NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

of ElringKlinger AG for the 2016 Financial Year

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 June 13, 2012. 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, 2016, have been prepared in accordance with the International Financial Reporting Standards (IFRSs) approved by the International Accounting Standards Board (IASB) as adopted by the European Union (EU), the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), the supplementary commercial law regulations pursuant to § 315a (1) German Commercial Code (Handelsgesetzbuch, "HGB") and the provisions of German commercial and stock corporation law. The Articles of Association contain regulations on profit appropriation. All IASs, IFRSs and IFRICs mandatory for the financial year 2016 have been observed.

On March 23, 2017, the Management Board of ElringKlinger AG submitted the consolidated financial statements to the Supervisory Board, which will meet on March 24, 2017 to approve them.

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

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

The following regulations and amendments to existing regulations were applied for the financial year 2016 for the first time:

Amendments to IAS 19 Employee Benefits: Employee Contributions

The amendments to IAS 19 modify the regulations relating to contributions linked to the period of service made by the employee or a third party to defined benefit plans. These amendments now permit contributions to be recognized, irrespective of the number of years of service, as a reduction in the current service cost of the period in which the work is performed.

If, however, an employee contribution is dependent on the length of service, the projected unit credit method has to be used. The amendment becomes effective for reporting periods beginning on or after February 1, 2015. The amendment is to be applied retrospectively. The adoption did not have any significant effects on the consolidated financial statements of the ElringKlinger Group.

Annual Improvements to IFRSs (2010 to 2012)

The pronouncement relates to smaller amendments to the standards IFRS 5, IFRS 7, IAS 19 and IAS 34. These did not have any significant effects on the consolidated financial statements of the ElringKlinger Group.

Amendments to IFRS 11: Joint Arrangements – Acquisition of Shares in a Joint Operation

The amendment to IFRS 11 clarifies that acquisitions of or increases in interests in joint operations in which the activity constitutes a business as defined by IFRS 3, require the acquirer to apply all of the principles on business combinations accounting in IFRS 3 and other applicable IFRSs except for those principles that conflict with the guidance in IFRS 11. The amendments do not apply if the reporting company and the parties to the joint arrangement are under common control of the same ultimate controlling entity. ElringKlinger currently does not hold any shares in joint ventures which means the amendment to the standard did not have any implications for the ElringKlinger Group.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization

In these amendments, the IASB provides additional guidance on acceptable methods of depreciation and amortization.

According to the amendments, a depreciation method of property, plant and equipment that is based on sales revenue is not appropriate. An amortization method of intangible assets that is based on revenue is only appropriate in limited circumstances. As the ElringKlinger Group does not perform any depreciation based on sales revenue, there were no consequences for the Group.

Annual improvements to IFRSs (2012 to 2014)

The pronouncement relates to minor changes to IFRS 5, IFRS 7, IAS 19 and IAS 34, which had no material implications on the ElringKlinger Group's financial performance, net assets and cash position.

The following standards, which have already been adopted by the EU, are not yet mandatory for the financial year 2016 and have not yet been applied by the ElringKlinger Group:

IFRS 9 Financial Instruments

The IASB completed its project to replace IAS 39 Financial Instruments: Recognition and Measurement in July 2014 by publishing the final version of IFRS 9 Financial Instruments. In the final version of IFRS 9, accounting for the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting in particular were revised completely. IFRS 9 is to be applied for the first time for financial years beginning on or after January 1, 2018. The first-time application is to be performed retrospectively, although there are various simplification options available. Earlier voluntary adoption of the standard is permitted. In particular, earlier recognition of expected impairment on the basis of the "expected loss" model as well as cases in which specific financial instruments are no longer recognized at amortized cost may impact the ElringKlinger Group. The Group aims to apply the new standard as of the date it is due to become effective. The extent of the impact on ElringKlinger Group's accounting is currently still being analyzed.

IFRS 15 Revenue from Contracts with Customers

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

In financial year 2016, the Group began a preliminary assessment of IFRS 15 which may change in the course of a more detailed analysis in 2017. The Group will also take into account the clarification published by the IASB in April 2016 and monitor further developments in the interpretation of IFRS 15.

The preliminary assessment initially involved an impact analysis on existing agreements. Key serial and tool agreements with OEM customers of the ElringKlinger Group were analyzed in the process. The next step planned for the first half of 2017 will involve a worldwide analysis. The provisional results of the impact analysis were discussed with various functional departments with regard to potential effects at group level. Based on the contract analysis performed in the first half of 2017 to date, a concept for reconciling revenue recognition to the IFRS 15 new provisions will be developed, which will also cover the need for modifications to the existing internal systems. Afterwards, the modification requirements will be implemented.

Based on the provisional results of the IFRS 15 impact analysis, the key potential effects are the following:

The separation of obligations and the resulting allocation of the transaction price required by IFRS 15 under certain conditions will possibly affect the timing of revenue recognition and earnings realization.

The presentation and disclosure requirement of IFRS 15 are much wider than the provisions of the current standard. The new presentation provisions differ substantially from current practice and will require much more extensive disclosure in the consolidated financial statements in the future. IFRS 15 has a large number of new disclosure provisions requiring quantitative and qualitative disclosures regarding sub-classification of the earnings by obligation and contract balances as well as significant use of judgment and recognized contract costs. In financial year 2016, the Group began investigating appropriate procedures that would be suitable for recording and disclosing the required information in the future.

The following standards, which have already been adopted by the EU but are not yet mandatory for the financial year 2016, have not yet been applied by the ElringKlinger Group:

IFRS 16 Leases

The standard on leases published in January 2016 requires all leases be recognized in the statement of financial position of the lessee. No distinction is made between finance and operating leases. Instead, a uniform lessee accounting model was introduced, which requires lessees to recognize assets (for the right of use) and lease liabilities for leases with a term of more than 12 months. The revised standard is effective for the first time for financial years beginning on or after January 1, 2019. Early adoption is only permitted in conjunction with IFRS 15 Revenue from Contracts with Customers.

The ElringKlinger Group aims to apply the new standard as of the date it is due to become effective. The following effects were already identified in a preliminary analysis. However, the analysis had not yet been completed and the Group is constantly updating its findings in line with developments in the interpretation of IFRS 16.

To date, the Group has largely concluded operating leases for movable assets and business premises.

Currently, merely the payment obligations for operating leases are disclosed in the notes to the consolidated financial statements. In the future, the Group will be required to recognize the rights and obligations arising under these leases as an asset (right of use in the leased asset) and obligation (lease liability) in the statement of financial position. The Group expects that this will cause total assets to increase at the date of first-time application. Please also see our other notes on operating leases regarding the scope of the leases to be accounted for by the lessee.

In the income statement, prepared using the cost of sales method, the Group has to date recorded lease expenses by function. In the future, it will recognize write-downs on the right of use and interest expenses for the lease liabilities instead.

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

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

The amendment to this standard aims to standardize accounting for deferred tax assets from unrealized losses that are related to assets measured at fair value. The amendment is effective for reporting periods beginning on or after January 1, 2017. Early adoption is permitted. The ElringKlinger Group will apply the new standard as of the date it is due to become effective. Based on analyses performed to date, the change is not expected to have a material impact on the Group.

Amendments to IAS 7: Statements of Cash Flows

The amendments to IAS 7 were published by the IASB as part of its disclosure initiative and contain requirements for additional disclosures on changes to liabilities from financing activities. The new provisions become effective for financial years beginning on or after January 1, 2017.

Clarifications of IFRS 15: Revenue from Contracts with Customers

In the middle of April 2016, the IASB published clarifications to IFRS 15 Revenue from Contracts with Customers. The clarifications include comments and additional remarks on the identification of obligations, application guidance for principal-agent agreements and licenses for intellectual property and transitional arrangements. The clarification is effective for reporting periods beginning on or after January 1, 2018. Early adoption is permitted.

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

The IASB published an amendment to IFRS 2 Share-Based Payment, which modifies the requirements for the following aspects: the impact of vesting conditions on the measurement of share-based payment transactions with cash settlement, the classification of share-based payments which are settled at the an amount net of taxes and accounting for share-based payment transactions with cash settlement in case where the amendment of their terms and conditions result in their classification as equity-settled share-based payment transactions. The amendment is effective for reporting periods beginning on or after January 1, 2018. Early adoption is permitted. No significant effects on the Group's financial performance, net assets and cash position are expected.

Changes to IFRS 4: Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

In September 2016, the IASB published an amendment to IFRS 4: Application of IFRS 9 Financial Instruments in conjunction with IFRS 4 Insurance Contracts. The changes address the reservations regarding the different points in time at which IFRS 9 Financial Instruments and the new standard governing the accounting for insurance contracts came into force. This amendment is not relevant to the ElringKlinger Group and will therefore not have any effect on its financial performance, net assets and cash position.

Scope of consolidated financial statements

The consolidated financial statements of ElringKlinger AG as of December 31, 2016, include the annual financial statements of eight (2015: 8) domestic and 34 (2015: 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.

ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, made use of the exemption afforded by § 264 (3) HGB with regard to the financial statements and management report as of December 31, 2016.

Furthermore, Elring Klinger (Great Britain) Ltd. made use of the exemption provisions under the UK Companies Act 2006 exemption provisions under s479A of the UK Companies Act 2006 regarding the audit of the financial statements with regard to its financial statements as of December 31, 2016.

An overview of the 42 entities included is provided as follows:

Schedule of Shareholdings and Scope of Consolidation

as of December 31, 2016

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

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

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

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

Notes on non-controlling interests in subsidiaries

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

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

The non-controlling interests amount to 22.5%.

The share in the earnings of this subgroup attributable to non-controlling interests for the financial year 2016 is EUR 2,394 k (2015: EUR 2,585 k).

A dividend of EUR 2,475 k was distributed to the non-controlling interests in the financial year 2016. The remaining EUR 8,525 k was distributed to the parent company ElringKlinger AG.

Cash flow of the subgroup: in EUR k	2016	2015
Operating activities	16,114	18,063
Investing activities	-7,215	-15,254
Financing activities	-9,630	-2,316
Changes in cash	**-731**	**493**
Effects of currency exchange rates on cash	**-54**	**192**

Summarized key financial information of the subgroup in EUR k	2016	2015
Non-current assets	65,892	63,490
Current assets	36,078	37,705
Non-current liabilities	15,162	14,841
Current liabilities	9,703	7,588
Sales revenue	98,775	96,621
Earnings before taxes (EBT)	14,776	14,262
Net income	**10,476**	**10,227**
Total comprehensive income	**9,487**	**11,290**

Further detailed information in EUR k	2016	2015
Cash and cash equivalents	2,488	3,998
Cash in hand	7	9
Bank deposits	2,481	3,989
Non-current financial liabilities	1,225	2,520
to banks	1,000	2,020
to affiliated companies	225	500
Current financial liabilities	1,000	1,163
to banks from loans	1,000	1,006
to banks from current accounts	0	0
from overdraft facilities (only IC)	0	157
Interest income	157	238
Interest expense	421	195
Depreciation and amortization	5,450	4,613

Business combinations in 2016

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

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

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

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

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

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

Goodwill is not tax deductible.

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

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

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

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

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

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

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

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

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

Goodwill is tax deductible.

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

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

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

Acquisition of non-controlling interests

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

Newly formed company

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

Business combinations in 2015

Effective February 14, 2015, ElringKlinger AG acquired 100% of the shares in the US entity M&W Manufacturing Company, Inc., based in Warren, Michigan, USA (M&W).

M&W Manufacturing Company, Inc. was subsequently renamed ElringKlinger Automotive Manufacturing, Inc. (EKAM).

This acquisition will allow the Specialty Gaskets division to underpin its regional presence in North America and its production activities in the US market. Together with US market leader M&W, ElringKlinger has advanced to become the premier supplier of transmission spacer plates. In addition to supplying the North American market, EKAM has started to increasingly serve the Chinese market from its US production site.

A purchase price of EUR 24,276 k was agreed for the acquisition of the company. The transaction-related costs of EUR 246 k to date were recognized in general and administrative expenses.

The assets and liabilities of the acquired shares were measured at fair value as of the acquisition date. The difference of EUR 17,122 k remaining after taking into account deferred tax liabilities (EUR 2,757 k) on the hidden reserves identified (EUR 8,016 k) was recognized as goodwill. This was paid primarily for the positive forecasts as well as the expected synergies and allocated to the Original Equipment segment.

Goodwill is not tax deductible.

From the date of acquisition, EKAM has contributed EUR 32,151 k to the Group's sales revenue and EUR 969 k to the Group's earnings before tax in the financial year 2015. Had the acquisition been completed as of January 1, 2015, ElringKlinger Automotive Manufacturing, Inc. would have contributed EUR 36,294 k to group sales revenue and increased earnings before taxes by EUR 1,859 k in the financial year 2015.

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

in EUR k	IFRS carrying amount at the time of acquisition	Purchase price allocation	Acquisition date fair value
Intangible assets	–	8,016	8,016
Property, plant and equipment	3,294	–	3,294
Inventories	4,795	–	4,795
Trade receivables	4,500	–	4,500
Other current assets	259	–	259
Cash and cash equivalents	125	–	125
Total assets	**12,973**	**8,016**	**20,989**
Non-current provisions	104	–	104
Deferred tax liabilities	772	2,757	3,529
Current provisions	229	–	229
Trade payables	4,530	–	4,530
Current financial liabilities	4,715	–	4,715
Tax payable	56	–	56
Other current liabilities	672	–	672
Total liabilities	**11,078**	**2,757**	**13,835**
Net assets	**1,895**	**5,259**	**7,154**
Goodwill			17,122
Purchase price			**24,276**

The intangible assets identified are the customer base (EUR 6,960 k), technologies (EUR 890 k) and order backlog (EUR 166 k).

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

Acquisition of non-controlling interests

On July 17, 2015, ElringKlinger acquired the previously non-controlling shares of 3% in the subsidiary ElringKlinger Kunststofftechnik GmbH based in Bietigheim-Bissingen, Germany. The purchase price amounted to EUR 4,200 k, with the resulting difference from the non-controlling interests accounted for recognized directly in equity. ElringKlinger AG now holds a 77.5% interest in the company.

Newly formed company

ElringKlinger Hungary Kft., headquartered in Kecskemét-Kadafalva, Hungary was formed effective December 29, 2015. ElringKlinger AG holds a 100% interest in the company. This company will initially produce shielding products and will supply European customers with series parts as of 2016.

Summary of the principal accounting and measurement methods

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

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

Consolidation methods

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

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

Any remaining negative difference is recorded in income.

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

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

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

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

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

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

Currency translation

The reporting currency of the ElringKlinger Group is the euro.

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

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

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

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

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

Currency	Abbr.	Closing rate Dec. 31, 2016	Closing rate Dec. 31, 2015	Average rate 2016	Average rate 2015
US dollar (USA)	USD	1.05410	1.08870	1.10317	1.10455
Pound sterling (UK)	GBP	0.85618	0.73395	0.82269	0.72420
Franc (Switzerland)	CHF	1.07390	1.08350	1.09085	1.06458
Canadian dollar (Canada)	CAD	1.41880	1.51160	1.45892	1.42505
Real (Brazil)	BRL	3.43050	4.31170	3.81926	3.74256
Peso (Mexico)	MXN	21.77190	18.91450	20.68174	17.67058
RMB (China)	CNY	7.32020	7.06080	7.34151	6.94708
WON (South Korea)	KRW	1,269.36000	1,280.78000	1,279.91750	1,254.24583
Rand (South Africa)	ZAR	14.45700	16.95300	16.12887	14.28050
Yen (Japan)	JPY	123.40000	131.07000	120.440830	133.63083
Forint (Hungary)	HUF	309.83000	315.98000	311.90917	309.58667
Turkish lira (Turkey)	TRY	3.70720	3.17650	3.34263	3.03973
Leu (Romania)	RON	4.53900	4.52400	4.49330	4.44073
Indian rupee (India)	INR	71.59350	72.02150	74.20010	71.00952
Indonesian rupiah (Indonesia)	IDR	14,173.43000	15,039.99000	14,678.48083	14,890.80750
Bath (Thailand)	THB	37.72600	39.24800	38.86225	38.00325

Accounting policies

Goodwill

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

in EUR k	2016	2015
Original Equipment	158,864	157,072
Engineered Plastics	6,313	6,313
Aftermarket	1,658	1,658
Total	**166,835**	**165,043**

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

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

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

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

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

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

With regard to short-term planning, the current order backlog, information on the respective manufacturer and information from independent sources, such as advisory firms or automobile associations, is drawn on. In the medium term, ElringKlinger, in performing its sales revenue planning, expects the global vehicle production to aim for slight growth of around 1 to 2%.

Costs are also budgeted at an individual component level within the ElringKlinger Group. This takes into account both efficiency gains as well as cost increases. For the raw materials processed in the cash-generating units, group-wide uniform planning assumptions were applied. Steel prices are set to rise in 2017. ElringKlinger expects stable aluminum prices in 2017. The Group also anticipates the procurement price for plastic pellets to go up in the second half of 2017 due to oil price hikes. For other costs, it is assumed that they will continue to develop in line with regional economic development and dependent on sales revenue.

The discount factor applied as of December 31, 2016 was the weighted average cost of capital (WACC) before taxes of 9.98% (2015: 9.32%). The WACC is determined on the basis of the risk-free rate according to the method of the IDW ["Institut der Wirtschaftsprüfer in Deutschland e.V., Düsseldorf": Institute of Public Auditors in Germany, Düsseldorf], the market risk premium and the beta factor. Beta represents the individual risk of a share as compared to a market index. It is calculated as the average value for the peer group. The credit spread, which expresses the premium over the risk-free rate, was derived from a rating of a peer group.

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

The impairment test performed as of December 31, 2016 did not result in the impairment of goodwill. Even changes in key parameters, which management deemed to be possible would not result in impairment.

Intangible assets

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

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

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

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

Property, plant and equipment

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

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

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

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

Investment property

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

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

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

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

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

Impairments and reversals are recorded through profit and loss.

Financial instruments

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

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

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

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

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

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

Financial assets

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

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

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

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

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

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

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

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

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

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

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

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

Financial liabilities

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

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

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

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

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

Derivative financial instruments and hedge accounting

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

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

Inventories

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

After a review of the existing markdowns for lack of marketability, these amounts were adjusted in 2016. Applying the discount for lack of marketability from 2015 would have resulted in an increase in impairment of EUR 3,611 k in 2016.

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

Cash and cash equivalents

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

Non-current assets held for sale

Non-current assets classified as held for sale are carried at the lower of their carrying amount and fair value less costs to sell.

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.

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

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

Provisions

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

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

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

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

Leases

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

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

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

Recognition of income and expense

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

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

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

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

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

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

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

Research and development costs

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

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

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

Government grants

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

Borrowing costs

Borrowing costs directly associated with the acquisition, construction, or production of qualifying assets are added to the production costs of these assets until the period in which the assets are largely available for their intended use or for their sale. Interest not capitalized pursuant to IAS 23 is recognized on an accrual basis as an expense using the effective interest method. The actual borrowing costs are capitalized if a financing loan can be definitively assigned to a specific investment. Unless a direct relationship can be established, the Group's average interest rate for borrowed capital for the current period is used. The Group's average interest rate for borrowed capital for the financial year 2016 amounted to 1.87% (2015: 2.00%). In the financial year 2016 borrowing costs of EUR 360 k (2015: EUR 559 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 to the financial statements unless the probability of an outflow of resources embodying economic benefits 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

The development of the global vehicle markets is generally linked to the economic situation. This applies even more to the commercial vehicle segment than to the passenger vehicle segment. In light of this, a slump in economic development always poses the risk that the demand for vehicles drops and therefore also vehicle production in the short to medium term. This would result cause demand for ElringKlinger components to fall.

According to current assessments, there are risks to economic development from the ongoing poor growth in Brazil and Japan. The economic situation in Russia, which is of minor significance to ElringKlinger, could stabilize in 2017. All in all, it is currently deemed unlikely that there will be a slowdown in the world economy, even taking into account the slowing growth in China, the pending Brexit and the recession in certain parts of Latin America. The International Monetary Fund anticipates 3.4% growth in the global economy for 2017.

General forecasts for the automotive sector indicate a positive development for 2017 overall. While the markets in North America and Europe are expected to remain at a consistently high level, growth is anticipated in China in particular, but also in other emerging countries. Growth is generally anticipated to shift from the established markets to emerging and developing economies. Thanks to its global presence with manufacturing and sales locations in the growth regions of the future, the Group is prepared for potential stagnation or declining demand in the traditional vehicle markets.

The risk of a dramatic collapse in vehicle production – similar to the one observed in the 2008/2009 crisis – is not very likely from today's perspective. ElringKlinger expects growth in global vehicle sales of around 2%.

ElringKlinger has a global reach and, with its broad customer structure, is neither dependent on individual markets nor on individual manufacturers. This means that an economic downturn in one region can at least be partially offset by its global setup and diversified customer make-up. 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 flex-time accounts and flexible shift models as well as the option to apply for government-sponsored schemes for shorter working hours. In addition, it is possible to react to changing market situations by adjusting the headcount to the demand situation and by merging the production quantities of individual plants. Procurement quantities would be reviewed and adjusted at short notice in close cooperation with the central procurement function and suppliers.

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

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

Individual disclosures on the Group Income Statement

1 Sales revenue

Sales revenue increased by EUR 50,190 k in comparison with 2015 to reach EUR 1,557,443 k.

Sales revenue of the Group are made up as follows:

in EUR k	2016	2015
Sale of goods	1,543,250	1,494,658
Proceeds from the rendering of services	9,674	8,322
Income from rental and leasehold	4,519	4,273
Total	**1,557,443**	**1,507,253**

Breakdown by geographical markets:

in EUR k	2016	2015
Domestic	412,254	411,491
Foreign	1,145,189	1,095,762
Total	**1,557,443**	**1,507,253**

The location of the customer is used to determine allocation of sales revenue. The division of group sales revenue by segment and region is presented in note (30) Segment reporting.

2 Cost of sales

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

Cost of sales includes:

in EUR k	2016	2015
Cost of materials	630,088	643,207
Personnel expenses	302,775	286,026
Depreciation and amortization	84,287	76,344
Other expenses	144,374	127,396
Total	**1,161,524**	**1,132,973**

3 Selling expenses

Selling expenses increased by EUR 4,378 k compared to 2015 to reach EUR 120,370 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 4,864 k compared to 2015 to reach EUR 74,207 k.

5 Research and development costs

Research and development costs include the personnel expenses and the cost of experimental materials and tools attributable to these activities, unless these are development costs that are required to be capitalized under the conditions set forth in IAS 38.57. Research and development costs increased by EUR 5,945 k compared to 2015 to reach EUR 67,383 k. Development costs of EUR 7,368 k (2015: EUR 9,841 k) were capitalized in the financial year 2016.

6 Other operating income

in EUR k	2016	2015
Government grants	6,823	7,787
Reimbursements from third parties	2,399	2,196
Income from disposals of non-current assets	1,591	322
Insurance reimbursements/claims reimbursements	967	4,488
Write-up of impaired receivables	929	1,361
Other taxes (excl. income tax)	708	157
Reversal of provisions/deferred liabilities	1,606	387
Other	4,978	3,434
Total	**20,001**	**20,132**

7 Other operating expenses

in EUR k	2016	2015
Other taxes (excl. income tax)	4,045	2,653
Expenditures for claims	1,833	928
Recognition of provisions/deferred liabilities	7,655	2,925
Defaults on receivables	1,104	1,175
Impairment of receivables	835	1,732
Other fees	825	1,225
Losses on disposal of non-current assets	502	322
Selling costs for machinery	354	111
Other	1,213	1,320
Total	**18,366**	**12,391**

8 Net finance costs

in EUR k	2016	2015
Financial income		
Income from currency differences	14,688	22,696
Interest income	551	782
Other	2,222	1,916
Finance income, total	**17,461**	**25,394**
Finance costs		
Expenses from currency difference	-14,240	-19,474
Interest expense	-14,498	-12,367
– thereof from derivative financial instruments	0	0
Other	-223	-45
Finance costs, total	**-28,961**	**-31,886**
Net finance costs	**-11,500**	**6,492**

Of the interest expenses, an amount of EUR 2,495 k (2015: EUR 2,763 k) relates to interest portions of pension plans and the remainder to bank interest and interest expense from the reversal of discounts on long-term provisions. Borrowing costs for qualifying assets in the amount of EUR 360 k were capitalized in the reporting year (2015: EUR 559 k); this represents a corresponding improvement in the result. Interest expenses for finance leases are immaterial.

9 Income taxes

Income taxes are composed as follows:

in EUR k	2016	2015
Current tax expense	48,259	42,919
Deferred taxes	-6,780	-9,950
Tax expense reported	**41,479**	**32,969**

Income taxes comprise corporate income tax and trade tax including the solidarity surcharge of the German Group companies as well as comparable income taxes of the foreign Group companies.

The income tax rate calculated for the German companies is 29.4% (2015: 27.9%). Foreign taxation is calculated at the rates applicable in the countries concerned and lies between 9.0% and 40.8% (2015: between 10.0% and 38.9%). The average foreign tax rate is 27.6% (2015: 28.0%).

Deferred taxes are calculated by applying the tax rates in force or expected to be in force in the different countries at the time of realization as the law presently stands.

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 27.9% (2015: 28.0%) and the income tax expense actually reported.

in EUR k	2016	2015
Earnings before taxes	124,094	128,756
Expected tax rate	**27.9%**	**28.0%**
Expected tax expenses	**34,585**	**36,016**
Change in the expected tax rate due to:		
– Permanent differences	51	83
– Difference in basis of assessment of local taxes	-299	-57
– Use of non-capitalized or forfeiture of capitalized tax loss carryforwards	-447	-374
– Write-up/impairment loss of capitalized tax loss carryforwards (from other periods)	0	-3,495
– Addition to non-current tax loss carryforwards (relating to the period)	2,810	932
– Taxes relating to other periods	4,805	-767
– Deviations due to changes in tax rate	-287	226
– Deviations on account of withholding taxes	373	518
– Other effects	-112	-113
Current tax expense	**41,479**	**32,969**
Actual tax rate	**33.4%**	**25.6%**

Retained earnings of EUR 19,881 k (2015: EUR 17,946 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 284 k (2015: EUR 495 k) and was recorded as a deferred tax liability. Further retained earnings of domestic and foreign subsidiaries of EUR 176,024 k (2015: EUR 356,158 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 14,602 k (2015: EUR 11,023 k, prior-year figure adjusted). No deferred tax assets were recognized in respect of tax loss carryforwards amounting to EUR 40,680 k (2015: EUR 34,056 k, prior-year figure adjusted), since it was not expected that the deferred tax assets would be utilized in the foreseeable future.

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

Loss carryforwards are forfeited within in EUR k	Dec. 31, 2016	Dec. 31, 2015
One year	49	0
Two years	1,208	530
Three years	181	2,189
Four years	1,074	172
Five years	1,426	982
More than five years	34,248	26,505*
Non-forfeitable	2,494	3,678
Total	**40,680**	**34,056**

* Prior-year figure adjusted

Tax deferrals relate to the following line items:

Line items in EUR k	Deferred tax assets Dec. 31, 2016	Deferred tax assets Dec. 31, 2015	Deferred tax liabilities Dec. 31, 2016	Deferred tax liabilities Dec. 31, 2015
Intangible assets	575	397	9,892	10,516
Property, plant and equipment	3,905	3,676	42,429	38,046
Investment property	55	26	1,918	1,845
Financial assets	2	2	0	9
Other non-current assets	6	64	324	218
Inventories	5,918	4,362*	1,491	1,915
Trade receivables	1,491	483	249	1,165
Other current assets	559	556	696	765
Cash and cash equivalents	0	0	0	0
Provisions for pensions	23,683	18,378	4	0
Non-current provisions	2,289	1,624	0	8
Non-current financial liabilities	30	207	14	0
Other non-current liabilities	647	112	0	0
Current provisions	2,109	1,843	0	31
Trade payables	15	43	195	19
Current financial liabilities	43	47	161	84
Other current liabilities	2,854	1,809	774	542
Deferred taxes associated with investments in subsidiaries	0	0	284	495
Tax loss carryforwards	14,602	11,023*	0	0
Total	**58,783**	**44,652**	**58,431**	**55,658**
Offsetting of deferred tax assets against deferred tax liabilities	-41,975	-30,544	-41,975	-30,544
Recognized in the statement of financial position	**16,808**	**14,108**	**16,456**	**25,114**

* Prior-year figures adjusted

Deferred taxes totaling EUR 6,067 k (2015: EUR -1,754 k) were recognized in other comprehensive income. Of this amount EUR 5,942 k (2015: EUR -1,962 k) relates to pension provisions and EUR 125 k (2015: EUR 208 k) relate to a net investment.

10 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:

	2016	2015
Profit/loss attributable to the shareholders of ElringKlinger AG (EUR k)	78,550	91,576
Average number of shares	63,359,990	63,359,990
Earnings per share in EUR	**1.24**	**1.45**

Disclosures on the Group Statement of Financial Position

11 Intangible assets

in EUR k	Development costs (internally generated)	Goodwill (purchased)	Patents, licenses, software and similar rights (purchased)	Intangible assets under construction	Total
Acquisition/production cost as of Jan. 1, 2016	**49,492**	**178,719**	**74,133**	**219**	**302,563**
Currency changes	-138	994	187	0	1,043
Change in consolidated group	0	915	3,928	0	4,843
Additions	7,368	0	3,452	986	11,806
Reclassifications	0	0	75	-49	26
Disposals	6,155	0	371	0	6,526
as of Dec. 31, 2016	**50,567**	**180,628**	**81,404**	**1,156**	**313,755**
Amortization as of Jan. 1, 2016	**28,658**	**13,676**	**46,687**	**0**	**89,021**
Currency changes	25	117	192	0	334
Additions	8,449	0	10,033	0	18,482
Disposals	6,155	0	367	0	6,522
as of Dec. 31, 2016	**30,977**	**13,793**	**56,545**	**0**	**101,315**
Net carrying amount as of Dec. 31, 2016	**19,590**	**166,835**	**24,859**	**1,156**	**212,440**
Acquisition/production cost as of Jan. 1, 2015	**44,111**	**155,386**	**61,984**	**46**	**261,527**
Currency changes	1,046	6,211	920	0	8,177
Change in consolidated group	0	17,122	8,015	0	25,137
Additions	9,841	0	3,645	177	13,663
Reclassifications	2	0	4	-4	2
Disposals	5,508	0	435	0	5,943
as of Dec. 31, 2015	**49,492**	**178,719**	**74,133**	**219**	**302,563**
Amortization as of Jan. 1, 2015	**25,227**	**13,400**	**37,557**	**0**	**76,184**
Currency changes	712	276	651	0	1,639
Additions	8,215	0	8,897	0	17,112
Reclassifications	0	0	17	0	17
Disposals	5,496	0	435	0	5,931
as of Dec. 31, 2015	**28,658**	**13,676**	**46,687**	**0**	**89,021**
Net carrying amount as of Dec. 31, 2015	**20,834**	**165,043**	**27,446**	**219**	**213,542**

Purchase commitments to acquire intangible assets amounted to EUR 967 k as of December 31, 2016 (December 31, 2015: EUR 524 k).

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

in EUR k	2016	2015
Cost of sales	12,900	11,194
Selling expenses	3,937	3,857
General and administrative expenses	917	1,361
Research and development costs	728	700
Total	**18,482**	**17,112**

12 Property, plant and equipment

in 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, 2016	**390,268**	**953,265**	**164,122**	**119,794**	**1,627,449**
Currency changes	451	1,837	-696	-2,524	-932
Change in consolidated group	0	843	370	0	1,213
Additions	19,057	45,794	18,220	86,329	169,400
Reclassifications	57,708	33,534	4,265	-95,533	-26
Disposals	2,062	29,077	3,878	0	35,017
as of Dec. 31, 2016	**465,422**	**1,006,196**	**182,403**	**108,066**	**1,762,087**
Depreciation as of Jan. 1, 2016	**83,860**	**606,528**	**109,802**	**0**	**800,190**
Currency changes	109	321	-199	0	231
Additions	10,760	53,607	12,277	0	76,644
Reclassifications	0	-26	26	0	0
Disposals	214	28,440	3,642	0	32,296
as of Dec. 31, 2016	**94,515**	**631,990**	**118,264**	**0**	**844,769**
Net carrying amount as of Dec. 31, 2016	**370,907**	**374,206**	**64,139**	**108,066**	**917,318**
Acquisition/production cost as of Jan. 1, 2015	**356,387**	**865,017**	**150,734**	**71,014**	**1,443,152**
Currency changes	8,468	8,979	839	1,683	19,969
Change in consolidated group	86	3,206	2	0	3,294
Additions	19,597	48,396	13,561	91,525	173,079
Reclassifications	6,266	35,324	2,725	-44,317	-2
Disposals	536	7,657	3,739	111	12,043
as of Dec. 31, 2015	**390,268**	**953,265**	**164,122**	**119,794**	**1,627,449**
Depreciation as of Jan. 1, 2015	**73,612**	**558,312**	**103,248**	**0**	**735,172**
Currency changes	1,757	4,457	183	0	6,397
Additions	9,004	50,888	10,048	0	69,940
Reclassifications	0	-39	21	0	-18
Disposals	513	7,090	3,698	0	11,301
as of Dec. 31, 2015	**83,860**	**606,528**	**109,802**	**0**	**800,190**
Net carrying amount as of Dec. 31, 2015	**306,408**	**346,737**	**54,320**	**119,794**	**827,259**

Property, plant and equipment contains technical equipment capitalized by the Group as finance leases in the amount of EUR 728 k (2015: EUR 880 k). In the financial year, amortization of leased assets amounted to EUR 192 k (2015: EUR 189 k).

As in the previous year, no impairment losses were recognized on property, plant and equipment in the financial year 2016.

Purchase commitments to acquire property, plant and equipment from third parties amounted to EUR 41,249 k as of December 31, 2016 (December 31, 2015: EUR 45,786 k).

13 Investment property

in EUR k	Investment property	Investment property under construction	Total
Acquisition/production cost as of Jan. 1, 2016	**21,384**	**3,031**	**24,415**
Currency changes	252	60	312
Additions	1,608	273	1,881
Reclassifications	3,091	-3,091	0
as of Dec. 31, 2016	**26,335**	**273**	**26,608**
Depreciation as of Jan. 1, 2016	**10,173**	**0**	**10,173**
Currency changes	101	0	101
Additions	512	0	512
as of Dec. 31, 2016	**10,786**	**0**	**10,786**
Net carrying amount as of Dec. 31, 2016	**15,549**	**273**	**15,822**
Acquisition/production cost as of Jan. 1, 2015	**21,347**	**91**	**21,438**
Currency changes	-17	0	-17
Additions	54	2,940	2,994
as of Dec. 31, 2015	**21,384**	**3,031**	**24,415**
Depreciation as of Jan. 1, 2015	**9,726**	**0**	**9,726**
Currency changes	-13	0	-13
Additions	460	0	460
as of Dec. 31, 2015	**10,173**	**0**	**10,173**
Net carrying amount as of Dec. 31, 2015	**11,211**	**3,031**	**14,242**

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

Investment property has a fair value of EUR 19,457 k as of the reporting date (2015: EUR 17,017 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 in the calculation was 8.75% (2015: 7.88%). Measurement of the fair values was not performed by an independent expert.

All investment property is rented out under operating leases. The resulting rental income came to EUR 4,519 k (2015: EUR 4,273 k). Expenses directly connected with these financial investments amounted to EUR 5,163 k (2015: EUR 3,811 k). Material contractual commitments to acquire or maintain investment property did not exist as of the end of the reporting period. Furthermore, there were no limitations regarding the saleability of investment property.

14 Financial assets

in EUR k	Non-current securities	Other financial assets	Total
Acquisition cost as of Jan. 1, 2016	**1,292**	**22**	**1,314**
Currency changes	4	-2	2
Additions	247	0	247
Disposals	458	4	462
as of Dec. 31, 2016	**1,085**	**16**	**1,101**
Write-downs as of Jan. 1, 2016	**59**	**0**	**59**
Currency changes	1	0	1
Additions	14	0	14
Disposals	2	0	2
as of Dec. 31, 2016	**72**	**0**	**72**
Net carrying amount as of Dec. 31, 2016	**1,013**	**16**	**1,029**
Fair value Dec. 31, 2016	1,013	16	
Acquisition cost as of Jan. 1, 2015	**1,693**	**90**	**1,783**
Currency changes	13	7	20
Revaluations	-14	0	-14
Disposals	400	75	475
As of Dec. 31, 2015	**1,292**	**22**	**1,314**
Write-downs as of Jan. 1, 2015	**55**	**0**	**55**
Currency changes	2	0	2
Additions	2	0	2
As of Dec. 31, 2015	**59**	**0**	**59**
Net carrying amount as of Dec. 31, 2015	**1,233**	**22**	**1,255**
Fair value Dec. 31, 2015	1,233	22	

Of the non-current securities, EUR 819 k (2015: EUR 1,042 k) is pledged in full to secure pension claims.

15 Non-current income tax assets and other non-current assets

Non-current income tax assets include an investment income tax credit carried by ElringKlinger Automotive Components (India) of EUR 99 k and a corporate income tax credit carried by Elring Klinger do Brasil Ltda. of EUR 112 k.

Other non-current assets include an advance payment on future licensing expenses amounting to EUR 682 k (2015: EUR 565 k).

16 Inventories

in EUR k	Dec. 31, 2016	Dec. 31, 2015
Raw materials, consumables and supplies	100,949	94,266
Work in progress	62,478	60,591
Finished goods and merchandise	156,125	159,217
Advance payments	8,782	7,828
Total	**328,334**	**321,902**

Impairments of EUR 14,390 k were recognized on inventories due to market risks and obsolescence (2015: EUR 17,936 k). No write-ups were performed. Impairments are recognized in cost of sales.

17 Trade receivables, current income tax assets and other current assets

For trade receivables and other current assets, impairments of EUR 5,767 k (2015: EUR 6,262 k) were recognized for specific identifiable risks and likely use of discounts.

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

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

The adjustment account for trade receivables and other current assets developed as follows:

in EUR k	2016	2015
As of Jan. 1	**6,262**	**5,690**
Additions	740	1,732
Reversals/utilizations	-1,235	-1,026
Exchange rate effects	0	-134
As of Dec. 31	**5,767**	**6,262**

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

in EUR k	Dec. 31, 2016	Dec. 31, 2015
Neither overdue nor impaired	**244,473**	**239,834**
Overdue, not impaired		
– less than 30 days	35,505	26,738
– from 31 to 60 days	7,629	7,054
– from 61 to 90 days	4,054	2,900
– from 91 to 180 days	581	523
– more than 180 days	127	382
Total	**47,896**	**37,597**
Discounts	**-263**	**-256**
Impaired	**7,416**	**10,054**
Carrying amount	**299,522**	**287,229**

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

For the portfolio of receivables neither overdue nor impaired, there are no indications as of the reporting date that would indicate that the debtors will not meet their payment obligations.

Other current assets include tax receivables from VAT and other taxes of EUR 19,400 k (2015: EUR 14,628 k), time deposits and securities of EUR 4,617 k (2015: EUR 31 k) and other receivables from third parties of EUR 15,167 k (2015: EUR 16,073 k), of which EUR 1,135 k (2015: EUR 1,372 k) relates to financial assets and EUR 0 k (2015: EUR 11 k) to financial derivatives.

Current income tax assets mainly contain the corporate income tax credits of ElringKlinger AG capitalized at present value in the amount of EUR 684 k (2015: EUR 684 k) and of ElringKlinger Kunststofftechnik GmbH also capitalized at present value of EUR 669 k (2015: EUR 698 k) as well as income tax assets of ElringKlinger Automotive Manufacturing, Inc. of EUR 1,187 k (2015: EUR 0 k).

18 Cash and cash equivalents

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

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

19 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, 2016 and is divided into 63,359,990 registered shares, each entitled to a single vote. The share capital is paid in full. Each registered share represents a theoretical interest of EUR 1.00 of the share capital. Profit is distributed in accordance with § 60 German Stock Corporation Act (Aktiengesetz, "AktG") in conjunction with § 23 no. 1 of the Articles of Association.

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the Company's share capital by issuing new shares for cash and/or in-kind contributions on one or more occasions, however by no more than EUR 31,679,995, by May 17, 2017 (Authorized Capital 2012). As a rule, the shareholders are entitled to subscription rights. The shares may also be acquired by one or more banks subject to the proviso that they offer them to the shareholders for subscription. However, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude shareholder subscription rights

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

The Management Board has not exercised the authorization to date.

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

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

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

Under the German Stock Corporation Act (AktG), the distributable dividend is measured on the retained earnings reported in the annual financial statements of ElringKlinger AG that have been drawn up according to the provisions of the German Commercial Code (HGB). In the financial year 2016, ElringKlinger AG distributed to its shareholders a dividend of EUR 34,848 k (EUR 0.55 per share) from the retained earnings reported in 2015. In the financial year 2015, the distribution was EUR 34,848 k (EUR 0.55 per share) from the retained earnings reported in 2014.

At the Annual General Meeting held on May 16, 2017 to ratify the 2016 financial statements, the Management Board and the Supervisory Board will propose that a dividend of EUR 0.50 per participating share be distributed from retained earnings of EUR 31,680 k.

20 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.

21 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 as well as the Swiss subsidiaries, 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 22,217 k (2015: EUR 20,529 k) and are allocated to the relevant function costs.

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

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

The pension plans of the Swiss Group companies insure employees against the economic consequences of old age, disability and death. Assets are fully covered by pension insurance policy. No shortfall can arise from an agreement at a fully 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, 2016	Dec. 31, 2015
Discount rate (vesting period)	1.36%	1.94%
Discount rate (pension period)	1.16%	1.67%
Expected salary increases (in %)	2.69%	2.67%
Future pension increases	1.50%	1.75%

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

in EUR k	2016	2015
Present value of pension benefits as of Jan. 1	**157,802**	**156,008**
Current service cost	6,201	6,364
Past service cost	-454	-846
Plan participant contributions	3,977	3,664
Interest expense	2,927	2,763
Disbursements/utilization	-6,354	-8,513
Actuarial gains/losses	16,898	-6,280
Currency differences	598	4,549
Other changes	16	93
Change in consolidated group	0	0
Present value of pension benefits as of Dec. 31	**181,611**	**157,802**
of which (partially) covered by plan assets	75,797	48,709
of which not covered	105,814	109,093

The average weighted term of the defined benefit obligation amounts to 19 years (2015: 17 years). Actuarial gains and losses arise from the following effects:

in EUR k	2016	2015
Effects from changes in the interest rate	11,229	-5,316
Effects from changes in demographic assumptions	2,999	-43
Effects from other experience-based adjustments	2,670	-921
Actuarial gains/losses	**16,898**	**-6,280**

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

in EUR k	2016	2015
Market value as of Jan. 1	**39,058**	**31,918**
Change in consolidated group	0	0
Interest income	432	464
Employer contributions	3,871	4,603
Plan participant contributions	3,977	3,664
Service costs	-2,807	-4,951
Actuarial gains/losses	144	199
Currency effects	374	3,161
Market value as of Dec. 31	**45,049**	**39,058**

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

in EUR k	2016	2015
Present value of pension benefits as of Dec. 31		
Germany	123,770	104,879
Switzerland	53,180	48,709
Other	4,661	4,214
Present value of pension benefits as of Dec. 31	**181,611**	**157,802**
Market value of plan assets as of Dec. 31		
Germany	6,179	4,874
Switzerland	38,637	34,063
Other	233	121
Market value of plan assets as of Dec. 31	**45,049**	**39,058**

The actual return on plan assets amounts to EUR 567 k (2015: EUR 673 k).

In 2017, 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 4,270 k (2015: EUR 3,775 k). The future payments from pension obligations are as follows:

in EUR k	2016	2015
For the next 12 months	4,270	3,775
Between one and five years	15,050	14,693
More than five years	316,757	290,389

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

in EUR k	2016	2015
Current service cost	6,201	6,364
Net interest expenses	2,495	2,299
Past service cost	-454	-846
Total pension expense	**8,242**	**7,817**

Net interest expenses comprise interest expenses of EUR 2,927 k (2015: EUR 2,763 k) as well as interest income from plan assets of EUR 432 k (2015: EUR 464 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:

in EUR k	2016	2015
Actuarial gains (-) and (+) losses recognized in other comprehensive income	16,754	-6,479
Deferred taxes on actuarial gains (-) and losses (+) recognized under other comprehensive income	-5,942	1,962

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

in EUR k	2016	2015
Present value of pension obligation	181,611	157,802
Fair value of plan assets	45,049	39,058
Reported pension provision	136,562	118,744

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 27,023 k/EUR 33,077 k.

A 0.5% increase/decrease in future salary increases would lead to an increase/decrease in the DBO of EUR 2,505 k/EUR 3,622 k.

A change in future pension developments of +0.25%/-0.25% would lead to an increase/decrease in the DBO of EUR 4,615 k/EUR 5,595 k.

22 Other provisions

Other provisions can be broken down as follows:

in EUR k	Dec. 31, 2016	Dec. 31, 2015
Current provisions	17,279	16,423
Non-current provisions	13,604	12,340
Total	**30,883**	**28,763**

Current provisions:

in EUR k	Personnel obligations	Warranty obligations	Expected losses from customer contracts	Litigation costs	Other risks	Total
As of Dec. 31, 2015	**2,243**	**5,724**	**4,085**	**1,844**	**2,527**	**16,423**
Currency changes	6	-13	15	68	9	85
Change in consolidated group	0	120	0	0	0	120
Utilization	2,814	2,189	4,099	613	723	10,438
Reversal	0	548	0	941	1,627	3,116
Additions	4,305	1,374	4,572	614	2,881	13,746
Reclassifications	489	-63	0	0	33	459
As of Dec. 31, 2016	**4,229**	**4,405**	**4,573**	**972**	**3,100**	**17,279**

Non-current provisions:

in EUR k	Personnel obligations	Warranty obligations	Litigation costs	Other risks	Total
As of Dec. 31, 2015	**9,949**	**1,296**	**288**	**807**	**12,340**
Currency changes	-1	10	1	13	23
Change in consolidated group	0	0	0	0	0
Utilization	398	279	94	28	799
Reversal	189	40	102	218	549
Unwinding of discount/discounting	129	0	0	0	129
Additions	2,464	274	118	63	2,919
Reclassifications	-489	63	0	-33	-459
As of Dec. 31, 2016	**11,465**	**1,324**	**211**	**604**	**13,604**

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

The provision for warranties represents the best estimate of the 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 12 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.

23 Non-current and current financial liabilities

in EUR k	Domestic	Foreign	Total Dec. 31, 2016	Domestic	Foreign	Total Dec. 31, 2015
Overdrafts	145,960	21,602	167,562	111,697	35,081	146,778
Financial liabilities with a residual term of less than one year	11,938	77,892	89,830	29,376	33,443	62,819
Current financial liabilities	**157,898**	**99,494**	**257,392**	**141,073**	**68,524**	**209,597**
Financial liabilities with a residual term of between one and five years	240,009	66,596	306,605	207,057	100,822	307,879
Financial liabilities with a residual term of more than five years	4,721	9,487	14,208	9,028	9,185	18,213
Non-current financial liabilities	**244,730**	**76,083**	**320,813**	**216,085**	**110,007**	**326,092**
Total	**402,628**	**175,577**	**578,205**	**357,158**	**178,531**	**535,689**

This includes liabilities from finance leases of EUR 480 k (2015: EUR 462 k) with a nominal volume of EUR 511 k (2015: EUR 497 k).

The average interest rates were:

in %	Dec. 31, 2016	Dec. 31, 2015
Overdrafts:		
Domestic	0.67	0.87
Foreign	3.92	3.31
Financial liabilities:		
Domestic: less than one year	2.52	3.58
Domestic: between one and five years	1.79	1.95
Domestic: more than five years	1.96	1.87
Foreign: less than one year	2.47	2.70
Foreign: between one and five years	2.40	2.43
Foreign: more than five years	3.26	3.26

Fixed interest rates have been agreed for financial liabilities amounting to EUR 389,065 k (2015: EUR 380,287 k).

To secure these liabilities, land charges were issued on company land with a carrying amount of EUR 149,254 k (2015: EUR 119,463 k) and collateral assignment issued for inventory with a carrying amount of EUR 863 k (2015: EUR 4,866 k), receivables with a carrying amount of EUR 6,338 k (2015: EUR 11,939 k) and tools with a carrying amount of EUR 705 k (2015: EUR 0 k). The secured liabilities amounted to EUR 44,152 k (2015: EUR 48,266 k) as of December 31, 2016.

As of December 31, 2016, the Group had unused lines of credit amounting to EUR 122,185 k (2015: EUR 98,935 k).

24 Trade payables and other current and non-current liabilities

Trade payables and other current and non-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 48,685 k.

25 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 assets, liabilities, financial position and profit or loss 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 assets, liabilities, financial position and profit or loss and thus to minimize these influences. Within the ElringKlinger Group, derivative financial instruments may only be entered into with the consent of the Management Board. Hedge accounting in accordance with IAS 39 was not applied.

Currency risk

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

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

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

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

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

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

Dec. 31, 2016 in EUR k Local currency	HUF	EUR	IDR	CNY	JPY	Other	Total
Local currency +10%							
Consolidated net income	917	748	531	512	-117	59	2,650
Local currency −10%							
Consolidated net income	-917	-748	-531	-512	117	-59	-2,650

Dec. 31, 2015 in EUR k Local currency	EUR	CHF	CAD	USD	CNY	Other	Total
Local currency +10%							
Consolidated net income	-2,257	-1,206	-856	649	564	205	-2,901
Local currency −10%							
Consolidated net income	2,257	1,206	856	-649	-564	-205	2,901

Interest rate risk

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

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

Had market interest rates been 30 basis points higher on December 31, 2016, earnings would have been EUR 526 k (2015: EUR 105 k) lower. Had market interest rates been 30 basis points lower, earnings would have been EUR 41 k (2015: EUR 11 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. Where necessary, it is possible to secure acceptable procurement prices by means of derivatives.

Credit risk

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

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

Liquid funds

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

Trade receivables

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

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

In its export business, ElringKlinger also assesses the credit standing of its counterparties by submitting inquiries to credit information services and on the basis of the specific country risk. In addition, credit insurance policies are taken out or letters of credit are required in certain cases. Trade receivables of EUR 9,530 k (2015: EUR 12,521 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 in note 17.

In 2016, the two largest customers accounted for 11.0% and 8.3% of sales revenue, respectively (2015: 11.7% and 8.1%).

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.

in EUR k	Trade payables	Financial liabilities	Finance leases	Derivatives	Other current liabilities	Total
As of Dec. 31, 2016						
Carrying amount	**103,228**	**577,725**	**480**	**0**	**48,685**	**730,118**
Expected outflows:	**103,228**	**594,517**	**511**	**0**	**48,685**	**746,941**
– less than one month	68,516	52,471	14	0	0	121,001
– between one and three months	29,211	30,832	30	0	8,992	69,065
– between three months and one year	2,570	168,306	123	0	39,693	210,692
– between one and five years	2,797	328,586	344	0	0	331,727
– more than five years	134	14,322	0	0	0	14,456
As of Dec. 31, 2015						
Carrying amount	**85,939**	**535,277**	**462**	**182**	**49,374**	**671,234**
Expected outflows:	**85,939**	**557,802**	**497**	**182**	**49,374**	**693,794**
– less than one month	51,010	57,397	14	15	0	108,436
– between one and three months	29,810	19,420	30	30	4,196	53,486
– between three months and one year	3,952	137,588	114	137	45,178	186,969
– between one and five years	1,157	324,931	339	0	0	326,427
– more than five years	10	18,466	0	0	0	18,476

Further disclosures on financial liabilities are provided under note (23).

26 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
in EUR k	CA	CA	CA
As of Dec. 31, 2016			
Loans and receivables	39,407	299,522	5,752
Held to maturity	0	0	0
Held for trading	0	0	0
Available for sale	0	0	0
Total	**39,407**	**299,522**	**5,752**
As of Dec. 31, 2015			
Loans and receivables	48,925	287,229	1,403
Held to maturity	0	0	0
Held for trading	0	0	0
Available for sale	0	0	0
Total	**48,925**	**287,229**	**1,403**

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

	Other current liabilities	Current financial liabilities	Current Finance leases	
in EUR k	CA	CA	CA	FV
As of Dec. 31, 2016				
Financial liabilities measured at acquisition cost	48,685	257,231	0	0
Financial liabilities measured at fair value through profit or loss	0	0	0	0
No IAS 39 measurement category	0	0	161	167
As of Dec. 31, 2015				
Financial liabilities measured at acquisition cost	49,374	209,445	0	0
Financial liabilities measured at fair value through profit or loss	0	0	0	0
No IAS 39 measurement category	0	0	152	158

Derivatives	Non-current securities		Other financial assets		Total
CA	CA	FV	CA	FV	CA
0	0	0	8	8	344,689
0	819	819	0	0	819
0	0	0	0	0	0
0	194	194	8	8	202
0	**1,013**	**1,013**	**16**	**16**	**345,710**
0	0	0	10	10	337,567
0	1,042	1,043	0	0	1,042
11	0	0	0	0	11
0	191	191	12	12	203
11	**1,233**	**1,234**	**22**	**22**	**338,823**

Trade payables	Derivatives		Non-current financial liabilities		Non-current Finance leases		Total
CA	CA	FV	CA	FV	CA	FV	CA
103,228	0	0	320,495	318,100	0	0	729,639
0	0	0	0	0	0	0	0
0	0	0	0	0	318	344	479
85,939	0	0	325,782	326,768	0	0	670,540
0	182	182	0	0	0	0	182
0	0	0	0	0	310	339	462

Other current liabilities contain two purchase price liabilities of EUR 33,801 k (2015: one purchase price liability of EUR 35,153 k) from written put options which are measured at amortized cost.

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

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

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

The fair value of the put option granted to non-controlling interests of ElringKlinger Marusan Corporation to sell their shares is reported under other current liabilities and is based on forecasts of it business value. For the measurement of this put option held by 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 3,293 k.

Financial assets and liabilities measured at fair value are classified into the following 3-level fair value hierarchy as of the valuation date December 31, 2016:

in EUR k	Level 1	Level 2	Level 3
Dec. 31, 2016			
Financial assets			
Non-current securities	194	0	0
Other financial assets	8	0	0
Derivatives*	0	0	0
Total	**202**	**0**	**0**
Financial liabilities			
Derivatives*	0	0	0
Total	**0**	**0**	**0**
Dec. 31, 2015			
Financial assets			
Non-current securities	191	0	0
Other financial assets	12	0	0
Derivatives*	0	11	0
Total	**203**	**11**	**0**
Financial liabilities			
Derivatives*	0	182	0
Total	**0**	**182**	**0**

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

The table below shows the allocation of financial assets and liabilities that are not measured at fair value, but for which a fair value is disclosed, at the three levels of the fair value hierarchy as of the valuation date December 31, 2016:

in EUR k	Level 1	Level 2	Level 3
Dec. 31, 2016			
Financial assets			
Non-current securities	819	0	0
Other financial assets	0	0	8
Total	**819**	**0**	**8**
Financial liabilities			
Non-current liabilities from finance leases	0	0	344
Non-current financial liabilities	0	318,100	0
Purchase price liability from written put option	0	0	33,801
Total	**0**	**318,100**	**34,145**
Dec. 31, 2015			
Financial assets			
Non-current securities	1,043	0	0
Other financial assets	0	0	10
Total	**1,043**	**0**	**10**
Financial liabilities			
Non-current liabilities from finance leases	0	0	339
Non-current financial liabilities	0	326,768	0
Purchase price liability from written put option	0	0	35,153
Total	**0**	**326,768**	**35,492**

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

Level 1: Measurement based on market prices

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

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

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

Net gains/losses on financial instruments:

in EUR k	2016	2015
Held-for-trading financial instruments*	0	-157
Available-for-sale assets	498	0
Held-to-maturity investments	-18	0
Loans and receivables	3,599	2,913
Financial liabilities measured at acquisition cost	-814	614

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

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

Net gains on disposal of available-for-sale assets include income from the fair value adjustment of amortized costs of affiliated companies. There were no net gains that were reclassified from other comprehensive income to the income statement.

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

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

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

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

in EUR k	2016	2015
Total interest income	258	521
Total interest expense	-11,328	-9,663

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

27 Finance leases

Liabilities from finance leases relate to leases of property, plant and equipment which transfer substantially all risks and rewards of beneficial ownership to the Group as lessee. As of December 31, 2016, future minimum lease payments under finance leases amounted to EUR 511 k (2015: EUR 497 k). The reconciliation of future minimum lease payments from finance lease arrangements to the corresponding liabilities as of December 31, 2016 is as follows:

in EUR k	Minimum lease payments Dec. 31, 2016	Interest included in minimum lease payments Dec. 31, 2016	Liabilities from finance leases Dec. 31, 2016
Term			
Less than one year	167	6	161
Between one and five years	344	26	318
More than five years	0	0	0
Total	**511**	**32**	**479**

28 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 minimum equity ratio of 40% within the Group. ElringKlinger AG's Articles of Association do not define any capital requirements.

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

The following table presents changes in equity and total assets as of December 31, 2016 as compared to December 31, 2015.

in EUR million	2016	2015
Equity	**886.4**	**855.7**
as % of total capital	47.2%	48.5%
Non-current liabilities	491.3	486.1
Current liabilities	500.5	424.0
Debt	**991.8**	**910.1**
as % of total capital	52.8%	51.5%
Total capital	**1,878.2**	**1,765.8**

The change in equity from December 31, 2015 to December 31, 2016 was due primarily to an increase in revenue reserves and a decrease in other reserves. Debt increased year-on-year by 9%.

The equity ratio of the Group (47.2%) exceeded the 40% target equity ratio set by the Supervisory Board and Management Board.

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

As of December 31, 2016, there were no issues prevailing that would have justified banks exercising their unilateral right of termination.

* Cf. glossary

29 Notes to the Statement of Cash Flows

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

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

Cash flows from investing and financing activities are determined by reference to payments. By contrast, cash flows from operating activities are derived indirectly from earnings before taxes for the year. For the indirect computation, effects from currency translation and changes to the scope of the consolidated financial statements are eliminated from the changes to the items of the statement of financial position arising from operating activities. For this reason, it is not possible to reconcile the changes in the relevant items of the statement of financial position with the corresponding figures in the published group statement of financial position. The line "Change in current loans" was added to provide better insight into the Group's cash position. The previous-year figures were adjusted accordingly, with an amount of EUR 30,556 k for 2015 being reclassified from "Payments from the addition of financial liabilities."

30 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. From 2016, the Group measures the performance of its segments based on earnings before interest and taxes (EBIT). As such, the earnings before income taxes, interest income and expenses as well as the segment liabilities are no longer reported. With the exception of the Original Equipment segment's provision of supplies to the Aftermarket segment, the extent of trade between the individual segments is insignificant. The exchange of goods and/or services between the segments takes place at arm's-length prices.

The segment results do not contain an impairment loss.

The Original Equipment segment generated 11% of the Group's consolidated sales revenue from one customer (EUR 171,814 k).

Segment reporting

Segment	Original Equipment		Aftermarket		Engineered Plastics		Industrial Parks	
in EUR k	2016	2015	2016	2015	2016	2015	2016	2015
External revenue	**1,294,305**	**1,255,793**	**147,267**	**142,218**	**101,678**	**96,647**	**4,519**	**4,273**
Intersegment revenue	17,636	27,606	0	0	160	111	352	234
Segment revenue	**1,311,941**	**1,283,399**	**147,267**	**142,218**	**101,838**	**96,758**	**4,871**	**4,507**
EBIT[1]	**88,916**	**91,167**	**30,487**	**28,195**	**14,881**	**13,207**	**-292**	**696**
Depreciation and amortization[2]	85,507	78,823	1,989	1,972	5,829	5,020	959	457
Capital expenditures[3]	166,388	154,660	1,753	2,036	7,896	17,872	2,384	4,138
Segment assets	1,652,681	1,543,379	88,422	89,018	109,332	110,548	19,643	18,449

Segment	Services		Other		Consolidation		Group	
in EUR k	2016	2015	2016	2015	2016	2015	2016	2015
External revenue	**9,674**	**8,322**	**0**	**0**	**0**	**0**	**1,557,443**	**1,507,253**
Intersegment revenue	5,875	6,089	0	0	-24,023	-34,040	0	0
Segment revenue	**15,549**	**14,411**	**0**	**0**	**-24,023**	**-34,040**	**1,557,443**	**1,507,253**
EBIT[1]	**1,602**	**1,983**	**0**	**0**	**0**	**0**	**135,594**	**135,248**
Depreciation and amortization[2]	1,354	1,242	0	0	0	0	95,638	87,514
Capital expenditures[3]	4,666	11,030	0	0	0	0	183,087	189,736
Segment assets	14,293	14,019	0	0	-6,202	-9,620	1,878,169	1,765,793

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

Segment reporting by region

Region in EUR k		Sales revenues[1]	Non-current assets	Investments
Germany	2016	412,254	472,202	72,234
	2015	411,491	446,458	68,963
Rest of Europe	2016	489,099	293,399	36,908
	2015	470,330	273,600	41,371
NAFTA	2016	291,990	155,242	44,152
	2015	296,390	123,323	30,746
Asia-Pacific	2016	298,973	201,057	26,776
	2015	270,736	193,811	47,722
South America and rest of the world	2016	65,127	24,710	3,017
	2015	58,306	19,105	935
Group	**2016**	**1,557,443**	**1,146,610[2]**	**183,087**
	2015	**1,507,253**	**1,056,297[2]**	**189,737**

[1] The location of the customer is used to determine allocation of sales revenues to the regions.
[2] This includes financial assets of EUR 1,029 k (2015: EUR 1,255 k)

Other disclosures

Contingent liabilities

As in the previous year, the ElringKlinger Group is currently not subject to contingent liabilities from guarantees, performance bonds or bills of exchange issued.

Contingent assets and liabilities

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

Operating leases

Expenses include payments from operating leases of EUR 10,764 k (2015: EUR 8,650 k).

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

in EUR k	Dec. 31, 2016	Dec. 31, 2015
less than one year	4,300	4,701
between one and five years	9,015	10,829
more than five years	1,973	2,168
Total	**15,288**	**17,698**

Of the total, EUR 8,460 k (2015: EUR 9,422 k) is related to outstanding obligations from binding operating leases for commercial premises, EUR 3,899 k (2015: EUR 4,251 k) to office equipment, and EUR 2,929 k (2015: EUR 4,025 k) to other lease arrangements.

Finance leases

Information on the finance lease can be found in note (27).

Other financial commitments

Energy purchase commitments

in EUR k	Dec. 31, 2016	Dec. 31, 2015
less than one year	9,496	2,882
between one and five years	19,356	17,379
Total	**28,852**	**20,261**

Proceeds from lease agreements

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

in EUR k	Dec. 31, 2016	Dec. 31, 2015
less than one year	1,715	1,292
between one and five years	3,109	1,732
more than five years	2,200	702
Total	**7,024**	**3,726**

Number of employees

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

	2016	2015
Employees	7,931	7,322
Trainees	391	331
Total	**8,322**	**7,653**

Personnel expenses

Personnel expenses in the reporting year amounted to EUR 445,968 k (2015: EUR 416,652 k). Personnel expenses include expenses for wages and salaries, social security and other benefit costs, as well as expenses for post-employment benefits.

Changes in the composition of share indices

At its meeting held on March 3, 2016, Deutsche Börse decided to make changes to the composition of its share indices. The ElringKlinger AG share is being taken out of the MDAX index, in which it was previously listed, and will become part of the SDAX effective as of March 21, 2016. Two factors are decisive for the composition of the indices on the German share market: the market capitalization of the free float and the average trading volume of a share. ElringKlinger AG ranked near the bottom with regard to both measurement criteria and for this reason its share was removed from the MDAX index.

Events after the end of the reporting period

On October 26, 2016, ElringKlinger AG concluded a notarized agreement on a strategic shareholder investment of 27% in the Nürtingen engineering company hofer AG and a 53% material shareholding in the subsidiary hofer powertrain products GmbH, Nürtingen.

The shares were acquired in 2017 through participation in a capital increase. ElringKlinger AG contributed an amount of EUR 3,570 k to the capital stock and an amount of EUR 25,370 k to the capital reserves of hofer AG. ElringKlinger AG contributed an amount of EUR 1,060 k to the capital stock of hofer powertrain products GmbH. All payments were made in January 2017. In addition, the contract includes a master loan agreement of EUR 30,000 k for the purpose of financing future investing activities of hofer powertrain products GmbH. The entry for hofer powertrain products GmbH was made in the commercial register on February 6, 2017. The entry for hofer AG was made in the commercial register on March 1, 2017.

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

No measurements were yet available for calculating the further disclosures pursuant to IFRS 3 paragraph B64.

On March 23, 2017, the Management Board of ElringKlinger AG submitted the consolidated financial statements to the Supervisory Board, which will meet on March 24, 2017 to approve them. No other significant events occurred after the reporting date.

Related-party disclosures

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

Cooperation agreement between ElringKlinger AG and Lechler GmbH, Metzingen, concerning traineeships. Mr. Walter Herwarth Lechler is the Chairman of the Supervisory Board of ElringKlinger AG and holds a significant interest in Lechler GmbH. ElringKlinger AG earned EUR 47 k during the reporting year (2015: EUR 48 k). A receivable of EUR 25 k was still outstanding as of the reporting date (2015: EUR 15 k).

Lease agreement between Technik-Park Heliport Kft., Kecskemét-Kadafalva, Hungary (TPH), and the Lechler GmbH subsidiary, Lechler Kft., Kecskemét-Kadafalva, Hungary. TPH earned EUR 200 k in rental income based on this lease during the reporting year (2015: EUR 200 k). As in the previous year, there were no open receivables as of the end of the reporting period.

Agreement between ElringKlinger Logistic Service GmbH, Rottenburg-Ergenzingen, and Lechler GmbH, Metzingen, regarding assembly activities and the storage of components. This agreement gave rise to EUR 496 k in sales revenue during the reporting year (2015: EUR 492 k). As of the end of the reporting period, December 31, 2016, there was one outstanding receivable of EUR 41 k (2015: EUR 29 k).

Business relations between the ElringKlinger subsidiary, Changchun ElringKlinger Ltd., China, (CEK), and CHYAP, the company controlled by Ms. Liu, a close relative of Mr. Huang, who is a joint partner in CEK. CEK procured EUR 184 k worth of services under these business relations in 2016 (2015: EUR 183 k). As of December 31, 2016, there is EUR 15 k in liabilities (2015: EUR 17 k). Furthermore, CEK sold EUR 169 k worth of goods and raw materials to CHYAP (2015: EUR 95 k). As of the reporting date, December 31, 2016, there was one outstanding trade receivable of EUR 1 k (2015: EUR 0 k).

Loan agreement between Lechler GmbH and ElringKlinger AG. Lechler GmbH granted ElringKlinger AG loans totaling EUR 17,000 k (2015: EUR 12,000 k). A loan for EUR 7,000 k bears an interest rate of 1.08% p.a. and has a term until August 17, 2018. An additional loan for EUR 5,000 k bears an interest rate of 1.52% p.a. and has a term until June 19, 2017. A further loan for EUR 5,000 k bears an interest rate of 0.69% p.a. and has a term until August 15, 2019.

Supply agreement between Lechler GmbH and KOCHWERK Catering GmbH, a wholly owned subsidiary of ElringKlinger AG. KOCHWERK Catering GmbH supplies Lechler GmbH with canteen food. KOCHWERK Catering GmbH earned EUR 169 k during the reporting year (2015: EUR 150 k). As of the end of the reporting period one outstanding receivable came to EUR 13 k (2015: EUR 11 k).

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

Corporate bodies

Supervisory board

Walter Herwarth Lechler
Stuttgart, Chairman

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

Markus Siegers*, Altbach,
Deputy Chairman

Chairman of the Works Council of ElringKlinger AG

Ernst Blinzinger*, Reutlingen

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

Nadine Boguslawski*, Stuttgart

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

Armin Diez*, Lenningen

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

Klaus Eberhardt, Lindau	Former CEO of Rheinmetall AG, Düsseldorf **Governance roles:** a) MTU Aero Engines AG, Munich Dürr AG, Bietigheim-Bissingen b) n.a.
Pasquale Formisano* Vaihingen an der Enz	Chairman of the Works Council of ElringKlinger Kunststofftechnik GmbH
Rita Forst, Dörsdorf	Former member of the Management Board of Adam Opel AG, Rüsselsheim **Governance roles:** a) n.a. b) Joh. Winklhofer Beteiligungs GmbH & Co. KG, Munich Metalsa, S.A. de C. V., Monterrey, Mexico
Paula Monteiro-Munz* Grabenstetten	Deputy chairwoman of the Works Council of ElringKlinger AG
Prof. Hans-Ulrich Sachs, Bremen	Managing shareholder of betec Umformtechnik GmbH, Adelmannsfelden
Gabriele Sons, Ratingen	Member of the Management Board of ThyssenKrupp Elevator AG, Essen
Manfred Strauß, Stuttgart	Managing shareholder of M&S Messebau und Service GmbH, Neuhausen a. d. F. **Governance roles:** a) n.a. b) Pro Stuttgart Verwaltungs GmbH, Stuttgart Pro Stuttgart Verkehrsverein, Stuttgart Eroca AG, Basel

* Employee representative
a) Membership in supervisory boards to be established by law within the meaning of § 125 AktG
b) Membership in comparable domestic and foreign supervisory bodies within the meaning of § 125 AktG

Remuneration of the Supervisory Board

Total remuneration of the Supervisory Board of ElringKlinger AG amounted to EUR 741 k (2015: EUR 774 k) in the reporting period. In addition, travel expenses in the amount of EUR 2 k (2015: EUR 0 k) were reimbursed. The remuneration of the employee representatives in the Supervisory Board amounted to EUR 652 k in 2016 (2015: EUR 643 k) for their activities as employees.

Management Board

Dr. Stefan Wolf, Sindelfingen, Chairman	responsible for all Group companies and the corporate functions of Legal Affairs, Personnel, Investor Relations, Corporate Communications and the corporate function Aftermarket as well as (from February 23, 2016) Original Equipment Sales
Theo Becker, Metzingen	Responsible for the Cylinder-head Gaskets, Specialty Gaskets, lightweighting/Elastomer Technology, Shielding Technology, E-Mobility, Exhaust Gas Purification Technology and Tooling Technology divisions, as well as the corporate functions Quality and Environment, Materials Management, logistics and the ElringKlinger AG plants as well as New Business Areas since February 23, 2016
Karl Schmauder, Hülben	Responsible for Original Equipment Sales and New Business Areas until February 23, 2016
Thomas Jessulat, Stuttgart	Responsible for the corporate functions of Finance, Controlling, IT and the Industrial Parks division since January 1, 2016

Governance roles in supervisory boards and other supervisory bodies

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

Remuneration of the Management Board

The remuneration of the Management Board amounted to:

in EUR k	2016	2015
Short-term fixed remuneration	1,354	1,387
Short-term variable performance-based remuneration	2,675	2,958
Long-term variable performance-based remuneration	-249	697
Long-term variable share-based remuneration	-165	-100
Severance payments	2,743	0
Expenses from post-employment benefits	532	523
Total	**6,890**	**5,465**

In the financial year, total Management Board remuneration pursuant to § 314 (1) no. 6a sentence 1 to 4 HGB came to EUR 4,565 k (2015: EUR 5,521 k). The present value (DBO) of the pension provisions amounted to EUR 8,893 k (2015: EUR 11,027 k). Remuneration relating to the retirement of one of the members of the Management Board in accordance with § 314 (1) No. 6a Sentence 6dd HGB amounted to EUR 2,743 k in the financial year (2015: EUR 0 k). The following stock appreciation rights stem from long-term performance-related remuneration:

As part of the long-term variable remuneration, the members of the Management Board were granted stock appreciation rights until the financial year 2013. Stock appreciation rights refer to a right to a cash settlement, not, however, for shares of ElringKlinger AG. It was planned that 30,000 stock appreciation rights would be granted to each member of the Management Board on February 1 of each year beginning in 2013. The strike price is calculated using the arithmetic mean of the market price of ElringKlinger's shares on the last 60 trading days prior to the grant date. The grant of the stock appreciation rights is subject to an investment by the Management Board members of one-tenth of the number of granted stock appreciation rights in shares of ElringKlinger AG. The holding period of the stock appreciation rights is four years. Within a period of two additional years after the holding period expires, a Management Board member may demand redemption of the stock appreciation rights. The redemption price is calculated using the average market price of ElringKlinger's shares of the last 60 trading days prior to redemption. Redemption of the stock appreciation rights may be demanded only if the redemption price exceeds the strike price by 25%. The total redemption price per tranche is limited to two fixed annual salaries at the time of redemption. Provisions are recognized in order to cover the estimated future payments. The fair value of the obligation is determined based on the Black-Scholes model using current market parameters. A risk-free interest rate of -0.12% was used.

The volatility of the share price (36.10%) was determined over a four-year period. The expected dividend was EUR 0.50 per share.

The previous model was terminated with the introduction of the new remuneration system for members of the Management Board. Tranches that are not yet exercisable remain unchanged.

For the financial year 2016, the figures are as follows:

Date tranche was issued	2013
Number of stock appreciation rights exercised	
Value of stock appreciation rights exercised (EUR k)	
Number of stock appreciation rights (not yet exercisable)	90,000
Average strike price (EUR)	24.54
Average remaining term to maturity in years	0.08
Value of stock appreciation rights held by members of the Management Board	
December 31, 2016 (EUR k)	19
December 31, 2015 (EUR k)	184
December 31, 2014 (EUR k)	236
December 31, 2013 (EUR k)	129

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

Provisions of EUR 17,619 k (2015: EUR 11,962 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 3,601 k in the financial year 2016 (2015: EUR 837 k). The remuneration of former members of the corporate bodies include settlement payments of EUR 2,743 k.

The **auditor fees** amounted to:

in EUR k	2016	2015
Audit of the annual financial statements	513	540
Other assurance services	4	17
Tax advisory	0	2
Other services	22	289
Total	**539**	**848**

Declaration of compliance with the German Corporate Governance Code

The Management Board and Supervisory Board issued a declaration of compliance pursuant to § 161 AktG on the German Corporate Governance Code in the version dated May 5, 2015 and published it on the ElringKlinger AG website on December 4, 2016. This declaration of compliance will be available on the ElringKlinger AG website and therewith made permanently available to shareholders.

Dettingen/Erms, March 23, 2017
Management Board

Dr. Stefan Wolf Chairman/CEO	Theo Becker	Thomas Jessulat

AUDIT OPINION

We have issued the following opinion on the consolidated financial statements and the group management report, which has been combined with the management report of ElringKlinger AG:

"We have audited the consolidated financial statements prepared by ElringKlinger AG, Dettingen/Erms, comprising the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the notes to the consolidated financial statements, together with the group management report, which has been combined with the management report of ElringKlinger AG for the fiscal year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs [International Financial Reporting Standards] as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU as well as the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the legal requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks relating to future development."

Stuttgart, March 23, 2017
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

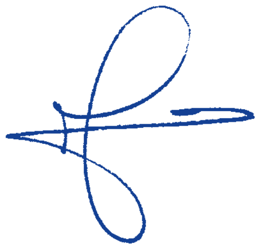
Marbler	Göhner
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

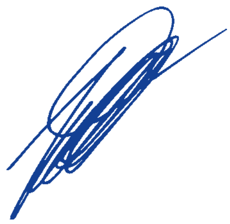
RESPONSIBILITY STATEMENT

Responsibility Statement According to §§ 297(2) Sentence 4 and 315(1) Sentence 6 HGB (German Commercial Code)

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 23, 2017
Management Board





Dr. Stefan Wolf
Chairman/CEO

Theo Becker

Thomas Jessulat