Notes to the Consolidated Financial Statements

for the Financial Year 2019

General information

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

The financial year is the calendar year.

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

Accounting principles

The consolidated financial statements of ElringKlinger AG as of December 31, 2019, have been prepared in accordance with the International Financial Reporting Standards (IFRSs) approved by the International Accounting Standards Board (IASB) as adopted by the European Union (EU), the interpretations of the International Financial Reporting Interpretations Committee (IFRS IC), the supplementary commercial law regulations pursuant to Sec. 315e (1) German Commercial Code (Handelsgesetzbuch, "HGB") and the provisions of German commercial and stock corporation law. ElringKlinger AG's Articles of Association contain regulations on profit appropriation. All IASs, IFRSs and IFRICs mandatory for the financial year 2019 have been observed.

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

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

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

The following regulations and amendments to existing regulations were applied for the financial year 2019 for the first time:

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

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

Annual Improvements to IFRSs (2015–2017)

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

Amendments to IAS 19 Employee Benefits

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

Amendments to IAS 28 Investments in Associates

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

IFRIC 23 Uncertainty over Income Tax Treatments

In June 2017, the IFRS Interpretations Committee (IFRS IC) published IFRIC 23 "Uncertainty over Income Tax Treatments". The interpretation clarifies the requirements of the recognition and measurement of uncertain income tax items. A company is to assess the likelihood of the relevant authority accepting the respective tax treatment.

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

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

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

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

IFRS 16 Leases

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Amendments to IFRS 9, IAS 39 and IFRS 7

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

Amendments to IAS 1 and IAS 8

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

Amendments to IFRS 3

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

IFRS 17 Insurance Contracts

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

Amendment to IAS 1

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

Scope of consolidated financial statements

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

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

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

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

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

An overview of the 38 companies included in the consolidated financial statements of the parent company is provided below.

Schedule of Shareholdings and Scope of Consolidation

as of December 31, 2019

Name of company	Registered office	Share of capital in %
Parent company		
ElringKlinger AG[1]	Dettingen/Erms	
Shares in affiliated companies (fully consolidated in the consolidated financial statements)		
Germany		
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
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.	Gumi-si (South Korea)	100.00
ElringKlinger China, Ltd.	Suzhou (China)	100.00
ElringKlinger Chongqing Ltd.	Chongqing (China)	100.00
ElringKlinger Engineered Plastics North America, Inc.[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 using the equity method in the consolidated financial statements)		
Germany		
hofer AG	Nürtingen	24.71

[1] ElringKlinger AG prepares the consolidated financial statements for the largest and smallest group of subsidiaries to be consolidated.
[2] Wholly owned 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

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

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

(EKT subgroup) controlling interests of 77.5% (unchanged). The non-controlling interests amount to 22.5%.

The share in the earnings of this subgroup attributable to non-controlling interests for the financial year 2019 is EUR 2,636 k (2018: EUR 3,109 k).

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

Cash flow of the subgroup:

Cash flow of the subgroup

EUR k	2019	2018
Operating activities	26,087	16,661
Investing activities	-8,725	-4,905
Financing activities	-16,041	-11,487
Changes in cash	**1,321**	**269**
Effects of currency exchange rates on cash	**7**	**-1**

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

Summarized key financial information of the subgroup

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

Further detailed information

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

Newly formed company 2019

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

Divestitures 2019

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

Merger 2019

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

Newly formed company 2018

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

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

Merger 2018

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

Divestitures 2018

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

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

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

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

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

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

Summary of the principal accounting and measurement methods

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

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

Consolidation methods

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

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

Any remaining negative difference is recorded in income.

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

If additional shares of an already fully consolidated subsidiary are acquired, the difference between the purchase price and carrying amount of non-controlling interests is recognized through other comprehensive income.

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

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

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

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

Investments in associates

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

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

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

Currency translation

The reporting currency of the ElringKlinger Group is the euro.

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

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

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

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

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

		Closing rate		Average rate	
Currency	**Abbr.**	**Dec. 31, 2019**	**Dec. 31, 2018**	**2019**	**2018**
US dollar (USA)	USD	1.12340	1.14500	1.11945	1.17932
Pound sterling (UK)	GBP	0.85080	0.89453	0.87587	0.88595
Franc (Switzerland)	CHF	1.08540	1.12690	1.11114	1.15158
Canadian dollar (Canada)	CAD	1.45980	1.56050	1.48221	1.53288
Real (Brazil)	BRL	4.51570	4.44400	4.41745	4.32938
Peso (Mexico)	MXN	21.22020	22.49210	21.60815	22.65259
RMB (China)	CNY	7.82050	7.87510	7.72366	7.81563
WON (South Korea)	KRW	1,296.28000	1,277.93000	1,303.16917	1,295.97500
Rand (South Africa)	ZAR	15.77730	16.45940	16.17013	15.61657
Yen (Japan)	JPY	121.94000	125.85000	121.95917	130.00583
Forint (Hungary)	HUF	330.53000	320.98000	325.75167	319.97250
Turkish lira (Turkey)	TRY	6.68430	6.05880	6.35774	5.68349
Leu (Romania)	RON	4.78300	4.66350	4.75011	4.65583
Indian rupee (India)	INR	80.18700	79.72980	78.77538	80.62578
Indonesian rupiah (Indonesia)	IDR	15,595.60000	16,500.00000	15,800.49750	16,788.76417
Baht (Thailand)	THB	33.41500	37.05200	34.59233	38.05167
Swedish krona (Sweden)	SEK	10.44680	10.25480	10.58238	10.29367

Accounting policies

Goodwill

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

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

Testing for impairment

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

Impairment of goodwill is not reversed, even if the impairment has ceased to apply. The recoverable amount of the respective cash-generating unit for impairment testing as of December 31, 2019, is determined using the respective value in use as present value of forecast future cash inflows. For this purpose, the value in use of the cash-generating unit is determined by discounting future cash flows. A detailed plan of the cash flows for the cash-generating units is established over the forecast period of five years. Subsequent periods are accounted for by a perpetual annuity (terminal value) determined on the basis of the last detailed planning year.

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

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

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

The cost of capital of the cash-generating unit is calculated as the weighted average cost of equity and debt capital. Capital structure, equity and debt capital are based on the Company's peer group and are derived from the available capital market information. The WACC (weighted average cost of capital) applied in each case is determined on the basis of the risk-free rate according to the method of the IDW ["Institut der Wirtschaftsprüfer in Deutschland e. V.,": Institute of Public Auditors in Germany], the market risk premium and the beta factor. Beta represents the individual risk of a share as compared to a market index. It is calculated as the average value for the peer group. The credit spread, which expresses the premium over the risk-free rate, was derived from a rating of the peer group.

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

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

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

Original Equipment

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

Engineered Plastics

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

Aftermarket

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

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

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

Intangible assets

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

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

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

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

Property, plant and equipment

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

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

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

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

Investment property

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

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

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

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

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

Impairments and reversals of impairments are recorded through profit or loss.

Assets and liabilities held for sale

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

Financial instruments

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

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

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

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

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

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

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

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

Financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial liabilities

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

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

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

At ElringKlinger, **financial liabilities measured at amortized cost** include trade payables, liabilities to banks and other financial liabilities. They are measured at amortized cost using the effective interest method. Gains or losses are recognized through profit or loss when the liability is retired or has been redeemed.

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

Other current liabilities

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

Derivative financial instruments and hedge accounting

Under IFRS 9, all derivative financial instruments such as currency, price and interest swaps as well as forward exchange transactions, must be recognized at market values, independently of the purpose or the intent of the agreement under which they were concluded. Since no hedge accounting is applied in the ElringKlinger Group, the changes in the fair value of the derivative financial instruments are always recognized through profit or loss.

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

Costs to fulfill a contract

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

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

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

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

Contract assets and contract liabilities

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

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

Inventories

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

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

Cash and cash equivalents

Cash and cash equivalents include cash in hand, checks and bank deposits available on demand. There are cash equivalents. Cash is recognized at amortized cost.

Provisions for pensions

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

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

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

Provisions

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

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

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

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

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

Leases

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

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

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

Recognition of income and expense

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

Sales revenue is recorded when the performances due have been rendered and the control has passed to the buyer and receipt of the payment can be reliably expected.

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

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

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

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

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

Research and development costs

Research costs are expensed at the time they are incurred. The costs for development activities are capitalized provided all of the following criteria are fulfilled:

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

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

Government grants

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

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

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

Borrowing costs

Borrowing costs directly associated with the acquisition, construction, or production of qualifying assets are added to the production costs of these assets until the period in which the assets are largely available for their intended use or for their sale. Interest not capitalized pursuant to IAS 23 is recognized on an accrual basis as an expense using the effective interest method. The actual borrowing costs are capitalized if a financing loan can be definitively assigned to a specific investment. Unless a direct relationship can be established, the Group's average interest rate for borrowed capital for the current period is used. The Group's average interest rate for borrowed capital for the financial year 2019 amounted to 2.02% (2018: 1.77%). In the financial year 2019, borrowing costs of EUR 358 k (2018: EUR 232 k) were capitalized.

Income taxes and deferred taxes

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

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

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

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

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

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

Contingent liabilities and contingent receivables

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

Use of estimates

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

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

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

Risks and uncertainties

As a rule, the global automotive markets develop similarly to the economy in general. If economic development cools down considerably, this represents a risk for demand and ultimately for vehicle production. This could possibly result in lower demand for the product portfolio of the ElringKlinger Group.

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

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

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

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

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

Individual disclosures on the Group Income Statement

1 — Sales revenue

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

Breakdown by geographical markets:

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

The location of the customer is used to determine allocation of sales revenue. The division of group sales revenue by segment and region is provided under note (35) Segment reporting.

Contract balances

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

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

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

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

Reconciliation of contract balances

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

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

Performance obligations

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

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

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

2 — Cost of sales

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

Cost of sales includes:

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

3 — Selling expenses

Compared to 2018, selling expenses decreased by EUR 13,080 k to EUR 133,435 k. Selling expenses mainly include personnel expenses, material and marketing costs, as well as depreciation and amortization related to sales activities.

4 — General and administrative expenses

General and administrative expenses primarily include personnel expenses and material costs as well as the depreciation and amortization related to the administrative area. General and administrative expenses rose by EUR 777 k compared to 2018 to reach EUR 84,823 k.

5 — Research and development costs

Research and development costs include the personnel expenses, amortization and depreciation and the cost of experimental materials and tools attributable to these activities, unless these are development costs that are required to be capitalized under the conditions set forth in IAS 38.57. Compared to 2018, research and development costs decreased by EUR 12,045 k to EUR 64,071 k. Development costs of EUR 16,695 k (2018: EUR 11,073 k) were capitalized in the financial year 2019.

6 — Other operating income

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

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

7 — Other operating expenses

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

8 — Associates

ElringKlinger holds a share of 24.71% in hofer AG, Nürtingen. The hofer Group is a competent systems developer for drive train systems in the automotive sector. ElringKlinger continues to use the equity method to account for its share in hofer AG in the consolidated financial statements. The following table provides summarized information of the Group's investment in hofer AG.

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

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

EUR k	2019	2018
Non-current assets	56,724	52,297
Current assets	90,421	35,789
Non-current liabilities	19,371	15,403
Current liabilities	46,496	29,131
Net assets	**81,278**	**43,552**
Group share (24.71%; 2018: 28.89%)	20,084	12,582
Goodwill	13,432	15,704
Accumulated impairment loss previous years	-4,287	0
Impairment loss current year	-5,523	-5,012
Carrying amount of the Group's share	**23,706**	**23,274**
Sales revenue	109,759	65,465
Comprehensive income for the financial year	**-4,965**	**-938**
thereof other comprehensive income	-455	22
Group share in profit/loss	**-1,961**	**-271**
Dividends received	**0**	**0**

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

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

This calculation is based on the following key assumptions:

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

The discount factor applied as of December 31, 2019 was the weighted average cost of capital (WACC) before taxes of 9.75% (2018: 10.61%). The WACC is determined on the basis of the risk-free rate according to the method of the IDW ["Institut der Wirtschaftsprüfer in Deutschland e. V.": Institute of Public Auditors in Germany], the market risk premium and the beta factor. Beta represents the individual risk of a share as compared to a market index. It is calculated as the average value for the peer group. The credit spread, which expresses the premium over the risk-free rate, was derived from a rating of a peer group.

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

9 — Net finance costs

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

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

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

10 — Income taxes

Income taxes break down as follows:

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

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

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

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

The following table shows a reconciliation between the income tax expense that might theoretically be expected to arise for the Group under application of the current domestic rate of 24.2% (2018: 24.9%) and the income tax expense actually reported.

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

Retained earnings of EUR 28,447 k (2018: EUR 26,147 k) at domestic and foreign subsidiaries will be distributed to ElringKlinger AG in the coming years. The tax expense on distributions in Germany amounts to EUR 1,238 k (2018: EUR 1,083 k) and was recorded as a deferred tax liability. Further retained earnings of domestic and foreign subsidiaries of EUR 189,217 k (2018: EUR 229,943 k) are intended to be permanently reinvested in those operations on the basis of current planning.

Deferred tax assets on tax loss carryforwards have been recognized in the amount of EUR 8,063 k (2018: EUR 12,176 k). No deferred tax assets were recognized in respect of tax loss carryforwards amounting to EUR 198,706 k (2018: EUR 128,442 k), since it was not expected that the deferred tax assets would be utilized in the foreseeable future.

Unused income tax loss carryforwards primarily relate to foreign subsidiaries. The loss carryforwards not recognized for tax purposes will be forfeited as follows:

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

Tax deferrals relate to the following line items:

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

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

11 — Basic and diluted earnings per share

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

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

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

Disclosures on the Group Statement of Financial Position

12 — Intangible assets

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

EUR k	Development costs (internally developed)	Goodwill (purchased)	Patents, licenses, software and similar rights (purchased)	Intangible assets under construction (purchased)	Total
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
As of Dec. 31, 2018	**48,995**	**171,327**	**50,930**	**1,386**	**272,638**
Write-downs 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
Write-downs 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
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**

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

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

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

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

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**
Write-downs 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
Write-downs 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 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 Dec. 31, 2018	**383,168**	**431,548**	**72,400**	**110,727**	**997,843**

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

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

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

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

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

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

14 — Investment property

EUR k	Investment property	Investment property under construction	Total
Acquisition/production cost as of Jan. 1, 2019	**28,185**	**106**	**28,291**
Currency changes	-564	-3	-567
Additions	106	261	367
Reclassifications	263	-263	0
Disposals	0	90	90
Reclassification Assets held for sale	19,227	0	19,227
As of Dec. 31, 2019	**8,763**	**11**	**8,774**
Write-downs as of Jan. 1, 2019	**11,724**	**0**	**11,724**
Currency changes	-187	0	-187
Additions	267	0	267
Disposals	0	0	0
Reclassification Assets held for sale	6,293	0	6,293
As of Dec. 31, 2019	**5,511**	**0**	**5,511**
Net carrying amount as of Dec. 31, 2019	**3,252**	**11**	**3,263**
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**
Write-downs 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**

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

Investment property has a fair value of EUR 5,344 k as of the reporting date (2018: EUR 25,615 k). The input data used to determine the fair value correspond to stage 3 of the fair value hierarchy. The fair value is determined using the discounted cash flow method and official valuations. Under the discounted cash flow method, the surplus of expected future rental payments over the expected cash expenses is discounted to the valuation date. The discount rate used for the Idstein industrial park was 2.78% (2018: 3.22%). Measurement of the fair values was not performed by an independent expert.

All investment property is rented out under leases. The resulting rental income came to EUR 4,116 k (2018: EUR 4,302 k). Expenses directly connected with these financial investments amounted to EUR 4,048 k (2018: EUR 4,508 k). Material contractual commitments to acquire or maintain investment property did not exist as of the end of the reporting period. Furthermore, there were no limitations regarding the salability of investment property.

15 — Financial assets and shares in associates

EUR k	Shares in associates	Non-current securities	Other financial assets	Total
Acquisition cost as of Jan. 1, 2019	**28,286**	**729**	**2,016**	**31,031**
Currency changes	-106	-1	0	-107
Additions	0	1,020	0	1,020
Changes in value	6,061	-18	0	6,043
Disposals	0	111	0	111
As of Dec. 31, 2019	**34,241**	**1,619**	**2,016**	**37,876**
Depreciation and amortization as of Jan. 1, 2019	**5,012**	**82**	**0**	**5,094**
Currency changes	0	-1	0	-1
Additions	5,523	10	0	5,533
Changes in value	0	0	0	0
Write-ups	0	7	0	7
Disposals	0	0	0	0
As of Dec. 31, 2019	**10,535**	**84**	**0**	**10,619**
Net carrying amount as of Dec. 31, 2019	**23,706**	**1,535**	**2,016**	**27,257**
Fair value Dec. 31, 2019		1,540	2,016	
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 and amortization 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	

Of the non-current securities, EUR 309 k (2018: EUR 549 k) is pledged in full to secure pension claims.

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

Non-current income tax assets include an investment income tax credit carried by ElringKlinger Automotive Components (India) Pvt. Ltd., based in Ranjangaon, India, of EUR 295 k (2018: EUR 98 k).

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

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

17 — Costs to fulfill a contract

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

18 — Non-current and current contract assets

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

19 — Inventories

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

21 — Cash and cash equivalents

The item cash and cash equivalents comprises cash and deposits held by the Group in current accounts. As in the previous year, there were no cash equivalents. No significant events for impairment pursuant to IFRS 9 were identified.

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

22 — Assets and liabilities held for sale

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

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

23 — Equity

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

The share capital of ElringKlinger AG amounted to EUR 63,359,990 as of December 31, 2019 and is divided into 63,359,990 registered shares, each entitled to a single vote. The share capital is paid in full. Each registered share represents a theoretical interest of EUR 1.00 of the share capital. Profit is distributed in accordance with Sec. 60 AktG ["Aktiengesetz": German Stock Corporation Act] in conjunction with Sec. 23 no. 1 of the Articles of Association.

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

- in order to eliminate fractional amounts;
- if the capital increase against in-kind contributions is implemented specifically for the purpose of acquiring companies, parts of companies, equity investments classified as fixed financial assets or other assets in connection with an intended acquisition or within the framework of business combinations and the shares issued excluding the subscription rights do not exceed 10% of the capital stock, either on the date on which this authorization takes effect or on the date on which it is exercised.
- if the new shares are issued against cash contributions and if the issue price per new share does not fall significantly below the quoted price of shares already listed, and the shares issued without subscription

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

The Management Board has not exercised the authorization to date.

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

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

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

Under the AktG, the distributable dividend is measured by the sum of retained earnings and the profit or loss for the year, as shown in the annual financial statements of ElringKlinger AG that have been drawn up according to the provisions of the German Commercial Code (HGB). In view of the Group's earnings performance in fiscal 2018, the Management Board and the Supervisory Board have jointly agreed to depart from the Group's established dividend policy and to suspend the dividend for the financial year 2018. Accumulated loss of EUR 17,112 k (2018: EUR 5,291 k) is reported in the financial year 2019. Therefore, Management Board and Supervisory Board have decided jointly not to distribute a dividend for the financial year 2019. The loss will carried forward to new account.

24 — Non-controlling interests in equity and net income

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

25 — Provisions for pensions

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

Under the **defined contribution plans** the Company pays contributions to state or private pension schemes on the basis of statutory or contractual obligations or on a voluntary basis. Once the contributions are paid, the Company has no further obligations, such as follow-up contribution payments. Current contribution payments are reported under personnel expenses in the reporting year; in the reporting year, the Group's contribution payments totaled EUR 26,589 k (2018: EUR 25,554 k) and are allocated to the relevant function costs.

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

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

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

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

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

Measurement as of	Dec. 31, 2019	Dec. 31, 2018
Discount rate (vesting period)	0.90%	1.78%
Discount rate (pension period)	0.74%	1.46%
Expected salary increases (in %)	2.69%	2.67%
Future pension increases	1.50%	1.52%

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

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

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

Actuarial gains and losses arise from the following effects:

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

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

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

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

EUR k	2019	2018
Present value of pension benefits as of Dec. 31		
Germany	142,096	120,371
Switzerland	29,943	27,127
Other	6,128	5,468
Present value of pension benefits as of Dec. 31	**178,167**	**152,966**
Market value of plan assets as of Dec. 31		
Germany	8,453	7,762
Switzerland	21,001	20,414
Other	498	389
Market value of plan assets as of Dec. 31	**29,952**	**28,565**

The actual return on plan assets amounts to EUR 347 k (2018: EUR 272 k).

In 2020, liquidity is likely to be reduced due to contributions to plan assets and the reimbursement rights and by direct Group benefit payouts, which are expected to amount to EUR 6,494 k (2018: EUR 5,149 k). The future payments from pension obligations are as follows:

EUR k	2019	2018
For the next 12 months	6,494	5,149
Between one and five years	65,274	69,291
More than five years	257,853	271,684

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

EUR k	2019	2018
Current service cost	5,417	5,508
Net interest expenses	2,179	2,004
Past service cost	0	161
Total pension expense	**7,596**	**7,673**

Net interest expenses comprise interest expenses of EUR 2,513 k (2018: EUR 2,285 k) as well as interest income from plan assets of EUR 334 k (2018: EUR 281 k).

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

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

EUR k	2019	2018
Actuarial gains (–) and losses (+) recognized in other comprehensive income	21,911	-3,493
Deferred taxes on actuarial gains (–) and losses (+) recognized under other comprehensive income	6,019	1,161

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

EUR k	2019	2018
Present value of pension obligation	178,167	152,966
Fair value of plan assets	29,952	28,565
Reported pension provision	148,215	124,401

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

A 1% increase/decrease in the discount rate would lead to a decrease/increase in the DBO of EUR 33,440 k/ EUR 38,372 k.

A 0.5% increase/decrease in future salary increases would lead to an increase/decrease in the DBO of EUR 6,382 k/EUR 6,058 k.

A change in future pension developments of +0.25%/-0.25% would lead to an increase/decrease in the DBO of EUR 7,275 k/EUR 6,995 k.

26 — Other provisions

Other provisions can be broken down as follows:

EUR k	Dec. 31, 2019	Dec. 31, 2018
Current provisions	17,713	10,769
Non-current provisions	18,503	19,603
Total	**36,216**	**30,372**

Current provisions:

EUR k	Personnel obligations	Warranty obligations	Potential losses from customer contracts	Litigation costs	Other risks	Total
As of Dec. 31, 2018	**2,864**	**2,299**	**4,133**	**198**	**1,275**	**10,769**
Currency changes	9	11	26	-2	32	76
Utilization	3,371	395	3,276	5	201	7,248
Reversal	96	928	21	164	834	2,043
Addition	2,888	6,787	3,752	94	2,600	16,121
Reclassifications	0	6	0	0	32	38
As of Dec. 31, 2019	**2,294**	**7,780**	**4,614**	**121**	**2,904**	**17,713**

The increase in current warranty provisions in the reporting year is mainly attributable to warranty incidents at a foreign entity. Current warranty obligations are counterbalanced by insurance reimbursements claims of EUR 4,670 k. They are reported under other current assets.

Non-current provisions:

EUR k	Personnel obligations	Warranty obligations	Litigation costs	Other risks	Total
As of Dec. 31, 2018	**13,373**	**5,560**	**26**	**644**	**19,603**
Currency changes	15	0	0	11	26
Utilization	402	27	5	8	442
Reversal	0	4,090	21	2	4,113
Unwinding of discount/discounting	137	0	0	0	137
Addition	1,453	225	15	1,636	3,329
Reclassifications	0	-5	0	-32	-37
As of Dec. 31, 2019	**14,576**	**1,663**	**15**	**2,249**	**18,503**

Non-current warranty obligations are counterbalanced partially by a claim of insurance reimbursement, which is reported under other non-current assets. Due to a technical evaluation performed by ElringKlinger AG, the liability has decreased in this case, decreasing the provision in the current financial year to EUR 750 k (2018: EUR 4,500 k).

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

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

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

27 — Non-current and current financial liabilities

EUR k	Domestic (Germany)	Foreign	Total Dec. 31, 2019	Domestic (Germany)	Foreign	Total Dec. 31, 2018
Overdrafts	11,631	4,262	15,893	169,740	9,256	178,996
Lease liabilities with a residual term of less than one year	2,847	8,202	11,049	0	0	0
Financial liabilities with a residual term of less than one year	80,096	53,269	133,365	70,074	47,716	117,790
Current financial liabilities	**94,574**	**65,733**	**160,307**	**239,814**	**56,972**	**296,786**
Lease liabilities with a residual term of more than one year and less than five years	3,851	21,114	24,965	0	0	0
Financial liabilities with a residual term of between one and five years	412,057	96,711	508,768	253,309	95,692	349,001
Lease liabilities with a residual term of more than five years	198	10,495	10,693	0	0	0
Financial liabilities with a residual term of more than five years	25,990	0	25,990	123,004	0	123,004
Non-current financial liabilities	**442,096**	**128,320**	**570,416**	**376,313**	**95,692**	**472,005**
Total	**536,670**	**194,053**	**730,723**	**616,127**	**152,664**	**768,791**

Lease liabilities from IFRS 16 are described in more detail in Note (30) Hedging policy and financial instruments.

The average interest rates were:

in %	Dec. 31, 2019	Dec. 31, 2018
Overdrafts:		
Domestic (Germany)	4.08	2.13
Foreign	3.06	3.15
Financial liabilities:		
Domestic: less than one year	1.69	1.75
Domestic: between one and five years	1.68	1.32
Domestic: more than five years	1.85	1.44
Foreign: less than one year	3.50	2.74
Foreign: between one and five years	3.73	2.57
Foreign: more than five years		

Fixed interest rates have been agreed for financial liabilities amounting to EUR 446,349 k (2018: EUR 573,870 k).

Land charges on company land with a carrying amount of EUR 130,694 k (2018: EUR 159,533 k) are recognized as collateral. The secured liabilities amounted to EUR 38,291 k (2018: EUR 23,711 k) as of December 31, 2019.

As of December 31, 2019, the Group had unused lines of credit amounting to EUR 150,487 k (2018: EUR 190,200 k).

On February 15, 2019, ElringKlinger AG concluded a syndicated loan with a banking syndicate of seven national and international banks. The syndicate comprises Commerzbank, Landesbank Baden-Württemberg and Deutsche Bank, who have arranged the financing jointly. In addition, DZ Bank, HSBC, Banque Européenne du Crèdit Mutuel and Credit Suisse (Schweiz) AG are also involved. The agreement comprises a total volume of EUR 350 million over a minimum term of five years. EUR 235,253 k had been drawn as of December 31, 2019.

28 — Current and non-current contract liabilities

Contract liabilities include long-term prepayments for customer-specific provisions of additional production capacity and short-term prepayments for customer-specific tools. As of December 31, 2019, the carrying amount of contract liabilities came to EUR 31,992 k (December 31, 2018: EUR 13,083 k). The increase in contract liabilities in the financial year 2019 was mainly due to the EUR 9,384 k long-term advances received from a customer as well as due to prepayment received on account of orders of customer-specific systems and tools of EUR 9,525 k.

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

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

The carrying amounts of trade payables approximate their fair value.

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

Other current liabilities from third parties contain financial liabilities of EUR 51,882 k (2018: EUR 43,275 k).

In the financial year 2019, government grants of EUR 6,231 k (2018: EUR 6,478 k) were recognized as deferred income. This includes an investment allowance and a repayment allowance for a loan. These grants were provided for property, plant and equipment, particularly buildings and machinery at the locations in Dettingen/Erms, Germany and Kecskemét, Hungary. In the reporting period, a total of EUR 313 k (2018: EUR 247 k) of the deferred item was released through profit or loss. The release takes place in cost of sales.

30 — Hedging policy and financial instruments

Risks and hedging policy

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

By concluding hedges, the Management Board of ElringKlinger AG aims to manage the risk factors that may adversely affect the financial performance, net assets and cash position and thus to minimize these influences. Within the ElringKlinger Group, derivative financial instruments may only be entered into with the consent of the Management Board. Hedge accounting in accordance with IFRS 9 was not applied.

Currency risk

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

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

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

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

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

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

Dec. 31, 2019
EUR k

Local currency	EUR	MXN	USD	GBP	BRL	Other	Total
Local currency +10%							
Consolidated net income	-9,171	4,999	3,086	1,101	677	2,340	3,032
Local currency -10%							
Consolidated net income	8,990	-4,999	-3,086	-1,101	-677	-2,340	-3,213

Dec. 31, 2018
EUR k

Local currency	EUR	MXN	USD	CHF	HUF	Other	Total
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

Interest rate risk

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

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

Had market interest rates been 30 basis points higher as of December 31, 2019, earnings would have been EUR 509 k (2018: EUR 551 k) lower. Had market interest rates been 30 basis points lower, earnings would have been EUR 191 k (2018: EUR 34 k) lower.

Risk arising from prices for raw materials

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

ElringKlinger processes a significant volume of high-grade stainless steels. This includes alloy surcharges, in particular for nickel, which is a listed metal subject to market price fluctuations. ElringKlinger uses derivative financial instruments to hedge portions of alloy surcharges assessed in cost calculations. A price corridor surrounding the average calculation cost is hedged. If the quoted exchange price of nickel exceeds the upper range of the corridor, ElringKlinger receives a compensatory payment. If the quoted exchange price of nickel falls below the lower range of the corridor, ElringKlinger has to pay a surcharge. The nickel hedge ended on September 30, 2019. There was no other nickel hedging contract as of the reporting date.

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

Credit risk

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

Credit risk involves both the direct risk of default and the risk of a deterioration in creditworthiness as well as risks of a concentration of individual risks. The maximum risk exposures of financial assets generally subject to credit risk correspond to their carrying amounts and can be described as follows:

Liquid funds

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

Trade receivables

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

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

As part of an ABCP program, the ElringKlinger Group sold a part of trade receivables to a structured entity. The sale will be on a revolving basis at the nominal value of receivables less variable reserves. The financing volume committed under the ABCP program is EUR 100 million. The structured entity is not controlled and therefore not consolidated.

As of December 31, 2019, trade receivables with a carrying amount of EUR 60,448 k were sold. They were derecognized with the exception of the ongoing interest of EUR 1,207 k. A corresponding liability was recognized in the same amount. In connection with the provisional withholding of variable reserves, other current assets of EUR 15,882 k are reported as of December 31, 2019. In addition, customers payments received for receivables sold, which are yet to be forwarded to the purchaser, of EUR 16,075 k are reported under other current liabilities.

In its export business, ElringKlinger also assesses the credit standing of its counterparties by submitting inquiries to credit information services and on the basis of the specific country risk. In addition, credit insurance policies are taken out or letters of credit are required in certain cases. Trade receivables of EUR 10,645 k (2018: EUR 12,178 k) are secured by credit insurance policies.

Allowances are also recognized in respect of identifiable individual risks. The maximum risk exposure from trade receivables corresponds to the carrying amount of these receivables at the end of the reporting period. The carrying amounts of trade receivables, together with a separate breakdown of overdue receivables and receivables for which allowances have been recognized, can be found under note (20).

In 2019, the two largest customers accounted for 10.5% and 9.8% of sales, respectively (2018: 9.5% and 9.2%).

Liquidity risk

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

Expected cash outflows

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

EUR k	Trade payables	Financial liabilities	Liabilities from IFRS 16	Derivatives	Other current liabilities	Total
As of Dec. 31, 2019						
Carrying amount	**157,119**	**684,015**	**46,707**	**1,210**	**51,882**	**940,933**
Expected outflows:	**157,119**	**690,905**	**52,203**	**1,210**	**51,882**	**953,319**
– less than one month	100,688	23,223	998	0	0	124,909
– between one and three months	51,835	29,086	2,007	0	15,144	98,072
– between three months and one year	2,998	101,022	9,048	1,210	36,738	151,016
– between one and five years	1,298	500,585	28,089	0	0	529,972
– more than five years	300	36,989	12,061	0	0	49,350

EUR k	Trade payables	Financial liabilities	Finance leases	Derivatives	Other current liabilities	Total
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

Further disclosures on financial liabilities are provided under note (27).

31 — Additional information on financial instruments

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

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

	Cash and cash equivalents	Trade receivables	Other current assets
EUR k	CA	CA	CA
As of Dec. 31, 2019			
Financial assets measured at amortized cost	135,450	233,231	22,294
Financial assets at fair value through profit or loss	0	0	0
Financial assets measured at fair value through other comprehensive income	0	0	0
Total	**135,450**	**233,231**	**22,294**
As of Dec. 31, 2018			
Financial assets measured at amortized cost	45,314	306,351	11,490
Financial assets at fair value through profit or loss	0	0	0
Financial assets measured at fair value through other comprehensive income	0	0	0
Total	**45,314**	**306,351**	**11,490**

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

	Other current liabilities	Current financial liabilities	Short-term financial leases		Short-term financial leases liabilities IFRS 16	Trade liabilities
EUR k	CA	CA	CA	FV	CA	CA
As of Dec. 31, 2019						
Financial liabilities measured at amortized cost	51,882	149,181	0	0	11,049	157,119
Financial liabilities measured at fair value through profit or loss	0	0	0	0	0	0
As of Dec. 31, 2018						
Financial liabilities measured at amortized cost	43,275	296,584	0	0	0	135,560
Financial liabilities measured at fair value through profit or loss	0	0	0	0	0	0
No IFRS 9 measurement category	0	0	202	209	0	0

	Derivatives	Non-current securities		Other financial investments		Total
	CA	CA	FV	CA	FV	CA
	0	1,438	1,443	2,008	2,008	394,421
	832	0	0	0	0	832
	0	97	97	8	8	105
	832	**1,535**	**1,540**	**2,016**	**2,016**	**395,358**
	0	549	438	2,008	2,008	365,712
	12	0	0	0	0	12
	0	98	98	8	8	106
	12	**647**	**536**	**2,016**	**2,016**	**365,830**

	Derivatives		Non-current financial liabilities		Long-term lease liabilities IFRS 16	Long-term financial leases		Total
	CA	FV	CA	FV	CA	CA	FV	CA
	0	0	534,724	489,862	35,658	0	0	939,613
	1,210	1,210	0	0	0	0	0	1,210
	0	0	471,898	430,639	0	0	0	947,317
	165	165	0	0	0	0	0	165
	0	0	0	0	0	107	109	309

Other current liabilities contain a purchase price liability of EUR 30,252 k (2018: EUR 29,921 k) from a put option which is measured at amortized cost.

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

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

The fair value of the put option of non-controlling interests of ElringKlinger Marusan Corporation, Tokyo, Japan, on their shares contained in other current liabilities is based on forecasts of its business value. For the measurement of this put option of non-controlling interests, estimates are made when forecasting business development as well as when selecting the interest rate used regarding the liability recognized. A 10% change in the business value causes the put option to increase/decrease by EUR 3,025 k (2018: 2,992 k).

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

EUR k	Fair value Dec. 31, 2019
Non-current securities	97
Other financial assets	8
Total	**105**

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

Financial assets and liabilities measured at fair value are classified into the following 3-level fair value hierarchy as of the valuation date December 31, 2019:

EUR k	Level 1	Level 2	Level 3
Dec. 31, 2019			
Financial assets			
Non-current securities	97	0	0
Other financial assets	8	0	0
Derivatives*	0	832	0
Total	**105**	**832**	**0**
Financial liabilities			
Derivatives*	0	1,210	0
Total	**0**	**1,210**	**0**
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**

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

The following table presents the allocation of financial assets and liabilities not measured at fair value, but for which fair value is disclosed, to the 3-level fair value hierarchy as of the measurement date December 31, 2019:

EUR k	Level 1	Level 2	Level 3
Dec. 31, 2019			
Financial assets			
Non-current securities	1,443	0	0
Other financial assets	0	0	2,008
Total	**1,443**	**0**	**2,008**
Financial liabilities			
Non-current financial liabilities	0	502,152	0
Purchase price liability from written put option	0	0	30,252
Total	**0**	**502,152**	**30,252**
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 financial 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**

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

Level 1: Measurement based on market prices.

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

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

An assessment is made at the end of every reporting period as to whether the assets and liabilities accounted for at fair value have been transferred between the levels of the fair value hierarchy.

The liabilities of fair value level 3 developed as follows:

EUR k	2019	2018
As of Jan. 1	**30,030**	**35,008**
Change in fair value	222	-4,978
As of Dec. 31	**30,252**	**30,030**

Net gains/losses on financial instruments:

EUR k	2019	2018
At fair value recognized in profit or loss*	-755	-153
Financial assets measured at amortized cost	1,894	1,877
Financial liabilities measured at amortized cost	-1,084	3,219

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

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

Net gains and losses from financial assets measured at amortized cost primarily consist of currency effects.

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

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

EUR k	2019	2018
Total interest income	1,200	562
Total interest expense	-18,699	-13,388

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

32 — Leases

Due to the provisions of IFRS 16 to be applied for the first-time from January 1, 2019, a reconciliation of the existing leases in the ElringKlinger Group is presented below.

Based on the operating lease obligations as of December 31, 2018, they were reconciled to the opening balance of lease liabilities as of January 1, 2019 as follows:

EUR k	
Operating lease obligations as of December 31, 2018	35,059
Minimum lease payments of liabilities from finance leases as of December 31, 2019	318
Discounting	-6,689
Practical expedients relating to short-term leases	-1,059
Practical expedients for small ticket leases	-114
Service components	-329
Reasonably certain contract extension options/others	18,530
Present value of liabilities from finance leases as of December 31, 2018	-309
Additional lease liabilities due to the first-time application of IFRS 16 as of January 1, 2019	**45,407**

The lease liabilities were discounted using the weighted average incremental borrowing rate as of January 1, 2019. Reference interest rates for a period of up to 15 years from the return on government bonds in the countries concerned were used to determine the incremental borrowing rate. The development of the corresponding currencies was thus taken into account. The reference interest rates were extended by a lease risk premium on the basis of Euler Hermes assessment of the ElringKlinger Group. The weighted average interest rate amounted to 3.55%.

The IFRS matters contained in the income statement for the first time are as follows:

EUR k	2019
Cost of sales	
Expenses relating to short-term leases	1,543
Expenses from small ticket leases	250
Expenses from variable lease payments	0
Other expenses from leases (ancillary costs)	411
Depreciation and amortization	
Amortization of right-of-use assets	12,865
Impairment of right-of-use assets	0
Net finance costs	
Interest expenses from lease liabilities	1,299
Income from currency translation of lease liabilities	344
Expenses from currency translation of lease liabilities	4

Information on expected cash outflows is contained in Note (30) Hedging policy and financial instruments.

33 — Capital management

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

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

The Management Board is authorized to buy back company shares up to a total amount of 10% of share capital existing at the date on which this resolution was passed (May 13, 2015). The authorization is valid until May 13, 2020. There are no share option programs that impact the capital structure.

The following table presents changes in equity, debt and total capital as of December 31, 2019 as compared to December 31, 2018.

EUR million	2019	2018
Equity	**891.2**	**890.1**
as % of total capital	41.52%	42.80%
Non-current liabilities	773.5	642.5
Current liabilities	481.8	547.1
Liabilities	**1,255.3**	**1,189.6**
as % of total capital	58.48%	57.20%
Total capital	**2,146.5**	**2,079.7**

The change in equity from December 31, 2018 to December 31, 2019 was due primarily to a decrease in other reserves. Debt increased year-on-year by 5.23%.

At 41.52%, the Group equity ratio reached the 40% target equity ratio set by the Supervisory Board and Management Board.

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

As of December 31, 2019, there were no issues prevailing that would have justified banks exercising their unilateral right of termination. The Management Board expects that the financial covenants agreed will be reached in the financial year 2020.

34 — Notes to the statement of cash flows

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

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

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

Change in liabilities from financing activities:

EUR k	Non-current financial liabilities	Current financial liabilities
Dec. 31, 2018	472,005	296,786
Adjustment carryforward new standards*	36,133	9,274
Changes in cash	127,428	-230,435
Exchange rate differences	2,578	2,155
Non-cash changes	-67,728	82,527
Dec. 31, 2019	**570,416**	**160,307**
Dec. 31, 2017	478,811	221,944
Changes in cash	-7,812	71,400
Exchange rate differences	3,547	2,226
Change in fair value	0	0
Other changes	-2,541	1,216
Dec. 31, 2018	**472,005**	**296,786**

* IFRS 16

Cash outflows from leases are contained in the statement of cash flows as follows:

EUR k	2019
Repayments for lease liabilities (cash flow from financing activities)	11,758
Interest paid (cash flow from operating activities)	1,299
Short-term or small ticket leases (cash flow from operating activities)	1,793
Total	**14,850**

35 — Segment reporting

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

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

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

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

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

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

The segment results do not contain an impairment loss.

10.5% or EUR 182,043 k of the Group sales revenue (2018: 9.5% or EUR 161,747 k) was generated with one customer in the Segment Original Equipment.

Segment Reporting

Segment	Original Equipment		Aftermarket		Engineered Plastics		Industrial Parks	
EUR k	2019	2018	2019	2018	2019	2018	2019	2018
External revenue	**1,423,448**	**1,407,718**	**172,610**	**159,497**	**117,451**	**117,824**	**4,116**	**4,302**
Intersegment revenue	23,012	20,321	0	0	66	25	509	530
Segment revenue	**1,446,460**	**1,428,039**	**172,610**	**159,497**	**117,517**	**117,849**	**4,625**	**4,832**
EBIT[1]	**5,123**	**50,716**	**30,406**	**24,919**	**15,850**	**19,543**	**9,193**	**324**
Depreciation and amortization	106,812	88,376	3,862	2,975	6,681	6,104	315	1,069
Capital expenditures[2]	115,804	163,422	4,773	6,546	7,043	5,285	360	561
Segment assets	1,894,357	1,824,420	107,569	116,016	131,011	118,597	27,954	19,401

Segment	Services		Other		Consolidation		Group	
EUR k	2019	2018	2019	2018	2019	2018	2019	2018
External revenue	**9,400**	**9,659**	**0**	**0**	**0**	**0**	**1,727,025**	**1,699,000**
Intersegment revenue	7,443	7,260	0	0	-31,030	-28,136	0	0
Segment revenue	**16,843**	**16,919**	**0**	**0**	**-31,030**	**-28,136**	**1,727,025**	**1,699,000**
EBIT[1]	**661**	**678**	**0**	**0**	**0**	**0**	**61,233**	**96,180**
Depreciation and amortization	2,062	1,923	0	0	0	0	119,732	100,447
Capital expenditures[2]	2,011	2,753	0	0	0	0	129,991	178,567
Segment assets	16,197	16,052	0	0	-30,593	-14,785	2,146,495	2,079,701

[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	2019	394,996	548,261	57,991
	2018	428,545	535,477	74,092
Rest of Europe	2019	494,234	268,761	15,536
	2018	515,574	271,528	19,013
North America	2019	450,871	243,816	37,505
	2018	360,287	203,974	53,486
Asia-Pacific	2019	309,996	207,640	17,232
	2018	314,509	201,829	26,299
South America and rest of the world	2019	76,928	23,355	1,727
	2018	80,085	23,273	5,677
Group	**2019**	**1,727,025**	**1,291.833**[2]	**129,991**
	2018	**1,699,000**	**1,236.081**[2]	**178,567**

[1] The location of the customer is used to determine allocation of sales revenus to the regions.
[2] This includes financial assets of EUR 3,551 k (2018: EUR 2,662 k).

Other disclosures

Contingent liabilities

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

Other financial commitments

Energy purchase commitments

EUR k	Dec. 31, 2019	Dec. 31, 2018
Less than one year	13,180	11,954
Between one and five years	12,863	21,489
Total	**26,043**	**33,443**

Proceeds from lease agreements

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

EUR k	Dec. 31, 2019	Dec. 31, 2018
Less than one year	18	1,658
Between one and five years	9	1,675
More than five years	0	0
Total	**27**	**3,333**

The Kecskemét-Kádafalva (Hungary) industrial park was sold in the financial year 2019.

Contingent assets and liabilities

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

Number of employees

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

	2019	2018
Employees	10,247	9,670
Trainees	210	363
Total	**10,457**	**10,033**

Personnel expenses

Personnel expenses in the reporting year amounted to EUR 544,394 k (2018: EUR 531,175 k) and break down as follows:

EUR k	Dec. 31, 2019	Dec. 31, 2018
Wages and salaries	464,854	454,366
Social security contributions	70,506	66,354
Post-employment benefit	9,034	10,455
Total	**544,394**	**531,175**

Related-party disclosures

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

Cooperation agreement between ElringKlinger AG and Lechler GmbH, Metzingen, concerning traineeships. The deceased Prof. Walter H. Lechler held a significant interest in ElringKlinger AG and control over Lechler GmbH. The testamentary disposition of Prof. Lechler regarding the shares he held has yet to be conclusively implemented. ElringKlinger AG earned EUR 52 k during the reporting year (2018: EUR 42 k). Receivables outstanding amounted to EUR 10 k (2018: EUR 10 k) as of the reporting date.

Lease agreement between Technik-Park Heliport Kft., Kecskemét-Kádafalva, Hungary (TPH), and the Lechler GmbH subsidiary, Lechler Kft., Kecskemét-Kádafalva, Hungary. Based on this lease, TPH earned EUR 281 k in rental income including ancillary costs in the reporting year (2018: EUR 300 k). As in the previous year, there were no open receivables as of the end of the reporting period.

Agreement between ElringKlinger Logistic Service GmbH, Rottenburg-Ergenzingen (EKLS), and Lechler GmbH, Metzingen, regarding assembly activities and the storage of components. This agreement gave rise to EUR 550 k in sales revenue during the reporting year (2018: EUR 533 k). As of December 31, 2019, there were open receivables of EUR 33 k (2018: EUR 33 k).

Business relations between the ElringKlinger subsidiary, Changchun ElringKlinger Ltd., China, (CEK), and Changchun Hongyu Automobile Parts Co., Ltd. (CHYAP), controlled by Ms. Liu, a close relative of Mr. Huang, who is a joint partner in CEK. CEK procured EUR 12 k worth of services under these business relations in 2019 (2018: EUR 76 k). As of December 31, 2019, there are liabilities of EUR 1 k (2018: EUR 4 k). CEK did not sell any goods and raw materials to CHYAP in the reporting year (2018: 89 k). As in the previous year, there are no outstanding trade receivables as of the reporting date.

Loan agreement between Lechler GmbH and ElringKlinger AG. Lechler GmbH granted ElringKlinger AG loans totaling EUR 12,000 k (2018: EUR 17,000 k). A loan of EUR 7,000 k with indefinite term carries an interest rate of 2.10% p.a. Another loan of EUR 5,000 k carries an interest rate of 0.90% p.a. and has a term until June 19, 2020.

Supply agreement between Lechler GmbH and KOCHWERK Catering GmbH, (EKKW), Dettingen/Erms, a wholly owned subsidiary of ElringKlinger AG. EKKW supplies Lechler GmbH with canteen food. Sales revenue of EKKW amounted to EUR 134 k in the reporting year (2018: EUR 127 k). As of the end of the reporting period, outstanding receivables came to EUR 12 k (2018: EUR 10 k).

Relationships in the course of ordinary activities exist between various subsidiaries of hofer AG, Nürtingen, and the ElringKlinger subsidiary hofer powertrain products GmbH, Nürtingen, as well as hofer powertrain products UK Ltd., Warwick. The business dealings pertain to services received and other expenses of EUR 2,119 k (2018: EUR 6,204 k). Outstanding liabilities come to EUR 788 k (2018: EUR 2,372 k) as of December 31, 2019. At EUR 1,850 k (2018: EUR 5,871 k), the services received mainly relate to services for sales, project management and product development and an amount of EUR 269 k (2018: 309 k) for a rent agreement between hofer powertrain products GmbH, Nürtingen and the subsidiary of hofer AG, hofer Immobilien UG & Co. KG, Nürtingen, for the rent of office and production space in Nürtingen. The goods and services received and other expenses are counterbalanced by income from development services rendered or from delivery of machines and tools of EUR 1,750 k (2018: EUR 2,971 k). Outstanding liabilities come to EUR 1,707 k (2018: EUR 3,179 k) as of December 31, 2019.

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

Corporate Bodies

Supervisory board

Klaus Eberhardt Lindau, Chairman	Independent consultant, Lindau Former CEO of Rheinmetall AG, Düsseldorf **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 **Governance roles:** a) Robert Bosch Automotive Steering GmbH, Schwäbisch Gmünd Robert Bosch GmbH, Gerlingen-Schillerhöhe Mercedes-Benz AG, Stuttgart b) n/a
Armin Diez* Lenningen	Vice president of the Battery Technology/E-Mobility Division at ElringKlinger AG, Dettingen/Erms **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	Independent consultant, Dörsdorf Former member of the Management Board of Adam Opel AG, Rüsselsheim **Governance roles:** a) NORMA Group SE, Maintal b) AerCap Holdings N.V., Dublin, Ireland Joh. Winklhofer Beteiligungs GmbH & Co. KG, Munich Westport Fuel Systems, Inc., Vancouver, Canada

Andreas Wilhelm Kraut Rottenburg	Chairman and CEO of Bizerba SE & Co. KG, Balingen
Gerald Müller* Reutlingen	Trade union secretary of IG Metall Reutlingen-Tübingen, Reutlingen
Paula Monteiro-Munz* Grabenstetten	Deputy chairwoman of the Works Council of ElringKlinger AG, Dettingen/Erms
Prof. Hans-Ulrich Sachs Bremen	Managing Partner of betec Umformtechnik GmbH, Adelmannsfelden
Gabriele Sons Berlin	Lawyer, Berlin 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 Lechler GmbH, Metzingen Eroca AG, Basel, Switzerland

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

Remuneration of the Supervisory Board

In the period under review, total compensation for the Supervisory Board of ElringKlinger AG was EUR 589 k (2018: EUR 672 k). Additionally, travel expenses totaling EUR 2 k (2018: EUR 4 k) were reimbursed. The remuneration of the employee representatives in the Supervisory Board amounted to EUR 714 k in 2019 (2018: EUR 719 k) for their activities as employees.

Management Board

Dr. Stefan Wolf, Bad Urach, Chairman	Responsible for Group companies and the corporate units of Legal Affairs & Compliance, Human Resources, Investor Relations, Business Development, Strategic Communication, Marketing and Communication and Sales of Original Equipment, as well as the Aftermarket division.
Theo Becker, Metzingen	Responsible for the divisions Battery Technology & E-Mobility, Drive Train as well as the corporate units of New Business Areas, Purchasing, Real Estate & Facility Management as well as Tool Shop/Technology.
Reiner Drews, Dettingen/Erms	Responsible for the divisions Lightweighting/Elastomer Technology, Shielding Technology, Special Gaskets and Cylinder-head Gaskets as well as the corporate units of Production, Quality & Environmental Management as well as the plants of ElringKlinger AG.
Thomas Jessulat, Stuttgart	Responsible for the corporate functions Finance, Controlling, IT, Logistics and the Industrial Parks division.

Governance roles in supervisory boards and other supervisory bodies

Dr. Stefan Wolf, Bad Urach, Chairman	Member of the Supervisory Board of ALLGAIER Werke GmbH, Uhingen, and member of the supervisory board of Duale Hochschule Baden-Württemberg (DHBW) KöR, Stuttgart
Theo Becker, Metzingen	Member of the Supervisory Board of BLANC & FISCHER Familienholding GmbH, Oberderdingen
Thomas Jessulat, Stuttgart	Chairman of the Supervisory Board of hofer AG, Nürtingen

Remuneration of the Management Board

The remuneration of the Management Board amounted to:

EUR k	2019	2018
Short-term fixed remuneration	1,742	1,655
Short-term variable performance-based remuneration	2,161	2,576
Long-term variable performance-based remuneration	0	-66
Long-term variable share-based remuneration	0	0
Severance payments	0	0
Expenses from post-employment benefits	838	812
Total	**4,741**	**4,977**

In the financial year, total Management Board remuneration pursuant to Sec. 314 (1) no. 6a sentence 1 to 4 HGB came to EUR 3,903 k (2018: EUR 4,231 k). The present value (DBO) of the pension provisions amounted to EUR 13,336 k (2018: EUR 10,425 k).

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

Provisions of EUR 17,050 k (2018: EUR 15,449 k) were recognized for pension obligations to former members of the Management Board, the management of merged companies, and their surviving dependents. The total remuneration of former members of the Management Board – including remuneration of former members of corporate bodies of merged companies – came to EUR 890 k (2018: EUR 869 k) in the financial year 2019.

The auditor fees amounted to:

EUR k	2019	2018
Audit of the annual financial statements	770	732
Other assurance services	33	29
Total	**803**	**761**

The audit services include fees for mandatory and voluntary audits of financial statements as well as fees for the mandatory audit of the consolidated financial statements. The other assurance services comprise fees for review work in connection with the non-financial statement and assurance services related to the syndicated loan agreement.

Declaration of compliance with the German Corporate Governance Code

The Management Board and Supervisory Board issued a declaration of compliance pursuant to Sec. 161 AktG on the German Corporate Governance Code in the version dated February 7, 2017 and published it on the ElringKlinger AG website on November 29, 2019. This declaration of compliance will be available on the ElringKlinger AG website and therewith made permanently available to shareholders.

Events after the end of the reporting period

The coronavirus, which has been spreading since the beginning of 2020 and has led to special protection measures for the population, production shutdowns and interrupted supply chains worldwide, poses major challenges for the global economy. A large number of automobile manufacturers have suspended production at many of their sites or have announced such stoppages. In response, the Management Board of ElringKlinger AG acting in consultation with the Group works council, has decided to adjust Group production in line with requirements. Among the sites primarily affected are those in Europe and North America, but also the plant in India and that in Brazil. Production will either be scaled down, e.g. in Germany all necessary preparations for short-time work are now being made, or halted temporarily. Financial effects on the net assets, financial position and results of operations of the Group are probable, but their extent cannot yet be estimated at the time the consolidated financial statements are prepared.

There were no further significant events after the reporting date that would require additional disclosures.

Dettingen/Erms, March 25, 2020
The Management Board

Dr. Stefan Wolf CEO	Theo Becker	Thomas Jessulat	Reiner Drews

Audit Opinion

Independent auditor's report

To ElringKlinger AG

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

Opinions

We have audited the consolidated financial statements of ElringKlinger AG and its subsidiaries (the Group), which comprise the consolidated income statement, and the consolidated statement of comprehensive income for the financial year from January 1 to December 31, 2019, the consolidated statement of financial position as of December 31, 2019, the consolidated statement of cash flows and the consolidated statement of changes in equity for the financial year from January 1 to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the Group management report of ElringKlinger AG, which is combined with the management report of the Company, for the financial year from January 1 to December 31, 2019. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance published on the website, which is a component of the Group management report.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ("Handelsgesetzbuch": German Commercial Code) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2019, and of its financial performance for the financial year from January 1 to December 31, 2019, and
- the accompanying Group management report as a whole provides an appropriate view of the Group's position. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the Group management report does not cover the content of the Group statement on corporate governance referred to above.

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

Basis for the opinions

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

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate audit opinion on these matters.

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

Impairment testing of goodwill

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

According to IFRS standards, goodwill is not subject to amortization, however, the Management Board tests the capitalized goodwill annually in accordance with IAS 36 for its recoverability for the cash-generating unit. This involves comparing the recoverable amount of the cash-generating unit with its carrying amount. The recoverable amount is the value in use. As a rule, the basis of these measurements is the present value of future cash flows of cash-generating units to be measured to which goodwill was allocated. Measurements are based on internal budgets, which in turn are based on the budgets prepared by the Management Board and approved by the Supervisory Board. The discounting is based on the weighted average cost of capital (WACC) for each cash-generating unit. The result of these measurements depends chiefly on the executive directors' estimates of the future cash flows of the respective cash-generating units as well as the discount rate applied and is thus subject to judgment. In addition, the reporting year was marked by a general weakening of the economic environment in the automotive sector. The manifestations of this weakening in geographic regions, in which the Group entities operate, varied. Against this backdrop, the measurement of goodwill is a key audit matter.

Auditor's response:

With regard to the value in use determined by the executive directors, we examined the underlying processes used to calculate the value in use. With the help of internal valuation experts, we obtained an understanding of the underlying valuation models for the determination of the value in use in terms of methodology and calculation and investigated whether these were calculated using the relevant financial reporting standards in accordance with IAS 36. We examined whether the valuation models were applied consistently. We also examined whether the underlying medium-term budget planning reflects general and industry-specific market expectations. We compared the budget values used for the measurement with the medium-term planning prepared by the Management Board and approved by the Supervisory Board. We performed a target-actual comparison of the historical forecast data and the actual results on a sample test basis to assess forecast accuracy by comparing the medium-term planning of the previous years with the actual values of the financial year. We examined the inputs used to measure value in use, such as the applied growth rates and the weighted average cost of capital were compared with publicly available market data and assessed taking into consideration the change in significant assumptions, including future market conditions. In addition, we performed our own sensitivity analyses for the cash-generating units in order to estimate the influence of certain parameters on the valuation model and any potential impairment risk.

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

Reference to related disclosures:

For disclosures on the recognition and measurement policies applied for goodwill impairment, please refer to the sections "Accounting policies" and "Goodwill" in the notes to the consolidated financial statements.

Revenue recognition pursuant to IFRS 15 "Revenue from Contracts with Customers"

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

The business activities of the Group mainly comprise manufacturing of series parts for the automotive industry, development and manufacturing of tools as well as contract-related work. In accordance with IFRS 15, revenue is recognized when the Group satisfies a performance obligation by transferring a promised good or service based on a contract with a customer. A good or service is considered to have been transferred when the customer obtains control. The transfer of control can lead to recognition of revenue at a point in time or over time, which is to be recognized in the amount to which the Group expects to be entitled.

On the basis of the inflow of revenue identified by the Group, the assessment includes existence of prerequisites for revenue recognition at a point in time or over time, the treatment of contract costs and the accompanying effects on the consolidated financial statements. Considering the diversity of different contractual customer relationships taking into account customer-specific general business conditions and the application of different delivery terms (incoterms) and the related complexity, this was subject to a higher risk and is therefore a key audit matter.

Auditor's response

During our audit, based on our understanding of the business and process, we obtained an understanding of the contractual arrangements with the customers, especially the contractual arrangements governing the time of transfer of risk, as well as the arrangements regarding the billing procedure. Against this background, we assessed the processes established for the application of IFRS 15 by the executive directors.

We examined, on a sample basis, whether the requirements for revenue recognition at a point in time or over time are met. We verified the requirements for revenue recognition over time for performing series deliveries by particularly assessing to what extent the series parts do not have an alternative use and there is an enforceable right to payment.

Using the contractual basis we verified to what extent the incurred costs fulfill the capitalization criteria as costs to fulfill a contract and which method was used for the depreciation of these contract costs. For the cash flow for revenue of development services, on the basis of contracts and internal calculations, we assessed the time of revenue recognition as well the amount of income realized and the related contract assets using internal project budgets.

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

Reference to related disclosures:

For accounting policies applied in the course of revenue recognition, please refer to the disclosures in the notes to the consolidated financial statements in "Financial reporting" and "(1) Sales revenue".

Other information

The Supervisory Board is responsible for the Report by the Supervisory Board. In all other respects, the executive directors are responsible for the other information. Other information comprises the Group statement on corporate governance, which is a component of the Group management report, and the non-financial Group report, which is combined with the non-financial report of ElringKlinger AG, as well as the components of the annual report, particularly the "Responsibility statement" pursuant to Section 297 (2) sentence 4 HGB, the "Letter to Shareholders" section of the annual report and the Report by the Supervisory Board pursuant to Section 171 (2) AktG, but not the consolidated financial statements, not the disclosures in the Group management report included in the audit of content and not our auditor's report. We received a copy of this 'Other information' by the time this auditor's report was issued.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other legal and regulatory requirements

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

We were elected as auditor by the annual general meeting on May 16, 2019. We were engaged by the Supervisory Board on June 27, 2019. We have been the auditor of ElringKlinger AG without interruption since financial year 2013.

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

German Public Auditor responsible for the engagement

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

Stuttgart, March 25, 2020
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Göhner	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 25, 2020
Management Board

Dr. Stefan Wolf
CEO

Theo Becker

Thomas Jessulat

Reiner Drews