxes break down as follows:

EUR k	2018	2017
Current tax expense	27,301	39,996
Deferred taxes	6,242	-3,722
Tax expense reported	**33,543**	**36,274**

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

The income tax rate calculated for the German companies is 29.6% (2017: 29.6%). Foreign taxation is calculated at the rates applicable in the countries concerned and lies between 9.0% and 34.7% (2017: between 9.0% and 34.7%). The average foreign tax rate is 23.7% (2017: 24.8%).

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 24.9% (2017: 25.7%) and the income tax expense actually reported.

EUR k	2018	2017
Earnings before taxes	81,446	110,054
Expected tax rate	**24.9%**	**25.7%**
Expected tax expenses	**20,272**	**28,240**
Change in the expected tax rate due to:		
– Permanent differences	-6,610	251
– Difference in basis of assessment of local taxes	1,084	400
– Use of non-capitalized or forfeiture of capitalized tax loss carryforwards	-932	-599
– Reversal/impairment loss of capitalized tax loss carryforwards (from other periods)	0	0
– Addition to non-current tax loss carryforwards (relating to the period)	13,286	6,143
– Taxes relating to other periods	446	-3,679
– Deviations due to changes in tax rate	5,219	4,515
– Deviations on account of withholding taxes	783	989
– Other effects	-5	14
Current tax expense	**33,543**	**36,274**
Actual tax rate	**41.2%**	**33.0%**

Retained earnings of EUR 26,147 k (2017: EUR 23,004 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 1,083 k (2017: EUR 986 k) and was recorded as a deferred tax liability. Further retained earnings of domestic and foreign subsidiaries of EUR 229,943 k (2017: EUR 184,087 k) are intended to be permanently reinvested in those operations on the basis of current planning.

Deferred tax assets on tax loss carryforwards have been recognized in the amount of EUR 12,176 k (2017: EUR 12,621 k). No deferred tax assets were recognized in respect of tax loss carryforwards amounting to EUR 128,442 k (2017: EUR 67,541 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, 2018	Dec. 31, 2017
One year	0	0
Two years	0	0
Three years	0	356
Four years	1,071	880
Five years	11,814	1,288
More than five years	76,250	50,535
Non-forfeitable	39,307	14,482
Total	**128,442**	**67,541**

Tax deferrals relate to the following line items:

Line items EUR k	Deferred tax assets Dec. 31, 2018	Deferred tax assets Dec. 31, 2017	Deferred tax liabilities Dec. 31, 2018	Deferred tax liabilities Dec. 31, 2017
Intangible assets	871	708	8,339	8,357
Property, plant and equipment	4,465	4,033	36,593	37,032
Investment properties	82	82	1,959	1,949
Financial assets	7	4	0	0
Other non-current assets	73	105	1,362	2
Inventories	4,758	5,079	103	858
Current contract assets	0	0	1,259	0
Trade receivables	1,464	1,005	213	162
Other current assets	328	8	2,171	2,599
Cash and cash equivalents	0	0	0	6
Provisions for pensions	20,587	22,399	0	483
Non-current provisions	2,833	2,230	0	0
Non-current financial liabilities	28	35	170	905
Other non-current liabilities	458	547	70	44
Current provisions	1,373	4,944	0	0
Trade payables	195	17	96	255
Current financial liabilities	1,320	28	2,061	441
Other current liabilities	1,912	2,691	594	1,008
Deferred taxes associated with investments in subsidiaries	0	0	1,083	986
Tax loss carryforwards	12,176	12,621	0	0
Reclassification to assets held for sale	0	-1,002	0	-2,464
Total	**52,930**	**55,534**	**56,073**	**52,623**
Offsetting of deferred tax assets against deferred tax liabilities	-41,125	-38,548	-41,125	-38,548
Recognized in the statement of financial position	**11,805**	**16,986**	**14,948**	**14,075**

Deferred taxes totaling EUR -266 k (2017: EUR -1,706 k) were recognized in other comprehensive income. Of this amount EUR -1,115 k (2017: EUR -1,505 k) relates to pension provisions and EUR 849 k (2017: EUR -201 k) to net investments.

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:

	2018	2017
Profit/loss attributable to the shareholders of ElringKlinger AG (EUR k)	43,835	69,930
Average number of shares	63,359,990	63,359,990
Earnings per share in EUR	**0.69**	**1.10**

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, 2018	**44,205**	**169,765**	**57,767**	**815**	**272,552**
Adjustment carryforward new standards	0	0	-9,699	0	-9,699
Acquisition/production cost as of Jan. 1, 2018	**44,205**	**169,765**	**48,068**	**815**	**262,853**
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
Reclassification to assets held for sale	0	0	0	0	0
As of Dec. 31, 2018	**48,995**	**171,327**	**50,930**	**1,386**	**272,638**
Depreciation as of Jan. 1, 2018	**29,907**	**13,409**	**38,696**	**0**	**82,012**
Adjustment carryforward new standards	0	0	-5,555	0	-5,555
Depreciation as of Jan. 1, 2018	**29,907**	**13,409**	**33,141**	**0**	**76,457**
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
Reclassification to assets held for sale	0	0	0	0	0
As of Dec. 31, 2018	**30,431**	**13,523**	**38,377**	**0**	**82,331**
Net carrying amount as of Dec. 31, 2018	**18,564**	**157,804**	**12,553**	**1,386**	**190,307**

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, 2017	**50,567**	**180,628**	**81,404**	**1,156**	**313,755**
Currency changes	-1,774	-5,973	-1,489	0	-9,236
Change in consolidated group	0	1,381	615	0	1,996
Additions	4,529	0	5,330	815	10,674
Reclassifications	0	0	1,190	-1,156	34
Disposals	6,523	0	17,036	0	23,559
Reclassification to non-current assets held for sale	2,594	6,271	12,247	0	21,112
As of Dec. 31, 2017	**44,205**	**169,765**	**57,767**	**815**	**272,552**
Depreciation as of Jan. 1, 2017	**30,977**	**13,793**	**56,545**	**0**	**101,315**
Currency changes	-1,231	-384	-1,305	0	-2,920
Additions	7,865	0	10,192	0	18,057
Reclassifications	0	0	-30	0	-30
Disposals	6,591	0	17,028	0	23,619
Reclassification to non-current assets held for sale	1,113	0	9,678	0	10,791
As of Dec. 31, 2017	**29,907**	**13,409**	**38,696**	**0**	**82,012**
Net carrying amount as of Dec. 31, 2017	**14,298**	**156,356**	**19,071**	**815**	**190,540**

Purchase commitments to acquire intangible assets amounted to EUR 339 k as of December 31, 2018 (December 31, 2017: EUR 1,132 k).

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

EUR k	2018	2017
Cost of sales	6,752	11,938
Selling expenses	3,170	3,935
General and administrative expenses	978	805
Research and development costs	1,234	1,379
Total	**12,134**	**18,057**

13 — Property, plant and equipment

EUR k	Land and buildings	Plant and machinery	Other equipment, furniture and fixtures	Property, plant and equipment under construction	Total
Acquisition/production cost as of Jan. 1, 2018	**473,383**	**1,049,277**	**193,340**	**89,854**	**1,805,854**
Adjustment carryforward new standards	0	-3,925	0	0	-3,925
Acquisition/production cost as of Jan. 1, 2018	**473,383**	**1,045,352**	**193,340**	**89,854**	**1,801,929**
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
As of Dec. 31, 2018	**496,537**	**1,137,450**	**206,816**	**110,727**	**1,951,530**
Depreciation as of Jan. 1, 2018	**100,543**	**652,256**	**123,485**	**0**	**876,284**
Adjustment carryforward new standards	0	-1,694	0	0	-1,694
Depreciation as of Jan. 1, 2018	**100,543**	**650,562**	**123,485**	**0**	**874,590**
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 to assets held for sale	228	0	0	0	228
As of Dec. 31, 2018	**113,369**	**705,902**	**134,416**	**0**	**953,687**
Net carrying amount as of Jan. 1, 2018	**383,168**	**431,548**	**72,400**	**110,727**	**997,843**

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

Property, plant and equipment contains technical equipment capitalized by the Group as finance leases in the amount of EUR 416 k (2017: EUR 550 k). In the financial year, amortization of leased assets amounted to EUR 145 k (2017: EUR 191 k).

As in the previous year, no impairment losses were recognized on property, plant and equipment in financial year 2018.

Purchase commitments to acquire property, plant and equipment from third parties amounted to EUR 35,283 k as of December 31, 2018 (December 31, 2017: EUR 44,277 k).

14 — Investment property

EUR k	Investment property	Investment property under construction	Total
Acquisition/production cost as of Jan. 1, 2018	**28,293**	**99**	**28,392**
Currency changes	-652	-3	-655
Additions	544	10	554
Reclassifications	0	0	0
As of Dec. 31, 2018	**28,185**	**106**	**28,291**
Depreciation as of Jan. 1, 2018	**11,362**	**0**	**11,362**
Currency changes	-197	0	-197
Additions	559	0	559
As of Dec. 31, 2018	**11,724**	**0**	**11,724**
Net carrying amount as of Dec. 31, 2018	**16,461**	**106**	**16,567**
Acquisition/production cost as of Jan. 1, 2017	**26,335**	**273**	**26,608**
Currency changes	-28	0	-28
Additions	0	1,812	1,812
Reclassifications	1,986	-1,986	0
As of Dec 31, 2017	**28,293**	**99**	**28,392**
Depreciation as of Jan. 1, 2017	**10,786**	**0**	**10,786**
Currency changes	-10	0	-10
Additions	586	0	586
As of Dec. 31, 2017	**11,362**	**0**	**11,362**
Net carrying amount as of Dec. 31, 2017	**16,931**	**99**	**17,030**

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

Investment property has a fair value of EUR 25,615 k as of the reporting date (2017: EUR 25,753 k). The input data used to determine the fair value correspond to stage 3 of the fair value hierarchy. The fair value is determined using the discounted cash flow method and official valuations. Under the discounted cash flow method, the surplus of expected future rental payments over the expected cash expenses is discounted to the valuation date. The discount rate used for the Idstein industrial park was 3.22% (2017: 3.18%) and 6.52% for the Kecskemét-Kádafalva industrial park (2017: 6.09%). Measurement of the fair values was not performed by an independent expert.

All investment property is rented out under operating leases. The resulting rental income came to EUR 4,302 k (2017: EUR 4,347 k). Expenses directly connected with these financial investments amounted to EUR 4,508 k (2017: EUR 5,377 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	Investments in associates	Non-current securities	Other financial investments	Total
Acquisition cost as of Jan. 1, 2018	**28,563**	**1,083**	**16**	**29,662**
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
As of Dec. 31, 2018	**28,286**	**729**	**2,016**	**31,031**
Depreciation as of Jan. 1, 2018	**0**	**63**	**0**	**63**
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
As of Dec. 31, 2018	**5,012**	**82**	**0**	**5,094**
Net carrying amount as of Dec. 31, 2018	**23,274**	**647**	**2,016**	**25,937**
Fair value Dec. 31, 2018		647	2,016	
Acquisition cost as of Jan. 1, 2017	**0**	**1,085**	**16**	**1,101**
Currency changes	0	-6	0	-6
Additions	29,017	206	0	29,223
Revaluations	-454	2	0	-452
Disposals	0	204	0	204
As of Dec. 31, 2017	**28,563**	**1,083**	**16**	**29,662**
Depreciation as of Jan. 1, 2017	**0**	**72**	**0**	**72**
Currency changes	0	0	0	0
Additions	0	3	0	3
Revaluations	0	-9	0	-9
Disposals	0	3	0	3
As of Dec. 31, 2017	**0**	**63**	**0**	**63**
Net carrying amount as of Dec. 31, 2017	**28,563**	**1,020**	**16**	**29,599**
Fair value Dec. 31, 2017		1,020	16	

Of the non-current securities, EUR 549 k (2017: EUR 829 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. of EUR 98 k.

Other non-current assets also include a receivable due to a warranty event of EUR 4,500 k. This was recognized in current assets in the previous year.

17 — Costs to fulfill a contract

The requirement to capitalize costs associated with performing contracts with customers if certain requirements pursuant to IFRS 15 are fulfilled resulted in a remeasurement through other comprehensive income of EUR 665 k as of January 1, 2018. As of December 31, 2018, the carrying amount stood at EUR 5,427 k.

18 — Non-current and current contract assets

Due to the transition to IFRS 15 as of January 1, 2018, there was a remeasurement effect from the first-time recognition of assets of EUR 7,112 k through other comprehensive income. As of December 31, 2018, the carrying amount stood at EUR 7,616 k. No significant events for impairment pursuant to IFRS 9 were identified.

19 — Inventories

EUR k	Dec. 31, 2018	Dec. 31, 2017
Raw materials, consumables and supplies	132,344	116,421
Work in progress	78,537	72,686
Finished goods and merchandise	172,305	171,215
Advance payments	18,205	9,225
Total	**401,391**	**369,547**

Impairments of EUR 16,910 k were recognized on inventories due to market risks and obsolescence (2017: EUR 12,145 k). Impairments and write-ups of inventories are recognized in cost of sales.

20 — Trade receivables, current income and other current assets

For trade receivables, valuation allowances of EUR 3,492 k (2017: EUR 5,760 k) were recognized for future credit risks.

The carrying amount of the trade receivables and other assets corresponds to their fair values. The adjustment of valuation allowances as part of the first-time application of IFRS 9 of EUR 3,118 k was recognized through other comprehensive income in revenue reserves.

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

Movements in the valuation allowance for trade receivables are presented in the table below:

EUR k	2018	2017
IFRS 9 – Financial Instruments	-3,118	0
As of Jan. 1	2,642	5,767
Transfer in provisions	-358	0
Addition	2,136	1,163
Reversals/utilizations	-259	-672
Change of risk parameters (IFRS 9)	-453	0
Exchange rate effects	-216	-180
Reclassification to assets held for sale	0	-318
As of Dec. 31	**3,492**	**5,760**

In the reporting period, receivables with a carrying amount of EUR 359 k (2017: EUR 346 k) were written-down, which are currently being enforced.

As part of the first-time application of IFRS 9, a new impairment model for trade receivables was introduced in 2018. The new impairment model takes into account the expected credit losses (expected credit loss model), where mainly forward-looking information is used. This represents a significant change from the previously applied model (incurred credit loss model). A suitable model was developed to implement the new impairment provisions.

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 & Poors (S&P) or other well-known rating agencies are used as the basis for the new 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	53,334
Medium creditworthiness	BBB – B	0.0% – 9.4%	Lifetime expected credit loss	256,509
Low creditworthiness	CCC – C	9.4% – 26.3%	Lifetime expected credit loss	–
Default	D	100.0%	Write-down of asset	2,748
Risk provision pursuant to IFRS 9				744
Total				**306,351**

The differences for former calculations of valuation allowances determined during the first-time application of the model of EUR 3,118 k were recognized as of January 1, 2018, in revenue reserves.

Other current assets include tax receivables from VAT and other taxes of EUR 16,985 k (2017: EUR 14,692 k), time deposits and securities of EUR 5,259 k (2017: EUR 4,892 k) and other receivables from third parties of EUR 26,188 k (2017: EUR 28,509 k), of which EUR 6,110 k (2017: EUR 2,573 k) relates to financial assets and EUR 12 k (2017: EUR 176 k) to financial derivatives.

Current income tax assets mainly contain the corporate income tax credits of ElringKlinger Mexico, S.A. de C.V. of EUR 4,076 k (2017: EUR 3,163 k) and ElringKlinger TR Otomotiv Sanayi ve Ticaret A.S. of EUR 1,494 k (2017: EUR 838 k) as well as of ElringKlinger AG of EUR 1,989 k (2017: EUR 1,715 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

As of December 31, 2018, a right similar to land rights was disclosed in assets held for sale. An amortization on the fair value was performed. Sale is planned during 2019.

In accordance with IFRS 5, the assets and liabilities of HUG Engineering AG and those of its four subsidiaries were reclassified to assets and liabilities held for sale in the previous year. 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 93.67% share that ElringKlinger held in Hug Engineering AG was transferred in full to the contracting party. The transaction was completed on February 28, 2018, with effect as of March 1, 2018.

EUR k	Dec. 31, 2018	Dec. 31, 2017
Intangible assets	0	10,316
Property, plant and equipment	5,966	18,813
Deferred tax assets	0	1,002
Non-current assets	**5,966**	**30,131**
Inventories	0	13,515
Trade receivables	0	11,653
Current income tax refund claims	0	133
Other current assets	0	3,763
Cash and cash equivalents	0	2,577
Current assets	**0**	**31,641**
ASSETS	**5,966**	**61,772**
Provisions for pensions	0	5,018
Non-current provisions	0	587
Deferred tax liabilities	0	2,464
Non-current provisions and liabilities	**0**	**8,069**
Current provisions	0	1,177
Trade payables	0	1,088
Current financial liabilities	0	5,302
Tax payable	0	2,703
Other current liabilities	0	5,408
Current provisions and liabilities	**0**	**15,678**
EQUITY AND LIABILITIES	**0**	**23,747**

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, 2018 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 proviso that they offer them to the shareholders for subscription. However, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude shareholder subscription rights

- in order to eliminate fractional amounts;
- if the capital increase against in-kind contributions is implemented specifically for the purpose of acquiring companies, parts of companies, equity investments classified as fixed financial assets or other assets in connection with an intended acquisition or within the framework of business combinations and the shares issued excluding the subscription rights do not exceed 10% of the capital stock. This applies to the share capital existing either on the date on which this authorization takes effect or on the date on which it is exercised;
- if the new shares are issued against cash contributions and if the issue price per new share does not fall significantly below the quoted price of shares already listed, and the shares issued without subscription rights pursuant to Sec. 186 (3) sentence 4 AktG, do not represent more than 10% of the share capital, either on the date on which this authorization takes effect or on the date on which it is exercised. The upper limit of 10% of share capital includes any shares issued or sold during the term of this authorization 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 financial year 2018, ElringKlinger AG distributed to its shareholders a dividend of EUR 31,680 k (EUR 0.50 per share) from the retained earnings reported in 2017. A net retained profit of EUR 5,291 k (2017: net retained profit of EUR 31,680 k) is reported in financial year 2018. On the basis of the earnings situation in the current financial year, the Management Board and the Supervisory Board have jointly decided to deviate from the current dividend policy and not distribute dividends for financial year 2018.

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 25,554 k (2017: EUR 24,168 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 length of service with the company and the employee's terminal salary. For employees subject to collective bargaining, the eligible service period is limited to 30 years. For executive employees, the benefit is limited to 35% or 45% of the terminal salary, whereby in certain cases the benefits from prior commitments do not count towards this limit.

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

The pension plans of the Swiss Group 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, 2018	Dec. 31, 2017
Discount rate (vesting period)	1.78%	1.48%
Discount rate (pension period)	1.46%	1.28%
Expected salary increases (in %)	2.67%	2.44%
Future pension increases	1.52%	1.51%

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

EUR k	2018	2017
Present value of pension benefits as of Jan. 1	**152,879**	**181,611**
Current service cost	5,508	6,902
Past service cost	161	154
Plan participant contributions	2,580	5,463
Interest expense	2,285	2,281
Disbursements/utilization	-8,216	-10,915
Actuarial gains/losses	-3,557	-5,627
Currency differences	1,170	-4,566
Other changes	156	68
Liabilities in connection with assets held for sale	0	-22,492
Present value of pension benefits as of Dec. 31	**152,966**	**152,879**
of which (partially) covered by plan assets	49,731	48,865
of which not covered	103,235	104,014

The average weighted term of the defined benefit obligation amounts to 18 years (2017: 18 years). Actuarial gains and losses arise from the following effects:

EUR k	2018	2017
Effects from changes in the interest rate	-3,200	-2,895
Effects from changes in demographic assumptions	191	-2,284
Effects from other experience-based adjustments	-548	-448
Actuarial gains/losses	**-3,557**	**-5,627**

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

EUR k	2018	2017
Market value as of Jan. 1	**26,880**	**45,049**
Interest income	281	348
Employer contributions	2,397	3,824
Plan participant contributions	2,580	5,463
Service costs	-4,311	-7,167
Actuarial gains/losses	-9	78
Currency effects	747	-3,241
Liabilities in connection with assets held for sale	0	-17,474
Market value as of Dec. 31	**28,565**	**26,880**

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

EUR k	2018	2017
Present value of pension benefits as of Dec. 31		
Germany	120,371	122,321
Switzerland	27,127	25,997
Other	5,468	4,561
Present value of pension benefits as of Dec. 31	**152,966**	**152,879**
Market value of plan assets as of Dec. 31		
Germany	7,762	7,438
Switzerland	20,414	19,136
Other	389	306
Market value of plan assets as of Dec. 31	**28,565**	**26,880**

The actual return on plan assets amounts to EUR 272 k (2017: EUR 409 k).

In 2019, liquidity is likely to be reduced due to contributions to plan assets and the reimbursement rights and by direct Group benefit payouts, which are expected to amount to EUR 5,149 k (2017: EUR 5,595 k). The future payments from pension obligations are as follows:

EUR k	2018	2017
For the next 12 months	5,149	5,595
Between one and five years	69,291	70,643
More than five years	271,684	264,761

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

EUR k	2018	2017
Current service cost	5,508	6,902
Net interest expenses	2,004	1,933
Past service cost	161	154
Total pension expense	**7,673**	**8,989**

Net interest expenses comprise interest expenses of EUR 2,285 k (2017: EUR 2,281 k) as well as interest income from plan assets of EUR 281 k (2017: EUR 348 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	2018	2017
Actuarial gains (–) and losses (+) recognized in other comprehensive income	-3,493	-5,705
Deferred taxes on actuarial gains (–) and losses (+) recognized under other comprehensive income	1,161	1,505

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

EUR k	2018	2017
Present value of pension obligation	152,966	152,879
Fair value of plan assets	28,565	26,880
Reported pension provision	124,401	125,999

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 25,698 k/EUR 29,361 k.

A 0.5% increase/decrease in future salary increases would lead to an increase/decrease in the DBO of EUR 3,923 k/EUR 3,655 k.

A change in future pension developments of +0.25%/-0.25% would lead to an increase/decrease in the DBO of EUR 4,407 k/EUR 4,197 k.

26 — Other provisions

Other provisions can be broken down as follows:

EUR k	Dec. 31, 2018	Dec. 31, 2017
Current provisions	10,769	23,005
Non-current provisions	19,603	12,319
Total	**30,372**	**35,324**

Current provisions:

EUR k	Personnel obligations	Warranty obligations	Potential losses from customer contracts	Litigation costs	Other risks	Total
As of Dec. 31, 2017	**2,994**	**14,153**	**4,352**	**265**	**1,241**	**23,005**
Adjustment carryforward new standards	0	0	0	0	384	384
Currency changes	24	-15	21	-21	38	47
Utilization	3,777	7,180	3,590	87	1,056	15,690
Reversal	130	1,204	0	25	24	1,383
Addition	3,753	1,295	3,350	66	661	9,125
Reclassifications	0	-4,750	0	0	31	-4,719
As of Dec. 31, 2018	**2,864**	**2,299**	**4,133**	**198**	**1,275**	**10,769**

Non-current provisions:

EUR k	Personnel obligations	Warranty obligations	Litigation costs	Other risks	Total
As of Dec. 31, 2017	**11,025**	**606**	**26**	**662**	**12,319**
Currency changes	29	5	0	7	41
Change in consolidated group	0	0	0	-2	-2
Utilization	255	23	0	0	278
Reversal	467	68	0	50	585
Unwinding of discount/discounting	127	0	0	0	127
Addition	2,914	290	0	58	3,262
Reclassifications	0	4,750	0	-31	4,719
As of Dec. 31, 2018	**13,373**	**5,560**	**26**	**644**	**19,603**

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

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

The provision for a warranty obligation is counterbalanced by insurance reimbursements of EUR 4,500 k, which are disclosed in other non-current assets. The provision of EUR 4,750 k was reclassified from a short-term to a long-term provision.

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, 2018	Domestic (Germany)	Foreign	Total Dec. 31, 2017
Overdrafts	169,740	9,256	178,996	105,451	13,931	119,382
Financial liabilities with a residual term of less than one year	70,074	47,716	117,790	59,485	43,077	102,562
Current financial liabilities	**239,814**	**56,972**	**296,786**	**164,936**	**57,008**	**221,944**
Financial liabilities with a residual term of between one and five years	253,309	95,692	349,001	265,275	85,476	350,751
Financial liabilities with a residual term of more than five years	123,004	0	123,004	128,060	0	128,060
Non-current financial liabilities	**376,313**	**95,692**	**472,005**	**393,335**	**85,476**	**478,811**
Total	**616,127**	**152,664**	**768,791**	**558,271**	**142,484**	**700,755**

This includes liabilities from finance leases of EUR 309k (2017: EUR 496k) with a nominal volume of EUR 318k (2017: EUR 521k).

The average interest rates were:

in %	Dec. 31, 2018	Dec. 31, 2017
Overdrafts:		
Domestic	2.13	1.34
Other countries	3.15	4.02
Financial liabilities:		
Domestic: less than one year	1.75	2.35
Domestic: between one and five years	1.32	1.34
Domestic: more than five years	1.44	1.43
Foreign: less than one year	2.74	2.42
Foreign: between one and five years	2.57	2.67
Foreign: more than five years		

Fixed interest rates have been agreed for financial liabilities amounting to EUR 573,870 k (2017: EUR 565,696 k).

Land charges on company land with a carrying amount of EUR 159,533 k (2017: EUR 158,844 k) are recognized as collateral. The secured liabilities amounted to EUR 23,711 k (2017: EUR 36,334 k) as of December 31, 2018.

As of December 31, 2018, the Group had unused lines of credit amounting to EUR 190,200 k (2017: EUR 136,056 k).

28 — Contract liabilities

IFRS 15 led to a first-time recognition through other comprehensive income of contract liabilities of EUR 7,230 k as of January 1, 2018. As of December 31, 2018, the carrying amount of contract liabilities came to EUR 13,083 k.

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 2018 was due to the EUR 2,614 k long-term advances received from customers during the year.

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 43,275 k.

In financial year 2018, government grants of EUR 6,478 k (2017: EUR 0 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 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 IAS 39 of 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 revenues are generated in a different currency than that in which the related costs are incurred. Sales revenues are generally generated in the functional currency (which is the relevant national currency) of the Group entity concerned. In order to reduce currency risks from operating business, the purchases of goods, raw materials and services as well as investing and financing activities are generally accounted for in the functional currency of the group entity. The group also endeavors to minimize its foreign currency risk by manufacturing its products in the relevant local sales markets.

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

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

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

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

Dec. 31, 2018
EUR k

Local currency	EUR	MXN	USD	CHF	HUF	Other	Total
Local currency +10%							
Consolidated net income	-3,606	4,772	2,676	2,673	2,302	934	9,751
Local currency -10%							
Consolidated net income	3,606	-4,772	-2,676	-2,673	-2,302	-934	-9,751

Dec. 31, 2017
EUR k

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

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, 2018, earnings would have been EUR 551 k (2017: EUR 361 k) lower. Had market interest rates been 30 basis points lower, earnings would have been EUR 34 k (2017: EUR 47 k) lower.

Risk arising from prices for raw materials

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

ElringKlinger processes a significant volume of high-grade stainless steels. This includes alloy surcharges, in particular for nickel, which is a listed metal subject to market price fluctuations. ElringKlinger uses derivative financial instruments to hedge portions of alloy surcharges assessed in cost calculations. A price corridor surrounding the average calculation cost is hedged. If the quoted exchange price of nickel exceeds the upper range of the corridor, ElringKlinger receives a compensatory payment. If the quoted exchange price of nickel falls below the lower range of the corridor, ElringKlinger has to pay a surcharge. As of the reporting date, there were two nickel hedging contracts for a total of 240 metric tons of nickel. One of the nickel hedges ended on December 31, 2018 and the other ends on September 30, 2019.

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

Had the market value of nickel been 10% higher on December 31, 2018, earnings would have been EUR 77 k higher (2017: EUR 306 k). A 10% decrease in the market value would have resulted in an increase in earnings of EUR 80 k (2017: EUR 74 k).

Credit risk

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

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

Liquid funds

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

Trade receivables

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

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

In its export business, ElringKlinger also assesses the credit standing of its counterparties by submitting inquiries to credit information services and on the basis of the specific country risk. In addition, credit insurance policies are taken out or letters of credit are required in certain cases. Trade receivables of EUR 12,178 k (2017: EUR 11,249 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 2018, the two largest customers accounted for 9.5% and 9.2% of sales, respectively (2017: 10.2% and 8.0%).

Liquidity risk

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

Expected cash outflows

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

EUR k	Trade payables	Financial liabilities	Finance leases	Derivatives	Other current liabilities	Total
As of Dec. 31, 2018						
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
As of Dec. 31, 2017						
Carrying amount	**118,846**	**700,259**	**496**	**11**	**47,467**	**867,079**
Expected outflows:	**118,846**	**731,842**	**522**	**11**	**47,467**	**898,688**
– less than one month	88,627	31,786	25	1	0	120,439
– between one and three months	23,644	29,249	52	2	8,663	61,610
– between three months and one year	4,577	170,083	218	8	38,804	213,690
– between one and five years	1,755	367,715	227	0	0	369,697
– more than five years	243	133,009	0	0	0	133,252

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 presents the IAS 39 measurement categories and carrying amounts and the new IFRS 9 measurement categories and carrying amounts:

EUR k	Measurement category according to IAS 39	New IFRS 9 measurement category	Carrying amount pursuant to IAS 39	New carrying amount pursuant to IFRS 9	Carrying amount pursuant to IFRS 9
	As of Dec. 31, 2017	As of Jan. 1, 2018	Dec. 31, 2017	Jan. 1, 2018	Dec. 31, 2018
Cash and cash equivalents	Credits and receivables	At amortized cost	45,498	45,498	45,314
Trade receivables	Credits and receivables	At amortized cost	302,621	305,739	306,351
Other current assets	Credits and receivables	At amortized cost	7,465	7,465	11,490
Derivatives	Held for trading	At fair value recognized through profit or loss	176	176	12
Non-current securities	Held to maturity	At amortized cost	829	829	549
Non-current securities	Available for sale	At fair value recognized through OCI	192	192	98
Other financial assets	Credits and receivables	At amortized cost	8	8	2,008
Other financial assets	Available for sale	At fair value recognized through OCI	7	7	8

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

	Cash and cash equivalents	Trade receivables	Other current assets
EUR k	CA	CA	CA
As of Dec. 31, 2018			
Financial assets at amortized cost	45,314	306,351	11,490
Financial assets at fair value through profit or loss	0	0	0
Financial assets at fair value through other comprehensive income	0	0	0
Total	**45,314**	**306,351**	**11,490**
As of Dec. 31, 2017			
Loans and receivables	45,498	302,621	7,465
Held to maturity	0	0	0
Held for trading	0	0	0
Available for sale	0	0	0
Total	**45,498**	**302,621**	**7,465**

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

	Other current liabilities	Current financial liabilities	Current financial leases	
EUR k	CA	CA	CA	FV
As of Dec. 31, 2018				
Financial liabilities at amortization cost	43,275	296,584	0	0
Financial liabilities measured at fair value through profit or loss	0	0	0	0
No IFRS 9 measurement category	0	0	202	209
As of Dec. 31, 2017				
Financial liabilities measured at amortization cost	47,467	221,666	0	0
Financial liabilities measured at fair value through profit or loss	0	0	0	0
No IAS 39 measurement category	0	0	278	295

	Derivatives	Non-current securities		Other financial assets		Total
	CA	CA	FV	CA	FV	CA
	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**
	0	0	0	8	8	355,592
	0	829	840	0	0	829
	176	0	0	0	0	176
	0	192	192	7	7	199
	176	**1,021**	**1,032**	**15**	**15**	**356,796**

	Trade payables	Derivatives		Non-current financial liabilities		Non-current financial leases		Total
	CA	CA	FV	CA	FV	CA	FV	CA
	135,560	0	0	471,898	430,639	0	0	947,317
	0	165	165	0	0	0	0	165
	0	0	0	0	0	107	109	309
	118,846	0	0	478,593	468,251	0	0	866,572
	0	11	11	0	0	0	0	11
	0	0	0	0	0	218	226	496

Other current liabilities contain a purchase price liability of EUR 29,921 k (2017: EUR 34,782 k) from a put option which is measured at amortized cost.

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

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

The fair value of the put option of non-controlling interests of ElringKlinger Marusan Corporation on their shares contained in other current liabilities is based on forecasts of 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 2,992 k (2017: EUR 3,478 k).

Equity instruments of the measurement category **at fair value recognized through other comprehensive income:**

EUR k	Fair value Dec. 31, 2018
Non-current securities	98
Other financial assets	8
Total	**106**

These equity instruments were allocated to the measurement category **at fair value recognized through other comprehensive income**. Generally speaking, ElringKlinger holds its equity interests for strategic reasons as a complement to the operating activities.

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, 2018:

EUR k	Level 1	Level 2	Level 3
Dec. 31, 2018			
Financial assets			
Non-current securities	98	0	0
Other financial assets	8	2,000	0
Derivatives*	0	12	0
Total	**106**	**2,012**	**0**
Financial liabilities			
Derivatives*	0	165	0
Total	**0**	**165**	**0**
Dec. 31, 2017			
Financial assets			
Non-current securities	192	0	0
Other financial assets	7	0	0
Derivatives*	0	176	0
Total	**199**	**176**	**0**
Financial liabilities			
Derivatives*	0	11	0
Total	**0**	**11**	**0**

* 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, 2018:

EUR k	Level 1	Level 2	Level 3
Dec. 31, 2018			
Financial assets			
Non-current securities	549	0	0
Other financial assets	0	0	8
Total	**549**	**0**	**8**
Financial liabilities			
Non-current liabilities from finance leases	0	0	109
Non-current financial liabilities	0	456,640	0
Purchase price liability from written put option	0	0	29,921
Total	**0**	**456,640**	**30,030**
Dec. 31, 2017			
Financial assets			
Non-current securities	829	0	0
Other financial assets	0	0	8
Total	**829**	**0**	**8**
Financial liabilities			
Non-current liabilities from finance leases	0	0	226
Non-current financial liabilities	0	468,251	0
Purchase price liability from written put option	0	0	34,782
Total	**0**	**468,251**	**35,008**

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

Level 1: Measurement based on market prices

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

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

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

The liabilities of fair value level 3 developed as follows:

EUR k	2018	2017
As of Jan. 1	**35,008**	**34,145**
Change in fair value	-4,978	863
As of Dec. 31	**30,030**	**35,008**

Net gains/losses on financial instruments

EUR k	2018	2017
At fair value recognized in profit or loss*	-153	165
Financial assets measured at amortized cost	1,877	-2,818
Financial liabilities measured at amortized cost	3,219	-7,134

* 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 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	2018	2017
Total interest income	562	314
Total interest expense	-13,388	-11,230

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

32 — Finance leases

Liabilities from finance leases relate to leases of property, plant and equipment which transfer substantially all risks and rewards of beneficial ownership to the Group as lessee. As of December 31, 2018, future minimum lease payments under finance leases amounted to EUR 318 k (2017: EUR 521 k). The reconciliation of future minimum lease payments from finance lease arrangements to the corresponding liabilities as of December 31, 2018 is as follows:

EUR k	Minimum lease payments Dec. 31, 2018	Interest included in minimum lease payments Dec. 31, 2018	Liabilities from finance leases Dec. 31, 2018
Due date			
Less than one year	209	7	202
Between one and five years	109	2	107
More than five years	0	0	0
Total	**318**	**9**	**309**

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

The following table presents changes in equity, debt and total capital as of December 31, 2018 as compared to December 31, 2017.

EUR million	2018	2017
Equity	**890.1**	**889.7**
as % of total capital	42.80%	44.00%
Non-current liabilities	642.5	634.8
Current liabilities	547.1	474.2
Liabilities in connection with assets held for sale	0	23.7
Debt	**1,189.60**	**1,132.70**
as % of total capital	57.20%	56.00%
Total capital	**2,079.70**	**2,022.40**

The change in equity from December 31, 2017 to December 31, 2018 was due primarily to an increase in revenue reserves and a decrease in other reserves. Debt increased year-on-year by 5.0%.

The equity ratio of the Group (42.8%) exceeded 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, 2018, there were no issues prevailing that would have justified banks exercising their unilateral right of termination.

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, 2017	478,811	221,944
Cash change	-7,812	71,400
Exchange rate differences	3,547	2,226
Change in fair value	0	0
Other changes	-2,541	1,216
Dec. 31, 2018	**472,005**	**296,786**
Dec. 31, 2016	320,813	257,392
Changes in cash	165,639	-22,051
Business acquisitions	1,048	0
Reclassifications of liabilities in connection with assets held for sale	0	-5,338
Exchange rate differences	-8,888	-9,232
Change in fair value	0	0
Other changes	199	1,173
Dec 31, 2017	**478,811**	**221,944**

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.

The Original Equipment segment generated 9.5% of the Group’s consolidated sales revenues from one customer (EUR 161,747 k).

Segment reporting

Segment	Original Equipment		Aftermarket		Engineered Plastics		Industrial Parks	
EUR k	2018	2017	2018	2017	2018	2017	2018	2017
External revenue	1,407,718	1,382,376	159,497	156,664	117,824	111,141	4,302	4,347
Intersegment revenue	20,321	19,933	0	0	25	194	530	567
Segment revenue	1,428,039	1,402,309	159,497	156,664	117,849	111,335	4,832	4,914
EBIT[1]/ Operating result	50,716	86,320	24,919	31,755	19,543	18,476	324	-463
Depreciation and amortization	88,376	90,101	2,975	2,300	6,104	6,181	1,069	1,034
Capital expenditures[2]	163,422	156,777	6,546	2,695	5,285	4,150	561	1,826
Segment assets	1,824,420	1,791,231	116,016	96,908	118,597	110,044	19,401	20,665

Segment	Services		Other		Consolidation		Group	
EUR k	2018	2017	2018	2017	2018	2017	2018	2017
External revenue	9,659	9,513	0	0	0	0	1,699,000	1,664,041
Intersegment revenue	7,260	6,875	0	0	-28,136	-27,569	0	0
Segment revenue	16,919	16,388	0	0	-28,136	-27,569	1,699,000	1,664,041
EBIT[1]/ Operating result	678	1,230	0	0	0	0	96,180	137,318
Depreciation and amortization	1,923	1,463	0	0	0	0	100,447	101,079
Capital expenditures[2]	2,753	760	0	0	0	0	178,567	166,208
Segment assets	16,052	14,238	0	0	-14,785	-10,706	2,079,701	2,022,380

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

Segment reporting by region

Region EUR k		Sales revenues[1]	Non-current assets	Investments
Germany	2018	428,545	535,477	74,092
	2017	426,201	514,447	61,604
Rest of Europe	2018	515,574	271,528	19,013
	2017	521,507	272,922	46,704
NAFTA	2018	360,287	203,974	53,486
	2017	323,277	161,558	32,531
Asia-Pacific	2018	314,509	201,829	26,299
	2017	317,269	195,898	22,686
South America and rest of the world	2018	80,085	23,273	5,677
	2017	75,787	21,914	2,683
Group	**2018**	**1,699,000**	**1,236,081**[2]	**178,567**
	2017	**1,664,041**	**1,166,739**[2]	**166,208**

[1] The location of the customer is used to determine allocation of sales revenues to the regions.
[2] This includes financial assets of EUR 2,662 k (2017: EUR 1,036 k)

Other disclosures

Contingent liabilities

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

Contingent assets and liabilities

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

Operating leases

Expenses include payments from operating leases of EUR 14,968 k (2017: EUR 10,756 k).

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

EUR k	Dec. 31, 2018	Dec. 31, 2017
Less than one year	10,511	4,781
Between one and five years	19,336	9,212
More than five years	5,212	867
Total	**35,059**	**14,860**

Of the total, EUR 27,058 k (2017: EUR 8,135 k) is related to outstanding obligations from binding operating leases for commercial premises, EUR 6,436 k (2017: EUR 5,236 k) to office equipment, and EUR 1,565 k (2017: EUR 1,490 k) to other lease arrangements.

Financial leases

Information on the finance lease can be found under note (32).

Other financial commitments

Energy purchase commitments

EUR k	Dec. 31, 2018	Dec. 31, 2017
Less than one year	11,954	10,946
Between one and five years	21,489	19,287
Total	**33,443**	**30,233**

Proceeds from lease agreements

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

EUR k	Dec. 31, 2018	Dec. 31, 2017
Less than one year	1,658	1,753
Between one and five years	1,675	2,888
More than five years	0	1,792
Total	**3,333**	**6,433**

Number of employees

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

	2018	2017
Employees	9,670	8,628
Trainees	363	373
Total	**10,033**	**9,001**

Personnel expenses

Personnel expenses in the reporting year amounted to EUR 531,175 k (2017: EUR 486,278 k) and break down as follows:

EUR k	Dec. 31, 2018	Dec. 31, 2017
Wages and salaries	454,366	416,475
Social security contributions	66,354	60,969
Post-employment benefit	10,455	8,834
Total	**531,175**	**486,278**

Events after the end of the reporting period

On February 15, 2019 a syndicated loan of EUR 350,000 k with a minimum term of five years was concluded with six national and international banks. Standard bank financial covenants were agreed.

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 42 k during the reporting year (2017: EUR 56 k). Receivables outstanding amounted to EUR 10 k (2017: EUR 0 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 300 k in rental income including ancillary costs in the reporting year (2017: EUR 298 k). As in the previous year, there were no open receivables as of the end of the reporting period.

Agreement between ElringKlinger Logistic Service GmbH, Rottenburg-Ergenzingen, and Lechler GmbH, Metzingen, regarding assembly activities and the storage of components. This agreement gave rise to EUR 533 k in sales revenue during the reporting year (2017: EUR 542 k). As of December 31, 2018, there were open receivables of EUR 33 k (2017: EUR 0 k).

Business relations between the ElringKlinger subsidiary, Changchun ElringKlinger Ltd., China, (CEK), and CHYAP, the company controlled by Ms. Liu, a close relative of Mr. Huang, who is a joint partner in CEK. CEK procured EUR 76 k worth of services under these business relations in 2018 (2017: EUR 99 k). As of December 31, 2018, there is EUR 4 k in liabilities (2017: EUR 17 k). Furthermore, CEK sold EUR 89 k worth of goods and raw materials to CHYAP (2017: EUR 62 k). As in the previous year, there are no outstanding trade receivables as of the reporting date 2018.

Loan agreement between Lechler GmbH and ElringKlinger AG. Lechler GmbH granted ElringKlinger AG loans totaling EUR 17,000 k (2017: EUR 17,000 k). A loan of EUR 7,000 k was extended indefinitely in the reporting period and carries an interest rate of 2.10% p.a., an additional loan of EUR 5,000 k carries an interest rate of 0.69% p.a. and has a term until August 15, 2019, a further 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, a wholly owned subsidiary of ElringKlinger AG. KOCHWERK Catering GmbH supplies Lechler GmbH with canteen food. KOCHWERK Catering GmbH earned EUR 127 k during the reporting year (2017: EUR 160 k). As of the end of the reporting period, outstanding receivables came to EUR 10 k (2017: EUR 1 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 6,204 k. Outstanding liabilities come to EUR 2,372 k as of December 31, 2018. The services received mainly relate to services for sales, project management and product development of EUR 5,871k and 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 of EUR 309 k. 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 2,971 k. Outstanding liabilities come to EUR 3,179 k as of December 31, 2018.

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 **Governance roles:** 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 (since January 1, 2019), Secretary for the metal and electrical industry of the IG Metall trade union, Baden-Württemberg district administration, Stuttgart (until December 31, 2018) **Governance roles:** a) Robert Bosch Automotive Steering GmbH, Schwäbisch Gmünd Robert Bosch GmbH, Gerlingen-Schillerhöhe b) n/a
Armin Diez* Lenningen	Vice president of the Battery Technology/E-Mobility Division at ElringKlinger AG, Dettingen/Erms **Governance roles:** a) n/a b) Member of the Advisory Board of e-mobil BW GmbH, Stuttgart
Pasquale Formisano* Vaihingen an der Enz	Chairman of the Works Council of ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen

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

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

Remuneration of the Supervisory Board

Total remuneration of the Supervisory Board of ElringKlinger AG amounted to EUR 672 k (2017: EUR 702 k) in the reporting period. In addition, travel expenses in the amount of EUR 4 k (2017: EUR 1 k) were reimbursed. The remuneration of the employee representatives in the Supervisory Board amounted to EUR 719 k in 2018 (2017: EUR 667 k) for their activities as employees.

Management Board

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

Governance roles in supervisory boards and other supervisory bodies

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

Remuneration of the Management Board

The remuneration of the Management Board amounted to:

EUR k	2018	2017
Short-term fixed remuneration	1,655	1,391
Short-term variable performance-based remuneration	2,576	2,474
Long-term variable performance-based remuneration	-66	-230
Long-term variable share-based remuneration	0	-19
Severance payments	0	0
Expenses from post-employment benefits	812	638
Total	**4,977**	**4,254**

In the financial year, total Management Board remuneration pursuant to Sec. 314 (1) no. 6a sentence 1 to 4 HGB came to EUR 4,231 k (2017: EUR 3,940 k). The present value (DBO) of the pension provisions amounted to EUR 10,425 k (2017: EUR 10,098 k).

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

Provisions of EUR 15,449 k (2017: EUR 16,916 k) were recognized for pension obligations to former members of the management board, the management of merged companies, and their surviving dependents. The total remuneration of former members of the Management Board – including remuneration of former members of corporate bodies of merged companies – came to EUR 869 k (2018: EUR 861 k) during financial year 2018.

The auditor fees amounted to:

EUR k	2018	2017
Audit of the annual financial statements	732	642
Other assurance services	29	33
Tax advisory	0	40
Total	**761**	**715**

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. Furthermore, they contain fees for the audit of financial statements for a specific purpose.

Declaration of compliance with the German Corporate Governance Code

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

Dettingen/Erms, March 21, 2019
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, 2018, the consolidated statement of financial position as of December 31, 2018, the consolidated statement of cash flows and the consolidated statement of changes in equity for the financial year from January 1 to December 31, 2018, 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 31 December 2018.

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 31 December 2018, and of its financial performance for the fiscal year from 1 January to 31 December 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

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

Basis for the opinions

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

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2018. 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 on 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 approved by the Management Board and Supervisory Board. The result of these measurements depends chiefly on the executive directors' estimates of the future cash flows of the respective 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 in the economic environment in the automotive sector. The manifestations of this weakening in geographic regions, in which the Group entities operate, were 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. We included our valuation specialists in the audit to assess the valuation model and the calculation inputs. With the help of internal valuation experts, we obtained an understanding of the underlying valuation models for the determination of the 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 approved by the Management Board and the Supervisory Board. We performed a target-actual comparison of the historical forecast data and the actual results on a sample test basis to assess forecast accuracy by comparing the medium-term planning of the previous years with the actual values of the financial year. 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 “Recognition and measurement policies” and “Goodwill” in the notes to the consolidated financial statements.

Revenue recognition taking into account the effects from the first-time application of the new standard IFRS 15

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 financial year 2018, the first-time application of the new financial reporting standard for revenue recognition “International Financial Reporting Standard 15 - Revenue from Contracts with Customers (IFRS 15)” resulted in effects on the presentation of individual cash flows in the consolidated financial statements. The first-time application of the new standard IFRS 15 required a new assessment of the existing customer contracts in the entire Group. Particularly on the basis of the cash flows identified by the parent company, the assessment included existence of prerequisites for revenue recognition related to the period, the treatment of contract costs and the accompanying changes in the disclosure in the statement of financial position by the parent company. 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. Furthermore, the first-time application of IFRS 15 led to an extension of the information presented in the consolidated financial statements.

Revenue recognition in this context, due to the materiality of revenue and the related effects on earnings as well as the situation that revenue and earnings before interest and taxes (EBIT) represent key financial performance indicators for corporate governance and corporate planning, is a key audit matter.

Auditor’s response:

During our audit, based on our understanding of the business and process, we obtained an understanding of the contractual arrangements with the customers, especially the contractual arrangements governing the time of transfer of risk, as well as the arrangements regarding the billing procedure. Against this background, we assessed the processes established by the executive directors for the implementation of the new standard with regard to the first-time application of IFRS 15. As part of the assessment of the first-time application of IFRS 15, we evaluated the contract analysis performed by the executive directors. In assessing executive directors’ analysis of group-wide contracts, we observed the clauses which we expect to have an effect on the accounting in view of the Group’s business model.

We examined the assessment of the parent company related to the effect of the new standard IFRS 15 on the individual cash flows and the resulting implications for the consolidated financial statements. We examined on a sample basis the contracts of the Group entities, whether 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 there is no alternative use for the series parts and the entity has 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 is 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. Further, we reviewed the disclosures on the effects of the first-time application of IFRS 15 in the notes to the consolidated financial statements.

Our audit procedures did not lead to any reservations relating to revenue recognition, particularly taking into account the first-time application of the new standard IFRS 15.

Reference to related disclosures:

For recognition and measurement policies applied in the course of revenue recognition taking into account the effects from the first-time application of the new standard IFRS 15 , 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 other components of the annual report, with the exception of the audited consolidated financial statements and the consolidated management report as well as our independent auditor's report, especially the "Responsibility Statement" pursuant to Section 297 (2) Sentence 4 HGB, the Section "Foreword of the Chairman of the Management Board" of the annual report and the Report by the Supervisory Board pursuant to Section 171 (2) AktG. 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, 2018. We were engaged by the Supervisory Board on August 8, 2018. We have been the auditor of ElringKlinger AG without interruption since financial year 2013.

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

German Public Auditor responsible for the engagement

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

Stuttgart, March 21, 2019
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

Responsibility Statement

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

Dettingen/Erms, March 21, 2019
Management Board

Dr. Stefan Wolf CEO	Theo Becker	Thomas Jessulat	Reiner Drews