# 50 YEARS OF ENGINEERING PERFORMANCE

EDAG ANNUAL REPORT 2018

# SELECTED **PERFORMANCE FIGURES** FROM CONSOLIDATED FINANCIAL STATEMENT

| **(in € million or %)** | **2018** | **2017 revised*** |
|---|---|---|
| Vehicle Engineering | 490.3 | 452.1 |
| Production Solutions | 159.2 | 130.8 |
| Electrics/Electronics | 155.5 | 148.5 |
| Consolidation/Others | - 12.7 | - 12.9 |
| **Total revenues[1]** | **792.3** | **718.5** |
| | | |
| Growth of core business: | | |
| Vehicle Engineering | *8.4%* | *-0.5%* |
| Production Solutions | *21.7%* | *10.5%* |
| Electrics/Electronics | *4.7%* | *-2.5%* |
| **Total revenues[1]** | ***10.3%*** | ***0.6%*** |
| | | |
| Vehicle Engineering | 30.4 | 19.6 |
| Production Solutions | 9.8 | 8.9 |
| Electrics/Electronics | 7.4 | 5.8 |
| Others | - | - |
| **Adjusted EBIT** | **47.6** | **34.3** |
| | | |
| Vehicle Engineering | *6.2%* | *4.3%* |
| Production Solutions | *6.1%* | *6.8%* |
| Electrics/Electronics | *4.8%* | *3.9%* |
| **Adjusted EBIT-margin** | ***6.0%*** | ***4.8%*** |
| | | |
| **Profit or loss** | **25.5** | **15.5** |
| Earnings per share (€) | 1.02 | 0.62 |

[1] *The performance figure "revenues" is used in the sense of gross performance (sales revenues and changes in inventories) in the following.*

* *The previous year was adjusted due to amendments made to the international accounting standard IFRS 15. Comparability of the revenue changes from 2017 with the same period in the previous year (2016) is only marginally restricted by the first-time adoption of IFRS 15 on January 1, 2017.*

| (in € million or %) | 12/31/2018 | 12/31/2017 revised* |
|---|---|---|
| Fixed assets | 193.5 | 195.1 |
| Net working capital | 87.1 | 93.0 |
| Net financial debt | - 82.9 | - 103.6 |
| Provisions | - 43.4 | - 40.2 |
| Held for sale | - | 3.2 |
| **Equity** | **154.3** | **147.5** |
| **Total assets** | **488.0** | **442.6** |
| Equity/BS total | 31.6% | 33.3% |
| Net financial debt/Equity | 53.7% | 70.2% |

| (in € million or %) | 2018 | 2017 revised* |
|---|---|---|
| Operating Cash-Flow | 68.9 | 51.6 |
| Investing Cash-Flow | - 21.5 | - 28.5 |
| Free Cash-Flow | 47.4 | 23.1 |
| Financing Cash-Flow | 3.2 | - 27.7 |
| Adjusted Cash Conversion Rate[2] | 68.1% | 62.1% |
| CapEx | 22.2 | 21.7 |
| CapEx/Revenues and changes in inventories | 2.8% | 3.0% |

[2] *The key figure "adjusted cash conversion rate" is defined as the adjusted EBIT before depreciation, amortization and impairment less gross investments divided by the adjusted EBIT before depreciation, amortization and impairment. The adjusted EBIT before depreciation, amortization and impairment is calculated from the adjusted EBIT plus depreciation, amortization and impairment less expenses from the purchase price allocation.*

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Headcount end of period | 8,641 | 8,404 |
| Trainees as % | 6.2% | 6.5% |

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# DEAR SHAREHOLDERS,

2018 was a year strongly characterized by discussions and decisions concerning the future of mobility, and these have brought visible changes in the structure of the automotive industry. The aims of climate protection and sustainability have taken center stage. More and more new technologies are finding their way into the automobile, and therefore having an effect on the development process. For our customers, investment in the development of new, and also fully electric vehicles and in connected and automated driving is becoming an ever-growing priority. In conjunction with this departure into a new world of mobility, new car suppliers are emerging all around the world, as are complementary and digital business models.

These developments are having a marked effect on our business, and are a rich source of opportunities and challenges for EDAG. In the Vehicle Engineering segment, the change is reflected most particularly in completely new interior and exterior design options for future vehicles. The digital transformation plays a prominent role in the Production Solutions and Electrics/Electronics segments. Catchwords such as 'Industry 4.0', autonomous and automated driving, connectivity and mobility services harbor an unprecedented diversity of engineering requirements and perspectives.
In the following, I would like to give you a more detailed account of our progress.

## IMPORTANT FINANCIAL DEVELOPMENTS

From an economic point of view, the 2018 financial year was a successful year for EDAG. Compared to the previous year, all of the key performance figures increased. Overall, revenue of some € 790 million was generated. This is the highest revenue in the history of the company, and is equal to an increase of more than 10 percent. The positive revenue performance is also reflected in the results for 2018. The adjusted EBIT amounted to almost € 48 million, an above-average increase of about 39 percent compared to the previous year.

With an equity ratio of 31.6 percent, the company has a sound financial basis. In the course of the year, our share price rose by 7.9 percent and closed with a value of € 15.86 on the last day of trading. This makes the EDAG share one of the few winners in the automotive sector in 2018.

In view of these facts, the Board of Directors will, at the annual shareholders' meeting, recommend paying a dividend of € 0.75 per share. For you, the shareholders, this means a dividend yield of 4.7 percent in relation to the year-end price.

## IMPORTANT PERSONNEL CHANGES

In April 2018, Mr. Cosimo De Carlo took over the CEO position. With his international experience, he and his management team will be key to foster global growth of the EDAG Group.
Mr. Holger Merz, as COO, has been a new member of the Group Executive Management since the beginning of 2019. His many years of managerial experience in EDAG's Finance Area are the ideal complement to Mr. De Carlo, an industry expert from outside of the company.

After the 2019 ordinary annual shareholders' meeting, Mr. Merz will be taking over as CFO from Mr. Juergen Vogt, who will be supporting this important transition in the EDAG management team.

You, dear shareholders, elected me as the Chairman of the Board of Directors in August 2018. I would like to thank you again for the confidence you placed in me.

## LOOKING AHEAD

With our strategic growth program "REinvent", which was launched last August, we created the ideal basis for EDAG's future growth and competitiveness. Our focus this year will be on continuing the implementation of "REinvent": in other words on international growth, on acquiring new customers, and on reinforcing the digital skills of our employees. The Group Executive Management will provide more details in the interview on the following pages.

2019 will also, particularly in the light of the cost-saving programs recently announced by our customers, be bringing further challenges for our company. Initial measures have already been implemented by the management, with a view to both cost and growth.

In the medium term, however, we see considerable growth opportunities for us in the changes in the automotive industry, as innovation always calls for engineering know-how. Our workforce, our international presence and our all-round competence in automobile development all combine to set us apart and increase our competitive edge.

## EDAG´S 50TH ANNIVERSARY

… five decades of EDAG – a video clip says more than 1,000 words. Please click here:
**www.50yearsedag.com/film**
I hope you will enjoy watching.

50 years of EDAG are indicative of continuity in times of change. Regardless of its age, EDAG has always been young at heart – and in mind. Experience combined with new impulses guarantee ability to execute and innovation. The average age of our employees is currently 38 years. Dual training and career opportunities for young engineers, male and female, are things we feel very strongly about. Here, too, a change can also be seen in the competency requirements of the occupational profiles.
As a family-owned company listed on the stock exchange, EDAG remains synonymous with innovative strength, engineering skills and reliability. This is thanks not least to our fantastic, committed workforce. I would like to thank them for their loyalty and passion, and our customers, business partners and shareholders for their confidence in us.

Yours,
G. Denoke

Georg Denoke
Chairman of the Board of Directors

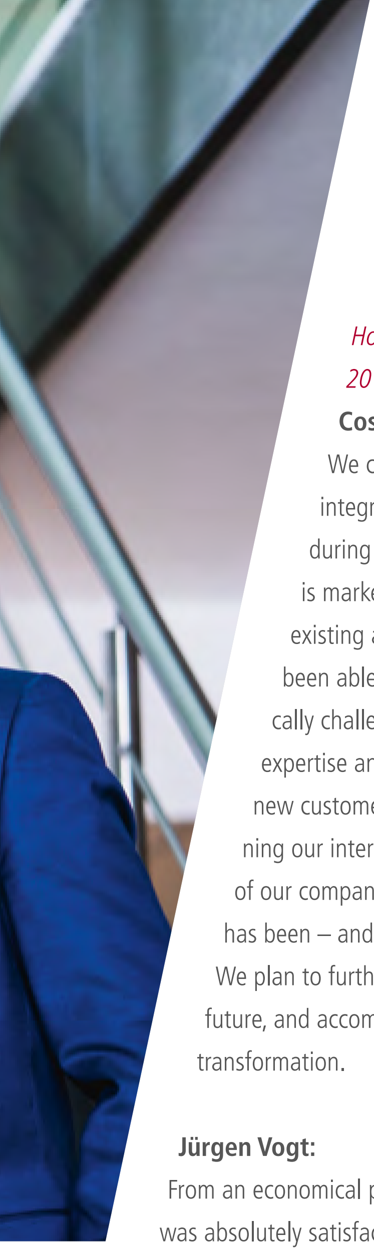

# INTERVIEW
## WITH THE GROUP EXECUTIVE MANAGEMENT

Cosimo De Carlo, Jürgen Vogt and Holger Merz on developments in the 2018 financial year and forecasts for 2019

*Mr. De Carlo, you have been EDAG's CEO since April 2018 – how would you sum up the period since you took up office?*

**Cosimo De Carlo:**

I had a very good feeling when I took up my duties, and can today say that my positive expectations have in fact been surpassed. During the visits I made to all of the EDAG Group branch offices, in every department I visited, I sensed enormous passion and a fantastic spirit. Our employees' positive attitude has impressed me, and I am proud to be able to work with such a unique team. Our company enjoys an excellent reputation among our customers. These are ideal conditions to shape EDAG into an even stronger global champion.



*How do you rate the way in which the 2018 financial year developed?*

**Cosimo De Carlo:**

We continued to reorganize EDAG into a fully integrated, global partner to the mobility industry, during a phase in which the automotive industry is marked by change. Working in cooperation with existing and new customers, we have nevertheless been able to successfully carry out some technologically challenging projects. Our extensive engineering expertise and independence have enabled us to access new customer groups, in this way significantly strengthening our international presence. This further development of our company with both existing and new customers has been – and will remain – essential for our success. We plan to further extend this mutual cooperation in the future, and accompany our customers on the road to transformation.

**Jürgen Vogt:**

From an economical point of view, too, the 2018 financial year was absolutely satisfactory. Our revenues increased, for instance, by 10.3 percent to € 792.3 million – a record figure for EDAG. Our adjusted EBIT achieved above-average growth, increasing by 38.8 percent to € 47.6 million. This is equivalent to an adjusted EBIT of 6.0 percent. Although this does not compare with our historical margins, in a market environment marked by price pressure, we are nevertheless satisfied with the 2018 financial year. We were able to raise our revenue forecast twice in the course of the year, and the result is exactly within the corridor expected at the beginning of the year.

*And how do you envisage the further economic development of the EDAG Group?*

**Jürgen Vogt:**

We assume that we will be able to continue improving our performance. Our aim is to grow faster than the market as a whole in the medium term, with the margins gradually moving up again towards our historical average. However, we can already see that 2019 will be a challenging year, the first six months especially. Following the above-average growth in 2018, we are therefore exercising somewhat greater caution with regard to our planned growth this year.

*What is the situation in EDAG's present market environment?*

**Cosimo De Carlo:**

The transformation process in the automotive industry continues at an enormous rate. At one and the same time, the vehicle manufacturers are having to invest in the optimization of existing drive technologies, in the development of new electric-powered vehicles, in technologies for automated and autonomous driving, and also in new digital business models. All of which is immensely challenging for the industry. The OEMs are handling these developments by reallocating development budgets and optimizing their platform strategies on the one hand, and by significantly increasing cooperation levels with one another, with suppliers and with service providers on the other. In the medium term, the combination of large research and development budgets and new cooperation models provides numerous opportunities for further growth at EDAG. In the short term, however, the change processes could result in a tendency towards delays in the awarding of contracts.

*What measures are you implementing with a view to participating in these opportunities?*

**Cosimo De Carlo:**
With "REinvent", our strategic growth program, we triggered or launched a number of important initiatives in the last year. The main emphasis is on a greater penetration of our existing customers by offering new innovative solutions, and on the acquisition of further international customers. In addition, we intend to significantly increase our capacities at our sites in best-cost countries, so as to be able to offer sufficient resources and marketable prices. In addition, the projects that are being awarded are constantly becoming larger and more complex. The continual development of our project managers and globally homogeneous quality standards in project handling enables us to guarantee consistently high quality and profitability at all of our facilities. One clearly defined objective is to further expand our service portfolio to include more digitalization and data-based mobility services, to assure us a share in the growth potential of the mobility ecosystem. The bundling of all E/E competencies and capacities in the EDAG Group enables us to offer a comprehensive, high-performance portfolio in the future-oriented electrics/electronics segment. This will also future-proof our principle of providing fully integrated engineering services.

**Holger Merz:**
The most important success factor always have been, are, and always will be our employees. We have therefore introduced new initiatives at a number of different levels. These are aimed at building an even stronger employer brand for EDAG, particularly with regard to IT graduates. In order to offer existing and future employees the chance of promotion not just at hierarchical-disciplinary level, but also in the technical field, we will be introducing a technical career program. In addition, we will also be making substantial investments in education and training and in optimizing working conditions at all of our facilities.

*Mr. Merz, you will also be taking on the position of CFO after the annual shareholders' meeting. What will be your key priorities in this position?*

**Holger Merz:**
Over the past two years, EDAG has gradually gained the confidence of the capital market. We will be continuing our efforts in this direction and maintaining the open and transparent dialogue with our shareholders. Our aim is to represent quality, reliability and top technical expertise, both for our customers and our investors. However, the high revenue figures for 2018 should not blind us to the fact that the price situation on the market remains tense,



and that there is still a shortage of skilled labour. To counter these situations, we intend to continue to exercise strict cost discipline and pursue our BCC strategy.

*EDAG celebrates its 50th anniversary in 2019 – what wishes do you have in connection with this event?*

**Cosimo De Carlo:**

For me, it is a privilege to celebrate this anniversary with our employees. EDAG has always stood for innovative engineering skills. Taking this and our passion for innovation as our starting point, we aim to become the world's leading specialist for complete vehicle and production development for the mobility of the future. My motto here is: "We are not good because we are getting old. We are getting old because we are good."

**Jürgen Vogt:**

Since the IPO in December 2015, the market and customer environment has changed enormously. Our internationalization initiatives have enabled us to profit from these changes. For the EDAG Group, things have never been better. This is an excellent starting point for sustainable and profitable growth in the years ahead.

**Holger Merz:**

I have been employed by the EDAG Group for almost 20 years now, and in this time have helped to shape the transformation process – from a medium-sized engineering service provider to one of the world's largest independent developers of complete vehicles and production engineering specialists for the mobility of the future. Through all these years, it was always our employees who were the engine of change and success. We will work together to strengthen EDAG's standing as a globally attractive employer, to secure future talent, and to fire the enthusiasm of our workforce to discover new directions with us.

My entire career so far has been spent at EDAG. From experience, I can say: we have always managed to keep ahead of developments and stay at the leading edge of technology.

With the quality, technical knowledge and – most importantly – the motivation and spirit of our employees, this is sure to be the case in the future, too.

I think I speak for us all when I say, "We are taking our anniversary year as an incentive to work on the continual improvement and reinvention of ourselves and our services, true to our mission: REinvent mobility – REinvent yourself".

# HIGHLIGHTS OF THE FINANCIAL YEAR 2018

## JANUARY

With a global workforce of some 8,400, the EDAG Group started the new financial year as one of the world's largest independent engineering specialists for the integrated development of vehicles, manufacturing facilities and electrics/electronics.

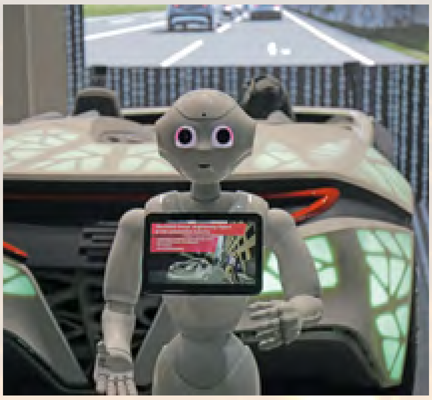
EDAG China was awarded a contract by the Chinese startup company XPeng for the development of the body in white of their second electric vehicle. The project will be carried out with the support of the Sindelfingen branch.

## FEBRUARY

For the eleventh time in a row, EDAG was granted a "Top Employer" award for its outstanding HR management by the independent Top Employers Institute, taking 1st place in the "Engineers" category.

## MARCH

Under the heading "Data is the currency", the EDAG Group presented new business models for the automotive industry at the Mobile World Congress. The concept is designed to centrally record, interpret and group the large quantities of sensor data from vehicles into marketable data packages.



## APRIL

The EDAG Production Solutions subsidiary opened a sales office in Atlanta, US in the first half of the year. With this sales office, we aim to strengthen and intensify ties with the German OEMs with production plants in Tuscaloosa, Chattanooga and Spartanburg.

## MAY

In a joint project with Singulato Motors, EDAG was closely involved in the development of the iS6 Electric SUV. To this end, a 60-strong team from EDAG's Chinese subsidiary provided extensive services, concentrating in particular on the vehicle body, interior/exterior and electrical/electronic systems. Singulato Motors presented EDAG with the "Excellent Partner" award for this project.


## JUNE

EDAG presented a concept it had developed for a standardized, scalable, service-oriented zone architecture (Vision 2025).
The E/E architecture takes into account all the megatrends such as eMobility, autonomous driving, connectivity and mobile services.
At the same time, this concept reduces development times or the development cycle, while raising the level of automation.

## JULY

BMW awarded EDAG PS a contract for a first general engineering project.
EDAG PS has accepted responsibility for the complete mechanical and electric project planning of the production plant for the rear section of the 4 Series Gran Coupé and Convertible, including on-site coordination of the setup and construction phases up to system approval in September 2020.

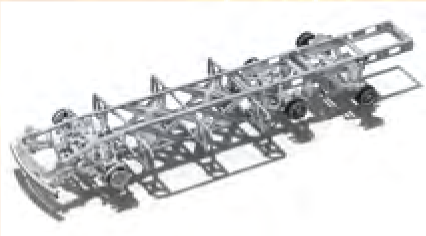
## AUGUST

With 112 new apprentices and dual students, the EDAG Group continues its commitment to junior staff development in Germany.
More than 2,600 young people have been apprentices at EDAG in the past 45 years, and EDAG offers more than 30 different apprenticeships and dual study courses relating to the development of vehicles and production facilities..


## SEPTEMBER

EDAG wins Automotive Brand Contest with #collectivio. The EDAG Group's interactive live engineering project, which was carried out during the IAA 2017, was awarded the coveted prize in the "Concepts" category by the expert panel of judges.

At the IAA for Commercial Vehicles, EDAG presented more than 15 solutions and concepts for developing and producing trucks so that they are lighter, more flexible, more economical and – last but not least – geared to the requirements of the latest megatrend: digitalization.



## OCTOBER

The EDAG Group accepted responsibility for building the exterior model of the "360c" on behalf of Volvo Design, Gothenburg.
The visionary vehicle features a huge, elegantly concave glass dome, produced to the highest levels of perfection and quality by the EDAG model building team.

BFFT celebrates 20 years of company history. The electronics specialist has been part of the EDAG Group since 2013. The anniversary celebrations took place against a backdrop of the merger of EDAG's Electrics/Electronics Development department and BFFT under the EDAG BFFT Electronics brand.

## NOVEMBER

EDpollux, the automatically retractable double step developed by EDAG for the Ford Transit, earns EDAG designation by Ford as an official qualified vehicle modifier. The same month saw the launch of the series production of the robust and low-maintenance retrofit solution at VFB, the testing and vehicle construction center at the Fulda site.

## DECEMBER

BMW grants EDAG PS/FEYNSINN the marketing rights VR Paint Shop solution developed on behalf of BMW as part of the smart factory strategy. Active marketing of this product was commenced in January 2019, through sub-distributors and other channels.

# EDAG AT A GLANCE

## EDAG at a glance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# WHO WE ARE,
## WHAT WE DO, AND WHERE WE OPERATE

The EDAG Group is an independent engineering service provider working for the global automotive industry.

Founded in 1969, the company has a global network of some 60 branches and over 8,600 employees at the world's major automobile centers to serve leading national and international vehicle manufacturers and technologically discerning automotive suppliers.

EDAG also offers complementary engineering services in the vehicle engineering, electrics/electronics and production solutions segments. This extensive competence enables EDAG to provide its customers with all-round support, from the original idea for design, through product development and prototype construction, to turn-key production systems. As an innovative technological leader, the company also has competence centers for ground-breaking future technologies for the automotive industry: lightweight design, eMobility, car IT, integral safety and new production technologies.

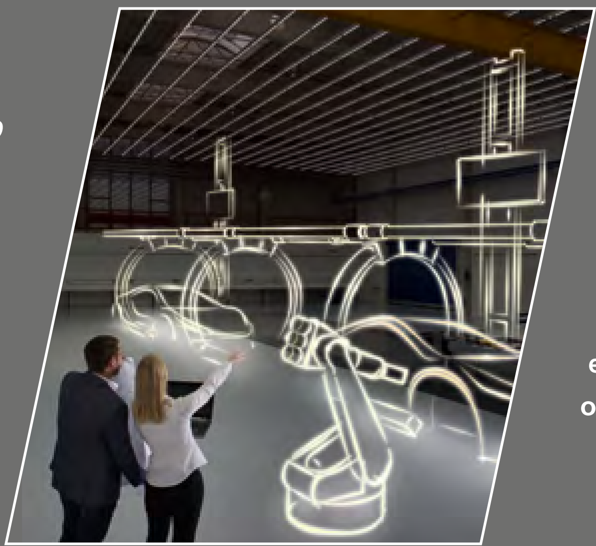
## Vehicle Engineering

When it comes to the development of bodywork systems and vehicle interiors, EDAG is a strong and innovative partner in every respect – especially in complete vehicle development. From design to prototype and low-volume production!

**Single-source development and competence!**



## Production Solutions



Our expertise and strength lie in the integrated development of production systems and the optimization of production processes. From initial planning and the digital factory to virtual commissioning.

**Fully integrated engineering expertise for the production of tomorrow!**

## Electrics / Electronics

We develop the eMobility of tomorrow. On the basis of our extensive skills in classic E/E engineering, our teams of experts are active in driving the development of new technologies and their applications in future-oriented fields such as connectivity, digitalization and autonomous driving, or the key areas of the networked vehicle.

**Capacity, flexibility and innovation in the E/E environment.**

# THE FUTURE IS ALREADY HAPPENING

## The EDAG Group celebrates its 50th anniversary

2019 is a milestone in the history of the EDAG Group – this year marks the engineering specialist's 50th anniversary, which the company will be celebrating under the motto "Tomorrow Now". Even for a company in which attention is every day concentrated firmly on the mobile future, this occasion provides a perfect opportunity to look back on the unique success story that has evolved over the last five decades. From a small design office founded by Horst Eckard in Großzimmern near Darmstadt in 1969 has grown one of the world's largest independent engineering companies in the automotive sector today. A company that is not only well known throughout the industry, but also has a global reputation for top quality and technical expertise. Today, renowned national and international manufacturers and suppliers rely on the expertise of the more than 8,600 EDAG engineering specialists working on the future of mobility in over 50 departments at 60 locations around the world.

The history of the EDAG Group stands for 50 years of engineering performance coupled with unique team spirit and impressive adaptability. There is no coincidence about the path we have taken, it has been a living process. A process characterized by courage, market flair and team spirit and sustained by the technical passion and enthusiasm of the workforce. Consistent future orientation, adaptability and a fully integrated engineering concept have always been the factors for the success and international reputation the EDAG Group enjoys throughout the industry.

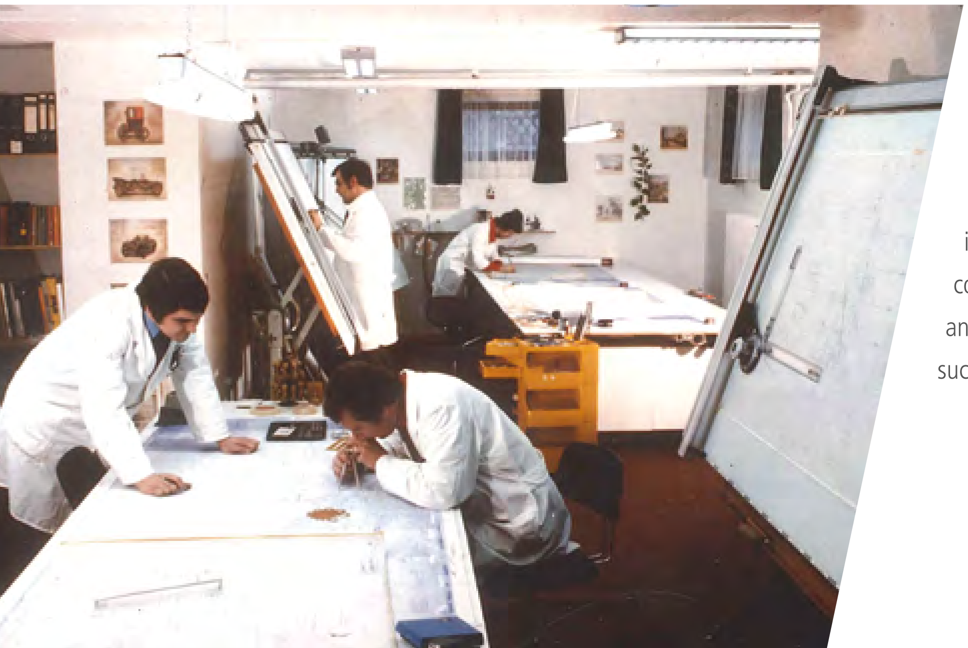
In the course of the last 50 years, the company has succeeded in reinventing itself again and again. From a small design office to an engineering multinational assuming responsibility for the development of vehicles and production facilities around the world, and offering additive services in future-oriented fields such as eMobility, autonomous driving, 'Industrie 4.0' through to virtual reality and artificial intelligence.

## ADAPTABILITY AND A FEELING FOR THE MARKET

### THE 1970s – DESIGN AS THE STARTING POINT

In 1969, EDAG was a startup company, and its initial focus was on design services for vehicle bodies and production equipment. Even when the company was still in its startup phase, the foundations for EDAG's unique selling proposition – namely engineering services for both the automobile and production – were already being laid.

The principle of production-optimized, fully integrated engineering is still one of the key competitive advantages of the EDAG Group, and one of the main reasons for the company's success in the last five decades.



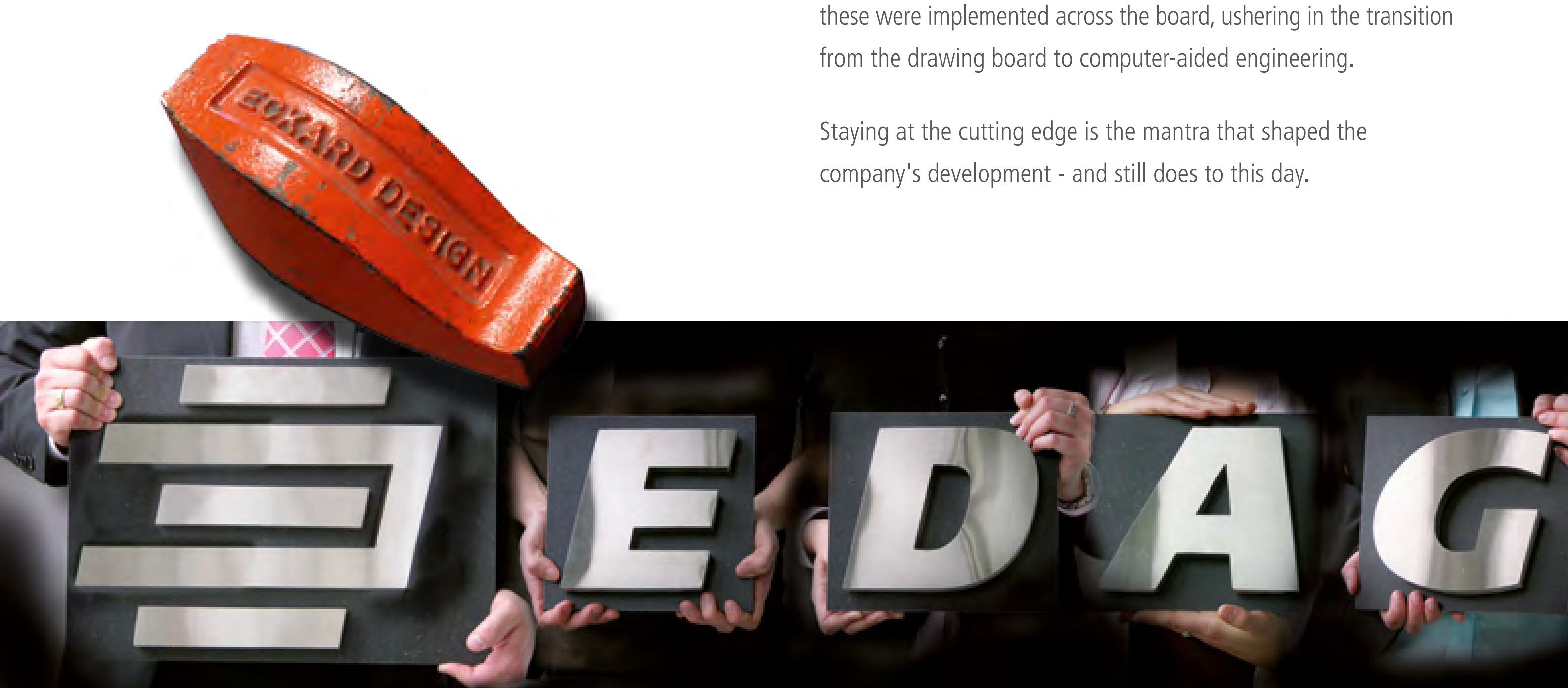
The market at that time was characterized by contract manufacturing, with body engineering contracts only ever being performed on-site at the customer's premises. In those days, only development orders for production equipment – fixtures for instance – were handled in the young company's first office in Cologne. The quality produced by the startup engineers, and their ability to adhere to deadlines, led to a constant expansion of the customer portfolio. First came Ford, then, still in the very first year, the client base was augmented by a second manufacturer, BMW. Volkswagen was added in 1973, and the annual sales revenues increased to more than DM 3.3 million. This year also marked the start of the company's training activities. The basis for a successful trainee development program was thus established very early on, and to date, the company has trained more than 3,000 apprentices in the field of automotive engineering. As a result of the successful customer acquisition, new branches were opened throughout Germany, for instance in Munich, Sindelfingen, Ingolstadt and Wolfsburg.

## THE 1980s – GROWTH AND THE BEGINNINGS OF FULLY INTEGRATED ENGINEERING

In the 1980s, too, the company's focus was on growth, and this was very soon not restricted to just Germany. The start of globalization was marked by the founding of a branch in Witham (England), followed two years later by the founding of a subsidiary in Barcelona (Spain). At the same time, the service portfolio was being systematically expanded. On the basis of its good performance, the company was requested to assume greater responsibility above and beyond design work. The market opportunities were grasped, more and more departments founded, and further technical skills implemented. The only reason this worked was that the owners at that time had the courage to develop new fields for the company, secure in the knowledge that they had the backing of a workforce with the motivation to acquire new skills. Technological trends and tendencies were also quickly adapted, and when, in the mid-80s the first CAD systems began to emerge, these were implemented across the board, ushering in the transition from the drawing board to computer-aided engineering.

Staying at the cutting edge is the mantra that shaped the company's development - and still does to this day.





## THE 1990s – ALL-ROUND COMPETENCE

Due to the fact that competencies and capacities were constantly being upgraded, the company was well qualified to accept complete development projects for vehicles and production plants. Having a closed process chain meant that the company, which from 1992 operated under the name EDAG Engineering + Design AG, was in a position to profit from the emerging outsourcing trend of the OEMs. The company, for instance, accepted responsibility on behalf of Daimler for the complete vehicle development of the Mercedes C-Class. Thanks to the excellent project results, this was followed by two subsequent projects for the development of the first Mercedes B-Class and a new Mercedes GL model. With the steady growth in competence and extended range of services, it was now also possible to acquire and handle turn-key engineering projects the production engineering field. Responsibility for the development of productions plants abroad had, however, already been assumed back in the 1970s, for example for the production of the Ford Escort side panel in Valencia (Spain) in 1974, and at the beginning of the 90s, EDAG developed BMW's first plant in the USA.

Technologically too, the EDAG Group has, throughout its history, always responded actively to trends, and in 1990s was one of the first companies to integrate simulation technology, still a young discipline at the time, into its development processes. In the digital factory domain, EDAG employees put their project experience and know-how to use, greatly aiding software companies in the development of the first simulation applications in the production engineering environment.

Internationally, too, the EDAG Group always stayed abreast of developments. As a result of the growing importance of the foreign markets for engineering services, new activities were initiated in the 1990s in America, (USA, Mexico, Brazil, Argentina), South Africa and Asia (India, Malaysia).

Future-oriented activities and the advancement of the automobile, its production, and mobility as a whole are deeply rooted in the DNA of the EDAG Group. Symbolic of this future-oriented way of thinking and acting are the EDAG Group's numerous concept cars, which feature new mobility concepts or technologies, such as 3D printing or alternative powertrains.


The presentation of the EDAG Scout at the Geneva Motor Show in 1999 saw the beginning of the era of the EDAG concept cars, which have to date helped to underline the company's reputation as an innovative design engineering company and enhance its public profile – also for potential applicants.

## THE 2000s – CHANGE AND GROWTH

Just in time for the new millennium, the EDAG Group reached the magical threshold of 3,000 employees. Alongside its steady growth strategy in the automotive field, the company was also extending its market environment and began to develop its aerospace segment. In addition to organic growth in this new market for EDAG, this development was intensified by the acquisition of various companies: Sigma Concurrent Engineering (2004), Lühmann (2005) and Mühlenberg Apparatebau (2007). Parallel to this, two further companies – WMU (series tool design and series pressed parts) and AKTec (production of plastic parts for the automotive industry) were purchased to add series production services to our extensive range of engineering services.

The aerospace segment developed successfully. At peak times, a workforce of over 600 was employed mainly on work for Airbus. In 2009, for example, EDAG and project partner Dürr designed and built a turn-key assembly line for the Airbus A320 in Tianjin (China). In today's core market – automotive engineering – EDAG's success story in complete vehicle development also continued. DaimlerChrysler awarded the EDAG Group a contract for the complete development of the Mercedes B-Class, including prototype construction. Successfully completed in 2005, this project was to date the largest vehicle development project in the history of the company.

The unexpected death of CEO Ewald Vollmer in March 2002 was a major turning point in the history of the company. Along with founder Horst Eckard, this outstanding engineer and entrepreneur had shaped the company for more than 30 years. In his capacity of CEO, he was responsible for EDAG's success from 1992 until his death. With the other principal shareholders, Franz Frohnapfel and Peter Heil, he succeeded in turning EDAG into an internationally thriving enterprise, while at the same time upholding the relaxed atmosphere of a medium-sized firm. With the acquisition of EDAG in February 2006 by ATON GmbH, owned by Dr. Lutz Helmig, the tradition of a family-owned company was continued, and the EDAG Group's independence maintained.

An important unique selling proposition since 1969, and one that gives us a significant competitive edge!

*Ewald Vollmer*
*1942 – 2002*

## THE 2010s – THE NEXT LEVEL

Showing initiative and developing new concepts, processes and methods – this is what sets the EDAG Group apart from other players. In 2010, on the basis of this principle, the EDAG Group established competence centers which, in cooperation with the industry, research institutes and universities, proactively carry out pilot projects in the fields of lightweight design, eMobility and integral safety. This pre-competitive innovation and technology management helps to secure EDAG's position by actively shaping future topics relevant to our engineering business model, while at the same time guaranteeing the transfer of knowledge to the company's operative units.

The founding of EDAG Production Solutions GmbH & Co. KG in 2012 reflected the importance of production engineering and installed this domain as an independent unit and the second supporting pillar of the company after vehicle development. December 2, 2015 saw the initial public offering of the EDAG Group on the Frankfurt Stock Exchange, to ensure the sustained continuation of the company's successful strategy. To this end, EDAG Engineering Group AG, a joint stock company in accordance with Swiss law, was established, into which the entire operative business of EDAG was integrated. This gave EDAG a stable long-term structure for the future development of the company.
Even after the IPO, ATON has remained a long-term investor, and continues to have a significant interest in the EDAG Group.

The EDAG Group has always been consistent in focusing on the needs and requirements of its customers. On the basis of this principle, EDAG in 2012 acquired and integrated the Rücker Group with its 2,500-strong workforce, so as to be able to provide the local capacities required at the locations of the major German OEMs. The acquisition of the BFFT Group followed in 2013, to accommodate the rise in demand and the broader requirements in the E/E environment, and accelerate growth in this future field.

Since 2010, the company's strategic concept has been specifically geared to engineering services in the automotive market. In this context, the FFT subsidiary (plant construction) was set up as an

independent company under the auspices of ATON GmbH, and spun off from EDAG. At the same time, the EDAG Group also parted with subsidiaries operating outside of the core market, namely the automotive industry. The clearly defined aim was to make EDAG the Number 1 engineering service provider in the international automotive environment.

However, aside from all corporate strategic developments, the EDAG Group's success has always been closely linked to the expertise and commitment of its employees. "The people at EDAG are the central factor for the success of the EDAG Group.
With their technical expertise, but more than anything else with their willingness to find new ways of future-proofing products and processes, they have taken EDAG to the forefront of the engineering service sector," confirms Cosimo De Carlo, CEO of the EDAG Group.

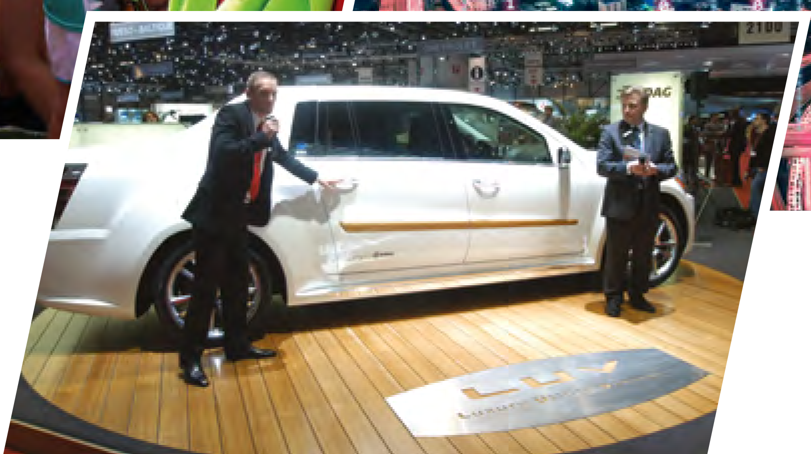
"And this is precisely the attitude on which the continuation of our success story will be based. Right now, the industry is going through an interesting transformation process. Adaptability and market-oriented action are virtues that are currently in greater demand than ever before. EDAG is ideally placed in this respect, having already established its position as a proactive engineering specialist."

The EDAG Group will therefore be continuing to expand its range of digitalization, connectivity and eMobility services; we will also be working on building on our international presence, acquiring new customers, and conquering the new markets emerging in the automotive field.

To put it in a nutshell, the traditional EDAG virtues of adaptability and future orientation are the tried and tested formula for a continuation of the company's success story.

On the 50th anniversary of the of the company's foundation, the EDAG Group looks back.
As of tomorrow, though, it will be looking to the future again – as it always has done.





# CONCEPT CARS

## 20 years of innovation and fresh momentum

Concept cars are per se symbolic of the outlook for the automotive future. They are an expression of what the product automobile might evolutionize or revolutionize. For the EDAG Group, the concept cars that have been presented at the international motor shows since 1999 are visible representatives of EDAG's proactive approach to development and of its aim to help shape the mobility of the future: with new designs, new technologies, new innovative mobility concepts.

### EDAG Scout

Not the same, but similar

The EDAG Group's first concept car: the EDAG Scout, a pickup derivative based on the Mercedes-Benz M-Class. The design of the derivative's exterior perfectly adopts the stylistic elements of the base model. Its speciality is its tailgate, which is lowered electrically and integrated flush with the cargo bed.


## EDAG 2000

Relaunch of the sedan form

Its low-slung silhouette lends the vehicle (based on the Audi A4 Avant) a certain sportiness. It reduces the classic notchback design and takes the limousine shape to one box design. This study anticipated the subsequent trend towards narrower, more streamlined window surfaces.

EDAG at a Glance

CARS

## Keinath GTC

Fusion of classic and modern

These cars, both of which were designed for Horst Keinath, feature a conscious interplay of classic sports car attributes and modern style elements. The combination of the familiar and the new appeals to a broad target group of sports car enthusiasts. Moreover, the ready-to-drive prototypes of both vehicles were built by the EDAG Group.

9 – 2002

## GenX

Mobility for modern nomads

The EDAG GenX is the mobile response to the increasingly hectic pace of everyday life of future generations in a constantly changing society. Leisure is any time not spent working – no matter where you are. To this end, the EDAG GenX provides an individual luggage set externally affixed to one side and a sleeping space inside. Like a motor caravan, it has a lifting roof, to enable the interior height to be increased.

## EDAG SUV 2005

Metamorphosis of a winner

Working on the basis of the Porsche Cayenne, EDAG designed a low-slung SUV with a powerful appearance. This effect was achieved by lowering the roof line and implementing athletic attributes such as projecting wheel houses and wedge-shaped, solid door sills. Chunky bumpers with large lateral openings for the charge air cooler round off the vehicle's dynamic image.

## Cinema 7D

The cinema on wheels

The EDAG Cinema 7D has three rows of seats with space for up to 7 people. As in a cinema, the seats are staggered and arranged at different levels rising to the rear, so that for the first time ever, every passenger has an unrestricted view in the direction of travel, and can also make eye contact with the other passengers. Traveling thus becomes a shared experience.



3 – 2005

## Showcar No.8

Facelift 2.0!

How, in terms of development and production, can an existing vehicle be cheaply converted into a new product that has a chance on the market? With Showcar No. 8, the EDAG designers simply varied 20 exterior parts to create what looked like a completelynew product capable of being manufactured in the existing production plant after a few slight adjustments had been made.


## BIWAK

Patina instead of high gloss

Used look, vintage style and ripped jeans. Is it possible to transfer a fashion trend to a vehicle? EDAG produced the Biwak in answer to this question, using leather-covered bumpers, crinkle finish paint on the body and denim and thick leather in the interior: all materials that can take a certain amount of punishment and allay any concerns about scratches, as they are already part of the concept.

## LUV

A new vehicle type

A yacht on wheels was the leitmotiv for the LUV concept car, which was to define the new vehicle category, the "Luxury Utility Vehicle". The LUV features a double cabin and cargo bed in original boat deck design.

The basis was the Mercedes-Benz GLS, as many carry-over parts from the donor vehicle as possible were used, and the result? An imposing pickup derivative in maritime look!

## LightCar Sharing

Intuitive and robust

The EDAG Light Car Sharing is the first vehicle to have been designed solely for the purpose of car sharing. It meets all the requirements of constantly changing users and a new type of mobility. Simplicity from booking to invoicing, simple and intuitive vehicle operation and cleaning, protection from vandalism and parking bumps and scratches. The protective pads on the outer skin provided for this purpose also communicate the car's status: available, booked and battery in charge mode.

## LightCar

Revolution instead of evolution

All the glass surfaces of the electrically powered EDAG Light Car have been designed to form a touch display (OLED) and, like a desktop, can be individually set up – inside and out: lighting elements, capacitive door openers, car2car information and instruments are freely configurable on the windows, and make many conventional mechanical components superfluous. Light is systematically used as a changeable design and communication element, and also ptically marks the emergence of eMobility.

## LightCar – Spaceframe

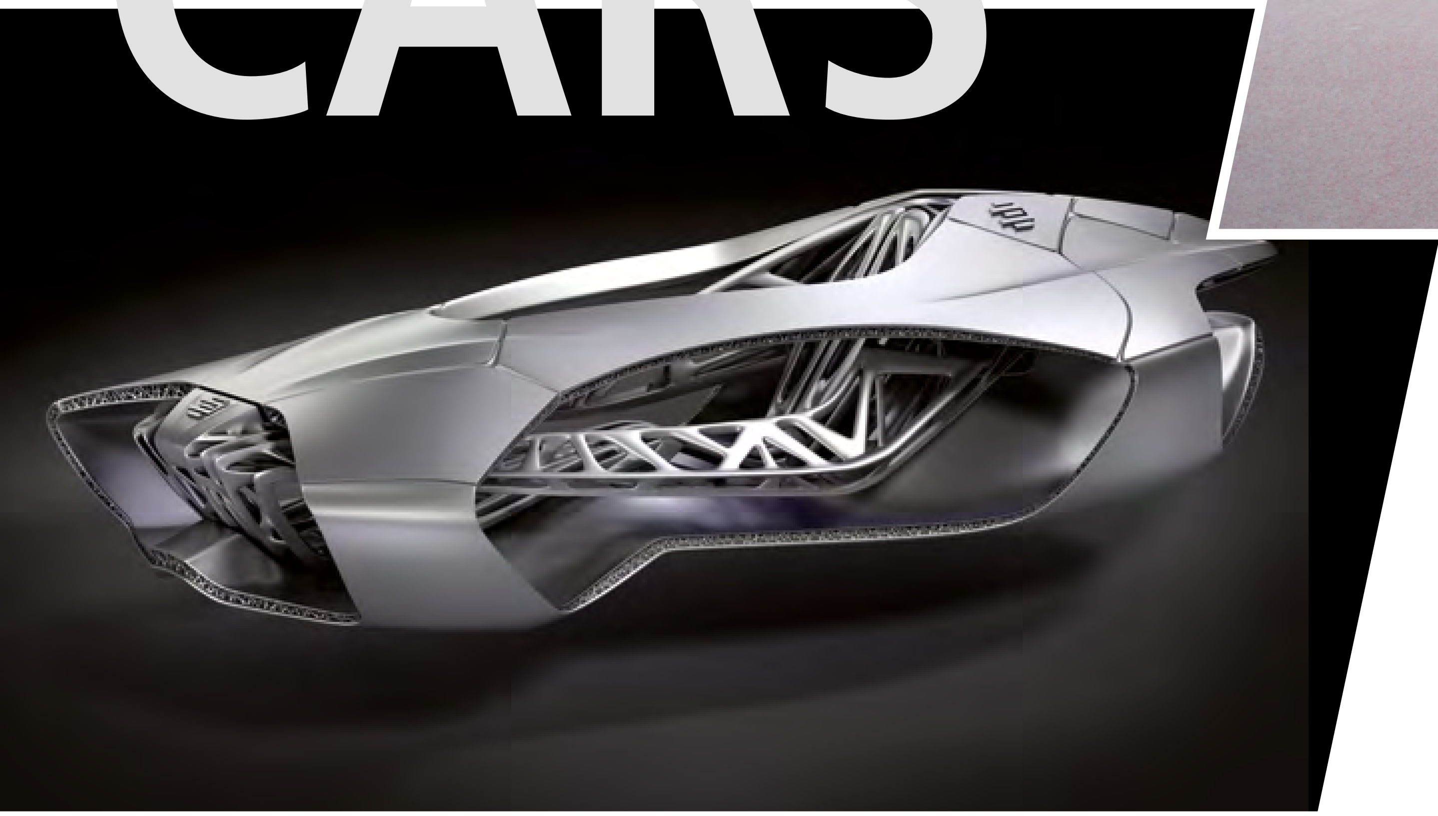
Flexible architecture for electric vehicles

For the new type of eCars, the EDAG Group developed a scalable chassis that can easily be adjusted to different wheelbases, track widths and body styles. The "space frame" chassis demonstrates innovations of the project partners from the fields of manufacturing and joining processes for various materials such as organo sheet material, aluminum, steel and thin-walled cast steel.

– 2012

EPTCARS

# CONCEPT CARS



## Genesis

Blueprints taken from nature!

The EDAG Genesis is the first car to showcase the potential and freedoms of additive manufacturing (3D printing) for the automotive industry: individual, tool-free, resource-saving, lightweight and sustainable. This manufacturing method will revolutionize the development process and production: for the first time ever, 3D printing makes it possible for structural solutions to be taken from nature and transferred to technical products.
The EDAG Genesis is a symbol of new industrial thinking.

## Light Cocoon

Ultimate lightweight design!

Based on the model of a leaf, the bionic structural framework is optimized by means of topological analysis, then developed and additively manufactured. The open carrying structure of the components is subsequently covered with fabric. This brings about a weight reduction of up to 30% in surface components.
The concept makes a number of lighting scenarios and morphing surfaces in the body possible. The rear spoiler, for instance, can be seamlessly formed out of the body.



2013 – 2018

## Soulmate

The digital mobile companion on wheels

The "Soulmate" shows how autonomous driving will change our lives as car drivers, and how time can be put to more efficient use than has previously been the case. The car can be transformed into an office with full data access, or into a room in which you can relax.
The "Soulmate" also demonstrates possibilities for interaction between the driver and his vehicle that are opened up by the use of the latest HMI features.

# BatteRANGE

## AN ALL-PURPOSE CHASSIS

## EDAG Group develops a variable commercial vehicle chassis

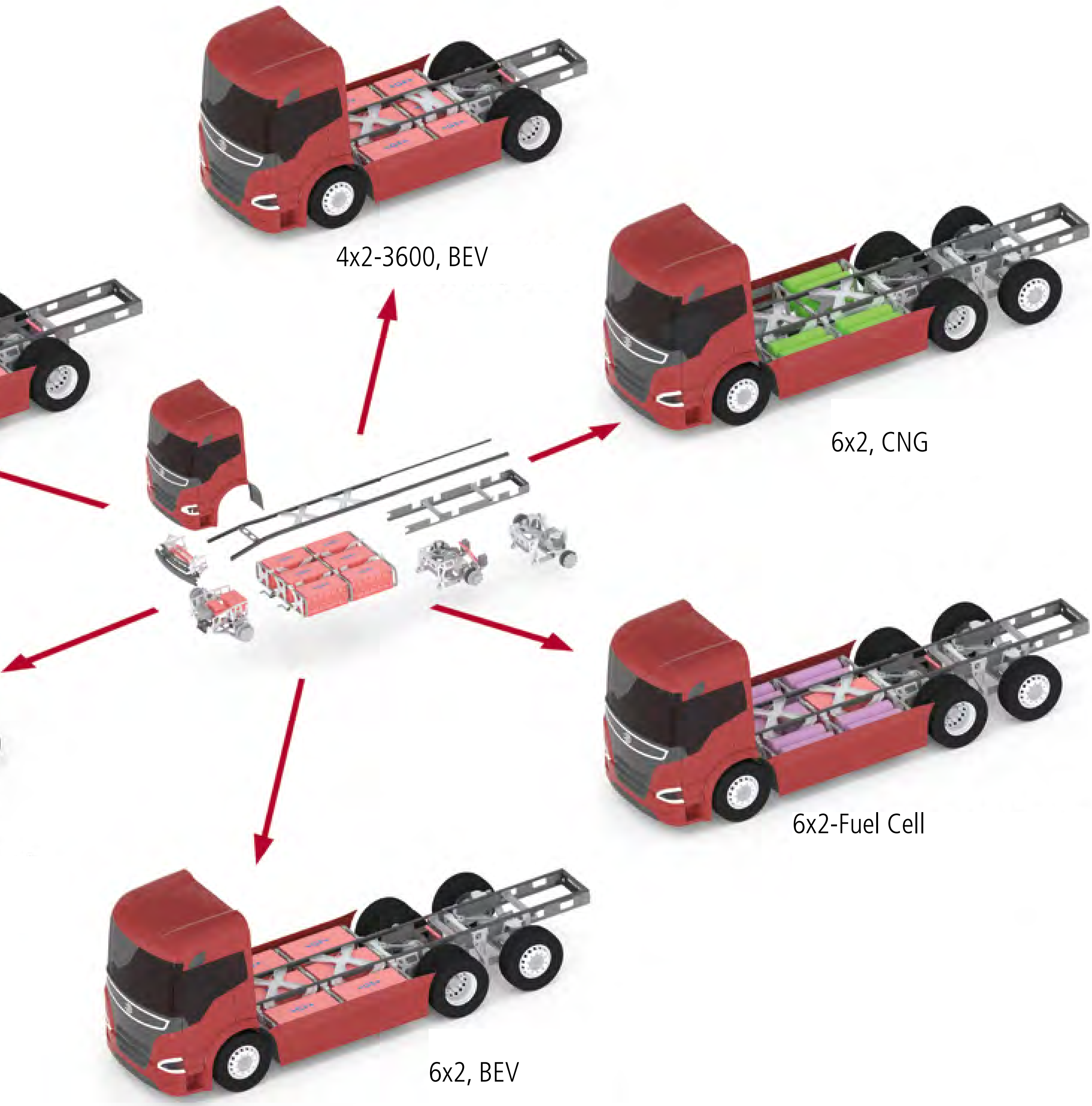

Commercial vehicles belong to a vehicle type that is second to none when it comes to diversity and variability. All the same, the heavy goods vehicle has to be constantly re-inventing itself in order to maintain an ideal position in the face of the fundamentally changing conditions in the transport sector and, last but not least, to continue to take the pole position in the transport carrier rankings.

In this context, the EDAG Group presented its highly versatile chassis concept study, "BatteRANGE", to the public at the IAA 2018. BatteRANGE can be adapted to fit various wheel formulae, wheelbases and drive trains. This makes it suitable for just about all commercial vehicle types, from the motor coach to the semi-trailer truck.


"The growing demand for alternative drive concepts was what motivated us to develop a flexible, configurable truck chassis," explains Jochen Seifert, Managing Director of EDAG Engineering Schweiz GmbH. "Our focus, however, was not solely on the integratability of various drive concepts, but also on scalability, in line with the wide variety of commercial vehicles."

## MODULAR AND COST-SAVING

The basis is the innovative EDAG front end, first presented at the IAA 2016. To enable the diverse requirements of different drive trains, lengths and wheel formulae to be installed, the truck truck chassis was divided into three. The front section is made up of large cast parts with load path-optimized nodes which provide sufficient space for the integration of the independent wheel suspension. There is also space here for the drive train components. The range of drive options that can be integrated covers electric motors with a battery or fuel cells, diesel and gas engines. The energy storage device selected is accommodated in the scalable center section. This consists of identical parts and sections, some of which are used more than once. This makes not only scalability but also low-cost production possible. The center section can be pre-assembled ready for mounting beside the production line. In the rear section, the axle combinations required are conventionally connected, and components such as the low coupling and the tail lift integrated. Together, the rear module and centre module cover all regular commercial vehicle wheelbases.






## CHASSIS CONCEPT OF THE FUTURE

"The scalable chassis will inspire the commercial vehicle sector. It provides a solid basis, can be individually adjusted for just about any application, and produced efficiently," according to Cosimo De Carlo, EDAG Group CEO. "This innovative concept demonstrates our ability to proactively address the current challenges of the commercial vehicle industry, and provide intelligent solutions for successfully handling growing powertrain diversity, both technically and economically."

# THE SRD FUSION ENGINE

## THE FUTURE OF AUTONOMOUS DRIVING

EE specialists at EDAG BFFT Electronics unveiled their Sensor Raw Data (SRD) Fusion Engine at the 2018 Automotive Testing Expo Europe in Stuttgart.
The software engine, which produces an accurate model of a vehicle's surroundings on the basis of user-defined ADAS sensors, caused a sensation among the visitors to the show.

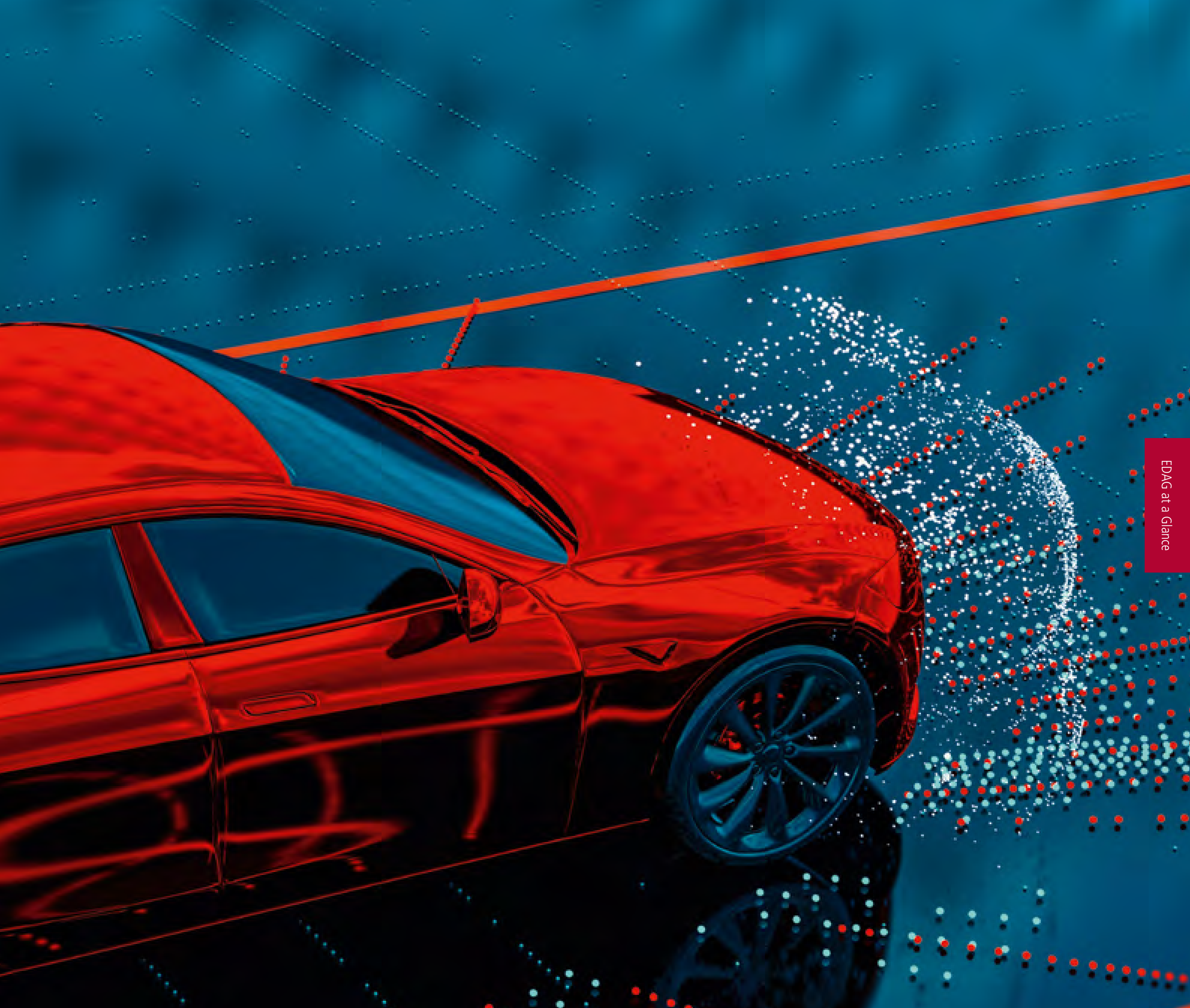
The status quo of autonomous driving is a sensor fusion based on object lists supplied by the existing vehicle sensors. To achieve higher levels of autonomous driving it will be essential for environmental fusion to be based on sensor raw data. This will enable the advantages of the different sensor technologies to be combined. Environment models based on sensor raw data will become increasingly important, not just to OEMs, but also to first tier suppliers.

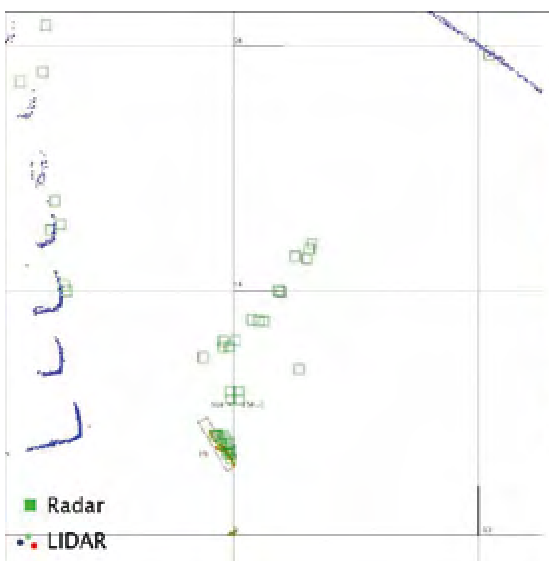
The BFFT SRD Fusion Engine served to generate a reference model of a vehicle's surroundings. As it can be modularly adjusted to the existing sensors and vehicle data, it is suitable for a wide range of applications. However, the use of raw data does mean that the data quantity increases many times over. For this reason, we developed our own platform-independent logging system capable of reliably handling this data volume and also of guaranteeing the synchronization of the data streams, their integrity and plausibility.

The fusion engine itself is composed of two central elements – the data model and the process model. The data model ensures that the data volume is available at all times, and makes use of big data methods and architectures to achieve this end. The process model is made up of exchangeable modules for processing the data. Errors are systematically minimized in terms of time and space by merging and reprocessing the various data channels.
The result is an environment model in which static and dynamic objects are shown with extremely precise 3D models.

The environment model can be used to protect the vehicle's entire processing chain. In this way, both time and spatial errors for sensors, fusion and ADAS functions can all be analyzed separately from one another, enabling weak spots to be identified and valuable statements to be made in terms of quality and quantity.
A team of specialists from the fields of numerics, surveying, autonomous driving, robot technology, artificial intelligence and stochastics is currently working on further developing the fusion engine. The "SRD Fusion Engine" is the logical step necessary in order to get autonomous driving safely on the road.

The future of autonomous driving will change our mobility. Intelligent software solutions for protecting a vehicle's environment will in the future be used not only in the premium sector, but increasingly in the various other vehicle segments, too.
The innovative approach of the "SRD Fusion Engine" raises environment sensing in the automotive sector to a new level.




Radar
LIDAR

# SCALEBASE –

## THE SCALABLE ELECTRIC VEHICLE FLOOR ASSEMBLY WITH TECHNICAL ADDED VALUE AND BUSINESS POTENTIAL

### Maximum flexibility for a growing customer portfolio

Europe, Asia, America – vehicle requirements are as many and varied as the continents they are built for. And yet established OEMs, but also many new startup companies and future manufacturers from these regions, have one thing in common: they all want to develop a vehicle adapted to their own particular market – in the shortest time possible. Above all, the prospering market for electric vehicles has led to a global rise in demand for flexible body platform concepts for eCars – not least by new manufacturers keen to acquire a position in the growing market.

"SCALEbase", the generically transferable, scalable electric vehicle floor assembly developed by the EDAG Group for its own research and development purposes, offers the ideal initial basis for cooperation with new customers on the series development of new vehicles. In the SCALEbase architecture, only the distance between the front wheel and the heel point is predefined; all other measures of length and width can be varied, as its steel structure makes extensive use of sections. This means that the electric vehicle floor assembly can be scaled to fit just about any (upper) mid-range and


*"We will be continually developing this theme with the SCALEbase project team, to ensure that we can always come up with new ideas and the latest strategies needed to react proactively to any requirements arising from the various markets."*

*Michael Schäfer*
*SCALEbase Technical Project Leader."*

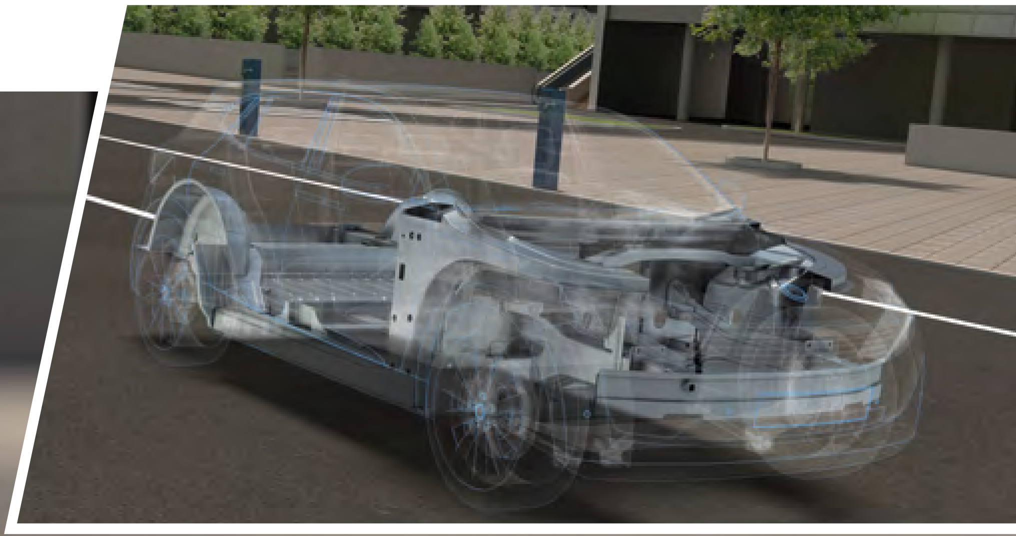
luxury class vehicle. At the same time, local concept, dimensioning, design and factory planning requirements imposed on the vehicle by OEMs can also be taken into account.

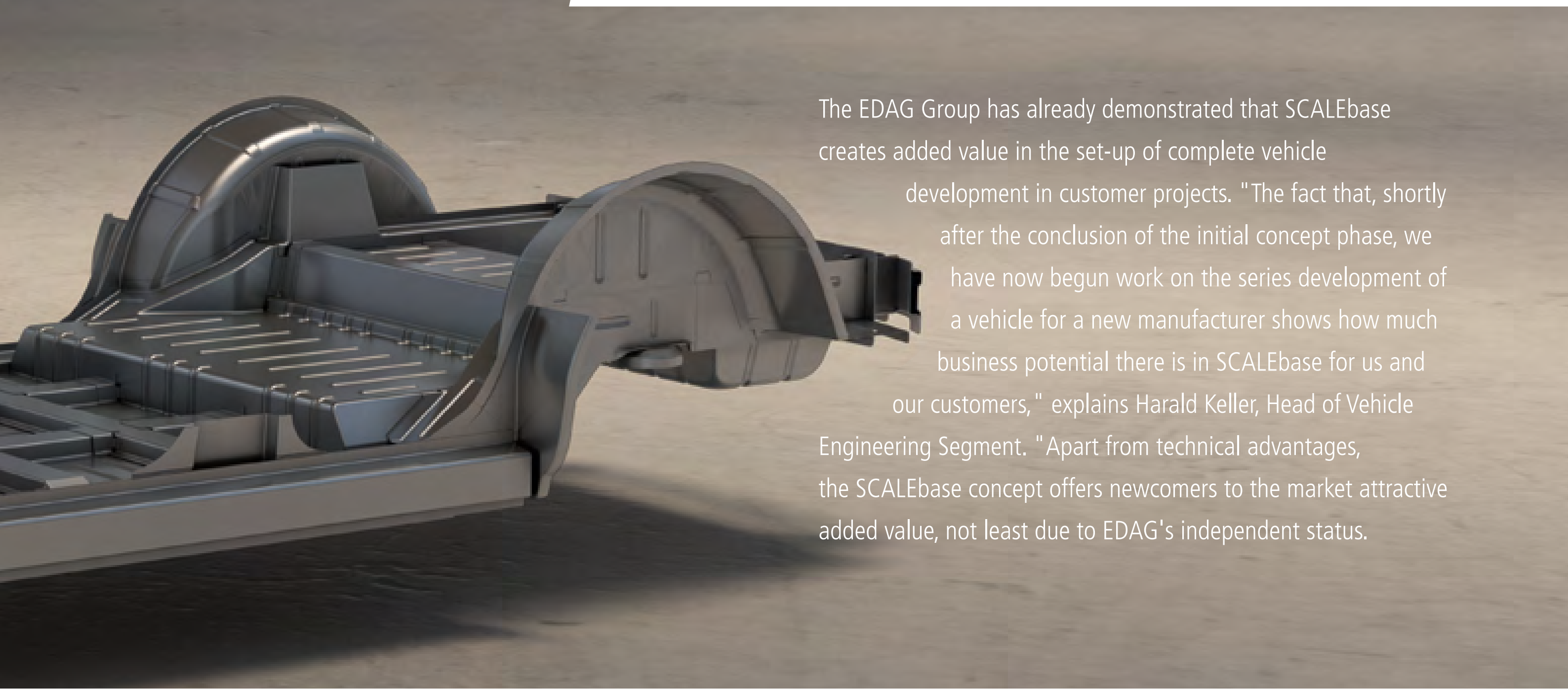
"The specification, concept and dimensioning know-how gained here – which during the enquiry stage is shared with potential customers who at the moment do not have a great deal of experience in vehicle specification – can cut development times for manufacturers in the emerging markets by some three or four months," emphasizes Dr. Martin Hillebrecht, Head of the EDAG Competence Center. "Considering how quickly electric vehicle technology is developing and the time and cost pressure that startup OEMs in particular are operating under, this gives them a valuable head start."

Its scalability is not the only outstanding characteristic of SCALEbase; it is also an ideal means for the structural integration of battery systems. Here, OEMs can define and roughly design the various power levels for the eDrive and battery module with us – depending on local preferences and the size of the vehicle.

To allow the scalable electric vehicle floor assembly to be used on an international basis, the EDAG Group engineers working on its development also take into account current and future crash requirements from a wide range of markets. Should a crash occur, SCALEbase has optimized load paths to meet the ambitious requirements for the protection of passengers and the battery in the event of a side collision.







The EDAG Group has already demonstrated that SCALEbase creates added value in the set-up of complete vehicle development in customer projects. "The fact that, shortly after the conclusion of the initial concept phase, we have now begun work on the series development of a vehicle for a new manufacturer shows how much business potential there is in SCALEbase for us and our customers," explains Harald Keller, Head of Vehicle Engineering Segment. "Apart from technical advantages, the SCALEbase concept offers newcomers to the market attractive added value, not least due to EDAG's independent status.

# CLEVER SOLUTION FOR EASY VEHICLE ACCESS

## Start of production of the patented double step "EDpollux" – an EDAG Group in-house development


Anyone who develops innovative mobility solutions for the automotive industry every day, as EDAG Group employees do, has a different slant on day-to-day situations involving the automobile. Problems and potential for improvement are not just noted, but translated into new concepts or products. This is what happened in the case of EDpollux, the double step developed in-house, which went into standard production at EDAG Versuchs- & Fahrzeugbau (VFB) at the Fulda site in October 2018.
Vehicle structure often makes it difficult to get into and out of many types of minibuses today. This is a serious problem for people with reduced mobility. But being able to get in and out quickly and easily is also an advantage in the commercial sector, too; tradesmen, for instance, have to get in and out of their vehicles dozens of times a day. Along with other features, improved comfort is clearly a significant competitive advantage for the manufacturer.

The EDAG Group developed EDpollux, an automatically retractable double step, for just this application. With its integrated motor, the boarding device is extended or retracted automatically or by pressing a button when the sliding side door is opened or closed. This is the only two-step access step available on the market in which one step is lowered, and one raised. With a maximum load-bearing capacity of 250 kg, EDpollux is ideally equipped for practically any everyday situation, and ensures that getting in and out is easy and above all safe.

The product is a robust, low-maintenance retrofit solution which does not interfere with the vehicle's structure and scarcely restricts its ground clearance. In order to integrate the modular system, EDAG's designers used the mounting points already in place on the vehicle, so no adjustments need to be made to the bodywork. This solution also ensures that it is quick and easy to install and dismantle.

Initially, the system was installed in a Ford Transit van in cooperation with "Sorg", the Ford dealer in Fulda, and then presented at the Rettmobil – Europe's leading trade fair for rescue and mobility – in May 2018. The positive market response with which it met there was reinforced when it was presented at Ford's stand at the IAA Commercial Vehicles 2018 in Hanover.

In the meantime, the EDAG Group has been certified by Ford as a QVM partner (Qualified Vehicle Modifier), and as a result is now authorized to modify motor vehicles for persons with reduced mobility. Since the end of 2018, it has been possible to order the EDAG EDpollux as a retrofit solution for L2 and L3 wheelbase versions of the front-wheel drive Ford Transit models.

"On account of the extremely positive reactions received from our customers in the automotive industry, we will be preparing and marketing our system for further vehicle types," explains Cosimo De Carlo, CEO of the EDAG Group. "EDpollux is a visible sign of our innovative strength and our fully integrated engineering portfolio – from the development of groundbreaking solutions to state-of-the-art low-volume production."



# VIRTUAL PAINTING

## VR technology for the sustainable, lower-cost and improved training and development of car body painters

Training employees is both expensive and time-consuming, especially when they work on different continents. With this in mind, a vehicle manufacturer asked us to develop a virtual training system for body painters," reports Christoph Huber, Visualization Project Leader at Feynsinn, an EDAG Group brand. The result is the "VR Paint Shop", which takes physical painting into the digital world, and is used to train manual auto body painters, and enable them to very quickly learn how to apply top-quality coatings to actual parts.

The software was developed on the basis of the Unity gaming engine. The most important piece of equipment for producing the realistic coating is a standard, hand-held paint spray gun adjusted by Feynsinn: the control board is located in the lower section of the paint container. Above it, there is room for a liquid, so that the painter can feel the paint splashing backwards and forwards in the container as the spray gun is moved. A tracker was also integrated in the spray gun to detect its position. To simulate the spray action, Feynsinn installed a flex sensor on the trigger. Connected to the control board by means of a cable, this sensor regulates the application of paint, as it would in a real-life application situation.

When the user puts the VR glasses on, he finds himself in a virtual paint spraying booth. From a virtual menu, he first decides whether to do the introduction on how to handle the spray gun and software, or go straight to the training session with its selection of differently shaped parts and settings for painting parameters. The user will find a wide variety of parts, for instance a car door, a fender, a flat part and a spherical cap. He then selects a color and sets the painting parameters (spray jet, material quantity, air flow). An integrated feedback system supplies notes on paint thickness, spray angle and speed in real time. A distance jet, for instance, shows whether the distance between the part and the spray jet is accurate or needs to be corrected.

Once the coating process has been completed, the user receives information, first of all in the form of "likes": "ideal distance for painting!", "no gaps!" or "no drips!" Via the menu, he can request detailed information on the quality of his work, such as adequate paint cover, paint consumption, spray gun handling, speed, or divergences from the ideal painting procedure.
The results are shown on the part by means of false color analysis, so that the user can clearly see the areas in which his work was good, and where there was room for improvement.

The advantage of virtual painting is that the part can be re-sprayed – in a small area, with no parts, no paint, no paint spraying booth, no compressed air, no work clothing and no health and safety measures. Resource conservation and economic efficiency at their best. This raises the question of investment. "The cost of virtual painting is reasonable. Compared to the expense of carrying out real-life training courses, we anticipate a cost reduction of about 40 percent," explains Christoph Huber.

"A further advantage is that it is much easier to analyze the painting parameters with the VR Paint Shop than it is in reality. In the next stage, the company will be marketing the VR Paint Shop as a licensed model.

The in-house development of the virtual spray booth demonstrates how the EDAG Group uses the potential of digitalization to open up new business fields inside and outside of the product "automobile".

# EDAG ON THE CAPITAL MARKET


## EDAG on the capital market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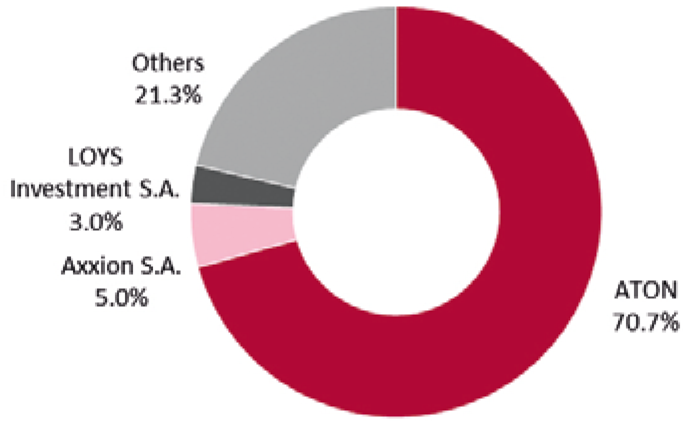
# EDAG ON THE CAPITAL MARKET

## 1 Basic Share Information

| | |
|---|---|
| ISIN | CH0303692047 |
| Security code number | A143NB |
| Symbol | ED4 |
| Subscribed capital | 1,000,000 CHF |
| Number of shared issues | 25,000,000 |
| Market segment | Prime Standard |
| Exchanges | Xetra, Frankfurt, München, Düsseldorf, Berlin, Stuttgart |

## 2 Shareholder Structure

The largest individual shareholder of EDAG Engineering Group AG is ATON Austria Holding GmbH ("ATON"), which holds 70.66 percent. Further shareholders with holdings of more than three percent are Axxion S.A. with 4.98 percent and LOYS Investment S.A. with 3.02 percent. This information is based on voting rights notifications as per §§ 33 et seq. of the WpHG (German Securities Trading Law), received by the company on or before January 4, 2019.

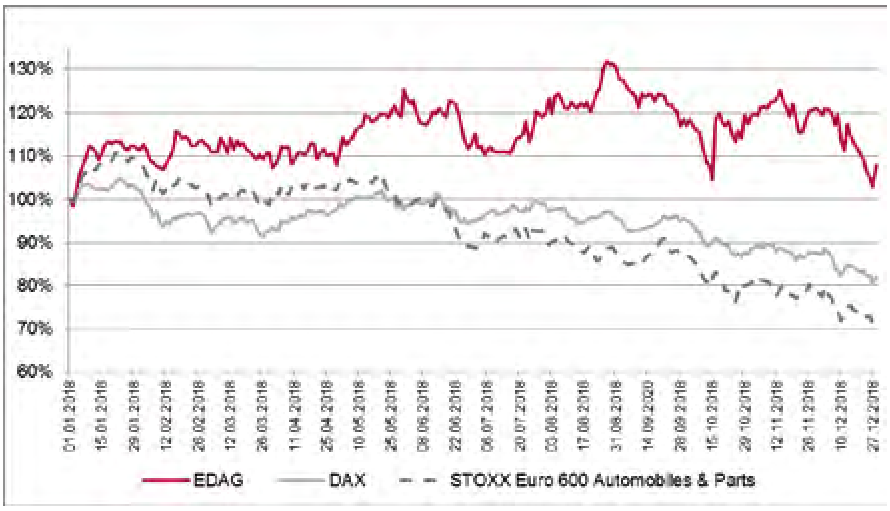



*Ownership structure of EDAG Engineering Group AG. All information is based on notifications as per § 33 et seq. of the WpHG (German Securities Trading Law), received by the company on or before January 4, 2019.*

# 3 Price Development

On January 2, 2018, the opening price of the EDAG share in XETRA trading was € 14.82. The lowest closing price in the reporting period, € 14.50, was reached on January 2, 2018. Following this, a positive trend was observed in the development of the share. The highest closing price, € 19.40, was reached on August 28, 2018. A generally weak stock market environment, particularly with regard to automotive shares, had a negative impact on share price development. The EDAG share price closed at € 15.86 on December 28, 2018. In 2018, the average XETRA trade volume was 9,752 shares a day. Over the year as a whole, the value of the EDAG share rose by 7.9 percent, making it one of the few auto shares to make a gain in 2018.

The EDAG share also fared significantly better than the German Stock Index (DAX) and the STOXX Europe 600 Automobiles & Parts. In the course of the year, the DAX lost 18.3 percent, while the STOXX Euro 600 Automobiles & Parts fell by 28.5 percent. The current EDAG share price is available on our homepage, on http://ir.edag.com.




*Source: Comdirect*

To our Shareholders

# 4 Key Share Data

| | 01/01/2018 – 12/31/2018 |
|---|---|
| **Prices and trading volume:** | |
| Share price on 28 December (€)[1] | 15.86 |
| Share price, high (€)[1] | 19.40 |
| Share price, low (€)[1] | 14.50 |
| Average daily trading volume (number of shares)[2] | 9,752 |
| **Performance per share:** | |
| Earnings per share (€) | 1.02 |
| Dividend per share (€)[3] | 0.75 |
| Operating cash flow per share (€) | 2.76 |
| P/E ratio | 15.57 |
| Market capitalization on 28 December (Mio. €) | 396.5 |

*[1] Closing price on Xetra*

*[2] On Xetra*

*[3] Proposed by Management and the Board of Directors*

# 5 Analysts' Recommendations

The following summary contains recommendations and price targets of financial analysts who regularly review EDAG.

| Bank | Recommendation | Target Price | Published | Source |
|---|---|---|---|---|
| Deutsche Bank | Hold | 18 € | 08 Nov 18 | Research Report |
| COMMERZBANK | Hold | 18 € | 01 Nov 18 | Research Report |
| Morgan Stanley | Hold | 18 € | 06 Dec 18 | Research Report |
| M. M. WARBURG & CO | Buy | 23 € | 19 Oct 18 | Research Report |
| HAUCK & AUFHÄUSER | Hold | 18 € | 13 Jul 18 | Research Report |
| BERENBERG | Buy | 22 € | 06 Nov 18 | Research Report |

The summary makes no claim to being complete, nor does it represent the opinions, estimates and forecasts of EDAG or the EDAG management. Likewise, the publishing of these recommendations and target prices does not indicate that EDAG or the EDAG management share the opinions, estimates and forecasts of the analysts. A current summary of the analysts' recommendations and target prices is available on our homepage, on http://ir.edag.com/websites/edag/English/201025/analysts_-recommendations.html.

# 6 Dividends

At the annual shareholders' meeting on June 5, 2019, the Group Executive Management and Board of Directors will recommend paying a dividend of € 0.75 per share. This is equivalent to a distribution quota of 73.6 percent of EDAG's consolidated net income.

# 7 Financial Calendar

| | |
|---|---|
| Apr 3, 19 | - Publication Annual Report 2018<br>- Analyst-Call for Annual Report 2018<br>- Annual press briefing |
| May 8, 19 | Publication Interim Report Q1/2019 |
| Jun 5, 19 | General shareholder meeting |
| Aug 28, 19 | - Publication Half Year Report 2019<br>- Analyst-Call H1/2019 |
| Nov 7, 19 | - Publication Interim Report Q3/2019<br>- Capital Markets Day |

# CORPORATE GOVERNANCE REPORT

## Corporate Governance Report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# CORPORATE GOVERNANCE REPORT

EDAG regards Corporate Governance as elementary importance to perform successfully in international business and to promote the company's long-term and sustainable profitability.

**Corporate Governance Objectives**

Neither the Swiss Code of Best Practice for Corporate Governance (Swiss Code) nor the German Corporate Governance Codex are directly applicable to EDAG Engineering Group AG (EDAG Group AG). Nonetheless, EDAG Group AG decided to essentially comply with the Swiss Code, unless actual circumstances require a deviation from it.

The principles and objectives of Corporate Governance are stated in the Swiss Code of Obligations, the Articles of Association, Organizational Group Regulations, and the EDAG Group Code of Conduct. Articles of Association, Organizational Group Regulations, and the EDAG Group Code of Conduct are regularly reviewed and revised accordingly.

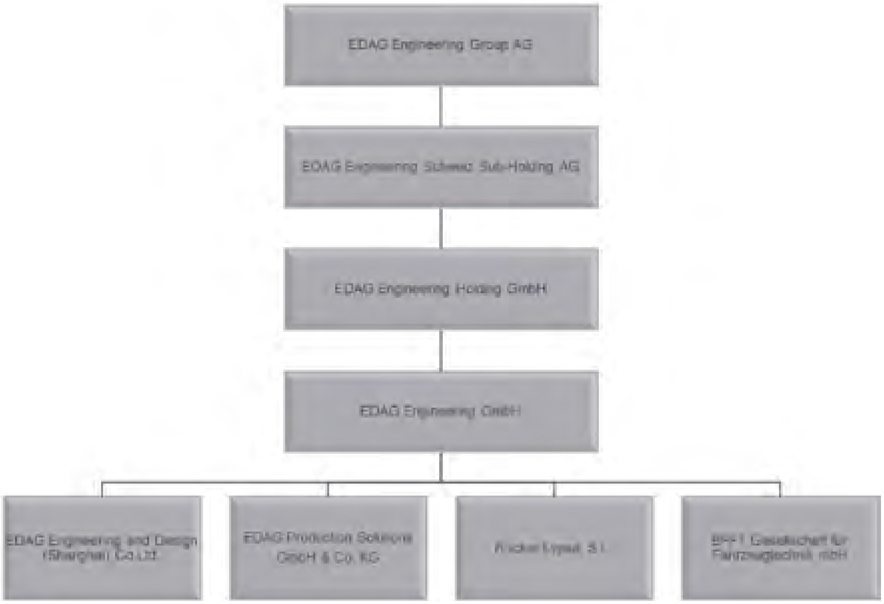
The Articles of Association can be downloaded at http://ir.edag.com/websites/edag/English/501030/statutes.html, and the Code of Conduct at http://www.edag.de/en/edag/edag-an-overview.html.

## 1 Group Structure and Shareholders

The Group is organized in three segments: Vehicle Engineering, Electrics/Electronics and Production Solutions.

### 1.1 Group Structure

EDAG Group AG is the responsible parent company of the group. The registered address is Schlossgasse 2 in 9320 Arbon, Switzerland. The company's business operations are conducted through EDAG Group companies. EDAG Group AG is a holding company organized under Swiss law, and directly or indirectly owns all EDAG Group companies worldwide. The main subsidiaries and the simplified group structure can be shown as follows:




## 1.2 Stocklisted Companies

None of the subsidiaries is publicly traded. The subsidiaries and affiliated companies are listed in "Shareholdings" in the notes.

## 1.3 Significant Shareholdings

The shareholder structure can be seen in the chapter "EDAG on the Capital Market".

The shares of ATON Austria Holding GmbH ("ATON") are attributed to their shareholder, Dr. Lutz Helmig.

The notifications of major shareholdings received by EDAG Group AG in the 2018 financial year, each disclosed promptly pursuant to § 26 para. 1 WpHG (German Securities Trading Law), can be downloaded at http://ir.edag.com/websites/edag/English/30/announcements.html.

The company does not hold shares in treasury itself.

### 1.4 Cross-Shareholdings

There are no cross-shareholdings.

## 2 Capital Structure

### 2.1 Capital

The share capital of the company on December 31, 2018 amounted to CHF 1,000,000, and was divided into 25,000,000 bearer shares (Inhaberaktien) with a nominal value of CHF 0.04 each. The share capital has been fully paid up. On November 2, 2015, the company was incorporated and was entered into the Commercial Register on November 3, 2015 as a stock corporation under Swiss law. The original share capital of CHF 1,000,000 was procured by the selling shareholder via cash contribution. Neither at the annual shareholders' meeting held on June 5, 2018 nor at the extraordinary shareholders' meeting held on August 21, 2018 was a resolution not to change the share capital passed.

### 2.2 Authorized and Conditional Capital

The company has neither authorized nor conditional capital.

### 2.3 Transferability of Shares

Legal regulations apply without statutory restrictions.
The exception to the above is described under point 6. "Change of Control and Defensive Measures" of this Corporate Governance Report.

### 2.4 Nominee Registrations

Legal regulations apply without statutory restrictions.

### 2.5 Options

No options program exists.

# 3 Board of Directors

## 3.1 Members of the Board

All members of the Board of Directors may be reached at the company's offices at Schlossgasse 2, 9320 Arbon, Switzerland (Tel. +41 71 447 36 11).

### Georg Denoke, German citizen

Non-executive member since August 21, 2018
Born in: 1965
First elected: 2018

Georg Denoke is the President of the Board of Directors of EDAG Group AG, Arbon. He is the CEO and Managing Director of ATON GmbH, Munich. Between 2004 and 2017, Georg Denoke was employed by Linde AG, serving first as a member of the Divisional Management of Linde Gas and Engineering (2004 to 2006), and then for a decade as the group's CFO and Employment Director (2006 to 2016). Prior to this (2001 to 2004), he was CEO of Apollis AG, a venture capital and investment company of General Atlantic LLC and McKinsey & Company. From 1986 until 1990 and from 1993 until 2001, Georg Denoke worked for the Mannesmann Group in a number of positions, including Head of Group Controlling and Head of the Corporate Communications und Investor Relations division, and also, following acquisition of the company by Vodafone in 2000, served as the Divisional Director of Vodafone TeleCommerce and IT, and as a member of the European Board of Vodafone Group Plc. He began his career in 1986, working for Mannesmann Kienzle GmbH, parallel to his first degree course in business administration and business information technology. He holds a degree in Business Administration (Diplom-Betriebswirt) from the Baden-Württemberg Cooperative State University (1989), and one in Information Science (Diplom-Informationswissenschaftler) from the University of Konstanz (1992).

He currently holds the following offices outside of the EDAG Group:
In accordance with Article 23 Paragraph 1.1 of the Articles of Association:

- ATON Group Finance GmbH (Going am Wilden Kaiser, Austria), chairman of the supervisory board

In accordance with Article 23 Paragraph 1.2 of the Articles of Association:
- J.S. Redpath Holdings, Inc. (North Bay, Canada), member of the board of directors
- SGL Carbon SE (Wiesbaden, Germany), vice-chairman of the supervisory board and chairman of the audit committee

In accordance with Article 23 Paragraph 1.3 of the Articles of Association:
- Aton Aero GmbH & Co. KG (Munich, Germany), managing director
- ATON Aero Verwaltungs GmbH (Munich, Germany), managing director
- ATON GmbH (Munich, Germany), managing director
- ATON Oldtimer GmbH (Munich, Germany), managing director
- EDAG Holding GmbH (Munich, Germany), managing director
- FFT GmbH & Co. KGaA (Fulda, Germany), member of the supervisory board
- HORUS Beteiligungs-GmbH (Munich, Germany), managing director
- HORUS Ellwanger & Geiger Holding GmbH (Munich, Germany), managing director
- HORUS Finanzholding GmbH (Munich, Germany), managing director
- HORUS Spiekermann Holding GmbH (Munich, Germany), managing director
- L53 Immobilien BV GmbH (Munich, Germany), managing director
- L53 Immobilien GmbH (Munich, Germany), managing director

### Dr. Michael Hammes, German citizen

Non-executive member
Born in: 1955
First elected: 2015

He holds a degree in Economics from the University of Mainz and a doctoral degree in economic policy from the Johannes Gutenberg University of Mainz. Furthermore, he obtained an additional qualification in Banking Management from the Johann Wolfgang Goethe University in Frankfurt am Main. From 1982 to 1984, Dr. Michael Hammes worked at the Landesbank Rheinland-Pfalz in Mainz, before joining McKinsey & Company in Frankfurt am Main, where he became a partner in 1991. In 1996, Dr. Michael Hammes left McKinsey & Company to found CONSART Management Consultants GmbH in Frankfurt am Main, where he was managing shareholder until 2006, when he established senco Management Consultants GmbH in Frankfurt am Main, where he was managing shareholder until 2016. He currently holds the following offices outside of the EDAG Group:

In accordance with Article 23 Paragraph 1.2 of the Articles of Association:

- Bankhaus Ellwanger & Geiger KG (Stuttgart, Germany), member of the board of directors
- Spiekermann & Co. AG (Osnabrück, Germany), chairman of the supervisory board
- V-Bank AG (Munich, Germany), member of the supervisory board

### Dr. Philippe Weber, Swiss citizen

Non-executive member
Born in: 1965
First elected: 2015

He holds a degree in law and a doctoral degree in law from the University of Zurich and an LL.M. from the European University Institute (EUI) in Fiesole, Italy. He is admitted to the bar (Rechtsanwalt) in Zurich. From 1990 to 1992 he was a research assistant at the University of Zurich, before joining the foreign affairs committees of two chambers of the Swiss parliament as a legal clerk. In 1994, he joined the law firm Niederer Kraft Frey AG, Zurich, where he became an associate in 1996. In 2002, he was made a partner at Niederer Kraft Frey AG. In 2009, he was elected to the executive committee of Niederer Kraft Frey AG, which he has chaired (Managing Partner) since 2015.

He currently holds the following offices outside of the EDAG Group:
In accordance with Article 23 Paragraph 1.3 of the Articles of Association:

- Newron Suisse SA (Zurich, Switzerland), member of the board of directors

In accordance with Article 23 Paragraph 1.2 of the Articles of Association:

- Niederer Kraft Frey AG (Zurich, Switzerland), chairman of the board of directors and managing partner
- Banca del Ceresio SA (Lugano, Switzerland), member of the board of directors
- NorthStar Holding AG (Schindellegi, Switzerland), member of the board of directors

### Sylvia Schorr, German Citizen

Non-executive member
Born in: 1980
First elected: 2015

She holds a degree in Business Administration from the Furtwangen University (previously University of Applied Sciences), and was appointed as an auditor in 2010. From 2005 to

2010, she worked at Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft in Eschborn, before joining PHOENIX Pharmahandel GmbH & Co. KG in Mannheim until 2011. From 2011 to 2013, Sylvia Schorr worked at Fresenius Medical Care AG & Co. KGaA in Bad Homburg before joining ATON GmbH, where, after holding managerial positions in Group Accounting and Treasury, she has been working as an investment manager since 2017.

She currently holds the following offices outside of the EDAG Group:
In accordance with Article 23 Paragraph 1.1 of the Articles of Association:
- ATON Group Finance GmbH (Going am Wilden Kaiser, Austria), managing partner

In accordance with Article 23 Paragraph 1.3 of the Articles of Association:
- HORUS V-Bank Holding GmbH (Munich, Germany), managing director
- M23 Immobilien GmbH (Munich, Germany), managing director

**Thomas Eichelmann, German citizen**
Non-executive member from November 2015 until July 2018
Born in: 1965

## 3.2 Cross- Involvements

There are no cross-involvements.

## 3.3 Composition, Election and Duration

The members of the Board of Directors were individually confirmed in office at the company's annual shareholders' meeting held on June 5, 2018; this also applies to the office of President of the Board of Directors and to the members of the Compensation and Nomination Committee. Only members of the board are eligible for election to these offices. After the resignation of Thomas Eichelmann from office on July 18, 2018, Dr. Philippe Weber provisionally held the position of President from July 25, 2018 until August 21, 2018. At the extraordinary shareholders’ meeting held on August 21, 2018, Georg Denoke was elected to the offices of President and member of the Nomination and Compensation Committee.

## 3.4 Internal Organizational Structure

The Board of Directors consists of one chairman and three other members, in accordance with Art. 15 of the Articles of Association. Since the amendment of the Articles of Association during the extraordinary shareholders' meeting held on August 21, 2018, the President has the casting vote pursuant to Art. 18 of the Articles of Association. Any significant business relationships between non-executive members and the company are mentioned in "Related Parties" and "Compensation of the Members of the Board of Directors and the Group Executive Management" in chapter 5.7 "Other Notes" to the consolidated financial statements and reference is made here to these chapters of the annual report.

The Board of Directors meets at least six times a year. The members of the Executive Management or other guests may participate in the meetings of the Board of Directors at the discretion of the Chairman.

### Committees

The members of the Board of Directors constitute the following committees:

- Audit Committee
- Nomination and Compensation Committee

**Audit Committee (AC)**

The AC consists of two members of the Board. The term of office of the members ends at the next ordinary annual shareholders' meeting. Re-election is possible. The AC meets as often as seems necessary, usually before a regular meeting of the Board of Directors. The AC supports the Board of Directors in its function to supervise, namely with respect to completeness of the financial statements, compliance with legal regulations, enabling the auditors and performance of the internal revision and the external auditors.

The AC assesses the expedience of the financial reporting, of the internal control system and the general supervision of business risks. It ensures the continuous communication to external auditors and internal revision concerning the financial situation and general course of business of the EDAG Group.

**Nomination and Compensation Committee (NCC)**

The NCC consists of two members of the Board. The term of office of the members ends at the next ordinary annual shareholders' meeting. Re-election is possible. The NCC meets as often as seems necessary, usually before a regular meeting of the Board of Directors.

The NCC reviews and proposes to the Board of Directors the compensation and benefits policies and programs, reviews the performance criteria relevant to compensation and defines the individual executive compensation and benefits of the members of the Board of Directors and the Executive Committee, subject to approval of the total compensations by the annual shareholders' meeting.

## 3.5 Authority and Responsibility

In accordance with the law and the Articles of Association, the Board of Directors is the ultimate decision-making authority for EDAG Group AG in all matters except those decisions reserved by law or the Articles of Association for the shareholders. The Board of Directors has sole authority particularly for the following, in accordance with and supplementary to article 716a of the Swiss Code of Obligations (non-transferable and inalienable duties of the Board of Directors) and Article 17 of the Articles of Association:

- to ultimately direct the company and issue the necessary directives
- to determine the organization
- to organize the accounting, the internal control system (ICS), the financial control and the financial planning, the approval of the annual budget and the business plans, and to perform a risk assessment
- to appoint and recall the persons entrusted with the management and representation of the company and to grant signatory power
- to ultimately supervise the persons entrusted with the management of the company, in particular with respect to compliance with the law, the Articles of Association, regulations and directives
- to prepare the business report and the annual shareholders' meeting, and to implement the latter's resolutions
- to prepare the compensation report
- to inform the judge in the event of over-indebtedness
- to pass resolutions regarding the subsequent payment of capital with respect to non-fully paid-in shares
- to pass resolutions confirming increases in share capital and regarding the amendments to the Articles of Association entailed thereby

- to examine compliance with legal requirements regarding the appointment, election and professional qualifications of the auditors
- to execute the agreements pursuant to Articles 12, 36 and 70 of the Merger Act

## 3.6 Working Method

The Board of Directors met on the following days in 2018:
January 24, 2018, February 20, 2018, March 21, 2018, April 10, 2018, May 7, 2018, June 5, 2018 (constituting session of the newly elected Board of Directors), June 26, 2018, July 25, 2018, August 21, 2018, September 25, 2018, November 7, 2018, December 12, 2018 and December 17, 2018. The four members were either present in person or took part on the telephone.

In duly justified, exceptional cases, the Board of Directors also made circular resolutions. The AC met on April 10, 2018, on August 22, 2018 and on November 7, 2018; the NCC met on March 21, 2018 and March 22, 2018.

## 3.7 Information and Control Instruments of the Board of Directors relating to Group Management

The Board of Directors ensures that it receives sufficient information from the Group Executive Management to perform its supervisory duties and make decisions that are reserved for the Board of Directors.

The Board of Directors obtains the information required to perform its duties in various ways:
- The CEO, CFO and COO regularly inform all members of the Board of Directors about current developments
- Informal meetings and teleconferences between the CEO and President of the Board of Directors as required
- The members of the Group Executive Management are invited to attend meetings of the Board of Directors on a regular basis
- The members of the Board of Directors are entitled to request information from the members of the Group Executive Management or any other senior EDAG Group managers

### Risk Management

The AC regularly informs itself about the group-wide risk management system. For details, please see chapter "Risk Management and Internal Control System" of the Group Management Report.

### Internal Control System and Financial Reporting

The AC regularly informs itself about the group-wide internal control system (ICS) and financial reporting. For details, please see chapter "Internal Control System and Risk Management System in Relation to the Group Accounting Process" of the Group Management Report.

### Compliance Management

The AC regularly informs itself about the group-wide compliance management system.

### Internal Revision

The AC regularly informs itself about the results of group-wide internal revision assessments.

# 4 Group Executive Management

## 4.1 Members of the Group Executive Management

For any additional activities of the members of the Group Executive Management within the EDAG Group, please see chapter "Compensation Report" of the annual report.

### Cosimo De Carlo, German and Italian citizen

Chief Executive Officer (CEO), since April 2018
Born in: 1973
He holds Master's degrees in Business Engineering and Computer Science Engineering. Cosimo De Carlo began his career in the Research & Development department at Daimler AG in 1998, before serving as a Senior Consultant at RSI Sistemi S.p.A between 2001 and 2005. From 2005 to 2008, he was an authorized signatory und Business Unit Manager at Berata GmbH, and from 2009 to 2018 worked in various capacities for Altran, where his last assignment was that of Group Vice President Automotive at Altran Technologies SA.

### Jürgen Vogt, German citizen

Chief Financial Officer (CFO), interim CEO between September 2017 and April 2018
Born in: 1953
He holds a degree in Economic Science (Diplomkaufmann) from the Johann Wolfgang Goethe University in Frankfurt am Main. From 1979 to 1981, Jürgen Vogt worked at AEG-Telefunken, before joining Société Générale in Frankfurt, where he was stationed in New York, USA, from 1986 to 1990. He managed Lignotock GmbH from 1991 to 1995. From 1995 to 1999, Jürgen Vogt was a member of the management board of SAI Automotive AG in Frankfurt, again working in the USA from 1997 to 1999. In 2000, he joined Rücker AG in Wiesbaden, and became managing director of EDAG Engineering GmbH in 2014 and a member of the Group Executive Management of EDAG Group AG in 2015.

### Holger Merz, German citizen

Chief Operations Officer (COO) from January 2019
Born in: 1975
He holds a degree in Business Administration (Diplom-Betriebswirt) from the University of Applied Sciences Fulda, after which he did a postgraduate course at the University of Koblenz, and gained an MBA at the FOM University for Economy and Management in Frankfurt am Main. Holger Merz has been employed by EDAG since 2000, initially as a divisional controller, and from 2001 as the Head of the Investments and Balance Sheet Accounting team. He was elected Deputy Chairman of VKE- Versorgungskasse EDAG-Firmengruppe e.V. in 2012. Holger Merz was Head of Group Accounting & Tax between 2001 and 2014, and Divisional Manager of Group Accounting & Tax from 2015 until the end of 2018. Since January 1, 2019, Holger Merz has been a member of the Group Executive Management of EDAG Group AG and COO and Employment Director of EDAG Engineering GmbH.

### Harald Poeschke, German citizen

Chief Operations Officer (COO) from September 2017 to December 2018
Born in: 1962

## 4.2 Management Contracts

### Management Contracts with Third Parties

The members of the Group Executive Management do not hold management contracts with third parties. Likewise, EDAG Group AG does not hold management contracts with third parties.

### Contractual Arrangements with Members of the Group Executive Management

Each member of the Group Executive Management has a contract with EDAG Group AG in Switzerland and in accordance with Swiss law. As they also fulfill duties as managing directors of EDAG Engineering GmbH, they hold contracts with this Group company as well. However, care has been taken to ensure that their periods of notice do not exceed 12 months in either of these contracts, and that other mandatory requirements of Swiss law are fulfilled by the contracts with EDAG Engineering GmbH.

### Compensation, Shareholdings and Loans

Please refer to the "Compensation Report", and chapters "Related Parties" and "Compensation of the Members of the Board of Directors and the Group Executive Management" in the notes.

# 5 Shareholders' Participation Rights

Each registered share entitles the shareholder to one vote at the annual shareholders' meeting. Shareholders have the right to receive dividends, and such other rights as are granted by the Swiss Code of Obligations.

Shareholders are required to provide evidence of their shareholdings in the company.

## 5.1 Voting Right Restrictions

At the present time, there are no restrictions on voting rights for the shareholders.

## 5.2 Proxy Voting

Pursuant to the Compensation Ordinance and the Articles of Association, the annual shareholders' meeting elects the independent proxy for a term ending at the conclusion of the next annual shareholders' meeting. Re-election is possible.

At the annual shareholders' meeting held on June 5, 2018, ADROIT Attorneys at-law, Kalchbühlstrasse 4, CH-8038 Zürich, Switzerland were elected as the independent proxy for the term ending at the conclusion of the next annual shareholders' meeting.

## 5.3 Statutory Quorums

In accordance with Art. 13 of the Articles of Association, a quorum of at least two thirds of the represented share votes and the absolute majority of the represented shares par value is mandatory for cases listed in Art. 704 Para. 1 CO and Art. 18 and 54 of the Federal Act on Merger, Demerger, Transformation and Transfer of Assets (Merger Act) or any change to the provisions of this Art. 13 of the Articles of Association.

## 5.4 Convocation of the Annual Shareholders' Meeting

The Articles of Association do not contain any rules that differ from the standard terms proposed by law.

## 5.5 Agenda

According to Art. 9 of the Articles of Association, shareholders individually or jointly representing at least three percent of the share capital of the company may demand that items be put on the agenda. Such demands have to be submitted to the President of the Board of Directors at least 45 days before the date of the annual shareholders' meeting and shall be in writing, specifying the item and the proposals.

# 6 Change of Control and Defensive Measures

There are no clauses on changes of control in agreements with members of the Board of Directors and the Group Executive Management, or with other management executives. The following arrangement was valid until December 2, 2018:

Since neither the provisions of the German Takeover Code (Wertpapierübernahmegesetz) nor the Swiss law rules set forth in the Swiss Stock Exchange and Securities Dealer Act regarding voluntary and obligatory takeover offers will be applicable, ATON and HORUS agreed with the underwriters in the Underwriting Agreement that it will not, for a period of three years from the settlement of the offering of the company, directly or indirectly enter into an agreement with a third party to sell a position in the company which ATON or HORUS know will result in a controlling interest of the purchaser, unless such purchaser contractually commits to extend a tender offer to the other shareholders of the company offering a purchase price per share which is at least equal to the price contractually agreed between ATON or HORUS respectively and the purchaser.

This covenant was only valid to the extent that the purchaser would have been under an obligation (and no exemption from the duty would have been available) to extend a mandatory tender offer to the other shareholders of the company if German takeover laws had been applicable in case of such a transaction, and only for as long as neither Swiss nor German takeover laws would have applied. Subject to certain conditions, transfers to or amongst affiliates of ATON and HORUS were exempt.

The undertaking of ATON or HORUS did not give rise to any rights of third parties, and neither ATON nor HORUS was obliged to ensure that the purchaser actually adhered to its contractual obligation to extend an offer to other shareholders of the company.

# 7 Information Policy

Pursuant to Article 31 of the Articles of Association, the publication instruments of the company are the Swiss Official Gazette of Commerce and the Electronic Federal Gazette of Germany during the period of admission of the shares on the Frankfurt Stock Exchange or any other German stock exchange. The Board of Directors may designate further means of publication. Notices by the company to the shareholders and other announcements shall be published in the Swiss Official Gazette of Commerce and the Electronic Federal Gazette for all notices and other announcements during the period of admission of the shares on the Frankfurt Stock Exchange or any other German stock exchange.

Currently, EDAG regularly informs its shareholders and the financial market about important business developments. This policy is implemented mainly via regular press releases, quarterly reportings and information published on the websites of the EDAG Group (www.edag.com and ir.edag.com respectively). In addition, there are regular discussions with financial analysts.

## 7.1 Financial Calendar

The Financial Calendar is reported in the chapter "EDAG on the Capital Market".

## 7.2 Annual Shareholders' Meeting

The next regular annual shareholders' meeting is scheduled for June 5, 2019.

## 7.3 Publications

All information pertaining to press releases or investor updates can be obtained online via ir.edag.com or from the following contact address:

EDAG Engineering Group AG
Schlossgasse 2
9320 Arbon
Switzerland
ir@edag-group.ag
Tel.: +41 71 54433 - 11
Fax: +41 71 54433 - 10

Voting rights announcements, ad hoc releases and directors' dealings are distributed Europe-wide via EQS/DGAP and are available at http://ir.edag.com/websites/edag/English/30/announcements.html. It is possible to subscribe to new information via e-mail. To use this service, please fill out the order form at http://ir.edag.com/websites/edag/English/401030/subscription-to-ir-mailing-list.html.

# 8 Auditors

## 8.1 Duration of the Mandate and Term of Office

Deloitte AG has held the mandate since the annual shareholders' meeting on May 31, 2017. The auditors were elected for the 2018 fiscal year until the end of the annual shareholders' meeting on June 5, 2019.

The principle of rotation applies to the lead auditor, Roland Müller, who was appointed in 2017. The Audit Committee ensures that the position of lead auditor is changed regularly. The shareholders must confirm the appointment of the auditors on an annual basis at the annual shareholders' meeting.

## 8.2 Auditing Fees

The fee received by Deloitte AG for auditing the annual financial statements for 2018 is shown in the notes.

## 8.3 Additional Fees

All other fees for additional services performed by Deloitte AG are shown in the notes.

## 8.4 Supervisory and Control Instruments Regarding the Auditors

The AC of the Board of Directors is responsible for overseeing and evaluating the performance of the external auditors on behalf of the Board of Directors and recommends the Board of Directors whether Deloitte should be proposed for re-election at the annual shareholders' meeting.

Criteria applied for the performance assessment of Deloitte include technical and operational competence, independent and objective view, employment of sufficient resources, focus on areas of significant risk to EDAG, ability to provide effective and practical recommendations, and open and effective communication and coordination with the AC, Group Accounting, Internal Revision and the management.

In 2018, one meeting was held with the representatives of Deloitte AG, the external auditors. The meeting was attended by members of the AC, partners and senior manager of Deloitte AG, by the CFO, the Head of Group Accounting and Taxes. Telephone calls were also made between the representatives of the auditors Deloitte AG, the members of the AC, the CFO and the Head of Group Accounting and Taxes.

The auditors communicate audit plans and findings to the AC, and issue reports to the Board of Directors in accordance with Article 728b of the Swiss Code of Obligations.

# COMPENSATION REPORT

## Compensation Report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# COMPENSATION REPORT

The compensation report explains the principles underlying the compensation policy, and provides information about the steering process and the compensation actually paid to the Board of Directors and Group Executive Management. It meets the requirements of Articles 14 to 16 of the Swiss Ordinance Against Excessive Remuneration at Publicly Listed Companies of November 20, 2013 ("VegüV"), the SIX Swiss Exchange's Directive on Information relating to Corporate Governance, the principles of the economiesuisse Swiss Code of Best Practice, which came into effect on June 30, 2015, and is based on the Articles of Association of EDAG Engineering Group AG ("EDAG Group AG").

## 1 Compensation Principles of the Company

In accordance with the Compensation Ordinance (VegüV), Article 12 of the Articles of Association prescribes that each year the shareholders' meeting must vote separately on the proposals by the Board of Directors regarding the aggregate amounts for:

- the **fixed compensation of the Board of Directors** for the period until the next ordinary annual shareholders' meeting and any possible additional reimbursement of the Board of Directors for the financial year just ended, as defined in article 25 paragraph 1 of the Articles of Association (i.e. at the 2018 ordinary annual shareholders' meeting, the shareholders decided on the compensation of the Board of Directors and on the period between the 2018 ordinary annual shareholders' meeting and the 2019 ordinary annual shareholders' meeting, and authorized this up to a maximum amount of € 1,000 thousand);
- the **fixed compensation of the Group Executive Management** for the subsequent financial year, as defined in article 26 of the Articles of Association (i.e. at the 2018 ordinary annual shareholders' meeting, the shareholders decided on the fixed compensation of the Group Executive Management for the 2019 financial year, and authorized this up to a maximum amount of € 1,750 thousand), and
- the **variable compensation of the Group Executive Management**, based on the results and targets achieved in the previous year, which is generally paid once it has been approved (i.e. at the 2018 ordinary annual shareholders' meeting, the shareholders

decided on the variable compensation of the Group Executive Management for 2017, and authorized this to the amount of € 375 thousand).

If the annual shareholders’ meeting does not approve the amount of the proposed fixed and proposed variable compensation, the Board of Directors may either convene a new extraordinary shareholders’ meeting with new proposals for approval or submit the proposals regarding compensation for retrospective approval at the next annual shareholders’ meeting. Further, the Board of Directors can submit proposals to the annual shareholders' meeting with regard to (i) the total amounts and/or part of the compensation for other periods and/or (ii) additional amounts for certain elements of the compensation.

The aggregate compensation amounts are deemed to be inclusive of all social insurance and pension contributions by the members of the Board of Directors, the Group Executive Management and by the Company (i.e., contributions by employee and employer).

Article 24 of the Articles of Association of EDAG Group AG covers the contracts governing the compensation for members of the Board of Directors and the Group Executive Management. Subject to resignations or recalls, the mandate agreements of the members of the Board of Directors contain a time limit ending at the conclusion of the next ordinary annual shareholders' meeting. As a rule, the employment contracts of the members of the Group Executive Management are open-ended. Should a fixed term contract be deemed appropriate by the Board of Directors, a term of no more than one year may be specified. The period of notice for open-ended employment contracts must not exceed 12 months.

With regard to the employment contracts of the Group Executive Management, Article 24 stipulates that the agreement of non-competition clauses for the time following termination of an employment contract is permissible. Article 24 of the Articles of Association also provides that, to counterbalance any such non-competition clause, compensation may be paid for a maximum period of one year, the amount of which shall not exceed the last annual compensation paid to the member prior to his or her leaving the company.

Article 28 of the Articles of Association provides that the Company shall not grant loans, credits or securities to the members of the Board of Directors or the Group Executive Management. At the extraordinary annual shareholders' meeting held on August 21, 2018, the decision was made to approve an application of the Board of Directors to change article 28 of the Articles of Association to allow the company or other Group companies to organize pension benefits other than occupational pensions for the members of the Board of Directors. For each member of the Executive Management concerned, the value of the pension benefits other than occupational benefits must not exceed ten times the fixed annual salary paid in the case of a one-off capital payment, or the last annual salary paid in the case of a pension.

Article 28 of the Articles of Association further provides that the Company shall not make any payments to pension funds or similar institutions for the members of the Board of Directors. In exceptional cases, however, such payments may be made upon request of the Nomination and Compensation Committee, subject to the approval by the annual shareholders' meeting, if the members in question do not have other insurable income from paid employment, or if required by mandatory applicable law.

Article 29 of the Articles of Association of EDAG Group AG provides for a possible additional amount for compensation for new members of the Group Executive Management. Should new members of the Group Executive Management be nominated, or members be promoted within the Group Executive Management, and take up their position after the annual shareholders' meeting has approved the maximum total compensation for members of the Group Executive Management for the coming financial year, then these new or promoted members may, for the period until the next ordinary annual shareholders' meeting, be paid a total compensation of a maximum of 50 percent of the total payment most recently approved for the Group Executive Management by the annual shareholders' meeting.

A further restriction imposed by Article 29 in this respect states that an additional amount of this type may only be applied if the total compensation for the Group Executive Management decided by the annual shareholders' meeting for the period until the next ordinary annual shareholders' meeting is not sufficient for the new or promoted members. The annual shareholders' meeting does not vote on the additional amount applied.

# 2 Compensation of the Board of Directors

In accordance with the requirements of the Compensation Ordinance, Article 25 of the Articles of Association sets out the principles for the compensation of the members of the Board of Directors.

The members of the Board of Directors receive a fixed compensation and additional fixed compensation for memberships in committees of the Board of Directors that is determined by the full Board of Directors based on the proposal of the Nomination and Compensation Committee and subject to and within the limits of the aggregate amounts approved by the shareholders' meeting. Compensation is paid in cash. In exceptional cases and subject to and within the limits of the approval by the annual shareholders' meeting, the members of the Board of Directors may be awarded an additional bonus. The annual fixed compensation of the members of the Board of Directors has been set at € 300 thousand for the Chairman and € 100 thousand for each other member, plus € 50 thousand for each committee membership. For the financial year ended December 31, 2018, the fixed compensation of the members of the Board of Directors amounted to € 350 thousand for the Chairman and € 150 thousand for each other member of the Board of Directors (plus Swiss social insurance contributions, if applicable). It also includes the compensation for each committee membership during that period.

Thomas Eichelmann resigned from office as the President of the Board of Directors and Chairman of the Nomination and Compensation Committee of EDAG with immediate effect on July 18, 2018. At an extraordinary shareholders' meeting held on August 21, 2018, Georg Denoke was elected to the offices of President of the Board of Directors and Chairman of the Nomination and Compensation committee. In the meeting of the Board of Directors held on July 25, 2018, Dr. Philippe Weber was elected as Interim President of the Board of Directors for the period between the resignation of the President of the Board of Directors and the election of the new President of the Board of Directors.

In a shareholder resolution of August 20, 2018, the decision was also taken that Thomas Eichelmann, the former President of the Board of Directors, should also leave the Supervisory Board of EDAG Engineering GmbH. The decision also provided that Georg Denoke, the new President of the Board of Directors, would also be made a member of the Supervisory Board of EDAG Engineering GmbH on the same day. In a shareholder resolution of EDAG Engineering Holding GmbH of September 25, 2018, the same was also decided for the Supervisory Board of EDAG Engineering Holding GmbH.

Sylvia Schorr and Dr. Michael Hammes, both members of the Board of Directors, are also members of the Supervisory Board of EDAG Engineering Holding GmbH and of EDAG Engineering GmbH. According to the Articles of Association, the members of the Supervisory Board of EDAG Engineering GmbH receive a fixed compensation. With effect from April 18, 2016, the amount of this fixed compensation was set by shareholder resolution to € 0. As of April 18, 2016 the members of the Supervisory Board of EDAG Engineering GmbH receive an attendance fee in the amount of € 1 thousand per physical participation. In a shareholder resolution of April 25, 2017, the decision was made to retain the fixed compensation of € 0 and the attendance fee of € 0.5 thousand per physical participation for the members of the Supervisory Board of EDAG Engineering Holding GmbH until further notice. For the period from January 1, 2018 until December 31, 2018, the total amount of the additional compensation paid to Dr. Michael Hammes, Sylvia Schorr and Thomas Eichelmann for membership in the Supervisory Board of EDAG Engineering GmbH and of EDAG Engineering Holding GmbH amounted to € 13 thousand.

Based on the above, the total fixed compensation paid to the members of the Board of Directors for their term of office until December 31, 2018 amounted to € 821 thousand (plus Swiss social insurance contributions, where applicable), of which € 277 thousand was the highest fixed compensation paid to an individual member during that period. (For further details, see the table "Compensation of Board of Directors" below.) This means that the total amount of the fixed compensation paid to members of the Board of Directors is below the maximum amount of € 1,000 thousand approved by the annual shareholders' meeting. In accordance with the Articles of Association of EDAG Group AG, the compensation paid to the members of the Board of Directors for their term of office until the ordinary annual shareholders' meeting in 2019 was already approved by the shareholders' meeting in 2018, and the annual shareholders' meeting in 2019 will be asked to approve a maximum aggregate amount of fixed compensation of the members of the Board of Directors for the period from the annual shareholders' meeting in 2019 until the annual shareholders' meeting in 2020.

Members of the Board of Directors providing consulting services to the Company or other group companies in a function other than as members of the Board of Directors may be compensated in cash at standard market rates, subject to approval by the annual shareholder's meeting. The Company may indemnify members of the Board of Directors for any damage or other losses they might incur in connection with any proceedings, disputes and settlements relating to their activity for the EDAG Group, and also make related advance payments and provide insurance cover.

# 3 Compensation of the Group Executive Management

Article 26 of the Articles of Association sets out the principles for the compensation of the members of the Group Executive Management. The compensation of the members of the Group Executive Management consists of a fixed compensation and a variable performance and success-based compensation ("**variable compensation**"), each payable in cash.

The variable compensation is based on the level of achievement of specific pre-defined targets for a one-year performance period. The targets can depend at least 50 percent (i) on financial performance indicators namely revenues, EBIT, distributable profit and up to another 50 percent (ii) on the achievement of special projects, other company-related and/or individual target values, and also on financial key figures. At the proposal of the Nomination and Compensation Committee, the Board of Directors is responsible for the selection and weighting of target categories.

The level of the variable compensation is determined by the Board of Directors for each member of the Group Executive Management as a percentage of the fixed compensation, and may not exceed an amount equal to 100 percent of such compensation. The targets for each member of the Group Executive Management are determined annually by the Board of Directors, at the request of the Nomination and Compensation Committee, at the beginning of the one-year performance period .

For the twelve-month period ended December 31, 2018, the fixed and variable compensation for services rendered by the members of the Group Executive Management for all entities of the EDAG Group amounts to an aggregate of € 1,569 thousand for the fixed part and maximum € 781 thousand for the variable part, of which € 543 thousand (fixed) and € 187 thousand (variable) apply to Cosimo De Carlo, € 553 thousand (fixed) and € 250 thousand (variable) apply to Jürgen Vogt, € 446 thousand (fixed) and € 250 thousand (variable) apply to Harald Poeschke, and € 27 thousand (fixed) and € 94 thousand (variable) apply to Jörg Ohlsen (all amounts including social insurance contributions).

As explained in the Compensation Report for 2017, the 2017 annual shareholders' meeting approved a total of € 1,250 thousand for the amount of fixed compensation for the Group Executive Management for the 2018 financial year. Use is made of the additional amount allowed by Article 29 of the Articles of Association to cover the proportion of the total fixed payment that exceeds the authorized amount (for a more detailed account of the additional amount mentioned, please see chapter "Compensation Principles of the Company" and the Articles of Association of EDAG Group AG).

Cosimo De Carlo joined the Group Executive Management of EDAG Group AG on April 15, 2018. In addition, he also joined the Group Executive Management of EDAG Engineering GmbH on April 1, 2018. In his case, the total amounts given above cover the proportional compensation for services to EDAG Group AG and to other EDAG Group companies for the period from his joining the Executive Management of EDAG Group AG to December 31, 2018 (pro rata temporis). Furthermore, due to his joining the Executive Management on April 1, 2018, the above-mentioned variable element of his compensation is, by way of exception, to be seen as guaranteed compensation.

In the case of Jürgen Vogt, the total amounts cover the compensation for services to EDAG Group AG and to other EDAG Group companies for the period January 1, 2018 to December 31, 2018.

Harald Poeschke left the Group Executive Management on December 31, 2018. Holger Merz joined the Group Executive Management as COO on January 1, 2019. In the case of Harald Poeschke, the total amounts also cover the compensation for services to EDAG Group AG and to other EDAG Group companies for the period January 1, 2018 to December 31, 2018.

In the case of Jörg Ohlsen, the total amounts cover the proportion of the compensation in the amount of € 121 thousand attributable to the 2018 financial year which was specified in his employment contract as being payable until the end of his period of notice in September 2018, for which provisions were not made in 2017. The proportion of his fixed compensation attributable to the 2018 financial year in the amount of € 375 thousand (plus social insurance contributions), for which provisions were already made in 2017, was shown in the 2017 compensation report.

Further, the above-mentioned amounts in the 2018 financial year include a proportion of the extraordinary additional fixed compensation granted to Jürgen Vogt and Harald Poeschke in consideration of the additional work incurred as a result of the change of CEO, during the period from the departure of the previous CEO until the arrival of the new CEO on April

1, 2018. This amounted to € 250 thousand each. The proportion with regard to the 2018 financial year is € 167 thousand each.

The compensation of the Group Executive Management includes non-cash benefits (including non-cash benefits for company cars). It does not include the aggregated expenses for accident, legal protection and D&O insurance in the amount of € 144 thousand (2017: € 144 thousand). Furthermore, EDAG Group AG did not grant the members of the Group Executive Management credits or loans. As at December 31, 2018, the present value of current pension obligations for active members of the Group Executive Management totaled € 3,186 thousand (2017: € 2,848 thousand). For members of the Group Executive Management leaving the company that year, it totaled € 60 thousand as at December 31, 2018. For active members of the Group Executive Management and for members leaving that year, the current service cost for the pension obligations according to IFRS amounted to € 0 thousand in 2018, as it did in the previous year.

No equity related securities or options are allocated, and no additional compensation is awarded for activities in the companies that are directly or indirectly controlled by the Company.

According to Article 12 of the Articles of Association, in 2019 the annual shareholders' meeting will be required to approve (i) the variable compensation of the Group Executive Management for the business year 2018; and (ii) the fixed compensation of the Group Executive Management to be paid for the business year 2020.

# 4 Relationships with Members of the Board of Directors

Dr. Philippe Weber is a member of the Board of Directors and the managing partner of the law firm Niederer Kraft Frey AG, Zurich, which provides certain corporate law advice to the Company.

Thomas Eichelmann holds a 7.6 percent share in KINREFD GmbH, which is the sole shareholder of several companies with which our subsidiary EDAG Engineering GmbH concluded purchase and transfer agreements and lease agreements regarding five properties and associated operating facilities previously owned by EDAG Engineering GmbH. The monthly rent in 2018 amounts to € 259 thousand. Additionally, on February 23, 2016, EDAG Engineering GmbH concluded a lease agreement with FD 3 Immo GmbH for a building and a plot of land at Reesbergstraße 2 in Fulda. The lease agreement has a fixed term until February 23, 2026, and the monthly rent amounts to € 9 thousand. The sole shareholder of FD 3 Immo GmbH is also KINREFD GmbH. Furthermore, until June 27, 2018, Thomas Eichelmann was a managing director of HORUS Beteiligungs-GmbH which is the general partner of HORUS Vermögensverwaltungs GmbH & Co. KG. HORUS Vermögensverwaltungs GmbH & Co. KG holds a 49.9 percent share in KINREFD GmbH. Georg Denoke has been a managing director of HORUS Beteiligungs-GmbH since July 3, 2018.

Furthermore, on October 14, 2015, EDAG Engineering GmbH concluded a lease agreement with MD 7 Immobilien GmbH for a building and open space at Max-Diamand-Straße 7 in Munich. The lease agreement has a fixed term until October 31, 2031 and since October 16, 2018, the monthly rent has amounted to € 82 thousand (2017: € 56 thousand). EDAG Engineering GmbH previously leased this property from Semper Constantia Immo Invest GmbH, until they sold it to MD 7 Immobilien GmbH in June 2015. The shareholders of MD 7 Immobilien GmbH are HORUS Vermögensverwaltungs GmbH & Co. KG (with a share of 49.9 percent), Habermann Vermögensverwaltungs GmbH (with a share of 40.0 percent) and Thomas Eichelmann (with share of 10.1 percent).

Moreover, on December 21, 2015, EDAG Engineering GmbH concluded a lease agreement with MD 7 BV GmbH for operational equipment at Max-Diamand-Straße 7 in Munich. The lease agreement has a fixed term until October 31, 2031. Since October 16, 2018, the monthly rent has amounted to € 2 thousand (2017: € 226.61). The shareholders and the shareholding structures of MD 7 Immobilien GmbH apply equally to MD 7 BV GmbH.

On January 25, 2017 EDAG Engineering GmbH concluded a lease agreement with FR 105 Immo GmbH for a building at Frankfurter Ring 105 in Munich. The lease agreement has a fixed term until December 31, 2018, and the monthly rent currently amounts to € 32 thousand. The shareholders of FR 105 Immo GmbH are HORUS Vermögensverwaltungs GmbH & Co. KG (with a share of 49.9 percent), Habermann Vermögensverwaltungs GmbH (with a share of 40.0 percent), Thomas Eichelmann (with share of 7.6 percent) and Dr. Joseph W. Braun (with a share of 2.5 percent).

The income realized in conjunction with these relationships with the Board of Directors is shown as "Additional income" in the following table and in the case of Thomas Eichelmann in the 2018 financial year cover the above-mentioned rental revenues relating to the period from January 1, 2018 until the date on which he left the Board of Directors.

**Compensation to the Board of Directors**

| in € thousand | Fixed compensation | |
|---|---|---|
| **Board of Directors active on December 31st, 2018** | **2018** | **2017** |
| Georg Denoke (since August 21, 2018) | **277** | **-** |
| Chairman of the Board of EDAG Engineering Group AG [Chair Nomination and Compensation Committee] | 277 | - |
| Chair Supervisory Board of EDAG Engineering Holding GmbH (since September 25, 2018) | - | - |
| Chair Supervisory Board of EDAG Engineering GmbH (since August 20, 2018) | - | - |
| Sylvia Schorr | **156** | **154** |
| Member of the Board of Directors of EDAG Engineering Group AG [Member of the Audit Committee] | 150 | 150 |
| Member Supervisory Board EDAG Engineering Holding GmbH | 1 | 1 |
| Member Supervisory Board EDAG Engineering GmbH | 5 | 3 |
| Dr. Michael Hammes | **154** | **155** |
| Member of the Board of Directors of EDAG Engineering Group AG [Chair of the Audit Committee] | 150 | 150 |
| Member Supervisory Board EDAG Engineering Holding GmbH | 1 | 1 |
| Member Supervisory Board EDAG Engineering GmbH | 3 | 4 |
| Dr. Philippe Weber | **167** | **150** |
| Chairman of the Board of EDAG Engineering Group AG [Chair Nomination and Compensation Committee] (from July 18, 2018 until August 21, 2018) | 25 | - |
| Member of the Board of Directors of EDAG Engineering Group AG [Member of the Nomination and Compensation Committee] | 142 | 150 |
| Legal Services via Niederer Kraft Frey AG | - | - |
| **Subtotal** | **754** | **459** |
| **Members of Board of Directors who resigned from office during 2018** | | |
| Thomas Eichelmann (until July 18, 2018) | **47** | **354** |
| Chairman of the Board of EDAG Engineering Group AG [Chair Nomination and Compensation Committee] | 44 | 350 |
| Chair Supervisory Board of EDAG Engineering Holding GmbH (until August 20, 2018) | 1 | 1 |
| Chair Supervisory Board of EDAG Engineering GmbH (until August 20, 2018) | 2 | 3 |
| House rent (in 2018 pro rata) | - | - |
| **Subtotal** | **47** | **354** |
| **Total** | **801** | **813** |

*Table: Compensation Board of Directors*

| Employer social insurance contribution | | Total fixed compensation | | Additional income | | Total compensation | |
|---|---|---|---|---|---|---|---|
| 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| **-** | **-** | **277** | **-** | **-** | **-** | **277** | **-** |
| - | - | 277 | - | - | - | 277 | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| **-** | **-** | **156** | **154** | **-** | **-** | **156** | **154** |
| - | - | 150 | 150 | - | - | 150 | 150 |
| - | - | 1 | 1 | - | - | 1 | 1 |
| - | - | 5 | 3 | - | - | 5 | 3 |
| **9** | **9** | **163** | **164** | **-** | **-** | **163** | **164** |
| 9 | 9 | 159 | 159 | - | - | 159 | 159 |
| - | - | 1 | 1 | - | - | 1 | 1 |
| - | - | 3 | 4 | - | - | 3 | 4 |
| **11** | **9** | **178** | **159** | **44** | **12** | **222** | **171** |
| 2 | - | 27 | - | - | - | 27 | - |
| 9 | 9 | 151 | 159 | - | - | 151 | 159 |
| - | - | - | - | 44 | 12 | 44 | 12 |
| **20** | **18** | **774** | **477** | **44** | **12** | **818** | **489** |
| | | | | | | | |
| **-** | **-** | **47** | **354** | **158** | **317** | **205** | **671** |
| - | - | 44 | 350 | - | - | 44 | 350 |
| - | - | 1 | 1 | - | - | 1 | 1 |
| - | - | 2 | 3 | - | - | 2 | 3 |
| - | - | - | - | 158 | 317 | 158 | 317 |
| **-** | **-** | **47** | **354** | **158** | **317** | **205** | **671** |
| **20** | **18** | **821** | **831** | **202** | **329** | **1,023** | **1,160** |

To our Shareholders

**Compensation to the Group Executive Management**

| in € thousand | Fixed compensation[1] | | Employer social insurance contribution | |
|---|---|---|---|---|
| **Group Executive Management Members active on December 31, 2018[1]** | **2018** | **2017** | **2018** | **2017** |
| Cosimo De Carlo | **525** | **-** | **11** | **-** |
| CEO EDAG Engineering Group AG (since April 15, 2018) | 79 | - | 5 | - |
| CEO EDAG Engineering GmbH (since April 1, 2018) | 446 | - | 6 | - |
| Jürgen Vogt | **517** | **433** | **23** | **22** |
| CFO EDAG Engineering Group AG (Interims-CEO until April 14, 2018) | 78 | 65 | 7 | 7 |
| CFO EDAG Engineering GmbH (Interims-CEO until March 31, 2018) | 439 | 368 | 16 | 15 |
| **Subtotal** | **1,042** | **433** | **34** | **22** |
| **Group Executive Management Members who resigned from office** | | | | |
| Harald Poeschke (until December 31, 2018) | **417** | **334** | **15** | **14** |
| COO EDAG Engineering Group AG | 63 | 22 | 5 | 1 |
| COO EDAG Engineering GmbH | 354 | 312 | 10 | 13 |
| Jörg Ohlsen (until September 6, 2017) | **-** | **500** | **13** | **17** |
| CEO EDAG Engineering Group AG | - | 75 | 6 | 8 |
| CEO EDAG Engineering GmbH | - | 425 | 7 | 9 |
| **Subtotal** | **417** | **834** | **28** | **31** |
| **Total** | **1,459** | **1,267** | **62** | **53** |

*[1] Besides the fixed compensation specified in the employment contracts, in the case of Jürgen Vogt and Harald Poeschke, the amount in 2018 includes a one-off additional fixed compensation for the additional work arising from the change of CEO. The additional fixed compensation given here covers the period from January 1, 2018 until the arrival of the new CEO in April 2018. The figures for the previous year contain the element of the additional fixed compensation relating to the period from the resignation of the previous CEO until December 31, 2017.*

*[2] In the case of Cosimo De Carlo, due to the fact that he joined the Executive Management in April 2018, the variable compensation shown for the reporting year is, by way of exception, to be seen as guaranteed compensation.*

*[3] The compensation shown here relates to the compensation for the financial year 2018, which was deferred as of the balance sheet date. The actual total amount of the variable compensation of the Executive Board will be decided separately by the annual shareholders' meeting 2018 in accordance with Article 12 of the Articles of Association.*

*[4] The figures for the previous year include the severance costs for Jörg Ohlsen, for which provisions had already been made for 2018. The compensation shown here is in its entirety an element of the fixed compensation authorized by the annual shareholders' meeting in 2017 for the 2018 financial year.*

*Table: Compensation Group Excecutive Management*

| Non-cash benefit from company car | | Total fixed compensation | | Variable compensation[2 3] | | Other compensation[4] | | Total compensation | |
|---|---|---|---|---|---|---|---|---|---|
| 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| **7** | **-** | **543** | **-** | **187** | **-** | **-** | **-** | **730** | **-** |
| - | - | 84 | - | 28 | - | - | - | 112 | - |
| 7 | - | 459 | - | 159 | - | - | - | 618 | - |
| **13** | **13** | **553** | **468** | **250** | **125** | **-** | **-** | **803** | **593** |
| - | - | 85 | 72 | 37 | 19 | - | - | 122 | 91 |
| 13 | 13 | 468 | 396 | 213 | 106 | - | - | 681 | 502 |
| **20** | **13** | **1,096** | **468** | **437** | **125** | **-** | **-** | **1,533** | **593** |
| | | | | | | | | | |
| **14** | **13** | **446** | **361** | **250** | **125** | **-** | **-** | **696** | **486** |
| - | - | 68 | 23 | 37 | 5 | - | - | 105 | 28 |
| 14 | 13 | 378 | 338 | 213 | 120 | - | - | 591 | 458 |
| **14** | **19** | **27** | **536** | **94** | **125** | **-** | **375** | **121** | **1,036** |
| - | - | 6 | 83 | 14 | 19 | - | 56 | 20 | 158 |
| 14 | 19 | 21 | 453 | 80 | 106 | - | 319 | 101 | 878 |
| **28** | **32** | **473** | **897** | **344** | **250** | **-** | **375** | **817** | **1,522** |
| **48** | **45** | **1,569** | **1,365** | **781** | **375** | **-** | **375** | **2,350** | **2,115** |

# SHARES HELD BY BOARD OF DIRECTORS AND GROUP EXECUTIVE MANAGEMENT

At the end of the financial year, the individual members of the Board of Directors and Group Executive Management held the following number of shares in EDAG Group AG.

| Number of shares | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Board of Directors** | | |
| Georg Denoke | - | - |
| Sylvia Schorr | - | - |
| Dr. Michael Hammes | - | - |
| Dr. Philippe Weber | - | - |
| **Total Board of Directors[1]** | **-** | **-** |
| | | |
| **Group Executive Management** | | |
| Cosimo De Carlo | 6,000 | **-** |
| Jürgen Vogt | 3,631 | 3,631 |
| Holger Merz | 115 | 115 |
| Harald Poeschke | - | - |
| **Total Group Executive Management** | **9,746** | **3,746** |

*[1] Thomas Eichelmann left the Board of Directors in 2018. On the date on which he left the Board of Directors, Thomas Eichelmann held a total of 87,500 shares (12/31/2017: 87,500) in EDAG Engineering Group AG.*

*Table: Shares held*

# REPORT OF THE STATUTORY AUDITOR (COMPENSATION REPORT)

## REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF EDAG ENGINEERING GROUP AG, ARBON

We have audited the accompanying remuneration report as of April 2nd 2019 of EDAG Engineering Group AG for the year ended December 31, 2018. The audit is limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables of the remuneration report on pages 80 to 83 as well as on the information regarding the remuneration of former board members or related parties and the information regarding loans on page 77.

**Board of Directors' responsibility**
The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

**Auditor's responsibility**
Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**
In our opinion, the remuneration report of EDAG Engineering Group AG for the year ended December 31, 2018 complies with Swiss law and articles 14–16 of the Ordinance.

Deloitte AG

ROLAND MÜLLER
Accredited Audit expert
Auditor in charge

UELI STURZENEGGER
Accredited Audit expert

Zurich, April 2, 2019

# COMBINED MANAGEMENT REPORT

## Combined Management Report


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# COMBINED MANAGEMENT REPORT

Since December 2, 2015, EDAG Engineering Group AG, Arbon ("EDAG Group AG") has been listed for trading on the regulated market of the Frankfurt Stock Exchange with concurrent admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard): According to § 37v Para. 2 No. 2 letter b of the German Securities Trading Law (WpHG) (or § 114 WpHG, new version), there is an obligation to prepare a management report for the separate financial statement. According to § 315 Para. 5 of the German Commercial Code (HGB) in conjunction with § 298 Para. 2 of the German Commercial Code (HGB), a combined management report will be prepared for the individual and consolidated financial statements. With this management report, the requirements set out in §§ 298 and 315 of the German Commercial Code (HGB) have been met.

The consolidated financial statement of EDAG Group AG and its subsidiaries for December 31, 2018 has been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as they are to be applied pursuant to Directive No. 1606/2002 of the European Parliament and Council regarding the application of international accounting standards in the EU. The separate financial statement of EDAG Group AG has been prepared in accordance with Swiss law.

## 1 Basic Information on the Group

### 1.1 Business Model

**SEGMENTATION**

*Business is divided up into a number of segments: Vehicle Engineering, Production Solutions and Electrics/Electronics. Our main focus is on the automobile and commercial vehicle industries.*

#### Three Segments

With the parent company, EDAG Engineering Group AG, Arbon (Switzerland) ("EDAG Group AG"), the EDAG Group is one of the largest independent engineering partners to the automotive industry, and specializes in the development of vehicles, derivatives, modules and production facilities. The entire group of companies will hereinafter be referred to as EDAG Group or EDAG.

In addition to our involvement in complete vehicle and module development and the guidance and support of customers from the initial idea through to the finished prototype, we are also – primarily with our subsidiary BFFT Gesellschaft für Fahrzeugtechnik mbH, Gaimersheim (BFFT GmbH) – active in the field of electrical and electronic development. The business operations of EDAG Production Solutions GmbH & Co. KG, Fulda (EDAG PS) include production plant development and implementation.

The business is organized in the segments: Vehicle Engineering, Production Solutions and Electrics/Electronics. The principle we work on is that of production-optimized solutions. This means that we always ensure that development results are in line with current production requirements.

Our main focus is on the automotive and commercial vehicle industries. Our global network ensures our local presence for our customers.

## Presentation of the Vehicle Engineering Segment

The Vehicle Engineering segment ("VE") consists of services along the vehicle development process as well as responsibility for derivative and complete vehicles. The segment is divided into the following divisions:

Our **Body Engineering** department brings together all of our services such as package & ergonomics, body assembly as well as interior and exterior. This also includes the development of door, cover and lid systems. Further, the Body Engineering department is involved with new technologies and lightweight design, as well as commercial vehicle development and the development of car lights such as headlamps, rear and small lamps. Interface management and the management of complex module developments are taking on an increasingly significant role in the projects. Our **Vehicle Integration** department is responsible for the complete functional integration and for vehicle validation. This department employs computer-aided engineering (CAE) to carry out the early validation of products and their properties. In addition to dealing with computation and simulation, the Dimensional Management team works on the reproducibility and geometrical quality of the products. Functionality is validated and durability analyzed on the test equipment and facilities at our test laboratories, in readiness for start of production. This includes tests on individual components, modules, engines, motors, transmissions, and even complete vehicles. In the **Models & Vehicle Solutions** department (previously: Design Concepts), we offer a full range of styling, ideation, and design services, and in our design studios we are able to implement the virtual design validation process and construct physical models for all phases of vehicle engineering. In the associated Testing and Vehicle department, we create complete test vehicles as well as sub-assemblies and vehicle bodies for the physical validation of these

**VEHICLE ENGINEERING**

*Among other things, this division offers development in the fields of body in white, interior, exterior, flap systems and lamps.*

modules and systems. The development and production of individual vehicle conversions round off the portfolio of this department. This also includes the construction of classic cars, including custom-made spare parts. Complete vehicle development and interdisciplinary module packages, some of them calling for the involvement of our international subsidiaries, are managed by the **Project Management** department. The **Product Quality & Care** department provides assistance with consulting and support for quality-related matters, as well as services which explain a product and enable it to be used effectively.

## Presentation of the Production Solutions Segment

**PRODUCTION SOLUTIONS**

*This segment handles the development and implementation of production processes.*

The Production Solutions segment ("PS") - operating through the independent company EDAG PS, its international subsidiaries and profit centers - is an all-round engineering partner which accepts responsibility for the development and implementation of production processes at 15 sites in Germany and at international sites in India, the Czech Republic, Russia, Hungary, Sweden, Brazil, Mexico, China and the USA. In addition to handling the individual stages in the product creation process and all factory and production systems-related services, Production Solutions are also able to optimally plan complete factories over all fields, including cross processes, and to provide realization support. The "Industrie 4.0" methods and tools serve as the basis for the networked engineering between the product development and plant construction processes.

In the field of **concept engineering**, Production Solutions provides its customers with an integral approach to process planning. This means that Production Solutions provides companies with factory and production planning support – with both the implementation of new plans and with the conversion, expansion or optimization of existing systems while operation is in progress. By offering support from concept engineering to the preparation of detailed product specifications, it is possible to cover all the steps required for the production process, and to design interfaces with other media, buildings and logistics. In the context of simultaneous engineering, concept engineering favors an integrative approach, with the Product Development, Systems Planning and Production Simulation departments all working together to design project interfaces.

In the **Implementation Engineering** department, digital factory methods are used in all production lines (digital, virtual and real-life) to guarantee that the functional requirements of body in white facilities are met. To meet customers' requirements, the engineers develop realistic 3D simulation cells in which the planning, design and technological concepts are implemented and validated in line with process requirements. Early involvement during the engineering process makes it possible to systematically improve production processes. This enables the Implementation Engineering department to develop ideal production concepts for customers.

Productions Solutions' portfolio is also complemented by **Feynsinn**, a process consulting and CAx development department. IT-supported sequences and methods are developed here, as is software for product design, development, production and marketing. Feynsinn also offers consulting, conceptual and realization services in the field of visualization technologies. Our range of training opportunities completes the portfolio.

## Presentation of the Electrics/Electronics Segment

The range of services offered by the Electrics/Electronics segment ("E/E") covers the development of electrical and electronic systems for the complete vehicle. This includes in particular the growth domains eMobility, autonomous driving and digital networking both inside and outside of the car. Also included in the range of services are developments relating to comfort and safety systems. In order to provide these results, the organization encompasses the following key competencies:

**ELECTRICS/ELECTRONICS**

*The focus of this segment is on the development of electric and electronic systems for the complete vehicle, including the future-oriented fields of eMobility, connectivity and autonomous driving.*

The **E/E Architecture & Networks** division is responsible for the development of functions, the development of new electronic vehicle architectures beneficial to these, and the resulting networking and wiring. The range of tasks extends from the concept phase to production support.

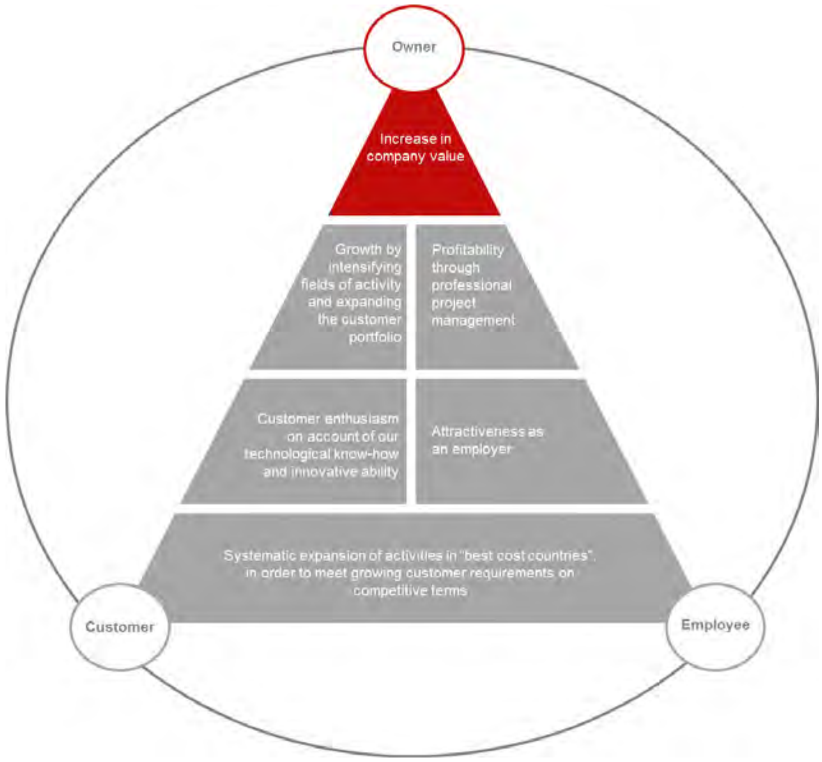
The **E/E Systems Engineering** division works on the definition of demands on the electrical and electronic systems. The systems are divided into their individual elements: sensor technology, actuator technology and controls. The core competency centers on the management of the development process throughout the entire development, following either the OEM's or EDAG's process model. Whereas there is a tendency to perform specifying activities at the beginning, the focus of tasks shifts towards system integration and system validation as the project progresses, concluding with support during the approval phase of the market-ready systems.

**E/E Embedded Systems** develops and validates hardware and software for electronic control units, from the design, through model set-up and commissioning to production-ready development. In the process, EDAG accepts responsibility for all development activities. The skills offered here range from functional electronic development, knowledge of specific areas such as AUTOSAR or functional safety in accordance with ISO 26262 through to the know-how required to guarantee engineering quality in line with our customers' requirements.

**E/E Car IT** markets services and software developed in-house as products for the networked mobility industry. The division's range of services also includes development and standardization services, and networking advice for vehicle manufacturers, system suppliers and IT companies. Under the trive.me brand EDAG develops innovative software solutions and products for the networked mobility of tomorrow, and offers this digital transformation expertise on the market.

The **E/E Integration & Validation** division combines validation and testing skills. Apart from specific test stand construction, this also calls for knowledge of test strategies, test specifications and test performance. The tests are carried out in the laboratory, at the test site, or on the road in a variety of ways ranging from manual to highly automated. Virtualization is also being used increasingly for test purposes. All E/E aspects relating to prototype and test vehicle construction are also included in this division.

## 1.2 Targets and Strategies




As a capital market-oriented company, our primary objective is to bring about a sustained increase in EDAG's company value (market value of equity), i.e. across the different industrial cycles. This is to be achieved by means of a strategy composed of the following five central areas, each with its own operationalizable objectives:

- Growth by intensifying and extending our global customer portfolio, particularly in the fields of mobility and digital services.
- Customer enthusiasm on account of our technological know-how and innovative ability
- Attractiveness as an employer
- Profitability through professional project and resource management and by further optimizing our assets and infrastructure
- Systematic expansion of activities in "best cost countries", in order to meet customer requirements on competitive terms while guaranteeing sustainable growth

As interdependencies exist between these areas of activity and their objectives, all measures are applied analogously, and goals pursued simultaneously. We also see strategy as a continual process, and therefore subject any goals we have set to critical scrutiny, adjusting them wherever necessary.

## Growth by intensifying and extending our global customer portfolio

**GROWTH OF THE MARKET FOR ENGINEERING SERVICES**

*Forecasts for the period up to 2022 predict an average annual growth of 4.6 percent.*

Our intention is to continue our growth, and remain one of the world's leading engineering service providers for the mobility of the future. According to an independent market analysis carried out by Lünendonk GmbH, forecasts for the period up to 2022 anticipate an average annual growth rate of 4.6 percent for the market for engineering services. The increasing outsourcing quotas in mature markets also harbor opportunities for further growth. Our aim is to grow faster than the market. The following measures are being implemented to ensure that this does indeed happen.

**REALIZATION OF GROWTH**

*We focus on five measures to realize this growth:*
*- Further development of electrics/ electronics skills*
*- Expansion of existing customer relations*
*- Developing new customer relations*
*- Expansion of project volumes*
*- Utilizing inorganic growth opportunities*

- Development of electrics/electronics competencies: our E/E segment will be subject to the greatest changes in the automotive industry. EDAG is therefore successively expanding the development of competencies and capacities in the fields of driver assistance systems, software development, eMobility and connectivity, in order to be able to meet market requirements and increasing customer demand in this area. Our aim is to achieve over-proportional growth rates in the Electrics/Electronics segment, compared to the Vehicle Engineering and Production Solutions segments.
- Strengthening existing customer relations: with some of the major German vehicle manufacturers and suppliers in particular, we enjoy working relationships that have already lasted for several decades. More than anything, it has been our flexibility and speed, as well as the quality of our work that have earned us our good reputation with our customers. At the same time, the long-standing cooperation with and close proximity to our customers at home and abroad have enabled us to gain a thorough understanding of future requirements. We intend to use this understanding and offer new, customized services. It is our declared intention to intensify customer relations and strategic partnerships, and offer our services worldwide.
- Establishing new customer relations: we make active use of our technical know-how, experience and reputation throughout the industry as well as our presence in the world's automobile development centers to constantly expand our customer portfolio and win new, ambitious, international technology companies and vehicle manufacturers as customers.

- Increasing our project scope: the major vehicle manufacturers in particular are tending more and more to award complete development packages spanning several fields of engineering to engineering service providers. Key requirements for being able to handle such large projects are the organizational setup, technical competence and adequate capacity to be able to develop complete vehicles and/or their modules and systems. As EDAG meets these requirements, we assume that we have what it takes when comprehensive major projects are being awarded.
- Using inorganic growth opportunities: our measures for strengthening our market position are not focused on organic growth only. We also sound out opportunities of acquiring competitors and market participants with particular know-how, in order to systematically strengthen our competencies and capacities.

## Customer enthusiasm on account of our technological know-how and innovative ability

Alternative drive systems, digitization, autonomous driving, industrial 3D printing, new materials: these are just some of the driving forces behind the fundamental changes that the automobile and mobility are undergoing. Technological, ecological and sociopolitical changes will lead to a transition which EDAG, as one of the leading independent design engineering companies in the automotive industry, can help to shape and define. Our aim here is to proactively identify new trends, identify the effects they will have on the world of mobility, and develop restructuring concepts. Every year, EDAG presents work results at international trade fairs and conferences, thus demonstrating this innovative strength.

For a more detailed representation of our research and development activities, please see chapter 1.4 "Research and Development" of the Group Management Report.

## Attractiveness as an employer

Our intention is to continue to be a sought-after employer for engineers in the future, because well educated, experienced and committed employees are our most important resource for providing our services. The following measures in particular are aimed at maintaining and increasing our attractiveness as an employer.

- Intensification of the recruiting process: due to the fierce competition for well qualified engineers, we already present ourselves as an attractive employer in the recruiting process. To this end we employ classic recruiting methods such as job fairs, print and online applications, but also innovative methods such as social media recruiting. Directly

**EDAG AS AN ATTRACTIVE EMPLOYER**

*We apply various measures to guarantee our attractiveness:*
*- Intensification of multi-channel recruitment*
*- Staff training*
*- Staff development*
*- Optimum working environment*
*- Early assumption of responsibility*
*- Variety in project business*

addressing experienced candidates plays just as important a role as acquiring apprentices through new channels. We have already intensified our online marketing activities, and will in the future continue to attach particular importance to our presentation as an employer that fosters heterogeneity with regard to gender, skills and nationality.

- Continuation of our staff training program: at EDAG, staff training is an important resource that will ensure that a large number of target positions can still be staffed from within the company in the future. The various apprenticeships and dual study courses offer school leavers training opportunities with a strong practical emphasis, in which they also have the support of a team of experts who continually encourage them and promote their development.
- Investment in staff training: to guarantee our technological competence and innovative ability, it is essential that our employees keep their knowledge up-to-date and continue to develop their skills. For this reason, we will continue to provide extensive training opportunities as an investment in the know-how of EDAG employees, which at the same time will also increase their value on the labor market.
- Optimization of the working environment: motivated employees are committed employees. As the working environment has a significant influence on motivation, we constantly endeavor to provide our employees with a suitable working environment. This includes modern workplaces that comply with the latest ergonomic requirements, flexible working hours and child care facilities.
- Motivation through responsibility: for EDAG, another central motivating factor is the early transfer of responsibility to suitable employees. Creating scope for decision making promotes creativity, which in turn contributes to innovation - a skill that is extremely important to EDAG.
- Motivation through change: EDAG is involved in project business, which means that we can offer our employees new challenges with every new project we begin. Change is therefore guaranteed, and in addition encouraged by offering employees the opportunity to temporarily switch to another division or department in the company, if they are interested in such a move.

## Profitability through professional project and resource management

Our strategic aim, namely growth, is inextricably linked with the premise that this will be done in a profitable way. Only if the company is profitable can we rise above our competitors and continue to offer our customers services they require, guarantee our employees' jobs and offer our owners an appropriate return on the capital they have invested. In 2018, our adjusted EBIT margin stood at 6.0 percent, a significant increase over the previous year. Our aim is to further improve our profitability. To this end, our intention is to continually optimize the efficient handling of our projects, and we will be paying particular attention to the following aspects:

- Systematic capacity management: our time recording system provides us with an exact indication of the utilization levels of our engineering resources. Insufficient capacity can therefore quickly be compensated for by free capacity somewhere else, and under-utilization kept to a minimum.
- Operative flexibility: our IT hardware and software and high transfer capacity data networks – for transfers between our own branches and also with customers' offices – facilitate efficient, virtual cooperation, which significantly reduces traveling time and expenses.
- Our productive departments are supported by a number of overhead functions – in particular controlling, accounting, tax, treasury, quality management, recruiting, HR and IT. This adds to the professionalism of our goods and services, and relieves our technical departments of the burden of administrative work. Growth results in economies of scale in these areas.
- Continual process improvement: in both our productive and our overhead areas, we draw on tried and tested processes. Nevertheless – in particular as a result of new developments in the IT world – we frequently find indicators for ways of improving processes, and thus increasing their efficiency. In the future, too, we will continue to make systematic use of such indicators.

**SAFEGUARDING PROFITABILITY**

*Several measures are employed to help us improve profitability:*

*- Systematic capacity management*
*- Operative flexibility through high-performance IT hardware and software*
*- Administrative support for the productive technical departments*
*- Continual process improvement*

## Systematic expansion of activities in "best cost countries"

We intend to further strengthen our competitiveness, and therefore use our site network to break work orders down into packages and have these handled by the most suitable branch. The capacity at these best cost country (BCC) locations is becoming increasingly important. EDAG is therefore continually increasing its BCC resources, to be sure of having efficient cost structures in the future and be able to sustain competitiveness on a long-term basis. For our existing BCC resources, for instance in Eastern Europe, India and Malaysia, we therefore pursue the following aims:

- Organic growth: each of our BCC locations has the clear objective of achieving organic growth. The basis for this is formed by qualified staff, the availability of resources, and strategically located branch offices. Proximity to universities plays a particularly important role here. In addition, foreign subsidiaries should also promote business with local customers and plan their locations strategically, keeping them in close proximity to customers.

- Building up software development competencies: apart from having the opportunity of transferring classic work packages to BCC regions, it will also in the future become increasingly important to provide software skills in the best cost countries. For this reason, our foreign subsidiaries are encouraged to strengthen their competencies in these fields.
- Operative integration: the key to successful, cross-border project cooperation is operative integration. Appropriate measures are in place to support the cooperation between the customers in Germany and the implementing companies in the best cost countries.

Further, we constantly investigate opportunities for market entry in other BCC locations.

## 1.3 Internal Management System

A responsible company management that has the aim of achieving a sustainable increase in the company's value calls for the use of a control system. The management of the individual companies is subject to the same principles as the Group, and is based on IFRS standards as applied in the EU.

To this end, EDAG has also drawn up group-internal regulations for the handling of compliance and risk management, and defined financial and non-financial performance figures which display the value system, performance and success of the company. In the following, first the management process is explained, and then the key performance figures of the EDAG Group.

The starting point for controlling the EDAG Group is the annually prepared budget and medium-term planning. This serves to illustrate and safeguard defined targets and long-term strategies from both a technical and an economical point of view. This involves identifying developments on the market and in the segment, i.e. in addition to the firmly contracted orders, anticipated new order volumes are assessed, then these are taken as the basis from which revenue and earnings development targets are derived top-down. Applying the top-down/bottom-up principle, the feasibility of these rough outline plans is first checked bottom-up, and then concretized in the form of partial plans (capacity, personnel, investment and cost planning).

The budget in the first year is planned across individual months, and is binding. Every month, this budget is compared with the actual figures realized, and any deviations are analyzed. If necessary, plans of action are drawn up to safeguard the budgeted targets. While taking the actual values that have already been realized, current estimates for the remainder of the year and any chances and risks reported into account, the projection for the current financial year is adjusted in a forecast. The validity and attainability of the operative targets for the current financial year are therefore at the center of ongoing controlling operations.

To implement the control process at EDAG, the following central key performance figures have been defined on the basis of figures in accordance with IFRS:

- Sales revenues[1]
- (Adjusted) EBIT and (adjusted) EBIT margin[2]

Revenues are the financial reflection of our market success. The adjusted EBIT, i.e. earnings before tax and interest and adjusted for special effects, is indicative of the economic success of our company, and is the Group's central management parameter. The adjusted EBIT margin is calculated from the relationship between the operating profit (adjusted EBIT) and revenues, and helps to compare the performance of the segments, subsidiaries, technical divisions and profit centers.

Alongside the central key performance figures, the following performance figures are also analyzed:

- Incoming orders/orders on hand
- Number of employees
- Productivity/capacity utilization
- Investments

The incoming orders and orders on hand serve as early indicators for changing market requirements and demand patterns. They are indicative of the anticipated revenues for the following quarter. The number of employees is a measured variable for the achievement of growth targets. It is important here to keep a watch not only on the number of new appointments to the technical divisions and subsidiaries, but also on fluctuation. Productivity is defined as the quotient obtained when the hours worked on customer projects is divided by the available working hours of our employees. As it highlights utilization peaks and free capacity, it is an important element for managing our technical divisions and group-wide resources. It is important that investments should be made in a targeted manner,

[1] *"Revenues" is used in the sense of gross performance (sales revenues and changes in inventories) in the following.*

[2] *For definition see chapter "Reconciliation of the Adjusted Operating Profit (Adjusted EBIT) [9]" in the notes.*

to guarantee our innovative strength and capacity to compete. Every month, reports are presented comparing their development with the plans, and adherence to the budget is monitored.

## 1.4 Research and Development

Research and development is per se a definition of the business activities of EDAG. Innovation management therefore plays a pivotal role at EDAG. Our innovation management offers our customers and vehicle manufacturers' and system suppliers' development departments concrete ideas and opportunities for cooperation, with a view to providing support for the development of new products and concepts for the mobility of the future, and encouraging cooperation.

Key factors in securing EDAG's competitiveness are the innovative focus, know-how and motivation of the EDAG employees who, working together in a virtual team, are involved in our research and development activities. In 2018, we had more than 200 technical experts across the entire group actively involved in up to 50 parallel innovation and pilot projects. Assisted by the competence centers ("CC") in innovation management, the EDAG divisions are able to strategically align their technology, competence and capacity portfolios to the changed market conditions, and, within the framework of the matrix organization, work together in interdisciplinary innovation projects.

With the aid of the Heads of the CCs (the innovation management budget owners), and technical experts within the divisions (known as "know-how networks") it is possible to systematically identify new innovation enablers in the matrix organization, create areas of activity, and initiate and realize innovation projects. The CCs identify our customers' future requirements, and then work out concepts, possible solutions and engineering proposals for the automobile of the future. The know-how relating to innovative matters is structured across all departments and divisions by our CCs. The constant exchange of information means that they have access to and can interact with all EDAG departments. And in this way, we strengthen the acquisition and exchange of knowledge. At the same time, we make it possible to access internal and external know-how.

**AREAS OF INNOVATION**

*We are continuing our innovation strategy by focusing on our competence centers "Lightweight Design, Materials and Technology CC", "eMobility CC" and "Integral Safety CC".*

*With the startup company trive.me, we promote new business models and products in the car IT field.*

**LIGHTWEIGHT DESIGN**

*Only a very few independent engineering partners such as EDAG are able to assess the cost and usefulness of innovative lightweight solutions in accordance with the interests of the vehicle manufacturers.*

The following CCs have been established in innovation management:

- CC for Lightweight Design, Materials and Technologies: develops solutions for multi-material and hybrid designs, interlinked processes and high-performance production
- CC for eMobility: energy storage systems, electric powertrains and power electronics
- CC for Integral Safety: interlinking active and passive systems for highly automated driving
- CC for Digitalization: digitalization of engineering and digital product, transformation in production and the factory of the future

The following know-how networks have been established in the specialist divisions:

- Car IT start-up: trive.me: digitalization, products (apps)
- Digital factory: fully integrated engineering process
- Commercial vehicles: long-life, easy-maintenance equipment
- EDAG eDrive & battery: vehicle electrification

To achieve the ambitious targets we have set ourselves, research and development activities are carried out for our own purposes under the guidance of both the CCs and the know-how networks, with the involvement of the matrix organization. In addition to our internal network, we also work in close cooperation with leading German and international research institutes and partners.

2018, for example, saw the conclusion of the following development/innovation projects:

- Development of a continuous process for manufacturing sections with variable cross sections and curvatures from fibre composite-metal hybrid materials with a thermoplastic matrix for new vehicle concepts as part of the open hybrid lab factory.
- Development of a simulation method within the scope of the leading-edge cluster MAI Carbon for three-dimensional carbon components. This method takes the influences of both the three-dimensional components and the carbon fibre reinforced material into account.
- An automated production cell for hybrid assembly combining induction and laser in the FlexHyJoin project from the Horizon 2020 program.
- Scalebase: a generically transferable, scalable electric vehicle floor assembly developed as the starting point for cooperation with new customers, and for our own research and development purposes.
- BatteRANGE, a chassis concept study that can be adapted to fit various wheel formulae, wheelbases and drive trains. This concept is suitable for the electrification of just about all commercial vehicle types, from the motor coach to the semi-trailer truck.

- Battery management system platform: developed for lithium-ion batteries, this battery management system is characterized by its high degree of flexibility. The architecture of the control units enables it to be used in battery projects requiring voltage levels of 80 V to 800 V.
- Ford double step: the new Comford Step was developed for vehicles with elevated entry heights. It is characterized by its non-slip aluminum surface and high load-bearing capacity.

In the reporting year, research and development expenses amounted to € 6,272 thousand (2017: € 5,088 thousand). In addition, development costs in the amount of € 657 thousand (2017: € 55 thousand) were activated.

# 2 Financial Report

## 2.1 Macroeconomic and Industry-Specific Conditions

### Basic Conditions and Overall Economic Development

According to forecasts made by the International Monetary Fund (IMF), the world economy exhibited 3.7 percent growth in 2018 (2017: 3.8 percent). As can be seen from the regional distribution of sales revenues by continent in the chapter "Segment Reporting and Notes" in the Notes, the development of the following markets is of particular relevance to EDAG:

**MACROECONOMIC DATA FOR 2018**

*Global economic growth 3.7 percent*
*Euro area growth: 1.8 percent*
*German growth: 1.5 percent*

The US economy is projected to expand by 2.9 percent in 2018 (2017: 2.2 percent). This reflects changes in US tax policy, which have stimulated short-term growth. The longer range outlook will be partly affected by the negative effects of the trade dispute between the USA and China.

The IMF's economic experts expect growth in Germany to be slightly below the average for the eurozone as a whole this year. According to the current forecast, Germany can expect a 1.5 percent increase in economic performance in 2018 (2017: 2.5 percent). This is 0.6 percentage point lower than the October forecast. The IMF forecasts a 1.8 percent increase in economic growth in all countries in the Euro Area for last year (2017: 2.4 percent).

The IMF views China's prospects for future growth with greater optimism. Last year saw an increase of 6.6 percent in the second largest national economy in the world (2017: 6.9 percent).

Please see chapter 4.2 "Forecast" in the Group Management Report for the forecasts for the coming year.

## Automotive Industry Development

According to the VDA (Association of the German Automotive Industry), a consolidation is anticipated for sales of new vehicles in Germany in 2018. As in the previous year, the figure stands at 3.4 million units. Following on from 2017, approximately 85 million vehicles will again be sold on the world market for passenger cars in 2018.

There was also a consolidation in Europe (EU-28 + EFTA) in 2018. As in the previous year, the number of new registrations stands at 15.6 million units. Of the major European volume markets, only France (3.0 percent) and Spain (7.0 percent) reported increases in 2018. Whereas the number of new vehicles registered decreased only slightly in Germany (-0.2 percent), sharper decreases were reported in Italy (-3.1 percent) and Great Britain (-6.8 percent).

Although the number of new vehicles registered remained constant, what was striking was that the number of new diesel vehicles registered fell by a further -17 percent against the previous year (-13 percent), due to the upheaval occasioned by the changes to the WLTP[3] in the second half of the year. Although the number of new electric vehicles registered increased by 24 percent, the proportion of eCars registered in 2018 still accounts for just 2.0 percent overall.

In the USA, the volume on the light vehicle market (passenger cars and light trucks) increased by 0.5 percent to 17.2 million new vehicles in the course of 2018. Sales of passenger cars fell by 13 percent, while sales in the light truck segment rose by 8 percent. China experienced its first downturn for decades in 2018. The principle reason for this is the trade conflict with the USA, which left its mark. In China, the volume on the passenger car market fell by almost 4 percent to 23.3 million new vehicles in 2018. The growth rate in India also slowed down in 2018. After an 8.8 percent increase in sales in the previous year, the volume increased by not quite 5 percent in 2018 to 3.4 million units.

[3] *Worldwide Harmonized Light-Duty Vehicles Test Procedure*

### Development of the Engineering Market

The automotive market is in a period of transition, and undergoing major structural changes. Innovation drivers such as autonomous and connected driving, digitalization, eMobility and new mobility services are having a worldwide impact, and are also affecting the market for engineering services. These trends are creating great momentum, and consequently both opportunities and risks for the engineering service market.

## 2.2 Financial Performance, Cash Flows and Financial Position of the EDAG Group in accordance with IFRS

### Financial Performance

#### Development of the EDAG Group

At € 792.3 million, the revenues increased by € 73.8 million or 10.3 percent compared to the same period in the previous year (2017: € 718.5 million). Among the main reasons for the increase are the purchase of companies in the USA and Sweden in 2017 and the particularly positive revenue performance in the international activities of the Vehicle Engineering and Production Solutions segments.

**DATA ON THE RESULTS OF THE EDAG GROUP**

*Incoming orders: € 753.1 million*
*Revenues: € 792.3 million*
*Orders on hand: € 298.5 million*
*Adjusted EBIT margin: 6.0 percent*

For the financial year 2018, the EDAG Group generated incoming orders amounting to € 753.1 million, which compared to the previous year (€ 722.7 million), represents an increase of € 30.4 million. As of December 31, 2018, orders on hand amounted to € 298.5 million, compared to € 340.0 million as of December 31, 2017. Neither potential call-offs relating to general agreements nor call-offs relating to production orders are included in the orders on hand.

Overall, the materials and services expenses increased by 23.7 percent to € 120.5 million. At 15.2 percent, the materials and services expenses ratio was above the level of the same period of the previous year (2017: 13.6 percent). At 10.1 percent, the ratio of service expenses in relation to the revenues is above the level of the same period in the previous year (2017: 8.9 percent). At 5.1 percent, the materials expenses ratio was also above the level of the same period in the previous year (2017: 4.6 percent).

The EDAG Group's personnel expenses increased by € 30.1 million or 6.4 percent to € 497.5 million compared to the same period in the previous year, due primarily to the increase in the number of employees. In the 2018 reporting year just ended, the company had a workforce of 8,479 employees on average, including apprentices (2017: 8,235 employees). The ratio of personnel expenses in relation to revenues, which stood at 62.8 percent, decreased compared with the same period in the previous year (2017: 65.1 percent).

Depreciation, amortization and impairments totaled € 27.4 million (2017: € 28.7 million). The ratio for other expenses in relation to revenues was 15.2 percent and thus below last year's level (2017: 15.9 percent). The reason for this is an above-average increase in revenue compared to the increase in the other operating expenses.

Compared to the previous year, the EBIT increased by € 13.0 million to € 42.2 million (2017: € 29.3 million). This means that an EBIT margin of 5.3 percent was achieved (2017: 4.1 percent). The main reason for the increase in earnings is a more positive market environment compared to the previous year, which is reflected in increased demand. Alongside the classic German OEMs, more and more new international customers are entering the automotive market and bringing about a sustained revival.

Primarily adjusted for the depreciation, amortization and impairments from the purchase price allocations that were recorded in the reporting period in 2018, the adjusted EBIT figure was € 47.6 million (2017: € 34.3 million), which is equivalent to an adjusted EBIT margin of 6.0 percent (2017: 4.8 percent).

In the reporting year just ended, the financial result was € -4.1 million (2017: € -5.5 million), an improvement of € 1.4 million compared with the same period in the previous year. Significant effects are a reduction in the interest expense due to the early repayment of a loan to ATON Group Finance GmbH in the amount of € 26.0 million in the second half of the 2017 financial year, and, at € 1.2 million, an improved result from investments accounted for using the equity method compared with the same period in the previous year (2017: € 0.6 million).

Overall, with a result of € 25.5 million (2017: € 15.5 million), business development was satisfactory in the financial year just ended. Due to a marked increase in revenues over the financial year, the Executive Management twice in the course of the year revised the increase of up to 5 percent in revenues that had been forecast the year before. The most recent forecast predicting single-digit revenue growth of at least 8 percent was proved right, with revenues increasing to 10.3 percent. The adjusted EBIT margin of between 5 and 7 percent predicted in the previous year was likewise achieved.

### Development of the Vehicle Engineering Segment

**VEHICLE ENGINEERING DATA**

*Revenues: € 490.3 million*
*EBIT: € 27.0 million*

With a value of € 434.8 million, incoming orders in the past financial year were significantly below the previous year's level (2017: € 481.5 million). Revenues increased by 8.4 percent to € 490.3 million (2017: € 452.1 million). This is in line with the predicted growth in sales revenues in the upper single-digit percent range of at least 8 percent. € 11.3 million from production orders is included in the revenues (2017: € 0.0 million). The proportion for materials and services expenses stood at € 9.5 million (2017: € 0.0 million). All in all, an EBIT of € 27.0 million was achieved for the Vehicle Engineering segment in 2018 (2017: € 16.0 million). The EBIT margin amounted to 5.5 percent (2017: 3.5 percent). Without the effects from the purchase price allocations, this resulted in an adjusted EBIT margin of 6.2 percent (2017: 4.3 percent). This means that the forecast adjusted EBIT margin was achieved. The increase in earnings compared to the same period in the previous year is due to more effective project management in large-scale projects and to the use of best-cost resources.

### Development of the Production Solutions Segment

**PRODUCTION SOLUTIONS DATA**

*Revenues: € 159.2 million*
*EBIT: € 9.4 million*

In this segment, incoming orders increased by € 38.6 million over the previous year to € 167.4 million (2017: € 128.7 million), which represents an increase of 30.0 percent. Revenues increased by 21.7 percent to € 159.2 million (2017: € 130.8 million). This exceeds the predicted growth in sales revenues. Overall, an EBIT of € 9.4 million (2017: € 8.3 million) was generated for the Production Solutions segment in 2018. The sharp increase in the revenues is due in particular to the acquisition of CKGP/PW in July 2017 and to having been awarded a major order in Mexico. Price pressure has lessened to some degree in Germany, though capacity utilization is not yet at a satisfactory level. Consequently, the adjusted EBIT margin was 6.1 percent and therefore below the previous year's level (2017: 6.8 percent). This means that the forecast adjusted EBIT margin that had been revised during the year was achieved.

**Development of the Electrics/Electronics Segment**

Incoming orders increased by a significant € 41.7 million to € 168.4 million compared to the same period in the previous year (2017: € 126.7 million). Revenues also increased by € 7.0 million or 4.7 percent to € 155.5 million (2017: € 148.5 million). Here, too, the predicted growth in sales revenues for the segment was achieved. The EBIT stood at € 5.8 million (2017: € 4.1 million). At 3.7 percent, the EBIT margin is above the previous year's level (2017: 2.8 percent). Without the effects from the purchase price allocations, this resulted in an adjusted EBIT margin of 4.8 percent (2017: 3.9 percent). This means that the forecast adjusted EBIT margin that was revised in November was achieved.

**ELECTRICS/ELECTRONICS DATA**

*Revenues: € 155.5 million*
*EBIT: € 5.8 million*

## Cash Flows and Financial Position

Compared to December 31, 2017, the EDAG Group's total assets increased by € 45.5 million, or 10.3 percent, to € 488.0 million. The non-current assets decreased by € 1.6 million to € 196.5 million (12/31/2017: € 198.1 million), primarily as a result of the depreciation of the other intangible assets. In the current assets, the reduction of current accounts receivable by € 21.8 million is countered by an increase in contract assets in the amount of € 18.1 million and inventories in the amount of € 5.4 million. Cash and cash-equivalents increased by € 50.4 million to € 63.9 million.

**DATA ON THE FINANCIAL POSITION OF THE EDAG GROUP**

*Total assets: € 488.0 million*
*Equity: € 154.3 million*
*Equity ratio: 31.6 percent*



On the equity, liabilities and provisions side, equity increased by € 6.8 million to € 154.3 million, and the quota is now approximately 31.6 percent (12/31/2017: 33.3 percent). This increase in equity is primarily due to current profits in the amount of € 25.5 million. The opposite effect was had above all by the dividend payout to the shareholders in the amount of € 18.8 million.

Non-current liabilities and provisions increased by € 120.7 million to € 158.4 million, (12/31/2017: € 37.7 million). This increase is primarily due to the placement of the promissory note loan *(Schuldscheindarlehen)* in the amount of € 120 million. On the other hand, current liabilities and provisions decreased by € 82.0 million to € 175.3 million mainly due to the reduction of current financial liabilities by € 90.9 million.

At € 68.9 million, the positive operating cash flow achieved in the reporting year was above the level in the previous year (€ 51.6 million). In addition to the increased net income compared to the previous year, a positive effect in the trade working capital (€ 5.5 million).

The investing cash flow was € -21.5 million (2017: € -28.5 million). At € 22.2 million, the gross investments for intangible assets and property, plant and equipment in the reporting year were some 2.3 percent above the previous year's level (2017: € 21.7 million). The ratio of gross investments in relation to revenues was therefore 2.8 percent (2017: 3.0 percent).

The financing cash flow totaled € 3.2 million. Deposits in the amount of € 120 million for the placement of the promissory note loan were countered primarily by principle payments to ATON Group Finance GmbH in the amount of € 60.8 million, principle payments to credit institutions in the amount of € 35.0 million, and dividends in the amount of € 18.8 million paid to the shareholders.

On the reporting date, unused lines of credit in the amount of € 99.6 million exist in the Group. The Executive Management regards the overall economic situation of the EDAG Group as good. With an equity ratio of 31.6 percent, the company has a sound financial basis, and was able to fulfil its payment obligations at all times throughout the reporting period.

## 2.3 Financial Performance, Cash Flows and Financial Position of EDAG Engineering Group AG in accordance with the Swiss Code of Obligations (OR)

### Financial Performance

According to the company's statutes, the company's objective is the holding and administration of domestic and foreign investments. The company performs no operative business activities, and thus generates no sales revenues from operative business (holding privilege).

The salaries of the Executive Management, Board of Directors and administrative employees, which total € 1.3 million (2017: € 1.3 million), are listed under the personnel expenses of EDAG Group AG.

The other operating expenses in the amount of € 0.7 million (2017: € 0.6 million) refer primarily to expenses for consulting and auditing.

An annual loss of € 2.2 million (2017: € 2.1 million) was realized in the reporting year.

## Cash Flows and Financial Position

The total assets of EDAG Group AG amount to € 420.9 million (2017: € 452.4 million). On the assets side, the key asset is the investment in EDAG Engineering Schweiz Sub-Holding AG, which stands at € 420.6 million (2017: € 452.1 million).

With the establishment of the price on December 1, 2015, ATON GmbH, by way of the non-cash contribution, placed all shares of EDAG Engineering Schweiz Sub-Holding AG in the capital reserves of the company, although no new shares were issued. EDAG Engineering Schweiz Sub-Holding AG indirectly holds all the shares in EDAG Engineering GmbH, Wiesbaden, through EDAG Engineering Holding GmbH, a German intermediate holding company based in Munich. In principle, this company, with its subsidiaries, manages the entire operative business of the corporate group.

On the equity, liabilities and provisions side, the capital reserves in the amount of € 418.3 million (2017: € 437.1 million) is the most important item. On December 1, 2015, these capital reserves were generated by the inclusion of EDAG Engineering Schweiz Sub-Holding AG, Arbon, by way of the non-cash contribution by the previous shareholder ATON GmbH, Munich.

In the reporting year, a negative operating cash flow of € 2,397 thousand (2017: € -2,175 thousand) was realized. Gross investments in the investing cash flow stood at € 0 thousand (2017: € 1 thousand), Furthermore, an incoming payment from EDAG Engineering Schweiz Sub-Holding AG, Arbon in the amount of € 31,450 thousand was recorded (2017: € 0 thousand), reducing the investment book value. In the financing cash flow, dividend payments in the amount of € 18,750 thousand were made to shareholders (2017: € 18,750 thousand). There was an outflow of liquid resources totaling € 10,250 thousand from further finance activities (2017: inflow in the amount of € 20,700).

The Executive Management regards the overall economic situation of EDAG Group AG as good. At 97.5 percent (12/31/2017: 95.4 percent), the equity ratio stands at a very high level, and the company was able to fulfil its payment obligations at all times throughout the reporting period.

**DATA ON THE PERSONNEL STRUCTURE OF THE EDAG GROUP**

*Employees, worldwide: 8,641*
*Apprentices/dual system students: 536*

## 2.4 Number of Employees in the EDAG Group

Both at home and abroad, the number of employees in the EDAG Group continued to grow. On December 31, 2018, the EDAG Group employed a worldwide workforce of 8,641 (12/31/2017: 8,404), including 536 trainees and work-study students (12/31/2017: 547).

At the end of the year, 6,119 employees were employed in Germany (12/31/2017: 6,034). 2,522 people were employed at our non-domestic companies (12/31/2017: 2,370).

## 2.5 Principles of the Compensation System for the Group Executive Management and Board of Directors

The compensation report of EDAG Group AG explains the principles of the company's compensation policy, and provides information on the procedure for establishing compensation and compensation actually paid to the Board of Directors and the Group Executive Management. It satisfies the requirements of articles 14 to 16 of the Swiss regulation to counter excessive compensation in listed companies (VegüV) of November 20, 2013, the SIX Swiss Exchange directive regarding information on corporate governance, the principles of the Swiss Code of Best Practice of Economiesuisse, which came into force on June 30, 2015, and is based on the articles of incorporation of EDAG Group AG.

The compensation report is a constituent part of the annual report, and is published on the following web site: http://ir.edag.com/edag/pdf/2018_Consol._Financial_Statements_EN.pdf

## 2.6 Non-Financial Performance Indicators

For information relating to our most important non-financial performance indicators, please see chapter "Non-Financial Report and Corporate Social Responsibility (CSR)" of the Group Management Report, in particular the points "Age Structure and Continuous Employment".

# 3 Non-Financial Report and Corporate Social Responsibility (CSR)

At EDAG, particular importance is attached to sustainability. This involves both a long-term business policy and the integration of ecological and social aspects in the management system, and is part of our corporate culture which is built upon shared values such as trust, transparency, reliability and fairness in dealings with our business partners. We see sustainability as a contribution towards safeguarding the future of our company and towards long-term economical and social development.

It is our responsibility to ensure that our services are provided within a value chain that is consistent with international standards and principles governing corporate activity. For this reason, we have outlined our requirements with regard to working conditions, health and safety, the environment and business ethics in our EDAG Supplier Code of Conduct.

Any and all companies in our supply chain, and from which we purchase products or services, are expected to observe relevant national laws, the principles set out in the United Nations Global Compact and our EDAG Supplier Code of Conduct when carrying out their activities. We therefore regard adherence to these principles as an essential condition for a lasting business relationship with our suppliers.

By committing to the UN Global Compact, EDAG has committed itself to ensure that human rights and accepted standards are complied with. Nevertheless, the following non-financial statement is not governed by any of the approved frameworks for sustainability reporting.

As a rule, many of the aspects to be reported are not significant to EDAG as an engineering service provider. The concepts described below will therefore be concretized to different degrees, depending on their significance and relevance to EDAG. The focus is on group companies which have their registered offices in Germany. For the individual aspects to be reported, no concepts which apply to the entire group are generally pursued. The reason for this is that the EDAG Group carries out its main business activities in Germany. Of the 8,641 people employed group-wide at the end of the year (2017: 8,404), 6,119 (2017: 6,034) worked in Germany.

## 3.1 Business Model

For a detailed description of the EDAG Group's business model, please see the chapter "Business Model" in the Group Management Report.

## 3.2 Sustainability and Environmental Issues

The integration of sustainability in our business model and along our entire value chain is in line with market expectations. For us, responsible corporate management means that economic activity must be reconciled with the concerns of ecology and society, and in particular those of our stakeholders. Responsibility for this lies not just with the individual business units, but also with the central divisions. As we carry out external certification programs, for instance the environmental management system according to DIN EN ISO 14001, and participate in the "Ökoprofit" program initiated by the city of Munich, regular checks are carried out by independent, external authorities to guarantee our internal process. Our aim is the continual improvement of EDAG's energy performance.

During energy audits carried out at the separate German EDAG Engineering GmbH sites, specially trained energy auditors assess potential for improving energy efficiency. The aim of the energy audits is to analyze the company's energy consumption and define the energy baseline. The main energy users are calculated and, as far as possible, metrologically verified.

The energy sources used by EDAG are electricity, natural gas, district heating and diesel. The most important energy users are heating, cooling units, lighting, machinery and IT technology. These were analyzed more closely during the energy audit. A rough estimate was made of the other significant energy users.

From the results of the last energy audit carried out in the 2015 financial year, energy efficiency measures were derived and calculated for the technologies with the greatest savings potential. By a resolution of the Group Executive Management, in addition to other selected measures, all measures with a statistical amortization period of no more than two years were implemented, or are currently still being implemented. The measures mainly involve replacing outdated lighting systems with more efficient LED lamps. The savings achieved by implementing these measures amount to an estimated € 150 thousand a year. This amount is based on the situation at the time the energy audit was carried out, and has not been adjusted to take into account any conditions that have since changed, for instance changes in use of branch offices and premises. The next scheduled energy audit is due to be held in the 2019 financial year, in line with the legally prescribed four-year rhythm.

We also include our suppliers in our environmental management system. The EDAG Supplier Code of Conduct (which can be downloaded at https://www.edag.de/fileadmin/edag/downloads_files/04_services/EDAG_Suppliers_Code_of_Conduct.pdf) sets out our expectations regarding the behavior of our suppliers and business partners in terms of working conditions, health and safety, the environment and business ethics. With regard to environmental issues, we expect our suppliers to comply with the national environmental laws, regulations and standards currently in force. Suppliers are also expected to set up and utilize an appropriate environmental management system (e.g. in accordance with ISO 14001), to minimize environmental pollution and hazards, and improve environmental protection in day-to-day business operations. Our suppliers are therefore specifically asked about environmentally relevant certification (e.g. ISO 14001 or 50001) in supplier's self-appraisals.

Details of the EDAG Group's environmental policy can be downloaded at http://www.edag.de/en/edag/edag-an-overview.html.

On account of our existing environmental management system, we rate environmental risks as low.

## 3.3 Employee Issues

Human Resource Management is a critical success factor for EDAG's business model. For this reason, our personnel policy is systematically aimed at ensuring that, in order to be able to handle projects, execute orders and supply temporary staff, the employee qualifications and employee capacities required by our customers are available at all times.

The observation of shifts in demand on the part of our customers, constant monitoring of the labor markets relevant to EDAG, and anticipation of changes of attitude and expectations in employees, particularly among school leavers and university graduates, are all inducements to us to constantly examine and adapt our personnel policy strategies and activities. In view of these facts, the following can be reported for 2018:

**ATTRACTIVE WORK ENVIRONMENT AT EDAG**

*Strengthening the employer brand by using employees as brand ambassadors. Increasing social media presence and building up our presence at networking events.*

**Recruiting, HR Marketing & Employer Branding**

In 2018, the EDAG Group offered apprentices, career entrants and people with work experience a wide range of jobs in their various intended professions, thus offering continual career opportunities.

With the intention of presenting the EDAG Group as an attractive employer with numerous career opportunities for people with work experience and career entrants, the company implemented a new approach in its HR marketing program. Within the context of employer branding, employees are take on a more active role as brand ambassadors. The concept of a fully integrated employer branding campaign should also provide a basis for future viability.

A variety of different target group-oriented formats were used to address potential applicants. Importance continued to be placed on a goal-oriented presence at graduates' and specialist job fairs. Our target groups were addressed by means of outdoor advertising, involving for instance the radio, the railways and advertising columns, by placing advertisements in selected print and online media, and by making intensive use of social media platforms. Candidates were actively and intensively sourced. In addition, cooperation projects with universities and careers days gave potential new employees an opportunity to find out more about the company.

EDAG once again supported Formula Student last year, a renowned design competition for students, where each team plans, designs and builds its own racing car, and also participates in racing events. Sponsoring the contest brings EDAG into direct contact with dedicated students and opens up new and valuable networks for recruiting future top performers.

Great emphasis is placed on recruiting women for technical and managerial positions at EDAG, and to this end, we have strengthened the social media presence of the subject and built up our presence at networking events.

**Training**

Vocational training, which supports the future development of the company, is afforded high priority within the EDAG Group. For nearly 50 years, the EDAG Group has demonstrated particular responsibility in this area and in 2018, achieved a trainee quota of 8.3 percent in Germany (2017: 8.6 percent). The fact that our apprentices repeatedly receive local and national-level awards for their excellent examination results is evidence of the high quality and continuity of EDAG's training scheme.

**APPRENTICE / TRAINEE QUOTA**

*Our apprentice/trainee quota of 8.3 % in Germany is an excellent value compared with other companies in this sector.*

In the reporting year, the EDAG Group continued its high-level commitment to occupational training, and in Germany hired 119 young people as apprentices or work-study students (2017: 130). In 2018, school leavers were able to choose from a wide range of occupations requiring formal vocational training and dual study programs, to find their personal professional entry into the world of engineering. EDAG continually adjusts its training and study program to meet not only the industry's current technological requirements but also labor market requirements.

A point of particular note is the company's commitment to encouraging girls to consider "MINT"-based professions (mathematics, IT, natural science, technology). This also includes Girls' Day events at various EDAG Group locations. Nationwide, this day is an integral part of the vocational training activities to showcase at an early stage the work areas in vehicle and production plant engineering for girls.

In 2018, the company also held the seventh "MINT Girls Camp" at its Fulda site. In cooperation with various educational institutions, the focus was on familiarizing young girls with professions in the fields of mathematics, computer science, natural sciences and technology (in German: MINT) as part of a project week. Together with trainers and trainees from the fields of electrics/electronics, model making, computer science, production and development, they spent a week designing a model car - the "EDAG MINT Car" - and thus were able to experience the various phases of the vehicle development process in an interactive, condensed format.

**Awards**

Once again, our apprentices achieved good to outstanding results in their final examinations in the reporting year. These grades are the result of our training system. A number of awards presented to apprentices were particularly gratifying: Regional Champion for Hesse in the "Technical Product Designer for Product Design and Construction", and a Regional Champion for Hesse and National Vice-Champion in the "Vehicle Body and Structure Mechanic" program.

The company again won the "Top Automotive Employer 2018" - a clear acknowledgement of the excellence of our human resource management, and the EDAG group was again able to document its appeal to the public and present itself as a competitive employer.

**EDAG IS A TOP EMPLOYER**

*EDAG won the "Top Automotive Employer" award for outstanding human resource management.*

### Advanced Training

Steps were taken in the reporting year to re-align language training. The classroom training sessions previously offered have now been replaced by a blended learning concept, consisting of virtual classroom training, individual coaching and self-study phases. In addition to the blended learning courses, our employees can also attend two-day language workshops concentrating on specific subjects, e.g. telephoning skills or business small talk. This change enables our employees to work on their language skills without any restrictions on time and place.

Our sales training also came under close scrutiny during the reporting year. To guarantee student success, isolated measures are to be replaced by a sales training course lasting approximately six months. In addition to three attendance phases, there will also be preparatory web meetings, learning nuggets and a subsequent transfer task. The point of the training series is to create a sound, basic sales education that will have a lasting effect.

In the course of the reporting year, we provided a total of 2,435 in-house training days for our employees at the key German companies (2017: 2,363 training days). A further 8,259 training days were provided externally (2017: 6,177 training days). Of these, 760 training days are accounted for by attendance at education and training programs offered by OEMs (2017: 726 training days).

Group-wide investments in training amounted to approximately € 3,247 thousand in 2018 (2017: € 2,647 thousand).

### HR Development

The mentoring program implemented in 2016 was brought to a successful conclusion in the reporting year, with project tasks being presented and career planning discussions held. We intend to continue a modified form of this program in the future, and to develop it so that it becomes a systematic instrument for reviewing and assessing our high-potential employees.

Our tool for staffing managerial positions was upgraded during the reporting year. As a result, in addition to behavior and motivators, we will in the future also be including emotional intelligence in the decision-making process. The aim of this upgrade was to improve the quality of the selection of new managerial staff.

**HR Consulting**

New guidelines replaced the existing travel guidelines for EDAG Engineering GmbH and EDAG PS in the reporting year. Among the changes introduced, the new guidelines deal with the introduction of an online booking platform.

We continued our company integration management in 2018. As part of this program, our HR business partners actively approach employees on long-term sick leave.

**Working Conditions & Corporate Culture**

We very carefully monitor the segments of the labor market relevant to EDAG, and focus very closely on the changing expectations, particularly of career entrants and university graduates, with regard to company and management culture, work organization and non-monetary conditions of employment. From this market information, EDAG derives strategies and activities with the aim of remaining an attractive employer for qualified employees and university graduates.

With the early transfer of responsibility in small projects, we meet the expectations of our younger managers, and systematically promote their development.

We offer a wide variety of fitness-related activities, including coaching sessions for runners and participation in challenge runs and dragon boat races, with a view to promoting team spirit throughout the workforce.

As in previous years, we provided prevention and health promotion measures in 2018, in the form of health days held in cooperation with the health insurance companies, physiotherapy, relaxation classes, vitality analyses and numerous talks on health-related subjects.

**Occupational health and safety**

Annual safety briefings, inspections by the health and safety officers, and internal audits are held to ensure that employees are consistently advised and encouraged to use the work materials and equipment provided in a responsible and safe manner, and instructions are issued to ensure the correct handling of the hazardous substances that need to be processed and used in our day-to-day business.

In addition to the actual inspection of business processes in connection with external standards, a check is also kept on the general working conditions by carrying out internal audits and holding occupational health and safety committee meetings in cooperation with the safety officers. A certification program in accordance with OHSAS 18001 (health and safety management) was carried out for the central functions (Fulda and Wiesbaden) and for the Munich offices in the reporting year.

**EMPLOYEES@EDAG**

*Average age: 38.4 years*
*Average length of service: 7.7 years*

**Age Structure and Continuous Employment**

Besides pursuing the target of employee qualification, EDAG also strives to maintain a diversified workforce. Our mix of experienced and young employees is an integral part of the EDAG Group's personnel strategy. The average age of the employees at our key German companies is 38.4 years (2017: 38.2 years), which is representative of a young, dynamic team. 30 percent of the workforce are younger than 30.7 years old, and have been working for the EDAG Group for an average of 3.0 years. The average 7.7 years of continuous employment across the workforce at the key German companies, an increase over the previous year (2017: 7.5 years), is an indication of employee satisfaction and identification with the company.

**Outlook**

In the current financial year, human resource activities will continue to focus on supporting company targets by continually and organically increasing the work force, improving and automating personnel processes and outstanding commitment in education and training.

## 3.4 Social Issues

EDAG does not at the present time pursue any concrete concepts relating to social issues.

Nevertheless, bearing in mind the great importance accorded to well qualified employees within the EDAG Group, we are also, in addition to the education and training offered in-house, actively involved in diverse educational projects for young people. For instance, as well as working on cooperation projects with diverse universities, EDAG is also a member of various support associations. In addition to this, as associates of the non-profit organization "Gemeinnützigen Perspektiva GmbH", we also assist teenagers and young adults in their search for work. The target group of this project are young people with handicaps, who cannot find jobs without help.

EDAG also donates to the employees association "Belegschaft e.V.", which primarily helps members of the EDAG workforce and their direct dependents who, through no fault of their own, find themselves in (economic) need. The association, which has its registered office in Fulda, also serves to support charitable and non-profit organizations. The association exclusively and directly pursues charitable purposes.

## 3.5 Observation of Human Rights

As an internationally active company, ensuring that human rights are complied with and that accepted standards are observed at our many facilities worldwide is an essential element of EDAG's value system.

**EDAG CODE OF ETHICS**

*EDAG supports the ten UN Global Compact principles.*

With the EDAG Code of Ethics, EDAG commits to the continued support of the ten UN Global Compact principles and to continual improvement in their implementation. The EDAG Code of Ethics can be accessed via: http://ir.edag.com/websites/edag/English/501040/code-of-conduct.html. One of the principles established by the code is that EDAG supports and respects the protection of internationally proclaimed human rights within its sphere of influence, and ensures that EDAG is not complicit in human rights abuses.

Apart from this, EDAG does not currently pursue any concrete concepts for the prevention of human rights abuses. The reason for this is that, on the strength of a risk analysis which has been carried out, we are at present unable to identify any direct effects on or abuse of human rights in relation to our business activities, so there is currently no need to take concrete steps to prevent any negative impact.

## 3.6 Compliance

Besides the wide variety of opportunities open to EDAG as one of the world's leading engineering companies in the automotive industry, we also face challenges that become more demanding every day, and take on ever-increasing responsibility. More than ever, therefore, one of the most important basic conditions for our success is to combine business activities with ethical principles and act with responsibility in all respects. For our company, unconditional compliance with legal requirements is imperative, and forms an integral part of the EDAG values. These principles are anchored in the EDAG Code of Conduct. Our Code of Conduct is the binding basis outlining the rules for the proper behavior expected of all EDAG employees.

In order to be able to meet the increased demands, we have combined all the organizational measures in the company that guarantee the compliant conduct of EDAG's executive bodies and employees at all times in our EDAG Compliance Management System (EDAG CMS). The objective of the EDAG CMS is to guarantee compliant behavior at all times when carrying out our business activities, therefore avoiding any damage being caused to the company or any of its employees as a result of infringements of applicable law and in-house guidelines. Our main focus here is preventive, with our compliance organization offering employees advice and support with regard to their responsibilities, so as to avoid the occurrence of any such infringement. The EDAG CMS has been integrated into the EDAG risk management system, and is therefore an integral part of our risk-based reporting system.

In addition, a new electronic notification system has been introduced, giving all company employees and stakeholders the opportunity to use the link https://edag.integrityline.org to report possible infringements while preserving the anonymity of those involved.

## 3.7 Anti-Corruption

EDAG focuses on performance, customer orientation and the quality of its products and services. EDAG's success is based on the reputation our company has established on its way to becoming the world's leading independent engineering service provider. We firmly reject services based on illegal or ethically questionable behavior. For us, influencing business decisions with either attempted or actual bribery constitutes unacceptable practice. The EDAG Group therefore expects all employees and business partners to refrain from corrupt behavior in any form whatsoever.

Our anti-corruption policy affirms our commitment to combining entrepreneurial activity with ethical principles. The aim of the policy is to prevent any cases of corruption arising at EDAG. Recommendations for action and concrete rules of conduct for practical application help to permanently establish anti-corruption behavior at EDAG. As well as explaining the various forms that corruption can take and its consequences, the policy draws attention to corruption risks, and defines what steps to take if corruption is suspected. This additional instrument in the EDAG CMS therefore plays a significant role in preventing and combating corruption at EDAG. Anti-corruption training sessions are held on a regular basis, to effectively communicate the contents of the policy and our guidelines for the prevention of corruption to our employees.

For a compliance management system to be effective, it is essential that the attention of the company's employees should be continually drawn to the subject of compliance, so as to develop an awareness of critical issues in the daily working environment. One effective way of engendering this sensitivity for compliance is to provide appropriate training programs. In the 2018 financial year, therefore, we again expanded the compliance training program, a central element of our CMS, and continued to offer our modular, web-based compliance training as an obligatory training activity for all employees. One module in this training program deals explicitly with gifts, invitations and other benefits. The module includes the examination of practical case studies, to ensure that our employees are always in a position to be able to assess which benefits are appropriate and consistent with standard business practice, and which are not.

# 4 Forecast, Risk and Reward Report

## 4.1 Risk and Reward Report

### Risk Policy

EDAG Engineering Group AG is a globally positioned and internationally operating company. Any form of entrepreneurial activity opens up not only new business opportunities, but also numerous risks. In order to be able to achieve growth, profitability, efficiency and sustainable behavior in the future, the risk policy of the EDAG Group is aimed at securing the existence of the company, and at increasing the long-term company value.

Commercial success is conditional on opportunities being taken and put to optimum use. Risks must be spotted at an early date, evaluated and proactively managed, provided this will bring about a reasonable enhancement in value. Risks that might jeopardize the existence of the company must be avoided.

We define risks as any events and possible developments, both inside and outside the company, which may have a negative effect on the planned economic success of the company. Risks which cannot be directly measured in figures, e.g. risks to our reputation, also fall under this definition.

We see opportunities as possibilities to realize planned targets as a result of events, developments or activities.

## Risk Management and Internal Control System

The sustained success of our company depends on how early we identify risks and opportunities in our operating activities, and how much foresight we employ in managing them. In the EDAG Group, the responsible handling of risks and opportunities is supported by an internal control system and an extensive risk management system.

### Internal Control System

The internal control system ("ICS") is the sum total of all systematically defined controls and monitoring activities aimed at guaranteeing accounting accuracy, and ensuring correctness and effectiveness.

The accounting tasks are for the most part carried out independently by the consolidated companies. In Germany, there is a central shared service centre for all the German companies within EDAG Engineering GmbH. Content-wise, it depicts information that includes accounting-related data as well as key performance indicators and risks and rewards. The system is organized in such a way that the subsidiaries are requested to provide relevant and up-to-date information each month, and this information is then verified, summarized and presented to the Group Executive Management by the corporation's specialist departments.

The accounting-related part primarily consists of the single-entity financial statements of each subsidiary, drawn up in accordance with the relevant national laws, then converted to IFRS and consolidated on a quarterly basis, taking into account corporate, valuation and accounting directives.

Apart from commenting on economic performance, with the key performance data, we concentrate on future, market-related information and prospects for personnel development and productivity.

Special requirements arise as a result of our project business. These are dealt with by means of so-called "project steering committees". Moreover, a project acceptance process has also been established. Before binding quotations are submitted or contracts entered into, specialists from various departments first perform detailed checks on the commercial and contractual conditions, and then present these to the Group Executive Management. The aim of this procedure is to avoid any uncontrollable risks being accepted. Depending on the volume of tenders, certain procedures and formalities that are defined in the corresponding directives must be followed. This procedure therefore commences even before risks arise, by critically reviewing the opportunity/risk profile of any tenders. Should the opportunity/risk profile prove to be unacceptable, then the Group Executive Management will not permit a contract sign-off.

As an independent supervisory body, the internal revision department also helps to ensure the correctness of the established internal accounting control system on a random basis using system and function checks. By carrying out risk-oriented audits, the department assists company management and the administrative bodies in their monitoring and risk management tasks, with the aim of ensuring correctness and effectiveness, and in this respect complements the internal control system.

**Risk Management System**

The risk management system includes organizational rules and measures for risk detection and how to manage entrepreneurial risks. As risk management is anchored in operative and strategic controlling, it is possible for this system to be integrated in the planning and reporting processes. The aim of the risk management system is to increase risk awareness throughout the company, in this way establishing a risk culture that enables us to identify opportunities and risks at an early date, and realistically assess them so as to minimize or completely avoid risks, and/or take advantage of opportunities. Foresighted risk management also serves the interests of investors and other stakeholders.

Procedural guidelines and directives guarantee the uniform implementation of the risk management process. All operating units and key central departments of EDAG Group and all company employees in all company divisions and at all hierarchical levels are integrated in this process.

The first stage of the risk management process involves identifying risks, with the aim of recording and evaluating the serious risks to the company. This is done on the basis of the knowledge of the operative units in the divisions or local international branches, with regular meetings being held with the Group Executive Management to closely coordinate the risk contents and countermeasures undertaken.

A risk is evaluated on the basis of the potential extent of loss, i.e. the gross risk without any account being taken of measures to reduce and manage it. Building on this, there follows an evaluation of the net risk, taking into account the effects of any countermeasures. The expected value of loss of a risk is calculated by multiplying the expected probability of occurrence by the extent of loss of the net risk.

The following categories exist for the probabilities of occurrence:

- low: probability of occurrence < 25%
- medium: 25% ≤ probability of occurrence < 50%
- high: 50% ≤ probability of occurrence < 75%
- very high: probability of occurrence ≥ 75%

Risks are to be reported if the determined loss expectancy leads to a deviating result exceeding € 250 thousand. For existing opportunities, the reporting threshold also lies at an opportunity expectation value of € 250 thousand.

The following categories based on the amount of the expected value of loss of an individual risk have been classified:

- Low risk corresponds to an expected loss < € 0.50 million
- Medium risk corresponds to an expected loss ≥ € 0.50 million and < € 1.25 million
- High risk corresponds to an expected loss ≥ € 1.25 million

Aggregated at EDAG Group level, risks are classified into A, B or C risks:

- A category A risk corresponds to an expected loss ≥ € 2.50 million
- A category B risk corresponds to an expected loss ≥ € 1.25 million and < € 2.50 million
- A category C risk corresponds to an expected loss < € 1.25 million

EDAG's risk management system covers all fully consolidated companies and segments in the EDAG Group. Should rewards and risks affect individual segments only, this will be indicated accordingly.

The EDAG Group AG's risk management system thus covers all opportunities and risks which might seriously affect the group's financial performance. The risk/reward profile of the EDAG Group is regularly updated and represented in an aggregated report which enables the Group Executive Management to get a general idea of the risk situation of the EDAG Group.

New risks that occur ad hoc and are deemed sufficiently important are reported to the Group Executive Management immediately.

The risks and rewards to which EDAG Group AG is exposed on account of its wide and international range of services are listed in the following.

## Risk and Reward Profile

### Macroeconomic Risks and Rewards

2018 saw signs of a persistent decline in the global economic situation, and the new year has got off to a slower start, with softer momentum. The current forecast issued by the International Monetary Fund (IMF) predicts that the global economy will be marked by a worldwide economic slowdown. While global growth in 2018 is still estimated at approximately 3.7 percent, a growth in global economic performance of just 3.5 percent is expected in 2019, according to the forward projection in the IMF's World Economic Outlook; the IMF expects global growth to pick up slightly to 3.6 percent in 2020. This assessment is linked to a decline in the growth rate of many countries in the second half of 2018. Continuing trade conflicts remain a source of risk to the global economy, in particular an escalation which would include trade between the USA and the European Union could have a perceptible dampening effect on world trade. A "no-deal" withdrawal of the United Kingdom from the EU, a further slowdown of economic growth in China, and possible turbulence on the international financial markets must also be mentioned in this context (for more details, see chapter 2.1 "Macroeconomic and Industry-Specific Conditions". We are monitoring the relevant country-specific conditions very closely, so as to be able to quickly implement measures to minimize risks, should the need arise.

**MACROECONOMIC FORECAST UNTIL 2019**

*Global economic growth: 3.5 percent*

We estimate that the macroeconomic risks and rewards for our business are category C risks with a low probability of occurrence, which means they are unchanged compared to the previous year.

### Industry Risks and Rewards

For 2018, Bernhard Mattes, President of the VDA (Association of the German Automotive Industry), anticipates a subdued development of the global passenger car market. One of the factors behind this stagnation is the trade conflict between the USA and China. Estimates indicate that, for 2018, the final state of the market will be 85 million vehicles, which means no change compared to the previous year. Forecasts for 2019 are similarly cautious. Although

**OUTLOOK FOR THE SECTOR**

*The transition towards greater use of alternative drive technologies offers chances for positive business development.*

the prospects are still viewed as positive, the anticipated growth rate stands at a modest 1 percent. According to a study by Lünendonk GmbH, the development of the market for engineering services continues to be seen in a positive light. It anticipates an average annual growth rate of 4.6 percent between 2018 and 2022. For 2019, we expect a growth rate below the forecast average.

The cautious forecasts create additional opportunities and risks for EDAG. In the past, technical progress and the increasing variety of model types gave rise to an increase in the orders awarded for engineering services. The political measures relating to current debates on particulate matter and the new European driving cycle to assess fuel consumption will help to re-kindle this trend. As the OEMs face additional challenges on account of these measures, they will come to rely more on external support. Strategic decisions regarding future model families and their drive technologies are often delayed on account of political discussions. The reorientation towards greater eMobility is, however, becoming more firmly established, and requires high investment volumes on the part of the OEMs for development and the infrastructure. This could lead to cost-cutting programs and reductions in the volume of contracts being awarded for engineering services. Further, the less complex production processes for electric vehicles mean that, in the medium term, production looks set to become less labor-intensive, which will also have an effect on the planning and implementation of the production plants. With its wide range of services, EDAG is well positioned on the market. The aim is to further expand this leading market position. New alternative products do not only harbor great risks, they also offer potential opportunities for the development of new technologies and markets. In the wake of eMobility, more and more companies and corporations from outside the sector are entering the international mobility market, and, since they are operating in a new business field, they do not have the know-how and experience of the traditional OEMs. Here in particular, EDAG's fully integrated process chain provides many opportunities for supporting these new customers. In the financial year just ended, we were already able to profit greatly from this trend. By continuing to spread activities throughout the world, any risks arising electric vehicles mean that, in the medium term, production looks set to become less labor-intensive, which will also have an effect on the planning and implementation of the production plants. With its wide range of services, EDAG is well positioned on the market. The aim is to further expand this leading market position. New alternative products do not only harbor great risks, they also offer potential opportunities for the development of new technologies and markets. In thefrom concentrating on just a few submarkets can be reduced. In our estimation, it is not possible in the current situation to make a final assessment of whether potential risks or opportunities will predominate. As competition on the market for engineering services remains keen, all market participants are subject to increasing pressure to raise efficiency and lower costs.

To handle this challenge, EDAG applies a continuous, consistent cost management system. Increasingly, development orders are being transferred within the group to countries where wage levels are lower. Local presence is maintained for the coordination of and responsibility for the project, to ensure that the customer is served properly. In our estimation, this is a lasting development which will continue. Our strategic concept for increasing the workforce is geared specifically to these requirements in Germany and abroad, and focuses on the expansion in best-cost countries (BCC). Continuous attention is also paid to the development of future supply points for resources. The core competency of being able to independently handle work packages that are continually growing in volume is of great importance here. As a group, the opportunity we see here is that of developing from engineering service provider to engineering partner status. As one of the larger engineering service providers, EDAG will profit from this, as we have the know-how and capacity necessary to handle the increased volumes.

We estimate that all risks and rewards in this risk category are category A risks with a medium (2017: low) probability of occurrence.

**Rewards and Risks from Operative Business**

The handling of projects always entails opportunities and risks. The constant move towards greater quantitative, qualitative and chronological project volumes place high demands on our project management competencies. As a rule, these large-scale development projects are highly complex, and are handled globally and group-wide. Risks can occur as a result of technical divergences from guaranteed specifications, or due to unclear order situations. This can lead to costs being exceeded, staff shortages, technical difficulties and quality-related problems, all of which can have a negative impact on our margins. In the event of penalties being incurred for breach of contract, the assets, financial position and financial performance of the company could be further impacted.

Our employees therefore receive regular project management training, which enables them to identify risks in relation to long-term orders at an early stage. Aside from the risk potential mentioned, however, fully integrated project handling does open up the opportunity of more flexible and rapid handling on an international basis, along with the resulting cost advantages. Regular project evaluations and detailed reporting in project reviews and

**OPERATIVE RISKS**

*Continual project management, regular project assessments and project steering committees are all methods employed to counter the risk of exceeding deadlines or costs in major projects.*

steering committees enable the EDAG Group to identify these kinds of risks in good time, and then implement the appropriate countermeasures. This means that any resulting opportunities can be detected as they arise and put to effective use. As the awarding of contracts by customers is subject to many variables, the ordering process may be delayed or even terminated. If this is not directly linked to substitute orders or direct replacement orders, risks affecting capacity utilization can result.

An ongoing resource management system helps to manage internal capacity and, should the need arise, assign resources to other projects without long idle times. The acquisition of projects that will run for longer periods of time is another way of ensuring the basic, long-term capacity utilization of our engineering capacities. In addition, we are attempting to level off temporary volatile periods of capacity utilization as far as possible by means of flexible working time accounts, flexible deployment opportunities for our employees, and the selective use of external capacities.

Due to the constant rise in the use of IT in all business segments, the importance of electronically processed information and the availability of IT structures continues to grow. This applies to both the frequency of virus and/or hacking attacks and to their possible damage potential. As engineering service providers, we rely to a great degree on a fully functioning IT and safe data connections with our customers. Disruptions and attacks on the IT systems and networks cannot, however, be completely ruled out. An IT system breakdown or data loss could have serious consequences for EDAG. The main risk is that strictly confidential information, particularly with regard to new technological findings or partnerships in the field of research and development, might be leaked to unauthorized third parties. This could have an adverse effect on our good market position; there is also the risk of the loss of our good reputation. In order to guarantee a disruption and error-free workflow, we attach great importance to the availability of the IT resources and services. For the most part, our IT structures are standardized. We have implemented a series of safety standards to protect confidential information (e.g. firewall systems, virus protection, access and admission controls at operating system and application level, encryption, etc.) and these are regularly checked by various committees (e.g. internal revision), to ensure that they are effective. Applicable safety guidelines undergo continual updating and are therefore regularly adapted to the latest technical changes; information events and IT safety training ensure that our employees have the necessary knowledge and skills.

On this future market, we anticipate a shift in customer enquiries towards innovative, fully integrated solutions in the fields of software, embedded systems, alternative drive technologies and eMobility. This means that we must address these issues and further develop the appropriate competencies accordingly. One important aspect is the reinforcement of the existing competence centers, which were already able to bundle important know-how in the past. Working in close cooperation with other technology partners and research institutes, we are constantly expanding our skills in future-relevant areas, in this way ensuring our participation in market developments and technical innovations. In our estimation, there is a growing need for know-how here. A further trend on the mobility market is the increasing individualization of vehicles. In addition to their large-scale series products, some OEMs are starting to produce small special premium series that are refined in a modern factory away from the production line. On account of our good reputation as an engineering service provider and our active involvement in the development of these premium products, we also assist our customers with the implementation. As we have already successfully carried out our first projects in this field, we anticipate a further increase in these activities in the coming years.

Taking into account the arrangements that have been made, our assessment of the risks from the operating divisions as category A risks remains unchanged compared to the previous year; the probability of occurrence is categorized as medium.

**Personnel Risks and Rewards**

The success of the EDAG Group depends to a significant extent on committed and well qualified employees. There is a risk that it might prove difficult to find such employees to fill any or all vacant positions. A further potential risk is the loss of competent employees to the competition or to a customer. Finding replacements for such positions frequently involves increased recruiting and induction costs for the EDAG Group.

**PERSONNEL RISKS**

*Risks in conjunction with the fluctuation of know-how carriers are countered by measures to establish our position as an attractive employer.*

We counter these risks by positioning ourselves as an attractive employer worldwide, using our international network to acquire new talent, and creating ties between the company and our employees. A wide range of activities such as the continual development of our recruiting instruments, the ongoing training and education of our staff, work-life balance initiatives, the promotion of skilled young people and a wide range of apprenticeships help us to guarantee the availability of the know-how we will need for the future.

In order to introduce potential managerial staff to managerial tasks and solution strategies and ensure their loyalty to the company, an internal mentoring program was initiated.

EDAG again received a German "Top Automotive Employer" award in 2018. Awards like these confirm the effectiveness of the measures we undertake.

Our assessment of the personnel risks as a category B risk with a medium probability of occurrence remains unchanged.

**FINANCIAL RISKS**

*Overall, the financial debt improved in 2018. The financial situation of the company is still sound.*

### Financial Risks

In the course of our business activities, we are subject to financial risks. These include default risks for customer receivables, liquidity risks, as well as changes in exchange rates and interest rates. Identified potential risks are controlled by defined guidelines and security measures within the Group. For more details, see chapter "Financial Risk Management Objectives and Methods" in the notes.

Accounts receivable are for the most part settled by customers according to previously agreed terms of payment. To minimize the risk of non-payment, creditworthiness is checked, especially when dealing with new customers. Individual, overdue receivables are taken into account by valuation allowances in the statement of financial position according to defined rules. The risk of individual bad debts remained unchanged compared to the previous year.

The EDAG Group is primarily financed by a long-term promissory note loan *(Schuldscheindarlehen)* and lines of credit with house bank and bond insurers. As a result, and taking into account the financial debt, which improved in 2018, the EDAG Group continues to have sufficient financial scope. We currently see no risks in this regard.

The risk from currency fluctuations for foreign currency receivables and/or planned cash flows is partially secured by forward currency contracts. However, this is not of primary importance for the EDAG Group's assets, financial position and financial performance. The same applies to the interest rate risk. Risks posed by changes in interest rates and fluctuations in exchange rates at the reporting date are secured by derivative financial instruments which are used exclusively for hedging and not for speculative purposes.

The EDAG Group's financial situation is still sound, due to a solid liquidity forecast and the financing volumes available (promissory note loan, only moderately used lines of credit).

It is monitored regularly and currently harbors no significant risks. Group liquidity was guaranteed at all times in the reporting year.

For the financial year just ended, we continue to assess this risk as a category C risk with a medium probability of occurrence.

**Legal Risks**

As an internationally active company, we are, within the context of our ordinary business activities, subject to a series of risks in connection with legal disputes and other - possibly official - proceedings in which we are currently involved, or may be in the future. With regard to the operative business, this particularly concerns the following legal areas: warranty, product liability, anti-monopoly legislation, intellectual property rights, but also general civil law. Should these risks materialize, this could damage the reputation of the EDAG Group, which would ultimately have an adverse effect on the success of our company.

**LEGAL AND TAX RISKS**

*There are no material legal or tax risks in existence during the reporting period that might prove disadvantageous to the EDAG Group.*

Company-wide standards – such as general terms and conditions of business, standard contracts for various applications or implementing regulations in the form of organizational guidelines – are continually updated and reduce the possibility of new legal risks to the EDAG Group, insofar as they do not accord with common practice in the sector. For processes that are not covered by the standards developed for day-to-day business, the Group's legal department regularly calls upon external specialist lawyers for advice. In addition, the Legal department carries out workshops to raise the awareness of our employees in the operative divisions for risks, and consequently also for risk prevention.

To counter the trend towards higher fines being imposed on companies in various areas, the EDAG Group has arranged for the Legal department to provide both the Group Executive Management and any departments or subsidiaries that might be affected with additional advice on changes to regulations and suggestions on what action to take, while also establishing contact with external specialist lawyers at home and abroad, to guarantee compliance with the relevant rules and regulations.

At the present point in time we do not anticipate any significant negative effects on the assets, financial position and financial performance from the risks classified here. Our assessment of this risk as a category C risk with a low probability of occurrence therefore remains unchanged.

**COMPLIANCE SYSTEMS**

*A compliance management system has been firmly established at EDAG to ensure responsible behavior at all levels.*

### Tax Risks

The EDAG Group operates worldwide, and is therefore subject to a wide range of local tax laws and regulations. Any changes in these can lead to greater tax expense and to higher tax payments. We are also active in countries with complex tax regulations that can be interpreted in a number of different ways. Future interpretations and/or developments of the tax system could affect tax liabilities, profitability and business activities. We take extensive legal advice, both from our own specialists and also, in specific cases, from qualified external specialists. Workshops are also held to raise the awareness of our staff.

No new tax risks that represent a substantial influence on the financial performance, cash flows and financial position have been identified in the EDAG Group for the reporting period.

Aggregated over the Group, we have assigned this risk to category B status for the financial year just ended (2017: category B). Given the numerous preventive regulations, the probability of occurrence continues to be considered as low.

### Compliance-Relevant Risks

The objective of the EDAG compliance management system is to avoid any damage being caused to the company or any of its employees as a result of infringements of applicable law and in-house guidelines. Our approach here is preventive, with our compliance organization offering employees advice and support with regard to their responsibilities, so as to avoid the occurrence of any such infringement.

For a more detailed description of the concept for handling compliance-relevant risks pursued during the reporting year, please see chapter "Non-Financial Performance Indicators Report and Corporate Social Responsibility (CSR)" (points: "Compliance", "Anti-Corruption" and "Observation of Human Rights") of the Group Management Report.

With the help of the compliance management system we use, we believe there is little probability of compliance-relevant risks occurring, although we cannot completely rule out any negative effects on the earnings performance of the Group. Our assessment of this risk for the Group remains unchanged compared to the previous year, and has been assigned a class C status with a low probability of occurrence.

**Risks Regarding the Use of Financial Instruments**

The key financial liabilities used by the EDAG Group include financial liabilities, accounts payable and other liabilities. The main purpose of these financial liabilities is to finance the business activities of the EDAG Group. The EDAG Group has accounts receivable and other receivables as well as cash and short-term deposits that result directly from its operations.

EDAG is subject to credit and liquidity risks. Management of these risks is the responsibility of company management. Management ensures that financial activities by the EDAG Group associated with risks are carried out in accordance with the relevant operating instructions and that financial risks are identified, assessed and managed in accordance with these guidelines and taking into account the the company's willingness to take risks. Risk management also takes risk concentrations regarding individual transactions or group companies into account.

With the major part of the promissory note loan and the loan from VKE-Versorgungskasse EDAG-Firmengruppe e.V., most of the financing of the Group is subject to a fixed interest rate. Only moderate use is made of the variable interest bearing revolving lines of credit. We therefore estimate that any risk posed by fluctuations of market interest rates is therefore very slight.

Due to the structure of the promissory note loan, (several tranches with maturities of five to ten years) and of the loan from Versorgungskasse EDAG-Firmgengruppe e.V., the Group's financing has been secured on a long-term basis. For this reason, we also assess any financing and liquidity risks to the company as being low.

With leasing liabilities, the respective asset counts as security. The maturity of the financial liabilities is depicted in the notes. The Group Executive Management analyses the term of certain financial instruments and ensures their timely prolongation as far as these resources are still needed.

Currency-related risks to EDAG result from financing measures and operating activities. Insofar as they have a significant effect on the Group cash flow, foreign currency risks are always hedged. Foreign currency risks from financing activities result from financial liabilities in foreign currencies and foreign currency loans. These risks are covered by the Treasury Department. Currency derivatives are used to convert financial obligations and intra-group loans denominated in foreign currencies into the Group entities' functional currencies.

**CURRENCY RISKS**

*Due to a number of different hedging activities, EDAG was not exposed to any significant currency risks in the operating divisions on the reporting date.*

In the operating area, the individual group companies do most of their business in their own functional currencies. This means that any currency risk to EDAG from current operating activities is assessed as being moderate. Some group companies are, however, exposed to foreign currency risks in connection with planned payments not in their own functional currencies. Here, too, EDAG hedges with foreign currency derivatives. Due to these hedging activities, EDAG was not exposed to any significant currency risks in the operating divisions on the reporting date.

**Other Rewards and Risks**

By law, the company is liable for any damage suffered by the customer as a result of defective or delayed performance. In an extreme case, such as in a widespread recall by a car manufacturer due to a defective EDAG design or service, this could threaten the existence of the company.

In international projects, the applicable legal standards are often the ones that apply in the foreign country where the customer's company is based - and are largely unknown in Germany. Our risks are further increased by contractual warranty risks resulting from the disposal of companies and by liability limitations specific to certain customers, which cannot always be fully passed on to subcontractors.

The EDAG Group counteracts these risks by ensuring the high quality of our services, by employing attorneys with international experience and - to complement these measures - by taking out liability insurance.

These risks are assigned to category A (2017: category C), associated with a low probability of occurrence.

## Overall Assessment

The risk management system in use provides the basis on which we assess our overall risk. It includes all the material risks and rewards that are reported by the divisions, subsidiaries and administrative departments, and is regularly checked by the Group Executive Management.

On the date of publication of this annual report, and on the basis of current assessments, the Group Executive Management does not believe that any of the reported risks will jeopardize the existence of the company. No individual or aggregate risks that might in the long term jeopardize the assets, financial position and financial performance, can currently be

**APPRAISAL**

*Considering the measures taken and our position on the market, we are confident of our ability to contain the existing risks and deal successfully with the resulting challenges.*

identified. For the 2018 financial year, too, the overall analysis of our risks and opportunities indicates that our most significant exposure to risks and opportunities relates to operative risks, industry risks and und tax risks (in terms of expected loss value).

Considering the measures taken, our position on the market, and our strategic and financial strength, we remain confident of our ability to contain the existing risks and deal successfully with the resulting challenges.

## Internal Control System and Risk Management System in Relation to the Group Accounting Process

The main features of the internal control system and the risk management system in relation to the (Group) accounting process in operation at the EDAG Group can be described as follows:

- The EDAG Group is characterized by a clear organizational, corporate as well as control and monitoring structure.
- Group-wide coordinated planning, reporting, controlling and early warning systems are in place to perform a comprehensive analysis and control of earnings-related risk factors and existential risks.
- The functions in all areas of the accounting process (e.g. financial accounting and controlling) are clearly assigned.
- The IT systems used for accounting purposes are protected against any unauthorized access.
- Standard software adapted to the needs of company is used predominantly in the financial systems area.
- Internal guidelines (such as a valid Group-wide risk management guideline) are set up, which are adjusted as needed.
- The departments involved in the financial reporting process meet the quantitative and qualitative requirements.
- The completeness and accuracy of any accounting data is ensured by the established internal accounting control system and the internal reporting system and primarily verified by plausibility analyses. The internal revision department also ensures the correctness of the established internal accounting control system by carrying out system and function checks on a random basis.
- The existing group-wide risk management system is continuously adapted to current developments and regularly tested for effectiveness.

**OBJECTIVE OF GROUP ACCOUNTING PROCESS**

*The internal control and risk management system ensures that all business matters are properly recorded, processed and evaluated, and adopted in the external accounting procedures.*

- As a general rule, the principle of dual control and functional segregation are observed in all accounting-related activities.
- Among other things, the Board of Directors addresses issues pertaining to accounting, risk management, the audit mandate and its key aspects.

The internal control and risk management system for the accounting process, the main features of which have been described above, ensures that all business matters are properly recorded, processed and evaluated, and adopted in the external accounting procedures. The clear organizational, corporate, control and monitoring structure, as well as the adequate composition of the accounting department in terms of personnel and material, represent the basis for efficiency in those departments involved in accounting. Clear legal and corporate rules and policies ensure uniform and proper accounting. Risk identification by the risk management system ensures proper accounting. The internal control and risk management system at EDAG Group AG ensures that accounting at the company and all companies included in the consolidated financial statements are uniform and in accordance with the legal and statutory requirements and internal guidelines. In particular, the group-wide risk management system, which fulfills the statutory requirements, has the task of identifying risks in good time, assessing these and communicating these in an appropriate manner. As a result, the recipients of the report are informed in good time.

## 4.2 Forecast

The IMF's current forecast predicts a 3.7 percent increase in global economic activity in 2018. For the two subsequent years, 2019 and 2020, slightly lower growth rates of 3.5 percent and 3.6 percent respectively are forecasted. Overall, the global economy is growing more slowly than was expected a year ago, and the risks are increasing. The main risks include the threat of an escalation of the global trade dispute, the tariff increases enacted in the USA and China, the prolonged Brexit uncertainty, turbulence on the international financial markets, and forecasts of a weakening of performance for some regions in Europe and Asia.

**MACROECONOMIC FORECAST UNTIL 2019**

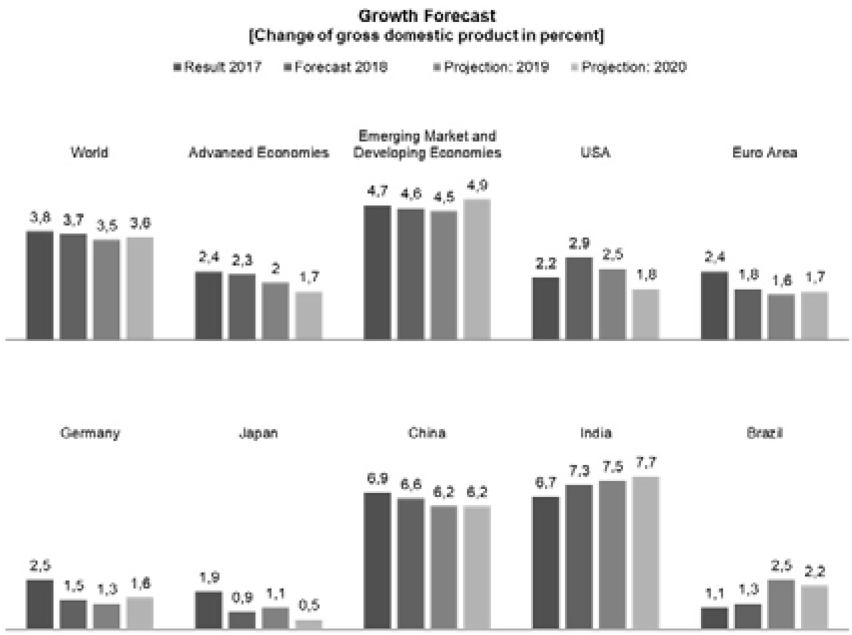
*Global economic growth 3.5 percent p.a.*

*Market development of engineering service sector until 2022: 4.6 percent p.a.*

Growth of the US economy is expected with a rate of 2.5 percent in 2019, and to 1.8 percent in 2020.

According to current estimates, Germany can expect a 1.3 percent increase in economic performance in 2019, and a 1.6 percent increase in 2020. The IMF's more moderate growth forecasts for Germany compared to 2018 are due mainly to reduced private consumption and weak industrial production following the introduction of revised auto emission standards. Within the euro area, the IMF expects an increase of 1.6 percent in 2019 and of 1.7 percent in 2020.

China, with forecasts of a 6.2 percent increase in economic output in 2019 and 2020, will continue to be a growth engine for the global economy.




*Source: IMF, World Economic Outlook, January 2019*

The outlook for the automotive industry in 2019 remains positive, the VDA anticipates an increase in worldwide sales of 1 percent to 85.9 million units. The trade conflict between the USA and China remains one of the strongest factors influencing the global sales and export values in the automotive industry.

According to VDA estimates, the number of new vehicles registered within Europe (EU-28 + EFTA) in 2019, a total of 15.6 million passenger cars, will remain at the same high level as in the previous year. For Germany, the VDA forecasts a slight decrease of 1 percent to 3.4 million passenger cars, due to the decline in the number of new diesel cars registered and the impact of the introduction of the new WLTP test procedure.

Positive forecasts for 2019 for the European automotive economy have been issued for Spain (+3 percent) and Italy (+2 percent). Further economic losses are expected for Great Britain, primarily as a result of the uncertainty about the Brexit outcome. Following the unexpected decrease in China's sales figures in 2018, the VDA anticipates a slight recovery in 2019, with an increase of 2 percent to 23.7 million units.

Besides the sales figures, however, technological and digital trends have an enormous influence on not just our business model, but also those of the OEMs. The current issues are accelerating the further development of classic powertrain types and promoting the integration of alternative powertrains. The BEV/PHEV[1] technologies are also becoming increasingly important. Additional challenges for all market participants are being created by the future-oriented fields of software, sensors and autonomous and connected driving. The development of new digital business fields and mobility services necessitates additional development and capacity requirements, which could lead to new growth opportunities for the engineering service market. The continuing consolidation of the engineering service providers and changed responsibility models in the drafting of work contracts will also bring about lasting changes within the sector.

[4] *Battery Electric Vehicle (BEV)/Plug-In-Hybrid Electric Vehicle (PHEV)*

Due to the enormous technological and digital influences on the automotive industry and the resulting demands on the automobile OEMs and suppliers, there will also be an increase in the volume of engineering services placed externally. According to an independent assessment by Lünendonk GmbH, the automobile engineering service sector will, until 2022, experience annual average growth of about 4.6 percent.

As a global-level partner to our customers, EDAG wants to operate successfully and achieve profitable growth rates. EDAG is one of the top 3 independent engineering service providers in the automotive sector, which places us in a good position to handle the changes in the market towards increasingly large and complex projects with more and more engineering responsibility. Targeted investments and a clear focus on our performance and technology spectrum have strengthened our international market position for fully integrated vehicle development and large module packages. By creating a synergy between the flexible and mobile application of our expertise, the utilization of our internal, best-cost resources, and an international project management team, we strive, at a global level, to meet our customers' expectations.

Qualified and committed employees are essential for the implementation of our strategy. EDAG offers selective training measures and a high-level apprenticeship program in order to meet high customer requirements and achieve our growth targets. Training measures and advanced education are available to both experienced and young professionals.

The influencing factors presented offer not just opportunities, but also risks to EDAG's future business. Assuming favorable economic conditions – that the economy will continue to grow, OEMs will maintain or expand their research and development expenditures and continue to outsource development services, and that qualified personnel are available – the EDAG Group expects positive business development.

For 2019, the EDAG management anticipates an increase in revenues of up to 5 percent for the Group. The largest segment, VE, will remain within this range. A significantly higher growth rate is anticipated for the E/E segment, whereas the PS segment will see a very steep decline in sales in 2019 due to the high sales volume of the previous year, resulting particularly from a major project from abroad. We estimate that the adjusted EBIT margin will be in the 5 to 7 percent range for the Group, primarily due to the challenges described above. Whereas the VE and E/E segments will fall within this range, difficult market conditions in the first half of 2019 mean that the PS segment will be significantly below this level. If the market situation does not improve significantly, restructuring requirements could emerge in the PS segment.

Because of the sustained growth, we expect investments to be above the level of previous years, but the investment rate to be less than 4 percent. Due to the continuing good financial performance, we also expect a positive development of our financial situation in the future.

A summary of the outlook for 2019 is included in the following table:

| in € million | 2018 | Forecast 2019[1)] |
|---|---|---|
| **Group** | | |
| Revenues | 792.3 | Increase of up to 5 percent |
| Adjusted EBIT-margin | 6.0% | Range of 5 to 7 percent |
| Investment rate | 2.8% | Range of 2.8 to 4 percent |
| **Vehicle Engineering** | | |
| Revenues | 490.3 | Increase of up to 5 percent |
| Adjusted EBIT-margin | 6.2% | Range of 5 to 7 percent |
| **Production Solutions** | | |
| Revenues | 159.2 | Very significant deterioration |
| Adjusted EBIT-margin | 6.1% | Significantly below |
| **Electrics / Electronics** | | |
| Revenues | 155.5 | Significant increase |
| Adjusted EBIT-margin | 4.8% | Range of 5 to 7 percent |

[1)] *"Significant" refers to a percentage change of more than eight percent.*
*"Very significant" refers to a percentage change of more than fifteen percent.*
*"Significantly below" means a margin of less than two percent.*

# 5 Other Information

## 5.1 Group Declaration on Corporate Management

Within this annual report, the Group Executive Management and Board of Directors of EDAG Group AG have made diverse declarations concerning corporate management in accordance with § 315d in conjunction with § 289f para. 2 of the German Commercial Code (HGB) (see points 1 - 3). Further declarations concerning corporate management for EDAG Group AG and for a number of the German companies were published on the Internet on March 28, 2019 in accordance with § 315d in conjunction with § 289f para. 1, p. 2 of the German Commercial Code (HGB):

1. Statement of Compliance with the Corporate Governance Codex
   [see chapter: Corporate Governance Report, point "Corporate Governance Objectives"]
2. Relevant details of corporate governance practices
   (see chapter: Corporate Governance Report)
3. Description of the working methods of the Group Executive Management and Board of Directors and of the composition and working methods of their committees
   (see chapter: Corporate Governance Report, points 3 "Board of Directors" and 4 "Group Executive Management")
4. Target figures for the equal treatment of women and men in managerial positions on the basis of §§ 76 para. 4 and 111 para. 5 of the Companies Act (AktG) and §§ 36 and 52 para. 2 of the Limited Liability Companies Act (GmbHG)
   (see at: http://ir.edag.com/edag/pdf/289f_HGB-Erklaerung_2018_ENG.pdf)
5. As the German Stock Corporation Act is not applicable to EDAG Group AG, details of the minimum proportion of women in the supervisory board may be omitted.
6. Diversity concept
   (see at: http://ir.edag.com/edag/pdf/EDAG_Diversity_Concept_2018_EN.pdf)

## 5.2 Takeover-relevant Information [in accordance with § 289a and § 315a HGB (German Commercial Code) and Explanatory Report]

The fully paid-in subscribed capital of EDAG Group AG in the amount of € 920 thousand as at December 31, 2018 is backed by 25 million bearer shares with a nominal value of

CHF 0.04. The shares are denominated in Swiss francs. The operating currency is the euro, and shares are traded in euros. The company's shares are briefed in a global certificate and deposited with Clearstream. Each company share entitles its holder to a vote at the company's annual shareholders' meeting.

The largest individual shareholder of EDAG Group AG is ATON Austria Holding GmbH, which holds 70.66 percent[5].

[5] *More detailed information on the shareholder structure can be found in the chapter "EDAG on the Capital Market"*

For the financial year ending December 31, 2018, the company shares fully qualify for dividends.

The appointment and dismissal of the members of the Board of Directors are carried out in accordance with the provisions of Article 698 para. 2 No. 2 of the Swiss Code of Obligations (OR) in conjunction with Article 15 of the articles of incorporation of EDAG Group AG, and are the responsibility of the annual shareholders' meeting. According to Article 17 of the articles of incorporation, the Board of Directors is responsible for the appointment and dismissal of the persons entrusted with the management of the company.

## 5.3 Voting Rights Notification und Directors' Dealings

Information on directors' dealings pursuant to Art. 19 MAR are published on our website at http://ir.edag.com, under the heading "Announcements", menu item "Directors' Dealings".

Also published on this website are communications from the reporting year pursuant to § 33 et seq. of the German Securities Trading Act (WpHG). These can be found under the heading "Announcements", menu item "Voting Rights Announcements".

# 6 Disclaimer

The management report contains future-based statements related to anticipated developments. These statements are based on current projections, which by their nature include risks and uncertainties. Actual results may differ from the statements provided here.

# REPORT OF THE INDEPENDENT AUDITOR (JOINT MANAGEMENT REPORT)

## REPORT OF THE INDEPENDENT AUDITOR TO THE BOARD OF DIRECTORS OF THE EDAG ENGINEERING GROUP AG, ARBON

**Report on the audit of the joint management report**

**Opinion on the joint management report**

We have audited the joint management report of the EDAG Engineering Group AG, Arbon/ Switzerland, which is combined with the stand-alone entity's management report, for the financial year from January 1 to December 31, 2018.

In our opinion, on the basis of the information gained during our audit, the accompanying joint management report (pages 88 to 145) provides an accurate overall picture of the Group's situation. The joint management report corresponds in all material aspects with the consolidated financial statements, complies with the legal requirements and accurately presents the opportunities and risks in relation to future developments.

**Basis for opinion on the joint management report**

We conducted our audit of the joint management report in accordance with the German generally accepted standards on auditing management reports as promulgated by the IDW (Institute of Public Auditors in Germany). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Responsibilities of the Board of Directors for the joint management report**

The Board of Directors is responsible for the preparation of the management report, which provides an accurate overall picture of the Group's situation and corresponds with the consolidated financial statements, complies with the legal requirements and accurately presents the opportunities and risks in relation to future developments. Further, the Board of Directors is responsible for the provisions and measures (systems) that the Board of Directors considers as necessary to prepare the joint management report in accordance with art. 315e para. 1 HGB (German Commercial Law), enable the application of the German legal requirements and be able to provide appropriate and adequate evidence for the statements made in the joint management report

**Auditor's responsibilities for the audit of the joint management report**

Our objective is to obtain reasonable assurance about whether the joint management report provides an accurate overall picture of the Group's situation and corresponds in all material aspects with the consolidated financial statements and the information gained during our audit, complies with the legal requirements and accurately presents the opportunities and risks in relation to future developments in order to issue an auditor's report that includes our opinion on the joint management report.

We conduct our audit of the joint management report in accordance with the German generally accepted standards on auditing management reports as promulgated by the IDW. In this regard, we emphasise the following:

- The audit of the joint management report is integrated into the audit of the stand-alone entity's management report.
- We obtain an understanding of the provisions and measures (systems) relevant to the audit of the joint management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these arrangements and measures (systems).
- We perform audit procedures on the forward-looking statements made by the Board of Directors in the joint management report. In doing so, on the basis of sufficient and appropriate audit evidence, we specifically verify the assumptions underlying the forward-looking statements made by the Board of Directors and assess the appropriateness of these assumptions and the proper derivation of the forward-looking statements based on these assumptions. We do not express an opinion on these forward-looking statements or on these underlying assumptions. There is a significant and unavoidable risk that events in the future will deviate materially from the forward-looking statements.
- We do not express an opinion on any specific statements in the joint management report but rather express an opinion on the joint management report as a whole.

Deloitte AG

| | |
|---|---|
| ROLAND MÜLLER | UELI STURZENEGGER |
| Partner | Senior Manager |

Zurich, April 2, 2019

# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Financial Statements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# 1 Consolidated Statement of Comprehensive Income

| in € thousand | Notes | 01/01/2018 – 12/31/2018 | 01/01/2017 – 12/31/2017 revised* |
|---|---|---|---|
| **Profit or loss** | | | |
| Sales revenues and changes in inventories[1] | | 792,328 | 718,536 |
| Sales revenues | (1) | 788,252 | 724,731 |
| Changes in inventories | (2) | 4,076 | - 6,195 |
| Other income | (3) | 16,874 | 18,711 |
| Material expenses | (4) | - 120,532 | - 97,352 |
| **Gross profit** | | **688,670** | **639,895** |
| Personnel expenses | (5) | - 497,509 | - 467,372 |
| Depreciation, amortization and impairment | (6) | - 27,414 | - 28,734 |
| Net result from impairments or reversals on financial instruments | (7) | - 733 | - |
| Other expenses | (8) | - 120,772 | - 114,532 |
| **Earnings before interest and taxes (EBIT)** | **(9)** | **42,242** | **29,257** |
| Result from investments accounted for using the equity method | (10) | 1,203 | 644 |
| Financial income | (11) | 311 | 318 |
| Financing expenses | (12) | - 5,629 | - 6,445 |
| **Financial result** | | **- 4,115** | **- 5,483** |
| **Earnings before tax** | | **38,127** | **23,774** |
| Income taxes | (13) | - 12,621 | - 8,255 |
| **Profit or loss** | | **25,506** | **15,519** |

[1] *For the sake of simplicity, described as revenues in the following.*

| in € thousand | Notes | 01/01/2018 – 12/31/2018 | 01/01/2017 – 12/31/2017 revised* |
|---|---|---|---|
| **Profit or loss** | | 25,506 | 15,519 |
| **Other comprehensive income** | | | |
| **Under certain conditions reclassifiable profits/losses** | | | |
| Financial assets available for sale | | | |
| Profits/losses included in equity from valuation at fair value | | - | - 17 |
| Deferred taxes on financial assets available for sale | | - | 5 |
| Currency conversion difference | | | |
| Profits/losses included in equity from currency conversion difference | | - 433 | - 1,494 |
| **Total under certain conditions reclassifiable profits/losses** | | **- 433** | **- 1,506** |
| **Not reclassifiable profits/losses** | | | |
| Revaluation of net obligation from defined benefit plans | | | |
| Revaluation of net obligation from defined benefit plans before taxes | (28) | 773 | 1,040 |
| Deferred taxes on defined benefit plans | | - 217 | - 308 |
| Share of other comprehensive income of at-equity accounted investments, net of tax | | 25 | 33 |
| **Total not reclassifiable profits/losses** | | **581** | **765** |
| Total other comprehensive income before taxes | | 365 | - 438 |
| Total deferred taxes on the other comprehensive income | | - 217 | - 303 |
| **Total other comprehensive income** | | **148** | **- 741** |
| **Total comprehensive income** | | **25,654** | **14,778** |
| **From the profit or loss attributable to:** | | | |
| Shareholders of the parent company | | 25,472 | 15,486 |
| Minority shares (non-controlling interest) | (14) | 33 | 33 |
| **Of the total comprehensive income attributable to:** | | | |
| Shareholders of the parent company | | 25,621 | 14,745 |
| Non-controlling interests | | 33 | 33 |
| **Earnings per share of shareholders of EDAG Group AG [diluted and basic in EUR]** | | | |
| Eearnings per share | (15) | 1.02 | 0.62 |

** The previous year was adjusted due to amendments made to the international accounting standard IFRS 15.*

# 2 Consolidated Statement of Financial Position

| in € thousand | Note | 12/31/2018 | 12/31/2017 revised* | 01/01/2017 revised* |
|---|---|---|---|---|
| **Assets** | | | | |
| Goodwill | (16) | 74,339 | 74,359 | 64,521 |
| Other intangible assets | (16) | 25,921 | 31,436 | 35,053 |
| Property, plant and equipment | (17) | 75,955 | 73,003 | 71,648 |
| Financial assets | (18) | 158 | 150 | 158 |
| Investments accounted for using the equity method | (19) | 17,165 | 16,111 | 15,434 |
| Non-current other financial assets | (18) | 521 | 433 | 331 |
| Non-current other non-financial assets | (22) | 64 | 62 | 571 |
| Deferred tax assets | (23) | 2,352 | 2,513 | 1,109 |
| **TOTAL non-current assets** | | **196,475** | **198,067** | **188,825** |
| Inventories | (24) | 9,260 | 3,888 | 9,175 |
| Current contract assets | (20) | 85,753 | 67,659 | 80,426 |
| Current accounts receivables | (21) | 119,219 | 141,040 | 115,585 |
| Current other financial assets | (18) | 1,703 | 2,081 | 2,452 |
| Current securities, loans and financial instruments | (18) | 38 | 43 | 61 |
| Current other non-financial assets | (22) | 10,052 | 10,993 | 9,607 |
| Income tax assets | (23) | 1,619 | 2,020 | 2,298 |
| Cash and cash-equivalents | (25) | 63,862 | 13,485 | 19,067 |
| Assets held for sale/discontinued operations | (26) | - | 3,200 | 4,056 |
| **TOTAL current assets** | | **291,506** | **244,409** | **242,727** |
| **TOTAL assets** | | **487,981** | **442,476** | **431,552** |

| in € thousand | Note | 12/31/2018 | 12/31/2017 revised* | 01/01/2017 revised* |
|---|---|---|---|---|
| **Equity, liabilities and provisions** | | | | |
| Subscribed capital | | 920 | 920 | 920 |
| Capital reserves | | 40,000 | 40,000 | 40,000 |
| Retained earnings | | 125,501 | 118,869 | 122,133 |
| Reserves from profits and losses recognized directly in equity | | - 8,605 | - 9,201 | - 9,955 |
| Currency conversion differences | | - 3,504 | - 3,072 | - 1,577 |
| **Equity attributable to shareholders of the parent company** | | **154,312** | **147,516** | **151,521** |
| Non-controlling interests | | 1 | 1 | 1 |
| **TOTAL equity** | **(27)** | **154,313** | **147,517** | **151,522** |
| Provisions for pensions and similar obligations | (28) | 29,845 | 27,606 | 27,038 |
| Other non-current provisions | (29) | 3,492 | 3,612 | 3,030 |
| Non-current financial liabilities | (30) | 121,714 | 1,158 | 88,080 |
| Non-current other financial liabilities | (33) | 1,230 | 2,243 | - |
| Non-current income tax liabilities | (35) | - | - | 1,460 |
| Deferred tax liabilities | (35) | 2,104 | 3,061 | 6,159 |
| **TOTAL non-current liabilities and provisions** | | **158,385** | **37,680** | **125,767** |
| Current provisions | (29) | 10,093 | 8,931 | 9,837 |
| Current financial liabilities | (30) | 25,100 | 115,962 | 29,190 |
| Current contract liabilities | (31) | 41,465 | 39,290 | 26,999 |
| Current accounts payable and other liabilities | (32) | 29,696 | 24,745 | 23,327 |
| Current other financial liabilities | (33) | 4,230 | 3,348 | 3,417 |
| Current other non-financial liabilities | (34) | 57,996 | 53,289 | 54,521 |
| Income tax liabilities | (35) | 6,703 | 11,714 | 6,972 |
| **TOTAL current liabilities and provisions** | | **175,283** | **257,279** | **154,263** |
| **TOTAL equity, liabilities and provisions** | | **487,981** | **442,476** | **431,552** |

** The previous year was adjusted due to amendments made to the international accounting standard IFRS 15.*

# 3 Consolidated Cash Flow Statement

| | in € thousand | 01/01/2018 – 12/31/2018 | 01/01/2017 – 12/31/2017 revised* |
|---|---|---|---|
| | **Profit or Loss** | **25,506** | **15,519** |
| + | Income tax expenses | 12,621 | 8,255 |
| - | Income taxes paid | - 18,301 | - 10,529 |
| + | Financial result | 4,115 | 5,483 |
| + | Interest and dividend received | 311 | 332 |
| +/- | Impairment from revaluation at fair value less costs of disposal | - | 1,042 |
| +/- | Depreciation and amortisation/Write-ups on tangible and intangible assets | 27,414 | 27,692 |
| +/- | Other non-cash item expenses/income | - 488 | 1,511 |
| +/- | Increase/decrease in non-current provisions | 2,269 | 1,453 |
| -/+ | Profit/loss on the disposal of fixed assets | - 641 | - 1,324 |
| -/+ | Increase/decrease in inventories | - 5,507 | 5,523 |
| -/+ | Increase/decrease in contract assets, receivables and other assets that are not attributable to investing or financing activities | 7,734 | - 12,214 |
| +/- | Increase/decrease in current provisions | 1,255 | - 576 |
| +/- | Increase/decrease in accounts payables and other liabilities and provisions that are not attributable to investing or financing activities | 12,639 | 9,406 |
| = | **Cash inflow/outflow from operating activities/operating cash flow** | **68,927** | **51,573** |
| + | Deposits from disposals of tangible fixed assets | 1,431 | 6,458 |
| - | Payments for investments in tangible fixed assets | - 17,422 | - 16,794 |
| - | Payments for investments in intangible fixed assets | - 4,747 | - 4,921 |
| + | Deposits from disposals of financial assets | 45 | 61 |
| - | Payments for investments in financial assets | - 52 | - 54 |
| +/- | Deposits/Payments from disposals in shares of fully consolidated companies/divisions | - | - 21 |
| - | Payments for investments in shares of fully consolidated companies/divisions | - 790 | - 13,217 |
| = | **Cash inflow/outflow from investing activities/investing cash flow** | **- 21,535** | **- 28,488** |

| | in € thousand | 01/01/2018 – 12/31/2018 | 01/01/2017 – 12/31/2017 revised* |
|---|---|---|---|
| - | Payments to shareholders/partners (prior year dividend, capital repayments, other distributions) | - 18,783 | - 18,783 |
| - | Interest paid | - 3,754 | - 5,751 |
| + | Borrowing of financial liabilities | 124,476 | 29,161 |
| - | Repayment of financial liabilities | - 96,334 | - 29,637 |
| - | Repayment of leasing liabilities | - 2,417 | - 2,702 |
| = | **Cash inflow/outflow from financing activities/financing cash flow** | **3,188** | **- 27,712** |
| | **Net Cash changes in financial funds** | **50,580** | **- 4,627** |
| -/+ | Effect of changes in currency exchange rate and other effects from changes of financial funds | - 203 | - 955 |
| + | Financial funds at the start of the period | 13,485 | 19,067 |
| = | **Financial funds at the end of the period [cash & cash equivalents]** | **63,862** | **13,485** |
| = | **Free cash flow (FCF) – equity approach** | **47,392** | **23,085** |

** The previous year was adjusted due to amendments made to the international accounting standard IFRS 15.*

For a more detailed account of the cash flow statement, see chapter "Notes on the Cash Flow Statement".

# 4 Consolidated Statement of Changes in Equity

| in € thousand | Subscribed capital | Capital reserves | Retained earnings | Currency conversion | Revaluation from pension plans |
|---|---|---|---|---|---|
| **As per 12/31/2017 revised*** | **920** | **40,000** | **118,869** | **- 3,071** | **- 9,139** |
| Application of IFRS 9 | - | - | - 114 | - | - |
| Application of IFRS 15 | - | - | 24 | - | - |
| **As per 1/1/2018 revised** | **920** | **40,000** | **118,779** | **- 3,071** | **- 9,139** |
| Profit or loss | - | - | 25,472 | - | - |
| Other comprehensive income | - | - | - | - 433 | 556 |
| **Total comprehensive income** | **-** | **-** | **25,472** | **- 433** | **556** |
| Dividends | - | - | - 18,750 | - | - |
| **As per 12/31/2018** | **920** | **40,000** | **125,501** | **- 3,504** | **- 8,583** |

| in € thousand | Subscribed capital | Capital reserves | Retained earnings | Currency conversion | Revaluation from pension plans |
|---|---|---|---|---|---|
| **As per 12/31/2016** | **920** | **40,000** | **123,374** | **- 1,577** | **- 9,870** |
| Application of IFRS 15 | - | - | - 1,242 | - | - |
| **As per 1/1/2017 revised*** | **920** | **40,000** | **122,132** | **- 1,577** | **- 9,870** |
| Profit or loss | - | - | 15,487 | - | - |
| Other comprehensive income | - | - | - | - 1,494 | 731 |
| **Total comprehensive income** | **-** | **-** | **15,487** | **- 1,494** | **731** |
| Dividends | **-** | **-** | **- 18,750** | **-** | **-** |
| As per 12/31/2017 revised* | **920** | **40,000** | **118,869** | **- 3,071** | **- 9,139** |

** The previous year was adjusted due to amendments made to the international accounting standard IFRS 15.*

For explanations concerning equity, see chapter [27] "Equity".

| in € thousand | Securities available for sale | Shares in investments accounted for using the equity method | Total equity attributable to majority shareholders | Non controlling interest | Total equity |
|---|---|---|---|---|---|
| **As per 12/31/2017 revised*** | **- 16** | **- 47** | **147,516** | **1** | **147,517** |
| Application of IFRS 9 | 16 | - | - 98 | - | - 98 |
| Application of IFRS 15 | - | - | 24 | - | 24 |
| **As per 1/1/2018 revised** | **-** | **- 47** | **147,442** | **1** | **147,443** |
| Profit or loss | - | - | 25,472 | 33 | 25,505 |
| Other comprehensive income | - | 25 | 148 | - | 148 |
| **Total comprehensive income** | **-** | **25** | **25,620** | **33** | **25,653** |
| Dividends | - | - | - 18,750 | - 33 | - 18,783 |
| **As per 12/31/2018** | **-** | **- 22** | **154,312** | **1** | **154,313** |

| in € thousand | Securities available for sale | Shares in investments accounted for using the equity method | Total equity attributable to majority shareholders | Non controlling interest | Total equity |
|---|---|---|---|---|---|
| **As per 12/31/2016** | **- 4** | **- 80** | **152,763** | **1** | **152,764** |
| Application of IFRS 15 | - | - | - 1,242 | - | - 1,242 |
| **As per 1/1/2017 revised*** | **- 4** | **- 80** | **151,521** | **1** | **151,522** |
| Profit or loss | - | - | 15,487 | 33 | 15,520 |
| Other comprehensive income | - 12 | 33 | - 742 | - | - 742 |
| **Total comprehensive income** | **- 12** | **33** | **14,745** | **33** | **14,778** |
| Dividends | **-** | **-** | - 18,750 | - 33 | - 18,783 |
| As per 12/31/2017 revised* | **- 16** | **- 47** | **147,516** | **1** | **147,517** |

# 5 Notes

## 5.1 General Information

The EDAG Group are experts in the development of vehicles, derivatives, modules and production facilities, specializing in complete vehicle development. As one of the largest independent engineering partners for the automotive industry, we regard mobility not simply as a product characteristic, but rather as a fully integrated purpose.

The parent company of the EDAG Group is EDAG Engineering Group AG ("EDAG Group AG"). EDAG Group AG was founded on November 2, 2015, and entered in the commercial register of the Swiss canton Thurgau on November 3, 2015. The registered office of the company is: Schlossgasse 2, 9320 Arbon, Switzerland.

Since December 2, 2015, the company has been listed for trading on the regulated market of the Frankfurt Stock Exchange with concurrent admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard):

| | |
|---|---|
| International Securities Identification Number (ISIN): | CH0303692047 |
| Securities identification number (WKN): | A143NB |
| Trading symbol: | ED4 |

The shares are denominated in Swiss francs. The operating currency is the euro, and shares are traded in euros. The company's shares are briefed in a global certificate and deposited with Clearstream. Each company share entitles its holder to a vote at the company's annual shareholders' meeting.

The Group Executive Management of EDAG Group AG compiled the consolidated financial statements on March 21, 2019. The Audit Committee of the Board of Directors of EDAG Group AG dealt with the consolidated financial statements during its meeting on April 1, 2019. The Board of Directors approved the consolidated financial statements in its meeting on April 2, 2019.

For the financial year ending December 31, 2018, the company shares fully qualify for dividends.

The annual financial statements of EDAG Group AG and the consolidated financial statements of EDAG Group AG will each be issued with an unqualified audit certificate by Deloitte AG, Zurich (Switzerland), and then submitted to the operator of the Electronic Federal Gazette in Germany.

The financial statements of the companies included in the consolidated financial statement have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the European Union as of the financial reporting date of EDAG Group AG (December 31).

The consolidated financial statements have been prepared using the euro as the reporting currency. Unless otherwise stated, all amounts are given in thousands of euros. Where percentage values and figures are given, differences may occur due to rounding.

In order to improve the clarity and informational value of the consolidated financial statements, individual items consolidated both in the statement of financial position and in the statement of comprehensive income, the cash flow statement and the statement of changes in equity will be disclosed and explained separately in the notes.

In accordance with IAS 1, the statement of financial position is divided into non-current and current assets, liabilities and provisions. Assets and liabilities are classified as current if they are expected to be sold or settled respectively within a year or within the company's or group's normal operating cycle. In compliance with IAS 12, deferred taxes are posted as non-current assets and liabilities. Likewise, pension provisions are also posted as non-current items.

The statement of comprehensive income is structured according to the nature of expense method.

## 5.2 Basic Principles and Methods

### Basic Accounting Principles

The consolidated financial statement of EDAG Group AG and its subsidiaries for December 31, 2018 has been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as they are to be applied pursuant to Directive No. 1606/2002 of the European Parliament and Council regarding the application of international accounting standards in the EU. In addition to the International Financial Reporting Standards, the term IFRS also includes the still valid International Accounting Standards (IAS), the Interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC) and those of the former Standing Interpretations Committee (SIC). The requirements of all accounting standards and interpretations resolved as of December 31, 2018 and adopted in national law by the European Commission have been fulfilled. Please also see chapter "c) Synoptic Presentation of the Main Differences between IFRS IASB and IFRS EU".

In addition to the statement of financial position and the statement of comprehensive income, the IFRS consolidated financial statement also includes additional components, namely the statement of changes in equity, the cash flow statement and the notes.

All estimates and assessments required for accounting and valuation in accordance with the IFRS standards are in conformity with the respective standards, are regularly reassessed, and are based on past experience and other factors including expectations as to future events that appear reasonable under the given circumstances. Wherever large-scale estimates were necessary, the assumptions made are set out in the note relating to the relevant item in the following.

## New, Changed or Revised Accounting Standards

### a) New and changed standards in use in 2018

EDAG Group AG has applied the following accounting standards adopted by the EU and legally required to be applied since January 1, 2018, although they did not have any significant effect on the assets, financial position and financial performance of the consolidated financial statements:

- **IFRS 15** with clarifications – Recognition of revenue should be applied for reporting periods beginning on or after January 1, 2018:
  The regulations and definitions set out in IFRS 15 will in future replace the contents of IAS 18 "Revenue" and of IAS 11 "Construction Contracts". According to IFRS 15, revenue is to be recognized when the customer obtains control of the promised goods and services, and can benefit from them. The critical point is no longer the transfer of

significant chances and risks set out in the old regulations in IAS 18 "Revenue". Revenue is to be evaluated with the amount of consideration the company expects to receive. The new standard establishes a five-step model for recognizing revenue, and first of all requires identification of the contract with a customer and of the performance obligations in the contract. Following this, the transaction price of the contract with the customer must be determined and the separate performance obligations allocated. Finally, the new standard requires recognition of revenue for each performance obligation in the amount of the allocated proportionate transaction price as soon as the promised goods have been delivered or services rendered, or the customer has obtained control of the goods/services (control model). Predetermined criteria are applied to determine whether the satisfaction of a performance obligation occurs at a point in time or over time.

Service contracts in accordance with § 611 et seq. of the German Civil Code (BGB) in the sense of IFRS 15.35(a) and deliveries in accordance with § 433 BGB play only a minor role in the EDAG Group, as the scope of such contractual arrangements is small. For the most part, EDAG works on construction contracts in the sense of IFRS 15.35(c) and has therefore generally entered into work contracts in accordance with § 631 et seq. BGB with its customers.

Payment of the transaction prices for the contractual obligations under work contracts takes the form of fixed payments made at regular intervals. Essentially, the terms of payment conform with the generally established practice in the automotive industry (payment on the 25th of the month following invoice date), which means an average period of 40 days is allowed for payment. A common feature of work contracts is that they involve longer project durations: consequently, individual payment agreements in the form of payment schedules based on milestones are generally an element of these contracts.

With service contracts, the transaction price usually consists of a fixed payment per time unit. As with work contracts, the generally established practice in the automotive industry also applies to service contracts. Project durations of less than a year are typical of service contracts.

Close cooperation and coordination with the customers within the individual projects are characteristic of customer-specific contractual obligations. On completion, and once power of disposition has been conferred, final inspection and acceptance is carried out in the case of a work contract, and in the case of service contracts, the time sheets are countersigned. As a general rule, take-back, reimbursement and similar obligations are precluded following final acceptance by the customer, as are guarantees associated with the contractual obligation.

The EDAG Group has undertaken a complete retrospective application of the new standard, in compliance with IFRS 15.C3. No use was made of the exceptions. Application of the IFRS 15 standard did not have any material effect on the presentation of the assets, financial position and financial performance of the EDAG Group. The effects resulted from the conversion of contracts with customers, for which the revenue will from now on be recognized with reference to a point in time. In such cases, unfinished goods and services will in future be recognized as inventories until the revenue is recognized. The cumulative effect on earnings on January 1, 2017 amounts to € 1,242 thousand, and is recognized directly in consolidated equity and retained earnings. The changeover effect is equivalent to 0.8 percent of the consolidated equity.

- **IFRS 9** – Financial Instruments shall be applied for the reporting period beginning on or after January 1, 2018:
  On July 24, 2014, IASB published the standard IFRS 9 "Financial Instruments", which replaces IAS 39. IFRS 9 includes amended specifications for the classification and valuation of financial assets and a new risk prevention model, which will now take expected losses into account for the calculation of the provisions for risks. In addition, the new hedge accounting provisions published in November 2013 have now been included in the final version of IFRS 9.
  The EDAG Group has undertaken a complete retrospective application of the new standard, in compliance with IFRS 9.7.2.1. In conformity with the applicable transitional provisions, the figures for the previous year have not been adjusted. Application of the IFRS 9 standard did not have any material effect on the presentation of the assets, financial position and financial performance of the EDAG Group. The effects resulted from the conversion of the impairment model. The impairment model under IAS 39 was based on the incurred loss model, whereas IFRS 9 introduces the expected credit loss model. These amended valuation methods lead to an increase in the provisions for risks. No material effects resulted from the first-time adoption of the classification and valuation principles outlined in IFRS 9. The cumulative effect on earnings on January 1, 2018 amounts to € 114 thousand, and is recognized directly in consolidated equity and retained earnings. The changeover effect is equivalent to 0.1 percent of the consolidated equity.
- **IFRS 2** – Classification and valuation of share-based payment transactions (IASB publication: June 20, 2016; EU endorsement: February 26, 2018)
- **IFRS 4** – Application of IFRS 9 Financial Instruments in conjunction with IFRS 4 Insurance Contracts (IASB publication: September 12, 2016; EU endorsement: November 3, 2017)
- Annual improvements to IFRS standards 2014 – 2016 (IASB publication: December 8, 2016; EU endorsement: February 7, 2018)

- **IFRIC 22** – Foreign Currency Transactions and Advance Consideration (IASB publication: December 8, 2016; EU endorsement March 28, 2018)
- **IAS 40** – Amendment: Classification as investment property (IASB publication: December 8, 2016; EU endorsement March 14, 2018)

The following summary outlines the adjustment amounts from the first-time adoption of IFRS 15 and IFRS 9:

| in € thousand | 1/1/2017 | IFRS 15 | 1/1/2017 revised | 1/1/2018 revised | IFRS 15 | IFRS 9 | 1/1/2018 revised |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| **Non-current assets** | **188,825** | **-** | **188,825** | **198,067** | **24** | **42** | **198,133** |
| *thereof* Investments accounted for using the equity method | 15,434 | - | 15,434 | 16,111 | 24 | - | 16,135 |
| *thereof* Deferred tax assets | 1,109 | - | 1,109 | 2,513 | - | 42 | 2,555 |
| **Current assets** | **241,591** | **1,136** | **242,727** | **244,409** | **-** | **- 140** | **244,269** |
| *thereof* Inventories | 1,584 | 7,591 | 9,175 | 3,888 | - | - | 3,888 |
| *thereof* Future receivables from construction contracts | 86,881 | - 86,881 | - | - | - | - | - |
| *thereof* Current contract assets | - | 80,426 | 80,426 | 67,659 | - | - 18 | 67,641 |
| *thereof* Current accounts receivables | 115,585 | - | 115,585 | 141,040 | - | - 118 | 140,922 |
| *thereof* Current other financial assets | 2,452 | - | 2,452 | 2,081 | - | - 4 | 2,077 |
| **TOTAL assets** | **430,416** | **1,136** | **431,552** | **442,476** | **24** | **- 98** | **442,402** |

| in € thousand | 1/1/2017 | IFRS 15 | 1/1/2017 revised | 1/1/2018 revised | IFRS 15 | IFRS 9 | 1/1/2018 revised |
|---|---|---|---|---|---|---|---|
| **Equity, liabilities and provisions** | | | | | | | |
| **Equity** | **152,764** | **- 1,242** | **151,522** | **147,517** | **24** | **- 98** | **147,443** |
| *thereof* Retained earnings | 123,375 | - 1,242 | 122,133 | 118,869 | 24 | - 114 | 118,779 |
| *thereof* Reserves from profits and losses recognized directly in equity | - 9,955 | - | - 9,955 | - 9,201 | - | 16 | - 9,185 |
| **Non-current liabilities and provisions** | **126,299** | **- 532** | **125,767** | **37,680** | **-** | **-** | **37,680** |
| *thereof* Deferred tax liabilities | 6,691 | - 532 | 6,159 | 3,061 | - | - | 3,061 |
| **Current liabilities and provisions** | **151,353** | **2,910** | **154,263** | **257,279** | **-** | **-** | **257,279** |
| *thereof* Current provisions | 9,485 | 352 | 9,837 | 8,931 | - | - | 8,931 |
| *thereof* Future liabilities from construction contracts | 29,689 | - 29,689 | - | - | - | - | - |
| *thereof* Current contract liabilities | - | 26,999 | 26,999 | 39,290 | - | - | 39,290 |
| *thereof* Current other non-financial liabilities | 49,273 | 5,248 | 54,521 | 53,289 | - | - | 53,289 |
| **TOTAL Equity, liabilities and provisions** | **430,416** | **1,136** | **431,552** | **442,476** | **24** | **- 98** | **442,402** |

Due to the first-time adoption of IFRS 15, sales revenues increased by the amount of € 1,804 thousand to € 718.536 in the 2017 financial year, and profits increased by the amount of € 1,165 thousand to € 15,519 thousand. As a result, the undiluted/diluted earnings per share rose accordingly in 2017, by € 0.05 to € 0.62.

### b) Standards, interpretations and changes to published standards, which are not yet mandatory for 2018, and which have not been applied prematurely by the company

The new changed or revised accounting standards will be applied, without exception, from the time when use is compulsory in each given case.

| | Standard / Interpretation[2] | Published by the IASB | Compulsory use | Endorsement by EU-Commission | |
|---|---|---|---|---|---|
| | | | | Effected on | Planned for |
| IFRS 16 | Leases | 01/13/2016 | 01/01/2019 | 10/31/2017 | |
| IFRS 17 | Insurance Contracts | 05/18/2017 | 01/01/2021 | | open |
| IFRIC 23 | Uncertainty over Income Tax Treatments | 06/07/2017 | 01/01/2019 | 10/23/2018 | |
| IFRS 9 | Prepayment Features with Negative Compensation | 10/12/2017 | 01/01/2019 | 03/22/2018 | |
| IAS 28 | Long-term Interests in Associates and Joint Ventures | 10/12/2017 | 01/01/2019 | 02/08/2019 | |
| Various | Annual Improvements to IFRS Standards 2015–2017 Cycle | 12/12/2017 | 01/01/2019 | | Q1 2019 |
| IAS 19 | Plan Amendment, Curtailment or Settlement | 02/07/2018 | 01/01/2019 | | Q1 2019 |
| Framework | Amendments to References to the Conceptual Framework in IFRS | 03/29/2018 | 01/01/2020 | | 2019 |
| IFRS 3 | Amendments | 10/22/2018 | 01/01/2020 | | 2019 |
| IAS 1/ IAS 8 | Amendments: Definition of Material | 10/31/2018 | 01/01/2020 | | 2019 |

[2] *Until 12/31/2018*

**IFRS 16** – Leases should be applied for reporting periods beginning on or after January 1, 2019:
The standard published by IASB in January 2016 was adopted as European law in October 2017. This standard replaces IAS 17 "Leases" and associated interpretations (IFRIC 4, SIC-15 and SIC-27). It introduces a standardized accounting model for lessees, according to which the rights of use and liabilities for all leasing contracts must as a general rule be recognized with a lease term of twelve months. On the other hand, leasing contracts relating to low value assets are for the most part exempt from accounting obligations. This means that there will no longer be any differentiation between operating and financing leases for lessees in the future. As a result, the right of use is depreciated on a straight line basis and the lease liability valued using the effective interest method. The rules and regulations for lessors remain largely unchanged, although there may be differences in the details, for instance with subleasing, sale and leaseback transactions. EDAG Group AG and its companies act both as lessees and as lessors.

The application of IFRS 16 – Leases will have far-reaching effects on the financial figures of the EDAG Group:

EDAG will make use of the recognition exemption option set out in IFRS 16.5 for short-term leases and for leases for which the underlying asset is of low value, and will not be issuing a statement of financial position valuation for the leases in question. Furthermore, EDAG will refrain from using IFRS 16 for leases on the intangible assets described in IFRS 16.4. EDAG will also make use of the practical expedient in accordance with IFRS 16.15, to dispense with the separation of non-leasing and leasing components with regard to leases for IT hardware, technical equipment and machinery, and for operating and office equipment.

EDAG will apply IFRS 16 retrospectively in accordance with IFRS 16.C5(a). The resultant effects of the first-time adoption of the standard are recognized directly in retained earnings. Accordingly, comparable figures from the previous year will be adjusted as though IFRS 16 had always been applied. On the date of first-time adoption, EDAG will, for the time being, continue to refrain from reassessing whether an agreement constitutes or implies a lease, in accordance with IFRS 16.C3.

At the time of transition, the EDAG Group will apply IFRS 16 for agreements, assets and liabilities previously classified as operating leases in accordance with IAS 17. These primarily include office buildings, warehouses, production facilities and cars. The lease liabilities are expected to increase by € 148.3 million due to the first-time adoption of IFRS 16 on January 1, 2018. As a result of the significant increase in lease liabilities, the net financial debt will increase accordingly. At the same time, with effect from January 1, 2018, assets in the amount of € 139.3 million will be recognized for the rights to use leasing items. On January 1, 2018, the cumulative preliminary effect recognized directly in retained earnings on account of the switch to IFRS 16 amounts to € 8.5 million, and represents 5.8 percent of the consolidated equity.

**c) Synoptic Presentation of the Main Differences between IFRS IASB and IFRS EU**

IFRS 14 Regulatory Deferral Accounts (IASB publication: January 30, 2014; EU endorsement: no): The provisions of this standard apply to an entity's first annual IFRS financial statements in accordance with IFRS 1, and are regarded as an interim standard. At the end of 2015, the European Commission decided not to adopt this interim measure, and instead to wait for the IASB's final, comprehensive ruling.

The adoption of the full IFRS-IASB compared to the IFRS-EU, would not have any significant effects on the assets, financial position and financial performance.



## Consolidation Principles

The basis for the preparation of the consolidated financial statement is formed by the individual financial statements of EDAG Group AG and its subsidiaries which have been presented pursuant to IAS 10, according to standardized accounting and valuation methods. All the companies included – with the exception of EDAG Engineering & Design India Private Limited, New Delhi/India and EDAG Technologies India Private Limited, New Delhi/India – use the calendar year as their financial year.

The country-specific financial statements of the Indian companies are prepared as of March 31. However, as of the balance sheet date December 31, interim financial statements were prepared according to the IFRS requirements.

Capital consolidation is carried out according to the purchase method described in IFRS 3, by offsetting the acquisition costs for the company merger against the proportional equity capital of the subsidiary included in the consolidated financial statement upon first-time consolidation. In order to determine the proportional equity capital at the time of acquisition, a valuation of all identifiable assets, debts and contingent liabilities of the acquired company is carried out, including those which were not applied by the acquired company, at their fair values applicable at the date of acquisition. Non-current assets held for sale pursuant to IFRS 5 are valued at their fair value less costs to sell.

Should the acquisition costs exceed the fair value of the Group's share of the identifiable assets, liabilities and provisions and contingent liabilities of the subsidiary as of the acquisition date, the excess is allocated to one or several Cash Generating Units (CGU) and accounted for separately as goodwill. At least once a year – more frequently if there is reason to believe this is indicated – an impairment test is carried out to check the intrinsic value of the company's goodwill. In the event of impairment, unscheduled amortization is carried out. In the event of the disposal of a subsidiary, the attributable share of the goodwill is taken into account when calculating the result of the disposal.

Non-controlling interest represents the proportion of the result and the net assets which is not attributable to the shareholders of the Group. Shares of other shareholders are shown separately in the Group statement of comprehensive income and in the Group statement of financial position according to their shares in the fair values of the identifiable assets, liabilities and provisions and contingent liabilities. This item is reported under equity in the Group statement of financial position, separately from the equity attributable to the shareholders of the parent company.

Assets and liabilities, and also sales revenues, expenses and income between consolidated companies have been offset. No significant effects result from the intercompany profit consolidation, taking deferred taxes into account.

The first-time valuation of associated companies is carried out at acquisition cost. For the subsequent valuation, the share of the profits and losses generated after the acquisition of the company accounted for using the equity method is recorded through profit or loss and the investment valuation increased or decreased accordingly. The investments valued using the equity method are recorded with the proportional, newly valued equity capital. The statement of comprehensive income includes the Group's share in the success of the associated company. Changes reported directly in the equity of the associated company are recorded by the Group in the amount of its share and - if applicable - reported in the statement of changes in Group equity. Profits and losses from transactions between the Group and the associated company are eliminated in proportion to the share in the associated company. The balance sheet date and the accounting and valuation methods for similar business transactions and results under comparable circumstances of the associated company and the Group correspond.

## Scope of Consolidation

In addition to EDAG Group AG, all material subsidiaries are included in the consolidated financial statement. Subsidiaries are companies in which EDAG Group AG exercises direct or indirect control.

Control exists when a parent company is subject to variable returns from its involvement with the subsidiary, or is entitled to and has existing rights (articles of association, company contract or a contractual agreement) that grant the ability to affect those returns through its power over the subsidiary.

With all such investments, this is based on the majority of voting rights held directly or indirectly by the parent company. The financial statements of the subsidiaries are included in the consolidated financial statements by means of consolidation from the date of gaining control until the parent company ceases to control the subsidiary.

In addition to EDAG Group AG, the consolidated financial statement includes the companies included in the list of shareholdings in the notes, which are fully consolidated as per IFRS 10.

As the inclusion of several companies individually and overall is of little importance with regard to the obligation to give a fair presentation of the net assets, financial position and financial performance of the Group, this has been waived. These subsidiaries have been reported at acquisition costs, as per IFRS 9 (see chapter 5.8 "Shareholdings" in the notes).

The following German incorporated and registered partnerships controlled according to IFRS 10 were included in the consolidated financial statements and group management report of EDAG Engineering Group AG, Arbon, Switzerland, in accordance with the regulations set out in § 292 para. 1 HGB (German Commercial Code) in conjunction with § 291 para. 1 HGB

(German Commercial Code). The conditions for exemption from the preparation of their own consolidated financial statement have been fulfilled:

- EDAG Engineering Holding GmbH, Munich
- EDAG Engineering GmbH, Wiesbaden
- EDAG Production Solutions GmbH & Co. KG, Fulda
- BFFT Holding GmbH, Wiesbaden
- BFFT Gesellschaft für Fahrzeugtechnik mbH, Gaimersheim

Companies on which EDAG Group AG can, through involvement in their financial and business policies, have a significant effect (associated companies) are accounted for using the equity method as per IAS 28. As a general rule, "a significant effect" is assumed in cases where the share of voting rights is between 20 and 50 percent. Determination of when exactly the associated companies will be included in, or withdrawn from, the circle of companies to be accounted for using the equity method is analogous to the principles applicable to subsidiaries.

In the period January 1, 2018 to December 31, 2018, the group of combined or consolidated companies developed as follows:

| | Switzerland | Germany | Others | Total |
|---|---|---|---|---|
| **Fully consolidated companies** | | | | |
| **Included as of 01/01/2018** | **3** | **8** | **27** | **38** |
| Withdrawn in current financial year | - | - | 1 | 1 |
| **Included as of 12/31/2018** | **3** | **8** | **26** | **37** |
| **Companies accounted for using the equity method** | | | | |
| **Included as of 01/01/2018** | **-** | **1** | **-** | **1** |
| **Included as of 12/31/2018** | **-** | **1** | **-** | **1** |
| **Companies included at acquisition cost** | | | | |
| **Included as of 01/01/2018** | **-** | **2** | **-** | **2** |
| Included for the first time in current financial year | - | 1 | - | 1 |
| **Included as of 12/31/2018** | **-** | **3** | **-** | **3** |

The companies included at acquisition cost are for the most part non-operational companies and general partners, and are not included in the scope of consolidation. The company accounted for using the equity method that is included is an associated company.

VR-Leasing Malakon GmbH & Co Immo. VR-Leasing Malakon GmbH & Co Immo. KG is included as a fully consolidated company, although the Group holds only 25 percent of the voting rights. On the other hand, it has an almost 100 percent share in the capital. Agreements under company law, however, result in control by EDAG in accordance with IFRS 10.7. EDAG is under no obligation to grant the company financial assistance. EDAG has not in the past voluntarily granted any such financial assistance, nor does the company have any intention of doing so in the future.

With the entry in the commercial register on May 11, 2018, EDAG Engineering GmbH acquired 100 percent of all the shares in EDAG EE Treuhand GmbH. The acquired company is a shelf company. The company is included at acquisition cost.

EDAG Production Solutions Korea Ltd., South Korea was liquidated on October 31, 2018.



## Currency Conversion

For initial recognition, foreign currency transactions in the individual annual financial statements accounts of the Group companies included are valued using the exchange rate at the time of the business transaction. Monetary assets and debts in a foreign currency (cash and cash-equivalents, receivables and liabilities) are valued at the value on the balance sheet date. The exchange rate gains and losses arising from the valuation or settlement of monetary items are shown in the statement of comprehensive income. Equity and non-monetary items are valued at historical rates.

The annual financial statements of the foreign Group companies are converted into euros, on the basis of the concept of functional currency, as per the modified reporting date rate method (functional currency of the key Group companies). Due to the fact that the subsidiaries conduct their business with financial, commercial and organizational independence, the functional currency is always identical to the national currency of the company in question. In the consolidated financial statements, therefore, the expenses and revenues from subsidiaries' financial statements drawn up in a foreign currency are converted at average rates of exchange for the year, while assets and liabilities are converted at year-end exchange rates. The currency difference arising from the conversion of equity is posted in other comprehensive income. The conversion differences resulting from differing exchange rates between the statement of financial position and the statement of comprehensive income are also disclosed in this separate item and recognized directly in equity. When dealing with the disposal of a subsidiary, the currency translation differences recorded in equity during the years it belonged to the group are reversed to profit or loss.

Currency conversion was based on the following exchange rates.

| Country | Currency | 12/31/2018 | 2018 | 12/31/2017 | 2017 |
|---|---|---|---|---|---|
| | 1 EUR = Nat. currency | Spot rate on balance sheet date | Average exchange rate for period | Spot rate on balance sheet date | Average exchange rate for period |
| Great Britain | GBP | 0.8945 | 0.8847 | 0.8872 | 0.8762 |
| Brazil | BRL | 4.4440 | 4.3086 | 3.9729 | 3.6043 |
| USA | USD | 1.1450 | 1.1817 | 1.1993 | 1.1294 |
| Malaysia | MYR | 4.7317 | 4.7646 | 4.8536 | 4.8502 |
| Hungary | HUF | 320.9800 | 318.8108 | 310.3300 | 309.2538 |
| India | INR | 79.7298 | 80.7309 | 76.6055 | 73.5002 |
| China | CNY | 7.8751 | 7.8081 | 7.8044 | 7.6265 |
| Mexico | MXN | 22.4921 | 22.7152 | 23.6612 | 21.3316 |
| Czech Republic | CZK | 25.7240 | 25.6418 | 25.5350 | 26.3265 |
| Switzerland | CHF | 1.1269 | 1.1548 | 1.1702 | 1.1116 |
| Poland | PLN | 4.3014 | 4.2603 | 4.1770 | 4.2561 |
| Romania | RON | 4.6635 | 4.6540 | 4.6585 | 4.5688 |
| Russia | RUB | 79.7153 | 74.0496 | 69.3920 | 65.8864 |
| Sweden | SEK | 10.2548 | 10.2555 | 9.8438 | 9.6364 |
| Japan | JPY | 125.8500 | 130.4107 | 135.0100 | 126.6617 |
| South Korea | KRW | 1,277.9300 | 1,299.4465 | 1,279.6100 | 1,275.8247 |

## Accounting and Valuation Principles

The consolidated financial statement has been prepared on the basis of historical acquisition/production costs. The one exception to this rule are specific financial instruments which are reported on the basis of their fair value.

When preparing the consolidated financial statement for the year ending December 31, 2018, the same basic accounting and valuation methods were applied as for calculating the comparative figures, with the exception of accounting standard IFRS 9, which was applied for the first time in the 2018 financial year.

**Realization of Income and Expenses**

Income is measured at the fair value for the consideration received or to be received for the sale of goods and services, less the discounts, price reductions and volume discounts granted by the company. VAT and other duties are not taken into account. Income is reported if the economic benefit is likely to accrue to the Group, and the amount of the income can be reliably ascertained.

Interest income and expenses are posted on a pro rata temporis basis, applying the effective interest method. Dividends are recorded when entitlement is legally effective.

Unlike income, revenue is incurred only within the context of the ordinary business activity.

Operating expenses are posted as costs when the service is utilized, or at the time they are incurred.

**Contracts with Customers**

Contracts with customers are recognized in accordance with IFRS 15. Accordingly, sales revenues from ordinary business activities are to be recognized when the customer obtains control of the promised goods and services, and can benefit from them. Another requirement for revenue to be recognized is that EDAG is likely to receive the consideration. Revenue is to be evaluated with the amount of consideration the company expects to receive. The standard establishes a five-step model for recognizing revenue, and first of all requires identification of the contract with a customer and of the performance obligations in the contract. If several performance obligations can be identified in a contract (multi-component contracts), these are evaluated separately. Following this, the transaction price of the contract with the customer must be determined and the separate performance obligations allocated on the basis of a relative standalone selling price. Finally, the new standard requires recognition of revenue for each performance obligation in the amount of the allocated proportionate transaction price as soon as the promised goods have been delivered or services rendered, or the customer has obtained control of the goods/services (control model). EDAG recognizes revenue over time if one of the following three criteria is met:

a) The customer receives and makes use of the benefits provided by the entity's performance at the same time as the entity is performing (IFRS 15.35 a)).
b) An asset is created or enhanced by the entity's performance (e.g. services in process), and the customer has control over the asset while it is being created or enhanced (IFRS 15.35 b)).
c) An asset which is of no alternative use to the entity is created by the entity's performance, and the entity has an enforceable right to payment for performance completed to date (IFRS 15.35 c)).

***Performance Obligations***

The performance obligations at EDAG take the form of supplying services, predominantly in customer-specific construction contracts (project business) carried out within the scope of work contracts. For a more detailed explanation of the type of services, see chapter "Business Model" in the Group Management Report. Throughout the duration of the project, revenue from the fulfillment of the performance obligations is regularly recognized over time, in accordance with the percentage of completion. This is the case if EDAG can adequately measure both the revenue amount and performance progress in terms of the complete fulfillment of the performance obligation (percentage of completion method, PoC method). To measure the percentage of completion or performance progress, EDAG uses an input-oriented process (cost-to-cost) which places any costs incurred up to the accounting date and any costs anticipated until the order has been completed in relation to one another. The crucial factor is whether, in the event of early termination of a contract, EDAG has an enforceable entitlement to payment of an amount that will cover the performance provided up to the accounting date, and therefore also any costs incurred, plus a reasonable profit margin for the performance obligation concerned. This is the case in EDAG's key sales countries. The percentage of completion is ascertained on the basis of the costs incurred by the balance sheet date, as a percentage rate of the total costs estimated for the respective project. If the result of a construction contract cannot be reliably forecast, income is only posted to the extent to which the costs incurred can be recovered (zero-profit method).

Service contracts in accordance with § 611 et seq. of the German Civil Code (BGB) in the sense of IFRS 15.35(a) and deliveries in accordance with § 433 BGB play only a minor role in the EDAG Group, as the scope of such contractual arrangements is small. For the most part, EDAG works on construction contracts in the sense of IFRS 15.35(c) and and has

therefore generally entered into work contracts in accordance with § 631 et seq. BGB with its customers.
Payment of the transaction prices for the contractual obligations under work contracts takes the form of fixed payments made at regular intervals. Essentially, the terms of payment conform with the generally established practice in the automotive industry (payment on the 25th of the month following invoice date), which means an average period of 40 days is allowed for payment. A common feature of work contracts is that they involve longer project durations: consequently, individual payment agreements in the form of payment schedules based on milestones are generally an element of these contracts.

With service contracts, the transaction price usually consists of a fixed payment per time unit. As with work contracts, the generally established practice in the automotive industry also applies to service contracts. Project durations of less than a year are typical of service contracts.

Close cooperation and coordination with the customers within the individual projects are characteristic of customer-specific contractual obligations. On completion, and once power of disposition has been conferred, final inspection and acceptance is carried out in the case of a work contract, and in the case of service contracts, the time sheets are countersigned. As a general rule, take-back, reimbursement and similar obligations are precluded following final acceptance by the customer, as are guarantees associated with the contractual obligation.

The performance obligations remaining on the reporting date (orders on hand) are equivalent to a transaction price in the amount of € 298.5 million (12/31/2017: € 340.0 million) and include performance obligations from work, service and sales contracts.

The following table sets out the planned realization of revenues:

| in € thousand | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Subsequent year | 255,511 | 266,962 |
| Subsequent year +1 until n years | 43,033 | 73,056 |
| **Total** | **298,544** | **340,018** |

Due to the complexity of the customer-specific performance obligations to be met by EDAG, the actual realization of revenues may diverge from the planned realization of revenues, particularly on account of rescheduling on the part of the customer.

***Contract Balances***

The contractual assets and liabilities shown in the statement of financial position are generated as a result of surplus performance or performance obligations at contract level.

In the contract assets, the performance obligations - both for services and for customer-specific construction contracts - for which income has been accounted for with the PoC method are posted after the advance payments received have been deducted. Should the advance payments received in relation to the individual performance obligation exceed the performance obligation accounted for with the PoC method, this is reported in the "contractual liabilities". Expected losses from performance obligations are initially deducted from assets, taking the status on the financial reporting date, and the full amount of the remaining loss is immediately posted to onerous contracts.

By its very nature, project business - the core business of the EDAG Group - entails opportunities and risks, and, on account of customer-specific performance obligations, is subject to a wide variety of influencing factors. Major projects are usually highly complex and are often being worked on simultaneously in different countries. Continual project management and regular project evaluations influence the contract balances accordingly.

Depending on whether or not the customer has control over the agreed performance obligation on the reporting date or the customer has effected payment on the basis of an agreed payment schedule, this will have a corresponding effect on the amount of the contract balances recorded.

**Research and Development Costs**

For accounting purposes, research costs are defined as costs relating to targeted investigations which are intended to deliver new scientific or technical findings and insights. Development costs are defined as expenses relating to the application of research results or technical knowledge in production, production processes, services or goods prior to the start of commercial production or use. The EDAG Group mainly provides customers with development services which can then be capitalized within the context of a customer project, and subsequently accounted for.

Research costs are immediately recorded through profit and loss. Development costs are capitalized if they fulfil specific, precisely defined valuation criteria (IAS 38.57). Capitalization is effected if the development activity is sufficiently certain to lead to future inflows of funds which will also cover the corresponding development costs.

Production costs include directly attributable costs and directly attributable material and production overheads, and also interest on borrowed capital, where this is applicable.

Depreciation begins on completion of development, when the asset is available for use. Depreciation is on a straight line basis, over the period during which sales revenues are anticipated. During the development period, in which the asset is not yet ready for use, it is reviewed annually with regard to impairment.

In the reporting year, research and development expenses amounting to € 6,272 thousand (2017: € 5,088 thousand) were incurred.



**Other Intangible Assets**

Intangible assets are posted as per IAS 38 ("Intangible Assets"), and capitalized accordingly if (a) the intangible asset is identifiable (i.e. it is separable or results from contractual or other right), (b) it is likely that the future economic benefit (e.g. liquid funds or other benefits, such as cost savings) which results from the asset will flow to the company and, (c) the costs of the intangible asset can be reliably measured. The intangible assets of the EDAG Group include customer relations, concessions, industrial property rights and similar rights, IT software, and capitalized development costs.

Intangible assets acquired for consideration are capitalized at acquisition cost and written off over their useful life. The depreciation of intangible assets, with the exception of goodwill, is always carried out on a straight line basis, over the following period:

| | Years |
|---|---|
| Customer relations | 8 – 10 |
| Capitalized orders on hand | 1 |
| Capitalized development services | 3 – 5 |
| Concessions, industrial property rights and similar rights | 4 – 6 |
| IT software | 3 – 8 |

Depreciation begins as soon as the asset can be used, i.e. when it is at the location and in the condition necessary for it to be capable of operating in the manner intended by management. Impairments are accounted for by means of unscheduled depreciation. Should reasons for unscheduled depreciation be discontinued, corresponding write-ups are carried out to the recoverable amount, which must not exceed the acquisition costs carried forward.

The development costs for a project are only capitalized as an intangible asset if the technical implementation, the intention of completion and the utilization or sale of the intangible asset can be demonstrated. Production costs cover the directly and indirectly attributable costs, and also, in the case of qualified assets in accordance with IAS 23, borrowing costs incurred during the production period. Depreciation is on a straight-line basis over their estimated useful lives, which as a rule is not longer than five years.

In cases in which no own intangible asset can be recognized, the development costs are recognized as expenses in the period in which they occur.

Goodwill is checked for possible impairment once a year. In the event of incidents or changed circumstances indicating a possible reduction in value, the impairment review is to be carried out more frequently. Further details of the procedure to be followed in the annual impairment tests can be found in the section "Impairment".

**Impairment**

For each balance sheet date, or more frequently should incidents indicate the necessity, the Group checks the book values of the intangible assets and property, plant and equipment, to determine whether there is any evidence indicating impairment. Should this be the case, the recoverable amount of the asset in question is ascertained and compared with its book value, to determine the value of any adjustment that might need to be made. Should it not be possible to determine a recoverable amount for an individual asset, the recoverable amount is to be determined for the smallest identifiable group of assets which generate cash and to which the individual asset can be allocated (cash-generating units).

The goodwill is divided up and assigned to the CGUs, and recoverability is checked at this level. The net book value of the CGUs is compared with their recoverable amount, i.e. the higher amount of fair value less the cost of disposal and value in use. The net selling price is the revenue which can be obtained by selling an asset in a transaction using market conditions between two qualified parties willing to enter into a contract (fair value), less disposal costs. The EDAG Group first determines the value in use in the course of the impairment test. Should this prove to be lower than the book value, the net disposal value after deduction of the disposal costs is determined. The cash generating unit's value in use is equal to the present value of the cash flow which, taking into account the continual usage of the strategic business unit and its disposal, can be expected at the end of its useful life. Payment prognosis is based on the current, long-term plans of the EDAG Group. The planning period is three years. At EDAG, the cost of capital is calculated as the weighted average of the equity and debt capital costs; the crucial factor here being the proportion of each of the total capital. The equity cost rate is determined with the Capital Asset Pricing Model (CAPM), from a zero-coupon bond interest rate with a time to maturity of 30 years plus a risk premium equivalent to one of the separate CGUs. The cost of equity amounts to 8.27 percent (2017: 8.20 percent). The borrowing costs used amount to 3.08 percent (2017: 2.49 percent), and represent the long-term funding conditions. Both components are derived from information on the capital market, and represent an interest rate before tax. The resulting WACC[3] is 10.17 percent before taxes (2017: 10.23 percent). There are no specific capitalization rates for the segments, as the peer group is identical in all cases.

*[3] WACC = Weighted Average Cost of Capital*

The planning is based on expectations with regard to the future development of the global economy, on assumptions derived from the development of the engineering market, and on concrete customer commitments relating to individual projects. A perpetuity growth rate of 1 percent (previous year: also 1 percent) has been taken into account.

In cases in which the book value of the cash generating unit is higher than its recoverable amount, there is a depreciation loss in the amount of the difference. Taking the amount of this adjustment which is posted as expense, the first step is to amortize the goodwill of the strategic business unit concerned. Any remaining sum is spread, proportional to the book values, across the other assets of the relevant strategic business unit. The following table shows the EDAG Group's CGUs along with their goodwill.

| in € thousand | 2018 | 2017 |
|---|---|---|
| Vehicle engineering | 48,583 | 48,783 |
| Production solutions | 5,389 | 5,168 |
| Electrics/electronics | 20,367 | 20,408 |
| **Total** | **74,339** | **74,359** |

As in the comparative period, there was no need for adjustments to be made to goodwill. Even if the equity cost rate is increased by 100 basis points, there is still no need for any adjustment to be made to the cash generating units. The same applies to a reduction of the perpetuity by 100 basis points.

Should reasons for unscheduled depreciation be discontinued, corresponding write-ups are carried out. Write-ups are only carried out if changes have been made to the estimates used to determine the recoverable amount since the last time the expense incurred for impairments was recorded. If this is the case, then the book value of the asset is increased to its recoverable amount, but not more than its carried-forward acquisition cost, without taking into account any expense for impairment. Unscheduled depreciation of goodwill is not corrected by means of write-ups.

Unscheduled depreciations and/or write-ups are recorded as operating results in the statement of comprehensive income if continued operations are involved. This does not apply, however, to newly rated assets if the profit/loss arising from the revaluation is recorded under other comprehensive income. In this case, the depreciation is recorded in other comprehensive income, up to the amount from a previous revaluation.

**Property, Plant and Equipment**

Property, plant and equipment are recognized in accordance with IAS 16 and capitalized accordingly if (a) it is likely that the company will derive future economic benefit, and (b) the acquisition or production cost of the plant and equipment can be valued reliably.

Property, plant and equipment are valued at historical acquisition or production cost less scheduled, straight-line depreciation. Unscheduled depreciation is recognized if impairments exist. According to IAS 36 (Impairment of Assets), such impairments are ascertained on the basis of comparisons with the discounted future cash flows of the corresponding CGU.

The following useful lives are used as a basis for depreciation:

| | Years |
|---|---|
| Buildings | 10 – 50 |
| Technical equipment | 12 – 25 |
| Machinery | 8 – 25 |
| Vehicle fleet | 5 |
| Hardware | 3 – 4 |
| Other operating and office equipment | 3 – 20 |

Buildings and installations on external properties are depreciated over the term of the rental contracts or their useful life, if this is lower.

The acquisition costs are composed of the acquisition price, ancillary acquisition costs and subsequent acquisition costs, less acquisition price reductions received. If an obligation exists to shut down or dismantle a property, plant or equipment asset at the end of its useful life, or to restore a site to its former condition, the estimated cost of this work increases the acquisition cost of the asset, which is seen alongside a provision to be posted on the liability side.

In addition to directly attributable costs, the production costs for self-built facilities also include directly attributable material and production overheads, as well as the general administration costs for the divisions dealing with building the facility. Tools that are owned by the Group are capitalized at acquisition or production cost.

Investment subsidies and allowances are offset against acquisition or production costs. Capitalization of subsequent acquisition or production costs is carried out if a future economic benefit will accrue from the costs associated with the property, plant and equipment. Maintenance and repairs are recognized as costs.

Property, plant and equipment are split into components at the lowest level, if these components have useful lives which differ significantly from one another and these components will probably need to be replaced or overhauled at some point during the entire life of the facility.

Profits or losses on asset disposals are posted under other operating income or expenses. Property, plant and equipment is derecognized either on disposal, or at such time as no further economic benefit is anticipated from the continued use or disposal of the asset.

**Leasing**

*Group as the Lessee*

Leasing transactions are classified either as finance leases or operating leases. Leasing transactions in which the Group, as the lessee, bears all the significant risks and rewards associated with ownership are treated as finance leases. Accordingly, the Group capitalizes the leasing object at the time of concluding the leasing relationship at either the fair value or the net present value of the minimum leasing installments, whichever is lower, and then depreciates the leasing object over the estimated useful economic life or the shorter contractual period. At the same time, a corresponding liability is created which is repaid and carried forward during the subsequent period, according to the effective interest method. All other leasing transactions in which the Group acts as lessee are treated as operating leases. In this case, leasing payments are recognized as expenses on a straight line basis, throughout the contract period.

*Group as the Lessor*

Leases which do not substantially transfer all the risks and rewards associated with ownership from the Group to the lessee are classified as operating leases. Initial direct costs incurred on account of the negotiations relating to and the conclusion of an operating leasing contract are added to the book value of the leased object and recognized as expenses corresponding to the income from rents, throughout the contract period.

**Public Sector Benefits**

Public sector benefits are only recorded if there are reasonable grounds for certainty that the associated conditions can be fulfilled and the benefits granted.

Taxable and tax-exempt state benefits for the acquisition of non-current assets are posted as a reduction of the acquisition and manufacturing costs for the acquired and self-produced assets. Profit-related benefits are always recognized in the income statement in the periods during which the expenses to be compensated for are incurred. In contrast, subsidies for short-time working benefit are presented using the equity method.

**Inventories**

Assets which are held for sale in the ordinary course of business (finished goods, finished services and merchandise), which are being produced for sale (unfinished goods and services), or which are utilized within the context of manufacturing products or supplying services (raw materials and supplies) are reported as inventories in accordance with IAS 2.

Inventories are valued either at acquisition or manufacturing cost or at their net sales value, whichever of the two is the lower, i.e. the recoverable sales proceeds during the ordinary course of business, less the estimated production and sales costs. The acquisition or manufacturing costs of inventories include all costs of acquisition and manufacturing which have been incurred in order to place the inventories at the current location and in their current condition. Acquisition or manufacturing costs are determined on the basis of the average method. The manufacturing costs include all directly attributable costs and production-related material and production overheads, including depreciation on production-related assets. Inventory risks that result from limited viability or a substantial storage period are taken into account by making corresponding adjustments. Administration costs are taken into account if they are attributable to production.

**Financial Instruments**

*General Information*

A financial instrument is a contract that simultaneously results in the creation of a financial asset for one entity and a financial liability or equity capital instrument for another entity.

Financial assets as defined in IFRS 9 cover financial assets which are either measured at amortized cost [AC], at fair value through other comprehensive income [FVtOCI] or at fair value through profit or loss [FVtPL]. In particular, these include cash and cash-equivalents, accounts receivable, other granted loans and receivables and original and derivative financial assets held for trading purposes.

Financial liabilities regularly constitute claims for repayment in cash or another financial asset. In the sense of IFRS 9, these include financial liabilities measured at fair value through profit or loss [FVtPL], and financial liabilities that are measured at amortized cost [AC}. In particular, these include accounts payable, liabilities due to credit institutions, promissory note loans and derivative financial liabilities, as well as bonds and other secured liabilities.

With first-time recognition of financial liabilities, these are valued at their fair value. In the process, the transaction costs that are directly attributable to the acquisition must be taken into account for all financial assets which are not subsequently valued at fair value through profit or loss.

As a rule, financial instruments are valued as soon as EDAG becomes a contractual partner under the regulations of the financial instrument (trading date). In general, financial assets and financial liabilities are not offset; they are only netted if a right to offsetting exists and the intent is to settle on a net basis.

The fair values posted in the statement of financial position generally correspond to the market prices of the financial assets. Should these not be directly available, they are calculated on the basis of recognized valuation models and the current market parameters. To this end, the cash flows that are already defined or determined on the basis of the current yield curve via forward rates are discounted on the valuation date, using the discount factors from the yield curve that applies on the reference date. The middle rates are used.

*Financial Assets*

The classification and measurement of financial assets (financial instruments) which are not equity instruments depends on the business model in which the financial asset is held and on the instrument's contractual cash flows. Both factors must always be tested on receipt of a financial instrument (and in the case of the first-time adoption of IFRS 9 for the transition). As long as the instrument's cash flows consist of only interest payments on the nominal amount and repayments are made (cash flow criterion) and the instrument is being held for the purpose of realizing the contractually agreed cash flows (business model "retain"), it is valued at amortized cost [AC]. If the cash flow criterion has been met and the instrument is being held in a business model which realizes the cash flows from the instrument by holding it until maturity and then selling it (business model "hold and sell"), it is valued at fair value through other comprehensive income [FVtOCI]. If the cash flow criterion has not been met, or for all business models that are not geared to "hold or sell", the instrument must be valued at fair value through profit or loss [FVtPL].

The reclassification of a financial asset between the IFRS 9 measurement categories is only permitted subject to the condition that there is a change of business model for the group of instruments in question. In practice, an actual occurrence of this type of amendment will happen only very rarely, and must be: 1) determined by the Executive Board as the result of external or internal amendments, 2) significant for operative activity, and 3) verifiable for external parties.

*Cash and Cash-Equivalents*

The cash in the statement of financial position includes checks, cash balances and deposits with banks, with a term of up to three months. The cash equivalents in the statement of financial position include current, extremely liquid financial investments which can be converted into payment instruments at any time, and are only subject to insignificant value fluctuation risks. Cash and cash-equivalents are measured at amortized cost. The financial funds in the consolidated cash flow statement are delineated according to the definition above.

*Receivables*

Accounts receivable and other current receivables meet the cash flow criterion, and are held in a business model the aim of which is to realize the cash flows by holding the instruments until maturity. They are therefore measured at amortized cost, using the effective interest method (net method), if applicable. Adjustments sufficiently satisfy the risks of default;

concrete defaults result in the derecognition of the relevant receivables. There is a detailed description of the system for carrying out adjustments according to the expected credit loss model under IFRS 9 under point "*Impairments*" in this chapter. Impairments of accounts receivable and other receivables are always carried out using valuation allowance accounts. The decision regarding whether a default risk should be accounted for using a valuation allowance account or by directly reducing the receivable depends on the degree of reliability of the assessment of the risk situation. Due to the various business fields and differing regional conditions involved, the final assessment is the responsibility of the persons responsible for the individual divisions.

Other non-current receivables are valued using the effective interest method, at carried-forward acquisition cost.

*Loans*

Loans issued are valued in exactly the same way as amounts receivable, at amortized cost. They meet the cash flow condition and are likewise held in order to realize contractual cash flows.

*Investments and Securities*

As a general rule, other investments and securities (investments in equity instruments) do not meet the cash flow condition on account of the leverage effect of immanent fluctuations in the exchange rate, and must therefore be accounted for at fair value through profit or loss. There is no intention to make use of the option to value investments in equity instruments at fair value through other comprehensive income. For non-listed equity instruments such as other investments (e.g. non-operational companies), use is made of the exceptional rule to value these at their acquisition costs (less impairments, if applicable) as a reasonable estimate of their fair value.

Interest received from or paid on financial investments is posted as interest income or interest expense. The effective interest method is used. Dividends from financial investments are posted as "dividends received" in the profit and loss accounts when the legal claim to payment arises.

*Impairment*

With IFRS 9, a new risk prevention model was introduced, which will now take expected losses into account for the calculation of the provisions for risks (expected credit loss model) instead of losses incurred (incurred credit loss model), as was previously the case under IAS 39. There are three stages:

- **Level 1**: "12-month expected credit losses" (present value of expected deficits in payment resulting from possible default events within the next 12 months after the reporting date)
- **Level 2**: Lifetime expected credit losses (present value of expected deficits in payment as a result of all possible default events over the expected life of the financial instrument), but with interest revenue still being calculated on the gross carrying amount of the asset
- **Level 3**: Lifetime expected credit losses (present value of expected deficits in payment as a result of all possible default events over the expected life of the financial instrument), but with interest revenue being calculated on the net carrying amount

EDAG applies the general 3-step model to loans and other receivables. For accounts receivable and contract assets within the scope of IFRS 15 which do not contain a significant financing component in accordance with IFRS 15, IFRS 9 provides a simplified model for assessing the provisions for risks. As these instruments usually have short-term maturities, expected losses over the entire lifetime of the instruments are directly recognized and therefore directly assigned to level 2 of the impairment model (provided its value was not already impaired at the time it was issued, which would lead to assignment to level 3). For accounts receivable and contract assets within the scope of IFRS 15 which contain a significant financing component in accordance with IFRS 15, and for lease receivables, IFRS 9 offers the option of applying the simplified approach. EDAG makes use of this option, though not for accounts receivable from leases, as these are shown under other receivables.

In the general 3-step model, financial instruments are generally assigned to level 1 at initial recognition. If there has been a significant increase in credit risk since initial recognition, it is assigned to level 2. If there is objective evidence of impairment, the asset must be reclassified to level 3.

A significant increase can be deemed to exist if, for example, unfavorable changes to business, financial or economic conditions have a negative impact on the ability of the borrower to meet its contractually agreed payment obligations. IFRS 9 provides two simplifications for the assessment: 1) There is a rebuttable presumption that the risk of default has significantly increased since the initial recognition of the instrument, if contractual payments are more than 30 days past due. EDAG applies this rebuttable presumption to loans and other receivables. 2) For financial assets for which the risk of default is classified as low, it may be assumed that the risk of default has not increased significantly. The EDAG Group assumes that the risk of default is low if financial assets have an internal or external credit rating in the "investment grade" category. The simplification is applied both to loans and to other receivables.

Objective indications of impairment of the financial asset include but are not limited to the debtor being in serious financial difficulties, the high probability of insolvency proceedings being instituted against the debtor, the loss of an active market for the financial asset, significant changes to the technological, economical, legal or market environment of the issuer, a continuing fall in the fair value of the financial asset to below the amortized costs, or breach of contract, for instance default of or delay in interest and principal payments. The occurrence of one or more of these events will always have a significant effect on the expected future cash flows of the financial asset. Further, IFRS 9 also provides the rebuttable presumption that objective indications of impairment are deemed to exist if the contractual payments for an instrument are more than 90 days past due. EDAG applies this to loans and other receivables. For accounts receivable and contract assets according to IFRS 15, the assessment is performed on a case by case basis. The EDAG Group checks whether there are any objective indications of impairment on every reporting date. Receivables and the associated provisions for risks that have accumulated are not derecognized until they have been classified as irrecoverable, i.e. when no further cash inflow is expected. In this case, the amount receivable is adjusted against the provisions for risks.

Measurement of the expected credit loss

The expected credit loss is calculated as the product of the probability of default, the loss ratio in the event of default and the loan amount on the default date. The EDAG Group uses an internal rating scale to classify loans and other receivables (general impairment model). These are shown below:

| Grade | Description | S&P | |
|---|---|---|---|
| | | Description | Probability of default |
| A | Very good credit rating (investment grade) | AAA-BBB | 0.15 % |
| B | Good to satisfactory credit rating (sub-investment grade) | BBB-BB | 0.90 % |
| C | Credit rating below average | below BB | 5.75 % |

The probability of default behind each rating stage is based on the empirical values of an external rating agency. Future-related information augments this historical data, which is examined every year, and adjusted where necessary. Based on empirical values, the loss ratio in the event of default is set at 100 percent for these instruments.

On the basis of historical defaults, EDAG determines a default ratio for accounts receivable and active contract assets in accordance with IFRS 15 (simplified model) on each reporting date, using a 6-month forecast to adapt it to anticipated future economic developments. The carrying amount is taken as the approximate value of the loan amount on the default date.

As a general rule, the expected credit defaults for loans are determined on the basis of the respective instrument or for the debtor concerned. For accounts receivable, active contract assets in accordance with IFRS 15 and other receivables, assessment and measurement are performed on a collective basis.

A check must be carried out on every reporting date to see whether there has been a significant increase in the default risk since the initial recognition of the instrument, or there are objective indications of impairment. Should this be the case, any financial assets affected are reclassified to the appropriate stage of the impairment model; valuation of the expected loss is likewise aligned with the respective stage.

Reporting the expected credit losses

The Group reports expected credit losses and changes to them as a separate item in the consolidated statement of comprehensive income.

*Derecognition*

A financial asset (or part of a financial asset, or part of a group of similar financial assets) is derecognized when one of the following three conditions has been fulfilled:

- The contractual rights to draw on the cash flows from a financial asset have expired.
- Although the Group retains the rights to draw on the cash flows from financial assets, it has, however, accepted a contractual obligation requiring the immediate payment of the cash flows to a third party, within the context of an agreement which meets the requirements of IAS IFRS 9.3.2.5 ("pass-through arrangement"), and in doing so has essentially neither transferred nor retained all risks and rewards appertaining to the ownership of the financial asset, but has nevertheless transferred the authority to dispose of the asset.
- The Group has transferred its contractual rights to draw on cash flows from a financial asset, and in doing so has either (a) essentially transferred all rewards and risks appertaining to the ownership of the financial asset, or (b) essentially neither transferred nor retained all risks and rewards appertaining to the ownership of the financial asset, but has nevertheless transferred the authority to dispose of the asset.

If the Group transfers its contractual rights to cash flows from an asset, without in essence transferring all risks and rewards appertaining to the ownership of this asset, and also retains the authority to dispose of the transferred asset, the Group continues to include the transferred asset in the volume of its ongoing commitments. If the form of the ongoing commitments guarantees the transferred asset, then the volume of the ongoing commitments is equivalent to the lower amount from the original book value of the asset and the maximum amount of the consideration received, which the Group might have to pay back.

*Financial Liabilities*

*Financial Liabilities Measured at Amortized Costs*

Accounts payable and other financial liabilities are always valued using the effective interest method, at amortized cost.

*Financial liabilities valued at fair value through profit or loss*

Other financial liabilities, such as contingent considerations, are valued at fair value through profit or loss.

*Derecognition*

A financial liability is derecognized when the obligation on which it is based has been fulfilled, canceled, or has expired.

If an existing financial liability is exchanged for another financial liability of the same loan creditor with substantial differences in contractual conditions, or if the conditions appertaining to an existing liability are considerably altered, then any such exchange or alteration is treated as the derecognition of the original liability and the recognition of a new liability. The difference between the book values is posted to profit or loss.

*Derivative Financial Instruments*

EDAG uses derivative financial instruments, such as forward exchange contracts and interest rate swaps, to secure interest rate and currency risks resulting from operating activities, financial transactions and financing. Derivative financial instruments are neither held nor issued for speculative purposes.

The derivative financial instruments are valued at fair value when posted for the first time. The fair values are also relevant for subsequent valuations. The fair value of traded derivative financial instruments corresponds to the market value. This value can be positive or negative. If no market values are available, the fair values must be calculated using recognized actuarial models.

For derivative financial instruments, the fair value corresponds to the amount which EDAG either received or paid on maturity of the financial instrument, as of the reporting date. This is calculated using the relevant exchange rates and interest rates on the reporting date. Middle rates are used for the calculations.

The fair value of forward exchange contracts is determined using the current forward exchange rates for contracts with similar maturity structures. The fair value of interest rate swap contracts is determined using valuation models. Market parameters of similar instruments that can be observed are also included in these.

In compliance with the transitional provisions in force, EDAG continues to apply the regulations set out in IAS 39 for hedge accounting purposes. Although the hedging measures carried out by EDAG do not meet the strict requirements of IAS 39, they still contribute towards effectively hedging the financial risk, in accordance with the principles of risk management. Nor does EDAG apply hedge accounting in accordance with IAS 39 to hedge foreign currency risks for monetary assets and liabilities in the statement of financial position, as the profits and losses affecting income in accordance with IAS 21 are shown in profit or loss along with the profits and losses from the derivatives used as hedging instruments.

*Previous year's figures*

The regulations set out in IAS 39 were used for financial instruments in the previous year. This classifies financial assets and liabilities into the following categories:

- [LaR] Loans and Receivables
- [HtM] Held-to-Maturity Investments
- [FAHfT] Financial Assets Held for Trading
- [AfS] Available-for-Sale financial assets
- [FLAC] Financial Liabilities measured at Amortized Cost
- [FLHfT] Financial Liabilities Held for Trading
- [FVtPL] Financial Liabilities at Fair Value through Profit and Loss

The introduction of IFRS 9 did not have any effects at all on the accounting for and measurement of financial liabilities. According to IAS 39, the following accounting and valuation principles were applicable for financial assets:

*Financial assets which are valued at fair value through profit and loss* and *financial investments held until maturity* are not relevant to the EDAG Group and are therefore not explained in detail in the following.

*Cash and Cash-Equivalents*

The cash in the statement of financial position includes checks, cash balances and deposits with banks, with a term of up to three months. The cash equivalents in the statement of financial position include current, extremely liquid financial investments which can be converted into payment instruments at any time, and are only subject to insignificant value fluctuation risks. Cash and cash-equivalents are valued at amortized cost. The financial funds in the consolidated cash flow statement are delineated according to the definition above.

*Receivables*
Accounts receivable and other current receivables are valued at amortized cost, using the effective interest method (net method), if applicable. The valuation allowances which are carried out in the form of specific valuation allowances sufficiently satisfy the risks of default; concrete defaults result in the derecognition of the relevant receivables.

Other non-current receivables are valued using the effective interest method, at amortized cost.

*Financial Investments Available for Sale*
The other original financial assets are categorized as "available for sale" and are always valued at either book value or fair value. Financial assets available for disposal are non-derivative financial assets which are classified as being available for disposal and do not come under one of the above-mentioned categories.

**Provisions**
A provision (debt, the maturity and/or amount of which is uncertain) is formed according to IAS 37, if a current legal or factual obligation resulting from past events exists toward third parties, and, moreover, it is likely that the settlement of the obligation will result in the outflow of resources, and the amount of the provision can be reliably determined.

The provisions are valued at their anticipated repayment amount, and not offset against refund claims. Provisions that are based on a large number of similar types of events are accounted for at their expected value. All non-current provisions (with a term of more than one year) are posted with the anticipated discounted amount to be paid on the balance sheet date. The amount to be paid also includes the cost increases to be taken into account on the balance sheet date.

If many similar types of obligations exist - as in the case of the statutory warranty - the probability of an outflow of resources is determined on the basis of the group of these obligations. A provision is also posted as a liability if the probability of an outflow of resources is negligible in relation to an individual obligation included in this group.

**Pensions and Other Post-Employment Benefits**

The Group has both defined benefit and defined contribution-based pension plans. A contribution-based pension plan is one which involves the Group paying fixed contributions into a non-Group company (fund). The Group is under no legal or actual obligation to pay additional contributions if the fund should fail to have sufficient assets to meet the pension entitlements of all employees from the current and previous financial years. By contrast, defined benefit-based plans typically define a pension benefit volume that the employee will receive on reaching retirement age, and as a rule depends on one or more factors such as age, length of service and salary.

The provision for defined benefit-based plans recognized in the statement of financial position corresponds to the net present value of defined benefit obligations (DBO) on the balance sheet date, less the fair value of the plan assets. The DBO is calculated annually by an independent actuarial expert, using the project unit credit method. The accounting valuation of the obligations is based on various estimates. Assumptions need to be made in particular with regard to long-term trends in the development of salaries and pensions, and to average life expectancy. Assumptions relating to salary and pension trends are based on developments observed in the past, and also take the country-specific interest and inflation rates and relevant labor market developments into account. Acknowledged biometric bases for calculation form the basis for estimating average life expectancy. The interest rate used to discount the future payment obligations is derived from premium corporate bonds with corresponding currencies and maturities.

Revaluations based on experience-related adjustments and amendments to actuarial assumptions are recognized in other comprehensive income (in equity) in the period in which they occur. Adjustments to an employment period are expensed immediately.

With the exception of the interest components, which are recognized in the financial result, pension costs are posted under personnel costs.

With defined contribution plans, the Group pays premiums to public or private pension insurers on the basis of a legal or contractual obligation, or on a voluntary basis. The Group has no further payment obligations over and above payment of the premiums. The premiums are recognized in personnel expenses on maturity. Prepaid contributions are recognized as assets to the extent that there is a right to repayment or a reduction in future payments.

**Payments Resulting from the Termination of Employment Relationships**

Payments resulting from the termination of employment relationships are made in the event of an employee being dismissed by a Group company before reaching regular pension age, or of an employee accepting the voluntary termination of the employment relationship in return for severance pay. The Group recognizes severance pay if it is demonstrably obliged to terminate the employment of present employees in compliance with a detailed and irrevocable formal plan, or if it is demonstrably required to pay such benefits following the voluntary termination of employment by the employee. Payments which become due after more than twelve months after the effective date are discounted to their present value.

**Income Taxes**

Income taxes include both current and deferred taxes. The current taxes relate to all taxes which are charged on the taxable profit of the Group companies.

Deferred tax assets and deferred tax liabilities are formed pursuant to IAS 12 "Income taxes" for temporary valuation differences between IFRS and tax statements of financial position of the individual companies, as well as for consolidation processes affecting income. The deferred tax claims also include tax reduction claims which result from the anticipated future use of existing tax losses carried forward, if the realization of these is likely. Deferred tax claims are only to be reported if it is likely that future taxable income can be offset against tax credits and losses carried forward. A planning period of 3 years is always used as a basis here. This is in line with company planning, which is also used for the impairment tests, adjusted for tax effects.

To calculate deferred taxes, the tax rates applicable on the balance sheet date or applicable in future are used as a basis, provided these have already been legally defined, or the legislative process is essentially complete. Changes to deferred taxes in the statement of financial position always result in deferred tax expenses or income. If circumstances that result in a change in deferred taxes are booked directly against the other comprehensive income, the change to the deferred taxes is also directly accounted for in other comprehensive income.

**Non-current Assets held for Sale**

Assets reported as being "held for sale" are those which can be sold in their present condition, and the sale of which is very probable. This can involve individual, non-current assets or groups of assets (disposal groups). Non-current assets held for sale are no longer subject to scheduled depreciation, but valued at their fair value less disposal costs, provided this is lower than the book value. In the event of an increase in the fair value less disposal costs, the previously reported impairment is reversed. The write-up is limited to the impairments previously recorded for the respective assets. Results from the valuation of certain individual assets held for sale and from disposal groups are reported in the result from continuing operations until final disposal.

**Borrowing Costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualified asset are to be capitalized as a part of the acquisition or production costs of this asset. As in the previous year, no interest on borrowed capital was capitalized. Other borrowing costs are to be recognized as expenses in the period in which they occur.

**Discretionary Decisions**

With the application of the accounting and valuation methods, the company management has made the following discretionary decisions, which significantly influence the figures in the financial statement. Decisions containing estimates are not taken into account here.

***Non-current intangible assets, property, plant and equipment*** are valued at acquisition costs carried forward in the statement.

**Estimates (Assumptions)**

Presentation of the consolidated financial statements in accordance with IFRS requires competent estimates for several statement of financial position items which have an effect on the basis and valuation in the statement of financial position and statement of comprehensive income. The amounts that are actually realized can deviate from these estimates. Such estimates relate to ascertaining the useful life of the property, plant and equipment or intangible assets that are subject to wear and tear, the measurement of provisions, the valuation of investments and other assets or liabilities. Although adequate account is taken of existing uncertainties during valuation, actual results can still deviate from the estimates.

In the following situations, the assumptions made on the balance sheet date are of particular significance:

The estimate of ***order costs and income*** is an important criterion for realizing profit according to performance progress, pursuant to IFRS 15. The result of a production order can only be reliably estimated if the economic advantages arising from the contract are likely to go to the company. Assumptions are also to be used as the basis on which to assess probability. The management continually reviews all estimates required for production orders, adjusting them wherever necessary.

***Deferred tax assets*** are also recorded for tax losses carried forward. Their viability depends on future taxable results of the respective Group company. If there is any doubt regarding the realization of losses carried forward, then no deferred taxes are posted.

***Pension provisions*** are influenced by assumptions regarding the future development of wages and salaries or pensions, as well as by the interest, portfolio structure and anticipated performance of the plan assets of pension funds. Should the assumptions made fail to materialize, this will result in an actuarial surplus or shortfall, which is offset with the retained earnings, not affecting income.

***Other provisions*** also cover risks from legal disputes and legal action. In addition to an assessment of the situation and claims awarded in similar cases, the results of comparable legal actions and independent legal opinions are also taken into consideration, as are assumptions regarding the probability of occurrence and the scope of possible claims, in order to determine the amount of a provision. The actual costs can deviate from these estimates. When discounting non-current provisions, assumptions are made regarding the interest rate to be used.

***Unscheduled amortization (impairments)*** on assets is carried out in the case of impairment. An impairment test is carried out for the goodwill and intangible assets with an indefinite useful life if specific events indicate a possible impairment, but at all events at least once a year. In the impairment test, the carried-forward book values of the assets are compared with the recoverable amount of the assets. The recoverable amount is either the net disposal price or value in use of the asset, whichever value is higher. In order to determine the utilization value, it is necessary to estimate and discount cash flows. The estimated cash flows and the assumptions made are based on whatever information is available on the balance sheet date, and may deviate from actual developments. this method is used for both goodwill and for investment accounted for using the equity method.

***Assets, liabilities and provisions held for sale*** are subject to two fundamental uncertainty factors: firstly, the way in which negotiations develop, with possible loss of control; and secondly changes in value from ongoing activities, with possible loss of control.

When accounting for ***leases***, an assessment must be made of whether or not the main risks and rewards associated with the ownership have been transferred. On the basis of this assessment, the leasing object is then allocated to either the lessee or the lessor. If they are being recognized for the first time, assets and liabilities from finance leases are recorded at fair value or, if this is lower, at the present value of the minimum leasing payments. The determination of fair value is regularly associated with estimates regarding the cash flows resulting from utilization of the leasing object and the discount rate used.

Definition of the ***useful lives*** of depreciable assets is on the basis of the anticipated usability of the assets, and is based on estimates. Empirical values with comparable assets were used as a basis for orientation. The estimated useful lives of intangible assets and property, plant and equipment are examined at the end of the financial year and adjusted as necessary.

Measurement of the ***provisions for risks*** in accordance with IFRS 9 entails estimates and uncertainties. In the simplified model, probability of default is determined on the basis of empirical values, and adjusted to take future-related information into account. Generic default probabilities are applied in the general model. A loss ratio of 100 percent is assumed, unless other, more accurate information is available. To determine the value of the amount receivable in the event of default, the carrying amount is adopted as an approximation.

## 5.3 Notes on the Statement of Comprehensive Income

### [1] Sales Revenues

Accordingly, sales revenues from ordinary business activities are recognized when the customer obtains control of the promised goods and services, and can benefit from them. This disclosure occurs net of sales tax and all discounts and bonuses. In addition to this, services assessed according to the Percentage of Completion ("POC") method are also disclosed as sales revenues.

The revenues from contractual obligations met either fully or in part in earlier periods and recognized for the reporting period cannot be shown separately. As a rule, changes to the transaction price also mean that changes have been made to the scope of services within the projects in the current reporting period. It is therefore not possible to identify the extent to which the transaction price has changed without adjusting the the scope of services.

€ 11.3 million from production orders is included in the revenues (2017: € 0.0 million).

For more detailed descriptions of the sales revenues and their composition, please see the explanatory notes in Segment Reporting.

### [2] Changes in Inventories

Shown here is the increase/decrease in inventory of unfinished and finished goods and services which have been determined on the basis of the acquisition cost method. Inventory of unfinished and finished goods and services in the reporting year 2018 increased by € 4,076 thousand (2017: decreased by € 6,195 thousand).

## [3] Other Income

Other income is classified as follows:

| in € thousand | 2018 | 2017 |
|---|---|---|
| **Operating income** | | |
| Non-cash benefit from car leasing | 4,058 | 3,930 |
| Income from currency gains | 3,040 | 2,658 |
| Land and rental income | 2,431 | 2,536 |
| Cost transfer income | 1,234 | 1,856 |
| Catering/cafeteria income | 164 | 1,283 |
| Income from currency hedging transactions | 89 | 255 |
| Income from compensation payments | 386 | 135 |
| Income from recycling/scrap | 59 | 44 |
| Miscellaneous operating income | 895 | 640 |
| **Total operating income** | **12,356** | **13,337** |
| | | |
| **Non-operating income** | | |
| Income from the disposal/subsequent capitalization of fixed assets | 934 | 1,824 |
| Public sector benefits | 2,313 | 1,645 |
| Income from the reversal of provisions | 354 | 1,022 |
| Income from impaired receivables | 13 | 195 |
| Deconsolidation income | - | 3 |
| Miscellaneous non-operating income | 904 | 685 |
| **Total non-operating income** | **4,518** | **5,374** |
| **Total other income** | **16,874** | **18,711** |

During the reporting year, public sector benefits of € 2,313 thousand (2017: € 1,645 thousand) were recognized through profit or loss in the statement of comprehensive income. These benefits consist of public sector subsidies for training, research and development. There are no unfulfilled conditions or miscellaneous contingencies in relation to these benefits.

Income from the reversal of provisions in the amount of € 354 thousand (2017: € 1,022 thousand) are made up of the reversal of other provisions for personnel, taxes and miscellaneous provisions (see Chapter "Other Provisions [29]"). Other items cover income from onerous contracts in the amount of € 204 thousand (2017: € 210 thousand).

In the previous year, earnings in the amount of € 252 thousand are included in the earnings from the reversal of provisions, and also in the amount of € 1,544 thousand in the earnings from the disposal/subsequent capitalization of fixed assets; these are included in the adjusted EBIT reconciliation.

## [4] Material Expenses

| in € thousand | 2018 | 2017 revised |
|---|---|---|
| Expenses for materials and supplies and for purchased goods | 40,578 | 33,110 |
| Expenses for purchased services | 79,954 | 64,242 |
| **Total** | **120,532** | **97,352** |

Expenses for materials and supplies and for purchased goods are mainly made up of expenses for models and small parts which have been purchased. Expenses for purchased services are mainly made up of the costs for subcontractors and miscellaneous services received. The proportion for materials and services expenses for production orders stood at € 9.5 million (2017: € 0.0 million).

## [5] Personnel Expenses

| in € thousand | 2018 | 2017 |
|---|---|---|
| Wages and salaries | 415,014 | 389,147 |
| Social security contributions | 76,862 | 72,417 |
| Expenses on retirement pension plans and support | 4,758 | 5,065 |
| Wage-related and salary-related taxes | 875 | 743 |
| **Total** | **497,509** | **467,372** |

Expenses for retirement pension plans and support include, but are not restricted to, expenses for defined benefit commitments. The interest portion of the valuation of retirement obligations is posted as a financing cost, as per the financing character. Anticipated income from the associated fund assets is stated as financing income. The presentation of pension obligations is explained in detail in chapter "Pensions and Other Post-Employment Benefits [28]".

Personnel expenses include public sector subsidies for short-time working benefit, which are shown in their balanced state, as per IAS 20.29 - 31. Subsidies in the amount of € 127 thousand (2017: € 254 thousand) are reported under wages and salaries, and subsidies in the amount of € 145 thousand (2017: € 305 thousand) under social security contributions.

To qualify for these subsidies, effective working hours in the divisions affected must be reduced, and all residual leave from the previous year and overtime accumulated in time accounts taken.

Wages and salaries include expenses in conjunction with the termination of employment contracts in the amount of € 3,517 thousand (2017: € 5,036 thousand).

In the financial year ended December 31, 2018, an average of 8,479 employees were employed in the EDAG Group (2017: 8,235 employees). The following table provides a detailed overview.

| | 2018 | 2017 |
|---|---|---|
| **Breakdown according to contractual relationship** | | |
| Salaried employees | 7,959 | 7,707 |
| Apprentices | 520 | 528 |
| **Total** | **8,479** | **8,235** |
| | | |
| **Geographical breakdown** | | |
| Germany | 6,042 | 6,045 |
| Rest of Europe | 1,385 | 1,274 |
| North America | 348 | 277 |
| South America | 171 | 180 |
| Asia | 533 | 459 |
| **Total** | **8,479** | **8,235** |

## [6] Depreciation, Amortization and Impairment

The depreciation and amortization of fixed assets in the amount of € 27,414 thousand (2017: € 28,734 thousand) include both amortization of intangible assets and depreciation of property, plant and equipment.

Besides the scheduled depreciation and amortization in the amount of € 22,098 thousand (2017: € 21,912 thousand), they also include depreciation and amortization from the purchase price allocation totaling € 5,315 thousand (2017: € 5,781 thousand) which were also included in the adjusted EBIT reconciliation.

The scheduled depreciation and amortization is based on the standard Group economic useful lives as shown in the notes on the accounting and valuation methods.

## [7] Impairment/Impairment Loss Reversal of Financial Assets

The net result from the impairment or impairment loss reversal of financial assets is composed as follows:

| in € thousand | 2018 | 2017 |
| --- | --- | --- |
| Income from reversal of impairments | 36 | - |
| Expenses from additions of impairments | - 769 | - |
| **Total** | **- 733** | **-** |

For the development of the provisions for risks, please see chapter "Financial Instruments" in the Notes.

## [8] Other expenses

The breakdown of the other expenses results in:

| in € thousand | 2018 | 2017 |
|---|---|---|
| **Operating expenses** | | |
| Rents and leases | 41,192 | 38,864 |
| Maintenance | 18,456 | 17,534 |
| Travel expenses | 16,235 | 14,647 |
| Miscellaneous ancillary personnel expenses | 9,360 | 8,576 |
| General administration expenses | 7,062 | 6,054 |
| Consulting, contributions and fees | 6,623 | 5,773 |
| Sales and marketing expenses | 3,927 | 3,491 |
| Expenses from currency losses | 3,130 | 3,252 |
| Personnel training and development expenses | 3,247 | 2,647 |
| Vehicle fuel expenses/miscellaneous vehicle expenses | 2,056 | 1,901 |
| Insurance | 1,730 | 1,630 |
| Miscellaneous taxes and duties | 1,131 | 1,055 |
| Surveillance and security expenses | 955 | 1,004 |
| Guarantees | 35 | 277 |
| Miscellaneous operating expenses | 5,198 | 5,574 |
| **Total operating expenses** | **120,337** | **112,279** |
| **Non-operating expenses** | | |
| Expenses from impaired receivables | - | 1,502 |
| Expenses from the disposal of assets/scrapping | 293 | 396 |
| Expenses from bad debt loss | 18 | 257 |
| Miscellaneous non-operating expenses | 124 | 98 |
| **Total non-operating expenses** | **435** | **2,253** |
| **Total other expenses** | **120,772** | **114,532** |

As in the previous year, no expenses which have been included in the adjusted EBIT reconciliation are included in the non-operating expenses.

## [9] Reconciliation of the Adjusted Operating Profit (Adjusted EBIT)

In addition to the data required according to the IFRS, the segment reporting also includes a reconciliation to the adjusted earnings before interest and taxes (adjusted EBIT). Among the adjustments, initial and deconsolidation income, restructuring in the scope of the company merger and all effects from the purchase price allocations on the EBIT are shown.

| in € thousand | Note | 2018 | 2017 revised |
|---|---|---|---|
| **Earnings before interest and taxes (EBIT)** | | **42,242** | **29,257** |
| Adjustments: | | | |
| Expenses (+) from purchase price allocation | (6) | 5,315 | 5,781 |
| Income (-) / expenses (+) from deconsolidation | (3) | - | - 3 |
| Income (-) from reversal of provisions | (3) | - | - 252 |
| Income (-) from the sale of real estate | (3) | - | - 1,544 |
| Expenses (+) from impairment of real estate | (6) | - | 1,042 |
| **Total adjustments** | | **5,315** | **5,024** |
| **Adjusted earnings before interest and taxes (adjusted EBIT)** | | **47,557** | **34,281** |

The "expenses (+) from the purchase price allocation" and the "expenses (+) from impairment of real estate" are stated under the amortization. The "income (-) / expenses (+) from deconsolidations“ are each shown separately in the non-operating expenses and non-operating income. The "income (-) from the reversal of provisions" and the "income (-) from the sale of real estate" is shown under the non-operating income.

## [10] Result from Investments Accounted for Using the Equity Method

The result from investments accounted for using the equity method in the amount of € 1,203 thousand in the 2018 financial year (2017: € 644 thousand) contains the proportionate result, each with 49 percent from EDAG Werkzeug + Karosserie GmbH, Fulda.

The Group share in the individual items of the statement of comprehensive income can be seen in the section "Shares in Investments Accounted for Using the Equity Method" [19].

## [11] Financial Income

| in € thousand | 2018 | 2017 |
|---|---|---|
| Interest income earned from discounting | - | 25 |
| Interest and similar income | 309 | 293 |
| Income from evaluation of value to be attributed | 2 | - |
| **Total** | **311** | **318** |

Earnings from the reversal of provisions for interest from payment of back taxes in the amount of € 4 thousand are included in interest and similar income (2017: € 0 thousand).

## [12] Financing Expenses

| in € thousand | 2018 | 2017 |
|---|---|---|
| Interest and similar expenses | 5,620 | 6,437 |
| Losses from valuation at fair value | 7 | - |
| Miscellaneous financial expenses | 2 | 8 |
| **Total** | **5,629** | **6,445** |

Expenses from back taxes in the amount of € 95 thousand (2017: € 0 thousand) are included in the interest expenses.

## [13] Income taxes

Taxes paid or owed on income and earnings in the individual countries, and also the deferred taxes, are reported as income taxes.

The main components of income tax expense for the financial years 2017 and 2018 are composed as follows:

| in € thousand | 2018 | 2017 revised |
|---|---|---|
| Actual income tax expense/income | 13,688 | 13,967 |
| Adjustment for actual income taxes attributable to prior periods | - 54 | 159 |
| Deferred tax expense/income | | |
| from the emergence and/or reversal of temporary differences | - 1,205 | - 4,561 |
| from losses carried forward | 192 | - 1,310 |
| **Income taxes** | **12,621** | **8,255** |

Actual income tax for the current financial year includes corporate tax incurred in Germany, the solidarity contribution, trade tax and other income tax incurred abroad.

***Income taxes*** amounting to € 12,621 thousand (2017: € 8,255 thousand) are derived as follows from "expected" income tax expenses which would have resulted from applying the average rate of income tax of the EDAG Group to the earnings before income taxes. To determine the expected tax expense, the pre-tax earnings are multiplied by a weighted average combined tax rate of 32.00 percent (2017: 33.00 percent). Due to a shift in the results in the different tax law systems, the weighted average combined tax rate for EDAG Group AG decreased compared to the previous year.

| | 2018 | | 2017 revised | |
|---|---|---|---|---|
| | in € thousand | in % | in € thousand | in % |
| **Earnings before tax** | **38,127** | | **23,774** | |
| Expected tax rate | - | 32.00% | - | 33.00% |
| **Expected tax expense** | **12,201** | | **7,845** | |
| Tax-free earnings and non-deductible expenses | 3,872 | 10.16% | 2,027 | 8.53% |
| Tax effects from equity investments | - 385 | -1.01% | - 212 | -0.89% |
| Tax rate deviations | - 2,071 | -5.43% | - 1,296 | -5.45% |
| Tax effects from losses carried forward | - 964 | -2.53% | - 261 | -1.10% |
| Taxes for previous year | - 54 | -0.14% | 159 | 0.67% |
| Miscellaneous tax effects | 22 | 0.06% | - 7 | -0.03% |
| **Income taxes as disclosed in the statement of comprehensive income** | **12,621** | | **8,255** | |
| Effective tax rate | | 33.10% | | 34.72% |

***Deferred taxes*** developed as follows in the consolidated statement of financial position:

| in € thousand | 2018 | 2017 revised |
|---|---|---|
| Deferred tax assets | 2,352 | 2,513 |
| Deferred tax liabilities | - 2,104 | - 3,061 |
| **Net** | **248** | **- 548** |
| Difference to previous year | 796 | 4,470 |
| Through profit or loss | 1,013 | 6,370 |
| Recognized directly in equity | - 217 | - 303 |
| First-time adoption of IFRS 9 / IFRS 15 | 42 | - 532 |
| Acquisitions | - | - 883 |
| Currency differences | - 42 | - 182 |

Deferred taxes are allotted to the following statement of financial position positions, losses carried forward, and tax credits:

| in € thousand | 12/31/2018 | | 12/31/2017 revised | |
|---|---|---|---|---|
| | Deferred tax assets | Deferred tax liabilities | Deferred tax assets | Deferred tax liabilities |
| **Assets** | | | | |
| Other intangible assets | - | - 5,279 | - | - 6,664 |
| Property, plant and equipment | - | - 2,175 | - | - 1,970 |
| Financial assets | 60 | - | 73 | - |
| Inventories, receivables, other financial assets | 11,990 | - 21,863 | 7,304 | - 16,747 |
| **Liabilities and provisions** | | | | |
| Provisions | 7,414 | - 12,811 | 6,813 | - 9,014 |
| Liabilities | 21,935 | - 243 | 18,828 | - 584 |
| Tax losses carried forward | 1,220 | - | 1,413 | - |
| **Gross amount** | **42,619** | **- 42,371** | **34,431** | **- 34,979** |
| Offsetting | - 40,267 | 40,267 | - 31,918 | 31,918 |
| **Statement of financial position valuation** | **2,352** | **- 2,104** | **2,513** | **- 3,061** |

Apportioning the net tax items to individual statement of financial position items can lead to correspondingly deferred tax liabilities.

The deferred taxes are regularly assessed. The ability to realize tax income from deferred taxes depends on the ability to achieve taxable income in the future and to use tax losses carried forward before they expire. Deferred tax assets are only recognized to the extent that it is likely that a taxable income will be available, can be used against the deductible temporary differences, and it can be assumed that they will be reversed in the forseeable future. In 2018, subsidiaries that reported losses in the year just ended or the previous year recognized net deferred tax assets totaling € 1,563 thousand (2017: € 1,924 thousand) from temporary differences and tax loss carried forward.

An offsetting of deferred tax assets and liabilities occurs if an offsetting of actual tax assets is enforceable against actual tax liabilities. In addition to this, the tax assets and liabilities must also refer to income taxes on the same tax subject which are levied by the same tax authority.

For deductible temporary differences totaling € 701 thousand (12/31/2017: € 306 thousand) no deferred tax asset was recorded in the statement of financial position, since no tax relief is to be expected. No deferred taxes have been recognized on temporary differences amounting to € 7,144 thousand (2017: € 6,490 thousand) between the net assets of Group companies reported in the consolidated financial statements and the tax base for the shares in these Group companies ("outside basis differences"), as the EDAG Group is in a position to manage the timing of the reversal of temporary differences, and there are no plans to dispose of investments in the near future.

As at December 31, 2018, the corporate income tax losses carried forward amount to € 14,686 thousand (12/31/2017: € 17,454 thousand).

The full amount of the losses carried forward has not been recorded, as, with a number of companies, it is unlikely that taxable income will be realizable in the foreseeable future. The unrecognized deferred taxes which result from losses carried forward can be seen in the following table:

| **in € thousand** | **12/31/2018** | **12/31/2017** |
|---|---|---|
| **Losses carried forward from corporate business tax (not usable)** | 9,028 | 10,878 |
| Expiry within | | |
| 1 year | - | 56 |
| 2 – 3 years | 15 | 147 |
| 4 – 5 years | 236 | 355 |
| 6 – 10 years | 98 | 1,966 |
| more than 10 years | 7,413 | 6,728 |
| able to be carried forward for an unlimited period | 1,266 | 1,626 |

In the EDAG Group, apart from the losses carried forward shown in the table, further losses carried forward were also generated in the two Swiss holding companies EDAG Engineering

Group AG, Arbon and EDAG Engineering Schweiz Sub-Holding AG, Arbon. Due to their holding privilege and the attendant tax status, neither of the companies is subject to cantonal and municipal taxes. Accordingly, it will not be possible to realize the accrued losses carried forward in the amount of € 8,556 thousand on December 31, 2018 (12/31/2017: € 5,544 thousand) in subsequent years.

In the USA, there were state income taxes losses carried forward amounting to € 2,348 thousand (12/31/2017: € 1,864 thousand). These were not recognized as losses carried forward.

## [14] Non-controlling interests

The non-controlling interest includes shares held by third-parties in initial and generated equity of the fully consolidated subsidiaries.

The total comprehensive income to be attributed to non-controlling interests for the 2018 financial year is € 33 thousand (2017: € 33 thousand).

The dividends to be allocated to the controlling shares for 2018 are € 179 thousand (2017: € 179 thousand).

The following table shows the fundamental financial information of VR-Leasing Malakon GmbH & Co Immo. KG, Eschborn, which is not controlled in full.

| **in € thousand** | **12/31/2018** | **12/31/2017** |
|---|---:|---:|
| Current assets | 3 | 241 |
| of which cash | 3 | 241 |
| Non-current assets | - | 5,339 |
| **Total assets** | **3** | **5,580** |
| Current liabilities and provisions | - | 4,293 |
| of which financial liabilities | - | 931 |
| Non-current liabilities and provisions | - | 443 |
| of which financial liabilities | - | - |
| **Total liabilities and provisions** | **-** | **4,736** |
| **Net assets** | **3** | **844** |

## [15] Results per Share

With the undiluted basic earnings per share, or EPS (quotient for the earnings after taxes allocated to the EDAG Group AG shareholders and the weighted average number of common shares outstanding, undiluted) we use a performance indicator derived directly from earnings after taxes. The undiluted basic earnings per share denotes the corresponding share-based period result attributable to the shareholders of EDAG Group AG, and is therefore an indicator of EDAG's earning power, particularly from the point of view of our shareholders.

There was no dilution of the basic earnings per share in either the reporting year or the year before. The same average number of shares outstanding were used as the basis for the comparison with the previous year.

| in TEUR | 2018 | 2017 revised |
|---|---|---|
| **Basic Earnings per Share (EPS)** | | |
| Earnings after tax | 25,506 | 15,519 |
| less non-controlling interest (monority shares) | - 33 | - 33 |
| Earnings after tax, attributable to shareholders of EDAG Group AG | 25,472 | 15,486 |
| Earnings after tax from continuing operations, attributable to shareholders of EDAG Group AG | 25,472 | 15,486 |
| Weighted average number of shares (basic; in thousand) | 25,000 | 25,000 |
| Effect from diluted equity instruments (in thousand) | - | - |
| Weighted average number of shares (diluted; in thousand) | 25,000 | 25,000 |
| Basic earnings per share | 1.02 | 0.62 |
| Diluted earnings per share | 1.02 | 0.62 |

# 5.4 Notes on the Statement of Financial Position

## [16] Intangible Assets

Intangible assets have developed as follows:

| in € thousand | Concessions, industrial property rights and similar rights | IT software | Goodwill | Capitalized development costs | Customer list from purchase price allocation | Total |
|---|---|---|---|---|---|---|
| **(Historical) Costs** | | | | | | |
| **As per 12/31/2016 / 1/1/2017** | **30** | **42,998** | **64,521** | **3,755** | **41,277** | **152,581** |
| Currency conversion difference | - | - 373 | - 517 | - | - 333 | - 1,223 |
| Additions | - | 4,739 | - | 55 | - | 4,794 |
| Disposals | - | - 5,706 | - | - | - 174 | - 5,880 |
| Transfers | - | 14 | - | - | - | 14 |
| Changes in the scope of consolidation | - | 802 | 10,355 | - | 2,045 | 13,202 |
| **As per 12/31/2017 / 1/1/2018** | **30** | **42,474** | **74,359** | **3,810** | **42,815** | **163,488** |
| Currency conversion difference | - | - 201 | - 20 | - | 107 | - 114 |
| Additions | - | 4,088 | - | 657 | - | 4,745 |
| Disposals | - | - 829 | - | - | - | - 829 |
| Transfers | - | 88 | - | - 19 | - | 69 |
| **As per 12/31/2018** | **30** | **45,620** | **74,339** | **4,448** | **42,922** | **167,359** |

| in € thousand | Concessions, industrial property rights and similar rights | IT software | Goodwill | Capitalized development costs | Customer list from purchase price allocation | Total |
|---|---|---|---|---|---|---|
| **Accumulated amortization and impairments** | | | | | | |
| **As per 12/31/2016 / 1/1/2017** | **- 18** | **- 32,619** | **-** | **- 1,167** | **- 19,204** | **- 53,008** |
| Currency conversion difference | - | 279 | - | - | 153 | 432 |
| Additions (scheduled amortization) | - 3 | - 5,124 | - | - 889 | - 4,949 | - 10,965 |
| Disposals | - | 5,672 | - | - | 174 | 5,846 |
| Changes in the scope of consolidation | - | 2 | - | - | - | 2 |
| **As per 12/31/2017 / 1/1/2018** | **- 21** | **- 31,790** | **-** | **- 2,056** | **- 23,826** | **- 57,693** |
| Currency conversion difference | - | 160 | - | - | - 55 | 105 |
| Additions (scheduled amortization) | - 3 | - 4,501 | - | - 906 | - 4,883 | - 10,293 |
| Disposals | - | 799 | - | - | - | 799 |
| Tranfers | - | - 18 | - | - | - | - 18 |
| **As per 12/31/2018** | **- 24** | **- 35,350** | **-** | **- 2,962** | **- 28,764** | **- 67,100** |
| **Book value 12/31/2017** | **9** | **10,684** | **74,359** | **1,754** | **18,989** | **105,795** |
| **Book value 12/31/2018** | **6** | **10,270** | **74,339** | **1,486** | **14,158** | **100,259** |

No ownership restrictions exist on intangible assets. No assets acquired within the context of leasing arrangements and lease-to-buy contracts are included in intangible assets.

During the 2018 financial year, public sector benefits in the amount of € 4 thousand were offset from the acquisition costs for intangible assets (2017: € 9 thousand).

The customer lists from the purchase price allocations are primarily the result of the purchase of the Rücker Group in 2012 and the BFFT Group in 2013. The customer lists from purchase price allocations received in 2017 result from the acquisition of CKGP/PW & Associates, Inc. and HRM Engineering AB.

As at December 31, 2018, the remaining amortization period for customer lists amounts to 5 years.

| in € thousand | Customer list |
|---|---|
| **Book value 12/31/2018** | **14,159** |
| **Remaining amortization period** | |
| 2019 | 4,896 |
| 2020 | 4,698 |
| 2021 | 2,486 |
| 2022 | 1,934 |
| 2023 | 145 |

## [17] Property, Plant and Equipment

Ownership restrictions in the amount of € 394 thousand (2017: € 440 thousand) exist on property, plant and equipment.

Property, plant and equipment includes all leased assets, where the Group companies are the economic owners of the assets. The book values of technical equipment and operating and office equipment held within the context of financing leases and lease-to-buy contracts amounted to € 3,675 thousand as at December 31, 2018 (12/31/2017: € 2,874 thousand). During the financial year, additions in the amount of € 3,241 thousand (2017: € 3,209 thousand) were recorded. These result from hardware leasing.

During the reporting year, public sector benefits in the amount of € 21 thousand were offset from acquisition costs for property, plant and equipment (2017: € 107 thousand). No repayments were made on public sector benefits.

As at December 31, 2018 - as at December 31, 2017, no investment property was held.

Property, plant and equipment have developed as follows:

| in € thousand | Land and buildings | Technical equipment and machinery | Other equipment, operating and office equipment | Advance payments and construction in progress | Total property plant and equipment |
|---|---|---|---|---|---|
| **(Historical) Cost** | | | | | |
| **As per 12/31/2016 / 1/1/2017** | **32,164** | **52,208** | **71,805** | **1,393** | **157,570** |
| Currency conversion difference | - 346 | - 370 | - 620 | - 14 | - 1,350 |
| Additions | 2,949 | 4,690 | 11,280 | 1,008 | 19,927 |
| Disposals | - 566 | - 397 | - 6,263 | - 9 | - 7,235 |
| Transfers | 129 | 905 | 291 | - 1,339 | - 14 |
| Changes in the scope of consolidation | - | 83 | 136 | - | 219 |
| Assets held for sale | - 990 | - | - 251 | - | - 1,241 |
| **As per 12/31/2017 / 1/1/2018** | **33,340** | **57,119** | **76,378** | **1,039** | **167,876** |
| Currency conversion difference | - 125 | - 23 | - 105 | - 10 | - 263 |
| Additions | 2,363 | 6,598 | 11,491 | 206 | 20,658 |
| Disposals | - 326 | - 3,004 | - 8,283 | - 2 | - 11,615 |
| Tranfers | 130 | 889 | - 20 | - 1,068 | - 69 |
| **As per 12/31/2018** | **35,382** | **61,579** | **79,461** | **165** | **176,587** |

| in € thousand | Land and buildings | Technical equipment and machinery | Other equipment, plant and office equipment | Advance payments and construction in progress | Total property plant and equipment |
|---|---|---|---|---|---|
| **Accumulated depreciation** | | | | | |
| **As per 12/31/2016 / 1/1/2017** | **- 12,465** | **- 29,977** | **- 43,480** | **-** | **- 85,922** |
| Currency conversion difference | 153 | 219 | 493 | - | 865 |
| Additions (scheduled depreciation) | - 1,900 | - 4,730 | - 10,098 | - | - 16,728 |
| Disposals | 354 | 334 | 5,794 | - | 6,482 |
| Transfers | - | 80 | - 80 | - | - |
| Changes in the scope of consolidation | - | - | 14 | - | 14 |
| Assets held for sale | 263 | - | 153 | - | 416 |
| **As per 12/31/2017 / 1/1/2018** | **- 13,595** | **- 34,074** | **- 47,204** | **-** | **- 94,873** |
| Currency conversion difference | 65 | 106 | 80 | - | 251 |
| Additions (scheduled depreciation) | - 2,010 | - 4,695 | - 10,416 | - | - 17,121 |
| Disposals | 302 | 2,764 | 8,028 | - | 11,094 |
| Transfers | - 18 | 57 | - 22 | - | 17 |
| **As per 12/31/2018** | **- 15,256** | **- 35,842** | **- 49,534** | **-** | **- 100,632** |
| | | | | | |
| **Book value 12/31/2017** | **19,745** | **23,045** | **29,174** | **1,039** | **73,003** |
| **Book value 12/31/2018** | **20,126** | **25,737** | **29,927** | **165** | **75,955** |

## [18] Non-current Financial Assets, Financial Receivables and Other Financial Assets

| in € thousand | 12/31/2018 | | | 12/31/2017 | | |
|---|---|---|---|---|---|---|
| | Short-term | Long-term | Total | Short-term | Long-term | Total |
| Shares in affiliated companies | - | 80 | 80 | - | 52 | 52 |
| Loans | - | 78 | 78 | - | 98 | 98 |
| Securities | 38 | - | 38 | 43 | - | 43 |
| Other receivables due from related parties | - | - | - | 2 | - | 2 |
| Other miscellaneous financial receivables | 1,703 | 521 | 2,224 | 2,079 | 433 | 2,512 |
| **Total** | **1,741** | **679** | **2,420** | **2,124** | **583** | **2,707** |

The non-consolidated shares in subsidiaries are recognized at acquisition cost because future cash flows cannot be estimated reliably, which means that the fair value cannot be reliably determined either. There are no plans for the near future to sell significant shares of the available for sale financial assets valued at acquisition cost.

The loans result primarily from loans extended to employees, they were not past due on the balance sheet date, and are being repaid as scheduled.

Where securities positions are concerned, securities of € 38 thousand (12/31/2017: € 43 thousand) are held. These are marketable debt and equity securities.

The other remaining financial receivables are composed primarily of deposits which have been paid and creditors with debit balances.

## [19] Investments Accounted for Using the Equity Method

As at December 31, 2018, the EDAG Group holds 49 percent of EDAG Werkzeug + Karosserie GmbH. The addition to investments was made in 2014.

The share of assets, liabilities and provisions, income and expenses attributable to the Group for the investment accounted for using the equity method is shown in the following tables.

| in € thousand | 2018 | 2017 |
|---|---|---|
| **Book value 1/1/** | **16,111** | **15,434** |
| Dividends | - 197 | - |
| Subsequent valuation | 1,227 | 677 |
| Changeover effect IFRS 15 | 24 | - |
| **Book value 12/31/** | **17,165** | **16,111** |

In the following table, the summarized financial information on the investment accounted for using the equity method is shown on a 100 percent basis:

| in € thousand | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Current assets | 21,030 | 21,270 |
| of which cash | 5,234 | 19 |
| Non-current assets | 10,481 | 10,948 |
| **Total assets** | **31,511** | **32,218** |
| Current liabilities and provisions | 10,581 | 13,498 |
| of which financial liabilities | 964 | 5,062 |
| Non-current liabilities and provisions | 929 | 869 |
| of which financial liabilities | 40 | 12 |
| **Total liabilities and provisions** | **11,510** | **14,367** |
| **Net assets** | **20,001** | **17,851** |
| | | |
| Sales revenues | 51,215 | 44,792 |
| Scheduled depreciation and amortization | 1,753 | 1,807 |
| Interest income | 14 | 113 |
| Interest expenses | 173 | 259 |
| Income tax expenses/income [+/-] | 1,148 | 655 |
| **Profit or loss** | **2,454** | **1,314** |
| Other comprehensive income | 51 | 68 |
| **Totel comprehensive income** | **2,505** | **1,382** |

In the case of accounting using the equity method, intercompany profits must be eliminated in consolidation on a pro rata basis. For material reasons, this did not result in any adjustments.

The following table shows the reconciliation of the net assets of the investment accounted for using the equity method:

| in € thousand | 2018 | 2017 |
|---|---|---|
| **Opening net assets 1/1/** | 17,851 | 16,469 |
| Changeover effect IFRS 15 | 48 | - |
| Profit/Loss for the period | 2,454 | 1,314 |
| Other comprehensive income | 51 | 68 |
| Dividends paid | - 403 | - |
| **Closing net assets 12/31/** | **20,001** | **17,851** |

## [20] Contract Assets

The contract assets are composed of the following net amounts:

| in € thousand | 12/31/2018 | 12/31/2017 revised |
|---|---|---|
| Accrued costs including partial profits and losses | 990,315 | 852,002 |
| Partial invoices | - 870,332 | - 754,583 |
| **Total amount due from current contract assets** | **119,983** | **97,419** |
| Advance payments received from current contract assets | 34,201 | 29,760 |
| Provision for risk IFRS 9 | - 29 | - |
| **Current contract assets** | **85,753** | **67,659** |

As in the previous year, contract assets are classified as current, in accordance with their terms.

## [21] Accounts Receivable

The accounts receivable are classified as follows:

| in € thousand | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Accounts receivable** | | |
| due from third parties | 116,446 | 136,182 |
| due from affiliated companies | 2,772 | 3,554 |
| due from related parties | 1 | 1,304 |
| **Total** | **119,219** | **141,040** |

As in the previous year, the accounts receivable have terms of less than one year.

Due to the fact that the general terms and conditions of the OEMs come to bear, there is no collateral pledged for receivables in the accounts receivable. The OEMs do not provide for any prolonged or extended retention of title for suppliers.

For the development of the valuation allowance account and the analysis of overdue, non-impaired accounts receivable and other receivables, please see chapter "Book Values, Valuation Rates and Fair Values of the Financial Instruments as per Valuation Category", page 260.

## [22] Other Non-Financial Assets

The other non-financial assets are classified as follows:

| in € thousand | 12/31/2018 | | | 12/31/2017 | | |
|---|---|---|---|---|---|---|
| | short-term | long-term | Total | short-term | long-term | Total |
| **Other non-financial receivables** | | | | | | |
| due from employees | 929 | - | 929 | 953 | - | 953 |
| due from plan assets (unpledged) | - | 64 | 64 | - | 62 | 62 |
| from value added tax | 1,692 | - | 1,692 | 1,999 | - | 1,999 |
| from other taxes | 361 | - | 361 | 947 | - | 947 |
| other remaining non financial receivables | 150 | - | 150 | - | - | - |
| Payments on account | 233 | - | 233 | 86 | - | 86 |
| Accrued items | 6,687 | - | 6,687 | 7,008 | - | 7,008 |
| **Total** | **10,052** | **64** | **10,116** | **10,993** | **62** | **11,055** |

## [23] Current and Deferred Income Tax Assets

| in € thousand | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Deferred tax assets | 2,352 | 2,513 |
| Income tax assets | 1,619 | 2,020 |
| **Total** | **3,971** | **4,533** |

The assets from future income tax relief include deferred tax assets from temporary differences between the book values reported in the Group statement of financial position and the tax bases, as well as tax savings from losses carried forward assessed as being realizable in the future. Details of deferred tax assets are given in section 13, 5.3.12 "Income Taxes". Of the deferred tax assets, € 7,640 thousand will be realizable after more than twelve months (12/31/2017: € 7,199 thousand). Provided that the conditions for offsetting are met, deferred tax assets are shown on the statement of financial position set off against deferred tax liabilities.

## Inventories [24]

The book value of the inventories in the amount of € 9,260 thousand (12/31/2017: € 3,888 thousand) is broken down as follows:

| in € thousand | 12/31/2018 | 12/31/2017 revised |
|---|---|---|
| Raw materials and supplies | 3,637 | 2,365 |
| Unfinished goods and services | 5,548 | 1,489 |
| Finished goods | 75 | 34 |
| **Total** | **9,260** | **3,888** |

The difference to the changes in inventories of unfinished and finished goods and services shown in the statement of comprehensive income results from changes in the scope of consolidation and currency conversion differences. The raw materials and supplies as well as merchandise are capitalized at acquisition cost; the unfinished goods and services and finished goods at the lower of production cost or net disposal value. During the reporting year, impairments in the amount of € 72 thousand (2017: € 99 thousand) were carried out on inventories with a book value before impairment of € 190 thousand (2017: € 229 thousand), and accordingly posted as material expense. As in previous years, no impairments on inventories were posted as depreciation on current assets.

Likewise, no reversals of impairment losses which reduce the material expense were carried out. As in previous years, the inventories were not pledged as securities for third party liabilities.

## [25] Cash and cash-equivalents

The cash and cash-equivalents are composed as follows:

| in € thousand | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Deposits with banks and cash in hand | 63,855 | 13,480 |
| Cash equivalents | 7 | 5 |
| **Statement of financial position valuation/financial funds** | **63,862** | **13,485** |

As in the previous year, the Group held cash or cash-equivalents in the amount of € 89 thousand (CHF 100 thousand) which are not at its unrestricted disposal. Deposits with credit institutions are held at banks with first class credit ratings.

## Assets Held for Sale [26]

| in € thousand | 12/31/2018 | | | 12/31/2017 | | |
|---|---|---|---|---|---|---|
| | Book value | Value adjustment | Fair value | Book value | Value adjustment | Fair value |
| Assets classified as held for disposal | - | - | - | **4,242** | **- 1,042** | **3,200** |

At the beginning of 2017, one property was qualified as a non-current asset held for sale according to IFRS 5.6 and valued at its book value according to IFRS 5.15. In the subsequent valuation during the second half of 2017, a change in value was noted, as a result of which it was valued at fair value less costs to sell. The resulting impairment costs in the amount of € 1,042 thousand were already recognized in depreciation, amortization and impairments in 2017. A sales agreement was signed in the second quarter of 2018. The rights and obligations were transferred upon receipt of payment in July 2018.

## Equity [27]

### Subscribed Capital

The fully paid-in subscribed capital of EDAG Engineering Group AG in the amount of € 920 thousand as at December 31, 2018 is backed by 25 million bearer shares with a nominal value of CHF 0.04.

Further information on the shares is given in the chapter "General Information".

### Consolidated Equity Development

Details of the development of the equity capital in 2017 and 2018 is shown in the Group's statement of changes in equity.

Retained earnings comprise the other retained earnings, the reserve for conversion effects as per IFRS 1, and reserves from transactions under joint control, as well as the annual results of the previous years after dividend distributions and the profit of the current year.

### Reserves from Profits and Losses Recognized Directly in Equity (OCI)

In the previous year, in compliance with IAS 39, unrealized profits and losses from changes to market values of securities available for disposal were posted to a separate item in equity capital, provided no impairments existed. With the introduction of IFRS 9, these were transferred to retained earnings in the financial year just ended. Furthermore, this item includes direct changes to equity capital resulting from the valuation of pension obligations.

### Currency Conversion Difference

Differences from currency conversion include differences from the currency conversion of financial statements of non-domestic subsidiaries.

### Paid and Proposed Dividends

At the annual shareholders' meeting of EDAG Group AG held on June 5, 2018, it was decided that, for the 2017 financial year, a dividend in the amount of € 0.75 per share should be paid from the capital reserves. Payment of the dividend was made on June 8, 2018.

Subject to approval of the annual shareholders' meeting, the Board of Directors of EDAG Group AG recommends paying a dividend of € 0.75 (CHF 0.85) per share for the 2018 financial year, which will result in an overall payout of € 18,750 thousand (CHF 21,129 thousand). The Board of Directors recommends that the entire dividend payout in the amount of € 0.75 (CHF 0.85) per share proposed for 2018 should be withdrawn from the capital reserves of EDAG Group AG. Subject to this proposal being passed at the annual shareholders' meeting, any such payout will not be subject to Swiss withholding tax.

**Non-controlling Interests**

The non-controlling interest includes shares held by third-parties in initial and generated equity of the fully consolidated subsidiaries.

## [28] Pensions and Other Post-Employment Benefits

EDAG has a company pension scheme for its employees, which takes the form of defined benefit and/or defined contribution plans. In this way, care is taken of virtually all employees for the period after their retirement.

**Defined Contribution Plans**

The defined contribution benefits are benefits from state and private retirement insurers, to whom payments are made on the basis of statutory regulations, or on a voluntary basis. The employer contributions paid to the statutory pension scheme on a domestic level may be viewed as defined contribution plans of this nature. Payments to defined contribution pension plans in the Group predominantly refer to contributions to statutory pension schemes in Germany. The Group has no further payment obligations besides the payment of the contributions. In the reporting year, contributions amounting to € 39,513 thousand were paid (2017: € 36,711 thousand).

**Defined Benefit Plans**

The defined benefit plans involve both direct benefits (direct pension commitments) and indirect benefits made through VKE-Versorgungskasse EDAG-Firmengruppe e.V. (VKE).

The direct benefits are guaranteed life-long pension payments. In some cases, this means benefits at a fixed amount; in others, benefits that vary according to the length of service to the company and the employee's salary. Old-age, disability and surviving dependents' pensions are assured.

The purpose of VKE - a group support fund - is to serve as a social institution of EDAG and related companies wishing to have their company retirement pension schemes managed by VKE. The sponsors (members using VKE to handle their company retirement pension schemes) are the following companies:

- EDAG Engineering GmbH, Wiesbaden
- EDAG Production Solutions GmbH & Co. KG, Fulda
- EDAG Werkzeug + Karosserie GmbH, Fulda[4]
- FFT GmbH & Co. KG, Fulda[5]

[4] *Associated company*

[5] *Affiliated company in relation to the ATON Group*

The exclusive and unchangeable purpose of VKE is to manage the support fund which grants to beneficiaries voluntary, one-off, recurring or ongoing benefits pursuant to the VKE benefit plan in the event of assistance being required, occupational incapacity or occupational disability, and during old age. Beneficiaries can be employees and/or former employees of the sponsor companies and their families (spouses, children) and/or surviving dependants. Members of the sponsor companies are also persons with whom the sponsor companies are, or have been, in an employment-type relationship. EDAG will no longer be entering into pension commitments for employees recruited on or after June 1, 2006. In accordance with the provisions of the pension scheme, employees who are entitled to benefits receive old-age and surviving dependents' benefits in the form of a lump-sum payment. The benefits are financed through an external fund, with the fund assets being re-invested in the form of loans in the sponsor companies.

In accordance with the provisions of this pension scheme, the employee receives old-age and surviving dependents' benefits. Each of the benefits due is paid as a lump sum.

Pension obligations in **Germany** are subject to the provisions of the German Company Pensions Act. Due to the pension adjustment obligation required by law, pension commitments are subject to inflation risk. Furthermore, there is the risk that, due to changes in life expectancy, the likelihood of becoming disabled and the likelihood of dying, the actual payment obligations are different from what was expected at the time when the commitment was made.

In **Switzerland**, the Group's company pension scheme is handled by AXA Stiftung Berufliche Vorsorge. Assets are invested jointly for all accounts in a collective fund. This collective fund may change its financing system at any time. For the duration of a coverage deficit, and provided other measures do not lead to the desired result, the collective fund can levy restructuring contributions from the employer and the employees.

In **Italy**, benefits are paid upon termination of the employment (Trattamento di Fine Rapporto [TFR]). Every employee is entitled to benefits in such cases. For each year of service, severance provisions must be created on the basis of total annual remuneration divided by 13.5. When setting aside these provisions, the employer must pay a proportion (0.5 percent of the salary) of this to the Italian National Social Security Institute or to an external pension fund over the course of the year. This amount is deducted from the severance provisions. On December 31 of each year, the severance pay accrued in the previous year is revalued using an index prescribed by law (1.5 percent plus 75 percent of the increase in the consumer price index for families of workers and employees based on the last 12 months).

In **India**, the 1972 Gratuity Act requires post-employment benefits to be paid to employees, provided they have rendered continuous service for at least 4.5 years. Payment is based on the basic monthly salary divided by 26 days and multiplied by 15 days for each complete year; although if six months have been completed, this is regarded as a year.

Employees in **Mexico** are also entitled to compensation. A payment in the amount of twelve days per service year is granted. Further, in the event of unfair dismissal of employees who have reached retirement age, compensation must be paid for the service years worked. Compensation amounts to three months' salary per service year.

Old-age pension obligations are determined on the basis of the actuarial expert report that is produced each year. The benefit amount is determined using the duration of employment as well as the estimated future salary and pension trends.

The pension provision recorded on the statement of financial position is shown as follows:

| in € thousand | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Present value of obligations financed through a fund | 38,962 | 39,777 |
| Fair value of plan assets | 23,800 | 25,082 |
| **Financing deficit / surplus** | **15,162** | **14,695** |
| Present value of obligations not financed through a fund | 14,683 | 12,911 |
| **Total deficit of the defined benefit obligations [Recognized pension provision]** | **29,845** | **27,606** |

The pension provision developed as follows:

| in € thousand | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Pension provision at the beginning of the financial year | 27,606 | 27,038 |
| Ongoing service cost | 1,775 | 1,747 |
| Past service cost | - 103 | - |
| Net interes expenses (+) / income (-) | 524 | 483 |
| Revaluations | - 773 | - 1,040 |
| Effects of currency conversion | 52 | - 100 |
| Benefits payments from company assets | - 603 | - 458 |
| Employer contributions to the fund | - 120 | - 129 |
| Repayment from the fund | 1,485 | - |
| Administration costs | 2 | 2 |
| Other Changes | - | 63 |
| **Recognized pension provision** | **29,845** | **27,606** |

The vested net present value of the pension obligation and the fair value of the plan assets developed as follows:

| in € thousand | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Total | VKE | Direct benefits | Total | VKE | Direct Benefits |
| **Changes to vested net present value** | | | | | | |
| **Vested net present value as at January 1,** | **52,688** | **35,626** | **17,062** | **52,488** | **34,674** | **17,814** |
| Ongoing service period cost | 1,775 | 1,151 | 624 | 1,747 | 1,175 | 572 |
| Past service cost | - 103 | - | - 103 | - | - | - |
| Interest expense | 956 | 653 | 303 | 893 | 601 | 292 |
| Revaluations of defined benefit plans | | | | | | |
| from changes to the financial assumptions | - 1,433 | - 898 | - 535 | - 1,180 | - 450 | - 730 |
| from changes in demographic assumptions | 675 | 27 | 648 | 300 | 175 | 125 |
| Effects of currency conversion | 151 | - | 151 | - 328 | - | - 328 |
| Contributions from plan participants | 116 | - | 116 | 126 | - | 126 |
| Benefit payments from company assets | - 603 | - | - 603 | - 458 | - | - 458 |
| Benefit payments from the fund | - 579 | - 522 | - 57 | - 965 | - 549 | - 416 |
| Administration costs | 2 | - | 2 | 2 | - | 2 |
| Other Changes | - | - | - | 63 | - | 63 |
| **Vested net present value as at December 31,** | **53,645** | **36,037** | **17,608** | **52,688** | **35,626** | **17,062** |
| **Change in plan assets** | | | | | | |
| **Fair value as at January 1,** | **25,082** | **20,932** | **4,150** | **25,450** | **20,964** | **4,486** |
| Interest income | 433 | 381 | 52 | 410 | 361 | 49 |
| Profit (+) / loss (-) from plan assets excluding the amount included in the interest income | 15 | 85 | - 70 | 159 | 155 | 4 |
| Effects of currency conversion | 99 | - | 99 | - 228 | - | - 228 |
| Employer contributions to the fund | 208 | - | 208 | 218 | - | 218 |
| Repayment from the funds | - 1,486 | - | - 1,486 | - | - | - |
| Contributions from plan participants | 116 | - | 116 | 130 | - | 130 |
| Benefit payments from the fund | - 667 | - 522 | - 145 | - 1,057 | - 548 | - 509 |
| **Fair value as at December 31,** | **23,800** | **20,876** | **2,924** | **25,082** | **20,932** | **4,150** |
| **Total deficit of the defined benefit obligations [Recognized pension provision]** | **29,845** | **15,161** | **14,684** | **27,606** | **14,694** | **12,912** |

The fair value of the plan assets is distributed as follows across the individual asset categories:

| in € thousand | 12/31/2018 | | 12/31/2017 | |
|---|---|---|---|---|
| | Values | % | Values | % |
| Debt securities (Germany) | 20,876 | 88% | 20,932 | 83% |
| of which investments in the employer or related parties (without quoted market price) | 20,876 | - | 20,932 | - |
| Reinsurance cover asset values (Germany) | 212 | 1% | 1,668 | 7% |
| of which without quoted market price in an active market | 212 | - | 1,668 | - |
| Collective fund (Switzerland) | 2,712 | 11% | 2,482 | 10% |
| of which without quoted market price in an active market | 2,712 | - | 2,482 | - |
| **Total plan assets** | **23,800** | **100%** | **25,082** | **100%** |

The following sensitivity analysis shows the effects of an increase or decrease in the actuarial assumptions on the vested net present value:

| in € thousand | 2018 | 2017 |
|---|---|---|
| Ø Actuarial interest rate | | |
| +0,50% | 51,217 | 49,211 |
| - 0,50% | 57,887 | 56,242 |
| Ø Life expectancy | | |
| + 1 year | 55,041 | 53,247 |
| - 1 year | 53,908 | 52,139 |

The sensitivities were determined in the same way as the scope of obligations. In the process, one assumption was changed while the remaining assumptions and the valuation methods remained unchanged. If multiple assumptions change at the same time, the effect does not necessarily agree to the sum of the individual effects. Additionally, the effects of the individual assumption changes are not linear.

As the benefits from VKE take neither a vesting trend nor a pension trend into account, a change to this assumption has no significant effects on the total obligation.

The average weighted duration of the vested net present value of the defined benefit pension plans of EDAG as at December 31, 2018 was 12.9 years (2017: 13.8 years).

For the 2019 financial year, the Group is expecting disbursements from company assets for pension commitments in the amount of € 688 thousand (2018: € 646 thousand).

For the 2019 financial year, the Group is expecting disbursements from the pension fund in the amount of € 616 thousand (2018: € 710 thousand).

The following key actuarial assumptions are the basis of the calculation of the vested net present value:

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Ø Discount rate | | |
| Germany | 2.06% | 1.85% |
| Switzerland | 1.10% | 0.80% |
| Italy | 1.57% | 1.45% |
| India | 7.57% | 7.50% |
| Mexico | 9.00% | 7.80% |
| Vested trend | | |
| Switzerland | 1.00% | 1.00% |
| Italy | 2.00% | 2.50% |
| India | 8.00% | 8.00% |
| Mexico | 5.50% | 5.80% |
| Pension trend | | |
| Germany | 1.75% | 1.75% |
| Italy | 2.63% | 2.63% |
| Inflation rate | | |
| Germany | 1.50% | 1.50% |
| Switzerland | 0.50% | 0.50% |
| Italy | 1.50% | 1.50% |
| Biometric basis for calculation | | |
| Germany | Heubeck tables 2018 G | Heubeck tables 2005 G |
| Switzerland | BVG 2015 GT | BVG 2010 GT |
| Italy | RG48 | RG48 |
| India | 100% of IALM (2006-08) | 100% of IALM (2006-08) |

The valuation of retirement obligations was carried out on the basis on a discounting interest rate, which was determined in accordance with the Mercer Yield Curve Approach (MYC).

## [29] Other Provisions

The development of other provisions is shown in the following provision schedule:

| in € thousand | As at 1/1/2018 | Changes in the scope of consolidation | Currency conversion differences | Unwinding of discount | Addition | Utilization | Reversal | As at 12/31/2018 |
|---|---|---|---|---|---|---|---|---|
| **Non-current provisions** | | | | | | | | |
| Personnel | 1,293 | - | - 62 | 9 | 124 | - 145 | - | 1,219 |
| Taxes | 375 | - | - 42 | - | 45 | - | - | 378 |
| Other provisions | 1,944 | - | - 57 | - | 33 | - | - 25 | 1,895 |
| **Total non-current provisions** | **3,612** | **-** | **- 161** | **9** | **202** | **- 145** | **- 25** | **3,492** |
| **Current provisions** | | | | | | | | |
| Taxes | 1,138 | - | - 1 | - | 623 | - 636 | - 96 | 1,028 |
| Personnel | 2,937 | - | - 80 | - | 3,969 | - 2,002 | - 144 | 4,680 |
| Warranty obligations | 172 | - | - | - | - | - | - 100 | 72 |
| Onerous contracts | 1,631 | - | 15 | - | 228 | - 314 | - 204 | 1,356 |
| Rework | 491 | - | - 9 | - | 29 | - 176 | - 136 | 199 |
| Legal disputes | 409 | - | - 34 | - | 200 | - 231 | - 3 | 341 |
| Disinvestments | 100 | - | - | - | - | - 67 | - 33 | - |
| Other current provisions | 2,053 | - | 11 | - | 459 | - 57 | - 49 | 2,417 |
| **Total current provisions** | **8,931** | **-** | **- 98** | **-** | **5,508** | **- 3,483** | **- 765** | **10,093** |

| in € thousand | As at 1/1/2017 revised | Changes in the scope of consolidation | Currency conversion differences | Unwinding of discount | Addition | Utilisation | Reversal | As at 12/31/2017 revised |
|---|---|---|---|---|---|---|---|---|
| **Non-current provisions** | | | | | | | | |
| Personnel | 913 | - | - 72 | 10 | 528 | - 86 | - | 1,293 |
| Tax provisions | - | - | - 38 | - | 413 | - | - | 375 |
| Other provisions | 2,117 | - 1 | - 103 | - | 23 | - | - 92 | 1,944 |
| **Total non-current provisions** | **3,030** | **- 1** | **- 213** | **10** | **964** | **- 86** | **- 92** | **3,612** |
| **Short-term provisions** | | | | | | | | |
| Taxes | 2,297 | - | - 1 | - | 105 | - 1,011 | - 252 | 1,138 |
| Personnel | 3,140 | - 20 | - 112 | - | 2,356 | - 1,993 | - 434 | 2,937 |
| Warranty obligations | 200 | - | - | - | - | - 28 | - | 172 |
| Onerous contracts | 1,153 | - | - 94 | - | 838 | - 56 | - 210 | 1,631 |
| Rework | 333 | - | - | - | 158 | - | - | 491 |
| Legal disputes | 676 | - | - 75 | - | 13 | - 14 | - 191 | 409 |
| Disinvestments | 100 | - | - | - | - | - | - | 100 |
| Other current provisions | 1,936 | - | - 27 | - | 466 | - 270 | - 52 | 2,053 |
| **Total current provisions** | **9,835** | **- 20** | **- 309** | **-** | **3,936** | **- 3,372** | **- 1,139** | **8,931** |

The **other tax provisions** include possible obligations from other taxes (including but not limited to land transfer tax and tax on wages).

The **personnel provision** includes other long-term benefits to employees, within the meaning of IAS 19.153. At the time of reporting, personnel provisions in the amount of € 5,899 thousand (12/31/2017: € 2,053 thousand) exist. Severance pay is also taken into account in this provision position.

The provision for **warranties** exists for statutory and contractual guarantee obligations, as well as for goodwill towards customers. Provisions for warranty obligations for specific customer projects were established according to the expected value calculated for potential goodwill gestures.

Provisions for **onerous contracts** are formed when excess costs are incurred for pending sales transactions. As a general rule, losses from construction contracts are calculated on the basis of the production costs. A liability is only recognized if the costs are higher than the receivable on the reporting date.

Provisions for **rectification work** are formed if there are still small, insignificant tasks to be performed after the customer has been invoiced.

Provisions for **disinvestments** have been created for potential obligations arising from various company sales.

As an internationally active company, the EDAG Group is exposed to numerous **legal risks.** In particular, these can include risks from the areas of competition and anti-trust law, patent law, etc. As the results of currently pending and/or future legal action cannot be forecast with any certainty, it is possible that legal or official decisions or settlement agreements might lead to costs being incurred which are either not, or not fully, covered by insurance benefits.

In the case of current provisions, we work on the basis that the cash outflow is to be expected in the following year.

Non-current personnel provisions are primarily anniversary provisions that will be paid out within the next 2 - 25 years. Where the remaining non-current provisions are concerned, we work on the basis that these will be paid out within the next 2 - 4 years.

## [30] Financial Liabilities

| in € thousand | 12/31/2018 | | | 12/31/2017 | | |
|---|---|---|---|---|---|---|
| | short-term | long-term | Total | short-term | long-term | Total |
| Liabilities due to credit institutions | 2,185 | 120,000 | 122,185 | 31,908 | - | 31,908 |
| Liabilities from loans | 20,876 | - | 20,876 | 82,197 | - | 82,197 |
| due to third parties | - | - | - | 1 | - | 1 |
| due to affiliated companies | - | - | - | 61,264 | - | 61,264 |
| due to related parties | 20,876 | - | 20,876 | 20,932 | - | 20,932 |
| Liabilities from financing leases | 2,017 | 1,714 | 3,731 | 1,747 | 1,158 | 2,905 |
| Liabilities from derivative financial instruments | 22 | - | 22 | 110 | - | 110 |
| **Total** | **25,100** | **121,714** | **146,814** | **115,962** | **1,158** | **117,120** |

Included in the current liabilities due to credit institutions in the previous year was a property loan in the amount of € 931 thousand including interest; this was interest-bearing at an unchanged average interest rate of 4.82 percent p.a., was being repaid with an unchanged monthly annuity installment of € 64 thousand, and was repaid in full on 12/31/2018. EDAG Engineering GmbH, Wiesbaden, the major company in the EDAG Group, has placed a promissory note loan *(Schuldscheindarlehen)* in several tranches with a total volume of € 120 million, with various interest rates and maturities of five to ten years, in order to secure strategic, long-term liquidity. This is shown in the non-current liabilities due to credit institutions, in line with its period of validity. The sole contractual partner of the promissory note loan is a renowned financial institution. The funds raised in this way are to serve as a low-cost means of refinancing existing financial liabilities on the one hand, and to secure further growth of the EDAG Group on the other. As a result of this reorganization of the Group's financing structure, the liabilities from current account agreements existing in the previous year (12/31/2017: € 26,553 thousand) fell by € 26,537 thousand to € 16 thousand on the reporting date.

With the exception of the restricted cash described in chapter "Cash and Cash-Equivalents [25]" [€ 89 thousand (CHF 100 thousand)], the Group has provided no other securities as collateral for the bank liabilities.

The current loan obligations to affiliated companies (ATON Group Finance GmbH) that existed in the previous year (12/31/2017: € 61,264 thousand, including interest accrued) were redeemed in full on maturity at the beginning of November 2018.

As of December 31, 2018, there are also current loans, including interest, in the amount of € 20,876 thousand from VKE-Versorgungskasse EDAG-Firmengruppe e.V. (12/31/2017: € 20,923 thousand). The average applicable interest rate in the reporting year is 2.5 percent.

The liabilities from leases exist primarily due to hardware financing. The average interest rate is 5.5 percent. See Chapter "Leases" for additional information on leases, page 254.

Derivatives include the cash outflow of derivative financial instruments with a negative fair value as well as the cash outflow of derivatives with a positive fair value, for which gross settlement has been arranged.

It is the aim of the EDAG Group to preserve the equilibrium between the ongoing coverage of funding requirements and ensuring flexibility through the use of current account overdraft, loans, financing leases and lease-to-buy contracts.

The following table shows the liquidity risk of EDAG. With this, the contractually agreed (non-discounted) interest and principal payments of the original financial liabilities and the derivative financial instruments are shown with their positive and negative attributable fair value. All instruments which were held on December 31, 2018, and for which payments were already contractually agreed, have been included. Plan figures for future new liabilities are not included. Foreign currency amounts have been converted at the exchange rate valid on the reporting date. Financial liabilities repayable at any time are always allocated to the earliest time scale.

There were no defaults on the recognized loans during the reporting year.

| in € thousand | Book value 12/31/2018 | Cash-Flows 2019 | | | Cash-Flows 2020 | | | Cash-Flows 2021–2023 | | | Cash-Flows 2024 onwards | | | without fixed principal repay-ments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Interest | | Princi-pal repay-ment | Interest | | Princi-pal repay-ment | Interest | | Princi-pal repay-ment | Interest | | Princi-pal repay-ment | |
| | | fixed | var | | fixed | var | | fixed | var | | fixed | var | | |
| Liabilities due to credit institutions | 122,186 | 1,165 | 315 | 2,186 | 1,161 | 315 | - | 3,167 | 854 | 80,500 | 794 | 186 | 39,500 | - |
| Liabilities from loans | 20,876 | - | - | - | - | - | - | - | - | - | - | - | - | 20,876 |
| due to third parties | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| due to affiliated companies | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| due to related parties | 20,876 | - | - | - | - | - | - | - | - | - | - | - | - | 20,876 |
| Liabilities from financing leases | 3,730 | 148 | - | 2,017 | 59 | - | 1,440 | 7 | - | 274 | - | - | - | - |
| Liabilities from derivative financial instruments | 22 | - | - | 22 | - | - | - | - | - | - | - | - | - | - |
| **Total** | **146,814** | **1,313** | **315** | **4,225** | **1,220** | **315** | **1,440** | **3,174** | **854** | **80,774** | **794** | **186** | **39,500** | **20,876** |

| in € thousand | Book value 12/31/2017 | Cash-Flows 2018 | | | Cash-Flows 2019 | | | Cash-Flows 2020–2022 | | | Cash-Flows 2023 onwards | | | without fixed principal repayments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Interest | | Principal repayment | Interest | | Principal repayment | Interest | | Principal repayment | Interest | | Principal repayment | |
| | | fixed | var | | fixed | var | | fixed | var | | fixed | var | | |
| Liabilities due to credit institutions | 31,908 | 158 | 9 | 5,355 | - | - | - | - | - | - | - | - | - | 26,553 |
| Liabilities from loans | 82,197 | 3,082 | - | 60,801 | - | - | - | - | - | - | - | - | - | 20,932 |
| due to third parties | 1 | - | - | 1 | - | - | - | - | - | - | - | - | - | - |
| due to affiliated companies | 61,264 | 3,082 | - | 60,800 | - | - | - | - | - | - | - | - | - | - |
| due to related parties | 20,932 | - | - | - | - | - | - | - | - | - | - | - | - | 20,932 |
| Liabilities from financing leases | 2,905 | 112 | - | 1,748 | 42 | - | 866 | 6 | - | 291 | - | - | - | - |
| Liabilities from derivative financial instruments | 110 | - | - | 110 | - | - | - | - | - | - | - | - | - | - |
| **Total** | **117,120** | **3,352** | **9** | **68,014** | **42** | **-** | **866** | **6** | **-** | **291** | **-** | **-** | **-** | **47,485** |

In contrast to cash outflow due to derivatives for which gross settlement has been arranged, there are also cash inflows; these are not, however, shown in this settlement analysis. If the cash inflows were also to be taken into account, the cash outflows presented would be reduced considerably.

## [31] Contract liabilities

The contractual liabilities are composed of the following net amounts:

| in € thousand | 12/31/2018 | 12/31/2017 revised |
|---|---|---|
| Accrued costs including partial profits and losses | 160,657 | 125,479 |
| Partial settlements and advance payments received on current contract liabilities | - 202,122 | - 164,769 |
| **Contract liabilities** | **- 41,465** | **- 39,290** |

Of the contractual liabilities reported in the previous year, € 39,290 thousand was recognized as revenue in the financial year just ended (2017: € 29,689 thousand).

As in the previous year, contractual liabilities are classified as current, in accordance with their terms.

## [32] Accounts Payable

The accounts payable are classified as follows:

| in € thousand | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Accounts payable** | | |
| due to third parties | 28,631 | 22,090 |
| due to affiliated companies | 1,065 | 2,655 |
| **Total** | **29,696** | **24,745** |

As in the previous year, the accounts payable are classified as current, on account of their terms.

## [33] Other Financial Liabilities

The other financial liabilities are classified as follows:

| in € thousand | 12/31/2018 | | | 12/31/2017 | | |
|---|---|---|---|---|---|---|
| | short-term | long-term | Total | short-term | long-term | Total |
| **Other financial liabilities** | | | | | | |
| due to related companies | 422 | - | 422 | 478 | - | 478 |
| Liabilities from business acquisitions | 996 | 1,230 | 2,226 | 744 | 2,243 | 2,987 |
| other remaining liabilities | 2,812 | - | 2,812 | 2,126 | - | 2,126 |
| **Total** | **4,230** | **1,230** | **5,460** | **3,348** | **2,243** | **5,591** |

The other financial liabilities primarily include overpayments and deposits received.

## [34] Other Non-Financial Liabilities

The other non-financial liabilities are classified as follows:

| in € thousand | 12/31/2018 | 12/31/2017 revised |
|---|---|---|
| **Other non-financial liabilities** | | |
| advance payments received on orders | 546 | 1,504 |
| due to employees | 31,707 | 22,346 |
| within the context of social security | 1,884 | 1,992 |
| deferred income | 424 | 387 |
| from value-added tax | 14,487 | 18,388 |
| from other taxes | 6,731 | 6,556 |
| other remaining liabilities | 2,217 | 2,116 |
| **Total** | **57,996** | **53,289** |

As in the previous year, the non-financial liabilities have a term to maturity of less than a year.

The liabilities due to employees are primarily composed of special salary payments (€ 7,408 thousand; 12/31/2017: € 565 thousand), obligations from overtime and flexi-time credits (€ 9,859 thousand; 12/31/2017: € 9,570 thousand), obligations from outstanding vacation allowances (€ 4,449 thousand; 12/31/2017: € 4,379 thousand), profit share obligations (€ 7,454 thousand; 12/31/2017 € 5,325 thousand) and obligations from vacation pay and Christmas bonuses (€ 1,013 thousand; 12/31/2017: € 798 thousand).

Deferred income is mainly comprised of large advance payments from business partners which were received prior to the balance sheet date and not converted to revenue until the new year.

The other non-financial liabilities include accounts payable to employers' insurance associations and the integration agencies.

## [35] Current and Deferred Income Tax Liabilities

| in € thousand | 12/31/2018 | 12/31/2017 revised |
|---|---|---|
| Deferred tax liabilities | 2,104 | 3,061 |
| Current income tax liabilities | 6,703 | 11,714 |
| **Total** | **8,807** | **14,775** |

In addition to the deferred taxes explained under section 13, 5.3.12 "Income Tax", the income tax liabilities include income taxes from the current year and the previous years. Of the deferred tax liabilities, € 6,382 thousand will be realizable after more than twelve months (12/31/2017: € 7,276 thousand). Provided that the conditions for offsetting are met, deferred tax assets are shown on the statement of financial position set off against deferred tax liabilities.

# 5.5 Segment Reporting and Notes

The segment reporting was prepared in accordance with IFRS 8 "Operating segments". Individual consolidated results are reported by company divisions in conformity with the internal reporting and organizational structure of the group. The key performance indicator for the Group Executive Management at segment level is the EBIT, as the adjusted effects are presented under "Others". Therefore at segment level, the EBIT shown is basically equal to the adjusted EBIT. The only exception to this rule are the effects of the purchase price allocation shown in the segment EBIT. The segment presentation is designed to show the profitability as well as the assets and financial situation of the individual business activities. Intercompany sales are accounted for at customary market prices and are equivalent to sales towards third parties (arm's length principle).

In the reporting year, the non-current assets amounted to € 196.5 million (31.12.2017: € 198.1 million). Of these, € 1.1 million are domestic, € 166.4 million are German, and € 29.0 million are non-domestic (31.12.2017: domestic: € 1.4 million; Germany: € 166.6 million; non-domestic: € 30.0 million).

The assets, liabilities and provisions are not reported by segments, as this information is not part of the internal reporting.

The **Vehicle Engineering** segment ("VE") consists of services along the vehicle development process as well as responsibility for derivative and complete vehicles. For descriptions of the individual departments in this segment, please see the chapter " Business Model" in the Group Management Report.

As an all-round engineering partner, the **Production Solutions** segment ("PS") is responsible for the development and implementation of production processes. In addition to handling the individual stages in the product creation process and all factory and production systems-related services, the Production Solutions segment is also able to optimally plan complete factories over all technical trades, including cross-processes, and to provide implementation from a single source. For more detailed descriptions of the individual departments in this segment, please see the chapter " Business Model" in the Interim Group Management Report.

The range of services offered by the **Electrics/Electronics** segment ("E/E") includes the development of electrical and electronic systems for the comfort, driver assistance and safety functions of a vehicle, and the development of cable harnesses. These services are performed in four departments; these are described in greater detail in the chapter " Business Model" in the Group Management Report.

The three operative segments Vehicle Engineering, Production Solutions and Electrics/ Electronics together represent the core business of the EDAG Group.

All the adjustments referred to in the chapter "Reconciliation of the Adjusted Operating Profit (Adjusted EBIT) [9]" are also given under **"Others"**.

Income and expenses as well as results between the segments are eliminated in the consolidation.

| in € thousand | 01/01/2018 – 12/31/2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Vehicle Engineering | Production Solutions | Electrics/ Electronics | Others | Total Segments | Consolidation | Total Group |
| Sales revenue | 481,425 | 151,615 | 155,212 | - | 788,252 | - | 788,252 |
| Sales revenue with other segments | 4,669 | 7,532 | 502 | - | 12,703 | - 12,703 | - |
| Changes in inventories | 4,216 | 30 | - 170 | - | 4,076 | - | 4,076 |
| **Total revenues[1]** | **490,310** | **159,177** | **155,544** | **-** | **805,031** | **- 12,703** | **792,328** |
| EBIT | **27,043** | **9,388** | **5,811** | **-** | **42,242** | **-** | **42,242** |
| EBIT margin [%] | 5.5% | 5.9% | 3.7% | n/a | 5.2% | - | 5.3% |
| Purchase price allocation (PPA) | 3,318 | 381 | 1,616 | - | 5,315 | - | 5,315 |
| Other adjustments | - | - | - | - | - | - | - |
| **Adjusted EBIT** | **30,361** | **9,769** | **7,427** | **-** | **47,557** | **-** | **47,557** |
| Adjusted EBIT margin [%] | 6.2% | 6.1% | 4.8% | n/a | 5.9% | - | 6.0% |
| Depreciation, amortization and impairment | - 19,260 | - 3,081 | - 5,073 | - | - 27,414 | - | - 27,414 |
| ø Employees by segment | 5,012 | 1,582 | 1,885 | - | 8,479 | | 8,479 |

| in € thousand | 01/01/2017 – 12/31/2017 revised* | | | | | | |
|---|---|---|---|---|---|---|---|
| | Vehicle Engineering | Production Solutions | Electrics/ Electronics | Others | Total Segments | Consolidation | Total Group |
| Sales revenue | 451,725 | 124,479 | 148,527 | - | 724,731 | - | 724,731 |
| Sales revenue with other segments | 5,973 | 6,896 | 92 | - | 12,961 | - 12,961 | - |
| Changes in inventories | - 5,556 | - 529 | - 110 | - | - 6,195 | - | - 6,195 |
| **Total revenues[1]** | **452,142** | **130,846** | **148,509** | **-** | **731,497** | **- 12,961** | **718,536** |
| EBIT | **16,039** | **8,318** | **4,142** | **758** | **29,257** | **-** | **29,257** |
| EBIT margin [%] | 3.5% | 6.4% | 2.8% | n/a | 4.0% | - | 4.1% |
| Purchase price allocation (PPA) | 3,582 | 583 | 1,616 | - | 5,781 | - | 5,781 |
| Other adjustments | - | - | - | - 758 | - 758 | - | - 758 |
| **Adjusted EBIT** | **19,621** | **8,901** | **5,758** | **-** | **34,280** | **-** | **34,280** |
| Adjusted EBIT margin [%] | 4.3% | 6.8% | 3.9% | n/a | 4.7% | - | 4.8% |
| Depreciation, amortization and impairment | - 19,018 | - 3,568 | - 5,106 | - 1,042 | - 28,734 | - | - 28,734 |
| ø Employees by segment | 5,006 | 1,448 | 1,781 | - | 8,235 | | 8,235 |

*[1] The performance figure "revenues" is used in the sense of gross performance (sales revenues and changes in inventories).*

** The previous year was adjusted due to amendments made to the international accounting standard IFRS 15.*

The following table reflects the concentration risk of the EDAG Group, divided according to the customer sales divisions and segments:

| in € thousand | 01/01/2018 – 12/31/2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Vehicle Engineering | | Production Solutions | | Electrics/ Electronics | | Total | |
| Customer sales division A | 82,936 | 17% | 21,733 | 14% | 41,488 | 27% | 146,157 | 19% |
| Customer sales division B | 14,978 | 3% | 5,839 | 4% | 53,346 | 34% | 74,163 | 9% |
| Customer sales division C | 15,243 | 3% | 1,456 | 1% | 4,800 | 3% | 21,499 | 3% |
| Customer sales division D | 72,649 | 15% | 15,047 | 10% | 16,138 | 10% | 103,834 | 13% |
| Customer sales division E | 63,301 | 13% | 31,840 | 21% | 2,631 | 2% | 97,772 | 12% |
| Customer sales division F | 257 | 0% | 7,871 | 5% | - | 0% | 8,128 | 1% |
| Customer sales division G | 9,117 | 2% | 582 | 0% | 2,042 | 1% | 11,741 | 1% |
| Customer sales division H | 3,683 | 1% | 25,601 | 17% | - | 0% | 29,284 | 4% |
| Customer sales division I | 34,239 | 7% | 8,925 | 6% | 5,784 | 4% | 48,948 | 6% |
| Miscellaneous (OEMs and system suppliers) | 185,022 | 38% | 32,721 | 22% | 28,983 | 19% | 246,726 | 31% |
| **Total** | **481,425** | **100%** | **151,615** | **100%** | **155,212** | **100%** | **788,252** | **100%** |

| in € thousand | 01/01/2017 – 12/31/2017 revised* | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Vehicle Engineering | | Production Solutions | | Electrics/ Electronics | | Total | |
| Customer sales division A | 79,577 | 18% | 18,418 | 15% | 32,171 | 22% | 130,166 | 18% |
| Customer sales division B | 20,784 | 5% | 7,437 | 6% | 56,671 | 38% | 84,892 | 12% |
| Customer sales division C | 18,176 | 4% | 1,290 | 1% | 3,668 | 2% | 23,134 | 3% |
| Customer sales division D | 74,800 | 17% | 10,755 | 9% | 12,553 | 8% | 98,108 | 14% |
| Customer sales division E | 59,511 | 13% | 17,238 | 14% | 4,432 | 3% | 81,181 | 11% |
| Customer sales division F | 1,499 | 0% | 6,450 | 5% | 1,808 | 1% | 9,757 | 1% |
| Customer sales division G | 18,502 | 4% | 1,045 | 1% | 2,632 | 2% | 22,179 | 3% |
| Customer sales division H | 2,831 | 1% | 30,133 | 24% | 1,272 | 1% | 34,236 | 5% |
| Customer sales division I | 28,049 | 6% | 9,730 | 8% | 5,612 | 4% | 43,391 | 6% |
| Miscellaneous (OEMs and system suppliers) | 147,996 | 33% | 21,983 | 18% | 27,708 | 19% | 197,687 | 27% |
| **Total** | **451,725** | **100%** | **124,479** | **100%** | **148,527** | **100%** | **724,731** | **100%** |

As in the previous year, the Electrics/Electronics segment generated over 50 percent of its sales revenues with one corporate group. An affiliated company in relation to the ATON Group is a key customer in the Production Solutions segment.

The following table reflects the revenue recognition of the EDAG Group, divided according to segments:

| in € thousand | 1/1/2018 – 12/31/2018 | | | | | |
|---|---|---|---|---|---|---|
| | Vehicle Engineering | Production Solutions | Electrics/ Electronics | Total Segments | Consolidation | Total Group |
| Period-related revenue recognition | 465,039 | 156,618 | 153,669 | 775,326 | - | 775,326 |
| Point in time revenue recognition | 21,055 | 2,529 | 2,045 | 25,629 | - | 25,629 |
| Sales revenue with other segments | - 4,669 | - 7,532 | - 502 | - 12,703 | - | - 12,703 |
| **Sales revenue with third parties** | **481,425** | **151,615** | **155,212** | **788,252** | **-** | **788,252** |
| Sales revenue with other segments | 4,669 | 7,532 | 502 | 12,703 | - 12,703 | - |
| Changes in inventories | 4,216 | 30 | - 170 | 4,076 | - | 4,076 |
| **Total revenues** | **490,310** | **159,177** | **155,544** | **805,031** | **- 12,703** | **792,328** |

| in € thousand | 1/1/2017 – 12/31/2017 | | | | | |
|---|---|---|---|---|---|---|
| | Vehicle Engineering | Production Solutions | Electrics/ Electronics | Total Segments | Consolidation | Total Group |
| Period-related revenue recognition | 434,751 | 126,140 | 139,039 | 699,930 | - | 699,930 |
| Point in time revenue recognition | 22,947 | 5,235 | 9,580 | 37,762 | - | 37,762 |
| Sales revenue with other segments | - 5,973 | - 6,896 | - 92 | - 12,961 | - | - 12,961 |
| **Sales revenue with third parties** | **451,725** | **124,479** | **148,527** | **724,731** | **-** | **724,731** |
| Sales revenue with other segments | 5,973 | 6,896 | 92 | 12,961 | - 12,961 | - |
| Changes in inventories | - 5,556 | - 529 | - 110 | - 6,195 | - | - 6,195 |
| **Total revenues** | **452,142** | **130,846** | **148,509** | **731,497** | **- 12,961** | **718,536** |

The group sales revenues are broken down in terms of sales into the individual markets as follows. This breakdown reflects the regional classification of the EDAG locations.

| in € thousand | 1/1/2018 – 12/31/2018 | | | | | |
|---|---|---|---|---|---|---|
| | Vehicle Engineering | Production Solutions | Electrics/ Electronics | Total Segments | Consolidation | Total Group |
| Germany | 277,084 | 97,289 | 133,621 | 507,994 | - | 507,994 |
| Switzerland | 3,095 | 37 | 682 | 3,814 | - | 3,814 |
| Remaining Europe | 92,787 | 19,136 | 16,267 | 128,190 | - | 128,190 |
| North America | 56,684 | 35,719 | 4,095 | 96,498 | - | 96,498 |
| South America | 5,428 | 2,319 | 186 | 7,933 | - | 7,933 |
| Asia | 50,866 | 4,647 | 863 | 56,376 | - | 56,376 |
| Australia | 150 | - | - | 150 | - | 150 |
| Sales revenue with other segments | - 4,669 | - 7,532 | - 502 | - 12,703 | - | - 12,703 |
| **Sales revenue with third parties** | **481,425** | **151,615** | **155,212** | **788,252** | **-** | **788,252** |
| Sales revenue with other segments | 4,669 | 7,532 | 502 | 12,703 | - 12,703 | - |
| Change in inventories | 4,216 | 30 | - 170 | 4,076 | - | 4,076 |
| **Total revenues** | **490,310** | **159,177** | **155,544** | **805,031** | **- 12,703** | **792,328** |

| in € thousand | 1/1/2017 – 12/31/2017 | | | | | |
|---|---|---|---|---|---|---|
| | Vehicle Engineering | Production Solutions | Electrics/ Electronics | Total Segments | Consolidation | Total Group |
| Germany | 295,574 | 102,175 | 131,699 | 529,448 | - | 529,448 |
| Switzerland | 2,168 | 50 | 941 | 3,159 | - | 3,159 |
| Remaining Europe | 82,959 | 12,073 | 12,045 | 107,077 | - | 107,077 |
| North America | 40,155 | 12,375 | 3,116 | 55,646 | - | 55,646 |
| South America | 9,967 | 1,270 | 46 | 11,283 | - | 11,283 |
| Asia | 26,875 | 3,419 | 772 | 31,066 | - | 31,066 |
| Australia | - | 13 | - | 13 | - | 13 |
| Sales revenue with other segments | - 5,973 | - 6,896 | - 92 | - 12,961 | - | - 12,961 |
| **Sales revenue with third parties** | **451,725** | **124,479** | **148,527** | **724,731** | **-** | **724,731** |
| Sales revenue with other segments | 5,973 | 6,896 | 92 | 12,961 | - 12,961 | - |
| Change in inventories | - 5,556 | - 529 | - 110 | - 6,195 | - | - 6,195 |
| **Total revenues** | **452,142** | **130,846** | **148,509** | **731,497** | **- 12,961** | **718,536** |

## 5.6 Notes on the Cash Flow Statement

At € 68.9 million, the positive operating cash flow achieved in the reporting year was above the level in the previous year (€ 51.6 million). In addition to the increased net income compared to the previous year, a positive effect in the trade working capital (€ 5.5 million), mainly from customers' prepayments also proved beneficial.

The investing cash flow was € -21.5 million (2017: € -28.5 million). At € 22.2 million, the gross investments for intangible assets and property, plant and equipment in the reporting year were some 2.3 percent above the previous year's level (2017: € 21.7 million). The ratio of gross investments in relation to revenues was therefore 2.8 percent (2017: 3.0 percent).

The financing cash flow totaled € 3.2 million. Deposits in the amount of € 120 million for the placement of the promissory note loan were countered primarily by principle payments to ATON Group Finance GmbH in the amount of € 60.8 million, principle payments to credit institutions in the amount of € 35.0 million, and dividends in the amount of € 18.8 million paid to the shareholders.

The financial liabilities developed as follows:

| in € thousand | short-term financial liabilities | long-term financial liabilities | total |
|---|---|---|---|
| **As per 12/31/2016 / 1/1/2017** | **29,190** | **88,080** | **117,270** |
| Cash effective payments | 22,823 | - 26,000 | **- 3,177** |
| Currency effects | - 218 | - 3 | **- 221** |
| Increase in finance-leasing | 1,617 | 1,591 | **3,208** |
| Maturity reclassification | 62,510 | - 62,510 | **-** |
| Other changes | 40 | - | **40** |
| **As per 12/31/2017 / 1/1/2018** | **115,962** | **1,158** | **117,120** |
| Cash effective payments | - 94,274 | 120,000 | 25,726 |
| Currency effects | - 26 | - | - 26 |
| Increase in finance-leasing | 1,641 | 1,600 | 3,241 |
| Maturity reclassification | 1,044 | - 1,044 | - |
| Other changes | 753 | - | 753 |
| **As per 12/31/2018** | **25,100** | **121,714** | **146,814** |

# 5.7 Other Notes

## Contingent Liabilities/Receivables and Other Financial Obligations

### Contingent Liabilities

As in the previous year, there were no material contingent liabilities on the reporting date.

### Other Financial Obligations

In addition to the provisions and liabilities, there are also other financial obligations, and these are composed as follows:

| in € thousand | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Obligation from the renting of property | 147,200 | 148,060 |
| Obligations from miscellaneous renting and leasing contracts | 8,598 | 9,052 |
| Open purchase orders | 2,522 | 1,486 |
| Other miscellaneous financial obligations | 16 | 29 |
| **Total** | **158,336** | **158,627** |

### Contingent Receivables

As in the previous year, there were no material contingent receivables on the reporting date.

## Leases

### EDAG as the Lessee

*Financing Leases*

If the lessee bears the main rewards and risks associated with the leasing object, then the economic ownership of the leased objects is attributed to the lessee. The Group has concluded financing leases and lease-to-buy contracts for various items of technical equipment and operating and office equipment. The net book values of the leasing objects capitalized within the context of financing leasing activity on the reporting date are shown in the following schedule:

| in € thousand | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Other equipment, operating and office equipment | 3,675 | 2,874 |
| **Total** | **3,675** | **2,874** |

The payment obligation resulting from finance leasing as of the reporting date is posted as a liability in the amount of the net present value of the future minimum leasing payments. In subsequent years, this liability will be reduced by the repayment portion as part of the leasing installments. The interest share of the payments is posted to the statement of comprehensive income. In individual detail, the following future obligations result for the balance sheet date:

| in € thousand | 12/31/2018 | | | 12/31/2017 | | |
|---|---|---|---|---|---|---|
| | Minimum leasing payments | Interest portion | Present values | Minimum leasing payments | Interest portion | Present values |
| **Due date** | | | | | | |
| up to 1 year | 2,165 | 148 | 2,017 | 1,859 | 112 | 1,747 |
| 1 to 5 years | 1,780 | 66 | 1,714 | 1,207 | 49 | 1,158 |
| over 5 years | - | - | - | - | - | - |
| **Total** | **3,945** | **214** | **3,731** | **3,066** | **161** | **2,905** |

As at the balance sheet date, there are no obligations from sale and leaseback contracts.

*Operating Leases*

The economic ownership of leasing transactions is attributed to the lessor if the lessor bears the main rewards and risks associated with the leasing object. The obligations of EDAG from noncancelable operating leases mainly exist for commercial property rental agreements, IT leasing, motor vehicles and technical equipment. At the year-end, the expenses of operating leases posted to profit or loss amounted to € 41,192 thousand (2017: € 38,864 thousand).

The future minimum leasing payments from operating-leasing business areas are as follows:

| in € thousand | 2018 | 2017 |
|---|---|---|
| future expenses up to 1 year | 30,270 | 30,472 |
| future expenses 1 to 5 years | 66,725 | 63,850 |
| future expenses over 5 years | 58,767 | 63,105 |
| **Total** | **155,762** | **157,427** |

Of these, as at the balance sheet date the following future minimum leasing payments exist which result from sale and leaseback transactions:

| in € thousand | 2018 | 2017 |
|---|---|---|
| future expenses up to 1 year | 3,217 | 3,169 |
| future expenses 1 to 5 years | 9,652 | 9,507 |
| future expenses over 5 years | 24,801 | 27,597 |
| **Total** | **37,670** | **40,273** |

As at the balance sheet date, the anticipated future minimum payments from non-cancelable sub-leases amount to € 1,747 thousand (12/31/2017: € 1,333 thousand).

As in the previous year, neither contingent lease payments nor expenses from non-cancelable sub-leases were posted as costs.

**EDAG as the Lessor**

*Financing Leases*

EDAG does not act as a lessor with regard to financing leases.

*Operating Leases*

EDAG acts as a lessor with regard to operating leases, and continues to include the assets let in this respect in its statement of financial position. The leasing installments received are posted through profit or loss. By and large, this involves the rental of buildings. As a general rule, leasing contracts tend to be short-term. At the year-end, the income from operating leasing amounted to € 2,431 thousand (2017: € 2,536 thousand). The future minimum leasing payments from noncancelable operating leases are as follows:

| in € thousand | 2018 | 2017 |
|---|---|---|
| future income up to 1 year | 2,463 | 1,594 |
| future income 1 to 5 years | 1,481 | 35 |
| future income over 5 years | - | - |
| **Total** | **3,944** | **1,629** |

As in the previous year, no contingent rental income was recorded through profit or loss in the 2018 financial year.

## Financial Instruments

### Capital Risk Management

The Group manages its capital with the aim of maximizing the earnings of those involved in the company by optimizing the ratio of equity to borrowed capital. In the process, care is taken to ensure that the group companies can all operate on the assumption that the company is a going concern.

The Group capital structure is composed of debts, financing receivables, securities / derivative financial instruments, cash and cash-equivalents, and also the equity due to the parent company's shareholders. This consists of the subscribed capital, the capital reserves and the retained earnings.

The capital structure of the Group is reviewed by the Group Executive Management on a quarterly basis. During this review, the committee considers the cost of capital and the risks connected with each capital category. The Group Executive Management's aim is to keep the net financial debt as low as possible in relation to the equity ratio (net gearing).

| in € thousand | 12/31/2018 | 12/31/2017 revised |
|---|---|---|
| Non-current financial liabilities | - 121,714 | - 1,158 |
| Current financial liabilities | - 25,101 | - 115,962 |
| Securities/derivative financial instruments | 38 | 43 |
| Cash and cash-equivalents | 63,862 | 13,485 |
| **Net financial debt/-credit [-/+]** | **- 82,915** | **- 103,592** |
| Equity | 154,313 | 147,517 |
| **Net Gearing [%]** | **53.7%** | **70.2%** |

At € 82,915 thousand, the net financial debt on December 31, 2018 is € 20,677 thousand below the previous year's value (€ 103,592 thousand).

EDAG Engineering GmbH, Wiesbaden, the major company in the EDAG Group, has placed a promissory note loan *(Schuldscheindarlehen)* in several tranches with a total volume of € 120 million, with various interest rates and maturities of five to ten years, in order to secure strategic, long-term liquidity. The sole contractual partner of the promissory note loan is a renowned financial institution. The funds raised in this way are to serve as a low-cost means of refinancing existing financial liabilities on the one hand, and to secure further growth of the EDAG Group on the other.

The other major creditor of the EDAG Group is VKE-Versorgungskasse EDAG-Firmengruppe e.V. As of December 31, 2018, there is a current loan, including interest, in the amount of € 20,876 thousand from VKE-Versorgungskasse EDAG-Firmengruppe e.V. (12/31/2017: € 20,932 thousand).

The current loan obligations to ATON Group Finance GmbH that existed in the previous year (12/31/2017: € 61,264 thousand, including interest accrued) were redeemed in full on maturity at the beginning of November 2018.

The EDAG Group reported unused lines of credit in the amount of € 99.6 million on the reporting date (12/31/2017: € 72.0 million).

One of the major factors influencing the net financial debt is the working capital, which developed as follows:

| in € thousand | | 12/31/2018 | 12/31/2017 revised |
|---|---|---|---|
| | Inventories | 9,260 | 3,888 |
| + | Current contract assets | 85,753 | 67,659 |
| + | Current accounts receivable | 119,219 | 141,040 |
| - | Current contract liabilities | - 41,465 | - 39,291 |
| - | Current accounts payable | - 29,696 | - 24,745 |
| = | **Trade Working Capital (TWC)** | **143,071** | **148,551** |
| + | Non-current other financial receivables | 521 | 433 |
| + | Non-current other non-financial receivables | 64 | 62 |
| + | Deferred tax assets | 2,352 | 2,513 |
| + | Current other financial receivables excl. Interest-bearing receivables | 1,703 | 2,080 |
| + | Current other non-financial receivables | 10,051 | 10,993 |
| + | Income tax assets | 1,619 | 2,020 |
| - | Non-current other financial liabilities | - 1,230 | - 2,243 |
| - | Deferred tax liabilities | - 2,104 | - 3,061 |
| - | Current other financial liabilities | - 4,230 | - 3,348 |
| - | Current other non-financial liabilities | - 57,995 | - 53,289 |
| - | Income tax liabilities | - 6,703 | - 11,714 |
| = | **Other working capital (OWC)** | **- 55,952** | **- 55,554** |
| | **Net working capital (NWC)** | **87,119** | **92,997** |

The trade working capital decreased from € 148,551 thousand to € 143,071 thousand, compared to December 31, 2017. The decrease of € 21,821 thousand in current accounts receivable was more than compensated for by the increase of € 23,466 thousand in current contract assets and inventories. On the equity, liabilities and provisions side, however, the current accounts payable and current contractual liabilities increased by € 7,125 thousand in the same period.

Compared to December 31, 2017, there was a change in the other working capital from € -55,554 thousand to € -55,952 thousand. This effect was largely due to an increase in current and non-current other liabilities.

**Book Values, Valuation Rates and Fair Values of the Financial Instruments as per Valuation Category**

IFRS 9 introduces new accounting regulations for the classification and measurement of financial assets and for the accounting for impairments of financial assets. Classification as "at amortized cost [AC]", "at fair value through profit and loss [FVtPL]" or "fair value reported in other comprehensive income [FVOCI]“ is on the basis of the entity's business model and the structure of the cash flows. The following tables show the measurement categories of financial assets under IAS 39, the transfer to the new classification and measurement categories under IFRS 9, and the respective book values as per January 1, 2018. The first-time adoption of IFRS 9 did not have any effects on the classification and measurement of financial liabilities.

Transfer of the measurement categories for financial assets from IAS 39 to IFRS 9 on January 1, 2018:

**in € thousand**

| Category according to IAS 39 | Book value according to IAS 39 12/31/2017 | Measurement adjustment IFRS 9 | Book value according to IFRS 9 1/1/2018 | Category according to IFRS 9 |
|---|---|---|---|---|
| **Loans and Receivables [LaR]** | | | | |
| Cash and cash-equivalents | 13,485 | | 13,485 | Amortized Cost [AC] |
| Accounts receivable and other receivables in terms of IAS 32.11 | 143,553 | - 122 | 143,431 | Amortized Cost [AC] |
| Loans | 98 | | 98 | Amortized Cost [AC] |
| **Available-for-Sale Financial Assets [AfS]** | | | | |
| Investments and securities | 95 | | 95 | Fair Value through Profit or Loss [FVtPL] |

Transfer of the risk provisions following the simplified approach for accounts receivable and contract assets in accordance with IFRS 15 from IAS 39 to IFRS 9 on January 1, 2018:

| in € thousand | former Loans and Receivables [LaR] | No category acc. to IAS 39 [n.a.] |
|---|---|---|
| **to Financial assets measured at amortized cost** | | |
| 12/31/2017 | 3,087 | |
| Adjustments | 122 | |
| 1/1/2018 | 3,208 | |
| **to Contract assets IFRS 15** | | |
| 12/31/2017 | | - |
| Adjustments | | 18 |
| 1/1/2018 | | 18 |

For the most part, cash and cash-equivalents, accounts receivable and other receivables have only a short time to maturity. For this reason, their book values on the reporting date are close approximations of the fair values.

With the exception of accounts receivable and other receivables and loans, none of the other financial instruments are either overdue or impaired on the reporting date.

On December 31, 2018, the gross book values of the accounts receivable, the adjustments recognized on these amounts, and the risk provisions for expected credit losses are as follows:

| **in € thousand** | **12/31/2018** | | **12/31/2017** | |
|---|---|---|---|---|
| | **Gross book value** | **Valuation allowance/ Risk provision** | **Gross book value** | **Valuation allowance/ Risk provision** |
| **Accounts receivable** | | | | |
| neither impaired nor overdue | 83,514 | - 28 | 110,788 | - |
| < 1 month | 28,555 | - 38 | 22,114 | - |
| 1 – 2 months | 2,197 | - 9 | 4,773 | - |
| 2 – 3 months | 2,849 | - 25 | 2,157 | - |
| 3 – 6 months | 2,025 | - 38 | 873 | - |
| 6 – 12 months | 111 | - 6 | 284 | - |
| > 12 months | 139 | - 27 | 51 | - |
| adjusted for specific valuation allowances | 1,252 | - 1,252 | 2,035 | - 2,035 |
| **Total** | **120,642** | **- 1,423** | **143,075** | **- 2,035** |

As of December 31, 2018, specific valuation allowances were held against receivables in the amount of € 1,252 thousand (12/31/2017: € 2,035 thousand). For the residual book value of € 119,390 thousand (12/31/2017: € 141,040 thousand), risk provisions were recognized for expected credit losses in the amount of € 171 thousand (12/31/2017: € 0 thousand).

The other receivables and loans are not past due on the balance sheet date, but, with a nominal value of € 1,081 thousand (12/31/2017: € 1,052 thousand), specific valuation allowances have been made.

The development of the valuation allowances is shown in the following table:

| in € thousand | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Trade receivables and contract assets | Loans and other financial receivables | Total | Trade receivables | Loans and other financial receivables | Total |
| **As per 1/1/** | 2,035 | 1,052 | 3,087 | 1,869 | 1,050 | 2,919 |
| Remeasurement to equity for the initial application of IFRS 9 | 136 | 4 | 140 | - | - | - |
| **As per 1/1/ revised*** | 2,171 | 1,056 | 3,227 | 1,869 | 1,050 | 2,919 |
| Currency conversion difference | 56 | - 1 | 55 | - 170 | 2 | - 168 |
| Additions | 738 | 31 | 769 | 1,502 | - | 1,502 |
| Utilization | - 1,478 | - | - 1,478 | - 984 | - | - 984 |
| Reversals | - 35 | - 1 | - 36 | - 182 | - | - 182 |
| **As per 12/31/** | **1,452** | **1,085** | **2,537** | **2,035** | **1,052** | **3,087** |

The total amount of the additions, € 769 thousand (2017: € 1,502 thousand) in all, consists of additions from specific valuation allowances in the amount of € 679 thousand and additions from risk provisions for expected credit losses in the amount of € 90 thousand. The average default rates used for setting up risk provisions for expected credit losses for accounts receivable vary, depending on the due dates of the receivables, and currently stand at between 0.03 percent and 16.17 percent. Should there be clear evidence of customers failing to fulfill their payment obligations, this is taken into due account.

With regard to the balance of accounts receivable and other financial assets which are neither overdue nor impaired, there is no indication on the reporting date that the debtors will not be fulfilling their payment obligations. Delays in payment are the result of security deposits, amongst other things. We still expect to receive payment as the customers have good credit ratings.

The Group has established an internal risk monitoring system geared to individual customer risks. All receivables which are neither overdue nor impaired are assigned to the risk category of contractual partners with good credit ratings.

The investments and securities are valued at fair value. In the case of equity interests for which no market price is available, the acquisition costs are applied as a reasonable estimate of the fair value. In the financial assets, shares in non-consolidated subsidiaries and other investments are recognized at acquisition cost, taking impairments into account, as no observable fair values are available and other admissible methods of evaluation do not produce reliable results. There are currently no plans to sell these financial instruments.

Accounts payable and other financial liabilities regularly have short terms to maturity, and the values posted are close approximations of the fair values.

According to IFRS 9, a distinction is made between the following financial assets and financial liabilities, aggregated as per valuation category:

- [AC] Financial Assets measured at Amortized Costs
- [FVtPL] Financial Assets at Fair Value through Profit and Loss
- [AC] Financial Liabilities measured at Amortized Costs
- [FVtPL] Financial Liabilities at Fair Value through Profit and Loss

The book values and fair values of all financial instruments recorded in the consolidated financial statements are shown in the following table.

| in € thousand | Valuation category as per IFRS 9 | 12/31/2018 | |
|---|---|---|---|
| | | Valuation statement of financial position as per IFRS 9 | Valuation statement of financial position as per IAS 17/IFRS 15 |
| **Financial assets** | | | |
| Cash and cash-equivalents | [AC] | 63,862 | - |
| Accounts receivable and other receivables in terms of IAS 32.11 | [AC] | 121,444 | - |
| Contract assets | [n.a.] | - | 85,753 |
| Loans | [AC] | 78 | - |
| Investments and securities | [FVtPL] | 118 | - |
| **Financial liabilities** | | | |
| Financial liabilities | | | |
| Credit institutions | [AC] | 122,186 | - |
| Other interest-bearing liabilities | [AC] | 20,876 | - |
| Liabilities from financing leases | [n.a.] | - | 3,731 |
| Derivative financial liabilities | [FVtPL] | 22 | - |
| Accounts payable and other liabilities in terms of IAS 32.11 | [AC] | 32,930 | - |
| Other liabilities in terms of IAS 32.11 | [FVtPL] | 2,226 | - |
| **Financial assets and financial liabilities, aggregated according to valuation category in accordance with IFRS 9** | | | |
| Financial Assets measured at Amortized Cost | [AC] | 185,384 | - |
| Financial Assets at Fair Value through Profit and Loss | [FVtPL] | 118 | - |
| Financial Liabilities measured at Amortized Cost | [AC] | 175,992 | - |
| Financial Liabilities at Fair Value through Profit and Loss | [FVtPL] | 2,248 | - |

The book values or fair values of all financial instruments for the comparative period recorded in the Consolidated Financial Statements in accordance with IAS 39 are shown in the following table.

| in € thousand | Valuation category as per IAS 39 | Book value 12/31/2017 revised | Valuation balance sheet as per IAS 39 | | | | Valuation statement of financial position as per IAS 17/IAS 11 |
|---|---|---|---|---|---|---|---|
| | | | Amortized Costs | Acquisition costs | Fair value recognized directly in equity | Fair value through profit or loss | |
| **Financial assets (assets)** | | | | | | | |
| Cash and cash-equivalents | [LaR] | 13,485 | 13,485 | - | - | - | - |
| Accounts receivable and other receivables in terms of IAS 32.11 | [LaR] | 143,553 | 143,553 | - | - | - | - |
| Contract assets | [n.a.] | 67,659 | - | - | - | - | 67,659 |
| Loans | [LaR] | 98 | 98 | - | - | - | - |
| Assets available for sale | [AfS] | 95 | 52 | - | 43 | - | - |
| **Financial liabilities (liabilities)** | | | | | | | |
| Financial liabilities | | | | | | | |
| Credit institutions | [FLAC] | 31,908 | 31,908 | - | - | - | - |
| Other interest-bearing liabilities | [FLAC] | 82,197 | 82,197 | - | - | - | - |
| Liabilities from financing leases | [n.a.] | 2,905 | - | - | - | - | 2,905 |
| Derivative financial liabilities | [FLHfT] | 110 | - | - | - | 110 | - |
| Accounts payable and other liabilities in terms of IAS 32.11 | | 27,709 | 27,709 | - | - | - | - |
| Other liabilities in terms of IAS 32.11 | [FVtPL] | 2,627 | - | - | - | 2,627 | - |
| **Financial assets and financial liabilities, aggregated according to valuation category in accordance with IAS 39** | | | | | | | |
| Loans and Receivables | [LaR] | 157,136 | 157,136 | - | - | - | - |
| Financial Assets Held for Trading | [FAHfT] | - | - | - | - | - | - |
| Available-for-Sale Financial Assets | [AfS] | 95 | 52 | - | 43 | - | - |
| Financial Liabilities measured at Amortized Cost | [FLAC] | 141,814 | 141,814 | - | - | - | - |
| Financial Liabilities at Fair Value through Profit and Loss | [FVtPL] | 2,627 | - | - | - | 2,627 | - |
| Financial Liabilities Held for Trading | [FLHfT] | 110 | - | - | - | 110 | - |

The fair values of securities correspond to the nominal value multiplied by the exchange quotation on the reporting date.

The attributable fair values of liabilities due to credit institutions, loans, other financial liabilities and other interest-bearing liabilities are calculated as present values of the debt-related payments, based on the EDAG current yield curve valid at the time. By and large, the fair value of the financial liabilities corresponds to the book value. As at December 31, 2018 however, the fair value of the financial liabilities to credit institutions [AC] amounted to € 122,456 thousand, with a book value of € 122,186 thousand. The valuation of the fair value took place according to the "Level 2" measurement category on the basis of a discounted cash flow model. In this context, the current market rates of interest and the contractually agreed parameters were taken as the basis.

The information for the determination of attributable fair value is given in tabular form, based on a three-level fair value hierarchy for each class of financial instrument. There are three measurement categories:

***Level 1:*** At level 1 of the fair value hierarchy, the attributable fair values are measured using listed market prices, as the best possible fair values for financial assets or liabilities can be observed in active markets.

***Level 2:*** If there is no active market for a financial instrument, a company uses valuation models to determine the attributable fair value. Valuation models include the use of current business transactions between competent, independent business partners willing to enter into a contract; comparison with the current attributable fair value of another, essentially identical financial instrument; use of the discounted cash flow method; or of option pricing models. The attributable fair value is estimated on the basis of the results achieved using one of the valuation methods, making the greatest possible use of market data and relying as little as possible on company-specific data.

***Level 3:*** The valuation models used at this level are not based on observable market data.

| in € thousand | Assessed at fair value 12/31/2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets (assets)** | | | | |
| Investments and securities | 38 | - | - | 38 |
| **Financial liabilities (liabilities)** | | | | |
| Derivative financial liabilities | - | 22 | - | 22 |
| Other liabilities | - | - | 2,226 | 2,226 |

| in € thousand | Assessed at fair value 12/31/2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets (assets)** | | | | |
| Investments and securities | 43 | - | - | 43 |
| **Financial liabilities (liabilities)** | | | | |
| Derivative financial liabilities | - | 110 | - | 110 |
| Other liabilities | - | - | 2,627 | 2,627 |

The other liabilities with fair values valuated according to level 3 are contingent considerations. These are evaluated on the basis of the defined sales revenue, EBIT and employee retention targets, taking into account the likelihood of their occurrence. With the valuation technique used, the expected value of the contingent consideration is determined according to the discounted cash flow method. The valuation model takes into account the present value of the contingent consideration, discounted using a risk-adjusted discount rate.

The material non-observable input factors include the predicted sales revenues, the predicted EBIT, the predicted employee retention and the risk-adjusted discount rate.

The estimated fair values of the contingent considerations would drop if the expected sales revenues and the EBIT turned out to be lower than the defined target figures or the risk-adjusted discount rate were to rise. On the other hand, the fair values of the contingent considerations increase if the risk-adjusted discount rate falls.

The following table shows the reconciliation of the level 3 fair values:

| in TEUR | 2018 | 2017 |
|---|---|---|
| **As per 1/1/** | **2,627** | **98** |
| Aquired in a business combination | - | 2,637 |
| Loss recognized in financial expenses | | |
| Net change of fair value | 56 | 32 |
| Profit recognized in other income | | |
| Net change of fair value | - 25 | - 25 |
| Cash Flows | - 447 | - 25 |
| Currency conversion difference | 15 | - 90 |
| **As per 12/31/** | **2,226** | **2,627** |

**Offsetting of financial assets and liabilities**

The financial assets and liabilities are generally shown with the gross value. A netting is only possible if, and only if, the netting of the recognized amounts can be legally realized at the present point in time and it is intended to carry out the settlement on a net basis, or to realize the asset and extinguish the liability at the same time.

As at December 31, 2017 and 2018, there were no offsetting effects on the consolidated statement of financial position.

**Net Results as per Valuation Category**

With the exception of the adjustments attributable to the valuation category "accounts receivable and other receivables", which are posted under the net result from the impairment/ impairment loss reversal of financial assets (see chapter "Net Result from the Impairment/ Impairment Loss Reversal of Financial Assets [7]"), EDAG records interest from financial instruments and the other components of the net result in the financial results.

The net profit or loss from assets and liabilities which are valued at the attributable fair value through profit or loss includes not only the results from changes in market value, income from investments, and realized gains from the disposal of these shares, but also interest paid or received on these financial instruments.

The net interest profit/loss from financial liabilities valued at amortized acquisition cost mainly includes interest expenses from financial liabilities.

The net results, according to the valuation categories in IFRS 9, are as follows:

| in € thousand | From interest, dividends | From subsequent evaluation | | | From disposal | Net results 2018 |
|---|---|---|---|---|---|---|
| | | At fair value | Currency conversion | Valuation allowance | | |
| Financial Assets at Amortized Cost (AC) | 307 | - | - 90 | - 733 | - 5 | - 521 |
| Financial Assets at Fair Value through Profit and Loss (FVtPL) | - | - 5 | - | - | - | - 5 |
| Financial Liabilities measured at Amortized Cost (AC) | - 4,653 | - | - | - | - | - 4,653 |
| Financial Liabilities at Fair Value through Profit and Loss (FVtPL) | - 56 | 89 | - | - | - | 33 |
| **Total** | **- 4,402** | **84** | **- 90** | **- 733** | **- 5** | **- 5,146** |

The net results for the comparative period, according to the valuation categories in IAS 39, are as follows:

| in € thousand | From interest, dividends | From subsequent evaluation | | | From disposal | Net results 2017 |
|---|---|---|---|---|---|---|
| | | At fair value | Currency conversion | Valuation allowance | | |
| Loans and Receivables (LaR) | 285 | - | - 594 | - 1,320 | - 244 | - 1,873 |
| Financial Instruments Held for Trading (FAHfT and FLHfT) | - | 255 | - | - | - | 255 |
| Available-for-Sale Financial Assets (AfS) | - | - | - | - | - | - |
| Financial Liabilities measured at Amortized Cost (FLAC) | - 5,871 | - | - | - | - | - 5,871 |
| Financial Liabilities at Fair Value through Profit and Loss (FVtPL) | - 32 | - | - | - | - | - 32 |
| **Total** | **- 5,618** | **255** | **- 594** | **- 1,320** | **- 244** | **- 7,521** |

## Financial Risk Management Objectives and Methods

### Risk Management Principles

The primary financial instruments used by the Group are - with the exception of derivative financial instruments - bank loans and current account overdraft, accounts payable, and loans which have been granted. The main purpose of these financial instruments is to finance the business activities of the Group. Further, the Group has at its disposal various financial assets such as securities, accounts receivable, cash and short-term deposits resulting directly from its business activities.

With regard to financial instruments, EDAG is particularly subject to risks resulting from changes in exchange rates and interest rates, as well as to liquidity and credit risks. The aim of financial risk management is to limit these risks by means of on-going operating and finance-oriented activities. Selected derivative hedging instruments are employed to this effect. As a general rule, collateral is provided only against risks that will affect the cash flow of the Group. The derivative financial instruments primarily include forward exchange contracts. The purpose of the derivative financial instruments is to provide security against interest and currency risks resulting from the business activities of the Group and its funding sources. Derivative financial instruments are used solely as hedging instruments, i.e. they are not implemented for trading or other speculative purposes.

Every year, the basic intentions underlying company financial policy are defined by the Group Executive Management and monitored by the Board of Directors. Group Treasury is responsible for the implementation of the financial policy and for on-going risk management.

### Credit Risk

As a result of its operating business and certain financial activities, EDAG is at risk of default. In the funding area, business is done only with contracting parties whose creditworthiness is impeccable. In the operating divisions, the Group does business with creditworthy third parties only. A credit assessment is carried out on almost all customers wishing to do business on a credit basis.

For the most part, EDAG does business with large customers, particularly with international OEMs (Original Equipment Manufacturers) from the automotive industry. The resulting risk is generally assessed as low, and as such is not subject to any separate monitoring of creditworthiness.

As a general rule, the creditworthiness of any other customers is automatically monitored. Any risk of default is addressed by specific valuation allowances.

In addition, accounts receivable are continually monitored by the divisions, not centrally, which means that the Group is not at any great risk of default.

The maximum risk in the event of non-payment by a contracting party is reflected in the book values of the financial assets recorded in the statement of financial position (including derivative financial instruments with positive market values). On the reporting date, there are no significant agreements in existence that would reduce the maximum default risk (such as offsetting agreements).

Assessments indicate that there is very little probability of any default risk occurring. For further details, see chapter "Contingent Liabilities/Receivables and Other Financial Obligations", page 254.

**Liquidity Risk**

The liquidity risk is shown separately in chapter "Financial Liabilities [30]".

As a general rule, it is the responsibility of the management of each individual company to keep a constant check on solvency.

The centrally specified objective of the EDAG Group is to guarantee that funding requirements of the group companies are continually met by making use of bank loans, current account overdrafts, inter-company loans and leases. Reports are sent to the parent company on a weekly basis, to enable the liquidity of the individual Group companies to be monitored centrally. The information gained from these is submitted to Group Executive Management for risk control purposes. Although the liquidity risk is currently classified as slight, liquidity nevertheless continues to be secured by external lines of credit.

The company objective is to ensure that sufficient open lines of credit are available at any time. To this end, appropriate measures, such as intensive working capital management, are constantly implemented. Suitable measures are applied in good time, to guarantee the financing of any pending investments.

**Market Risks**

*Interest Risks*

Due to the fact that the Group is predominantly financed through fixed interest loans from banks and a related company, VKE-Versorgungskasse EDAG-Firmengruppe e.V., we are of the opinion that any risk posed by fluctuations of market interest rates is not significant.

Changes to market interest rates of original, fixed-interest financial instruments do not affect the results unless they are valued at their attributable fair values. Accordingly, no financial instruments with a fixed interest rate valued at amortized acquisition costs are subject to risk due to changes in interest, in terms of IFRS 7.

The table below Chapter "Financial Liabilities [30]" shows the book values of the Group's financial instruments that are subject to risk from changes in interest, organized according to their contractually defined maturity dates.

Only an insignificant number of variable interest-bearing financial instruments exists. The interest rate for these is derived from a standard, fluctuating reference rate and a company-specific credit margin. Taking the Group tax rate of 32.00 percent into account (previous year 33.00 percent), an amendment of the reference interest rate by +1 percentage points would have an effect of € 169 thousand (previous year € 0 thousand) on the profit or loss for the period after income tax. The interest rate for fixed-interest financial instruments is defined up to the maturity date of the particular financial instrument. The Group's other financial instruments, which are not included in the table under chapter "Financial Liabilities [30]" are not interest-bearing, and therefore not subject to risk from changes in interest.

*Currency Risks*

Currency-related risks to EDAG result from financing measures and operating activities. Insofar as they have a significant effect on the Group cash flow, foreign currency risks are always hedged. On the other hand, foreign currency risks not affecting the Group cash flow (i.e. risks resulting from the conversion of assets and liabilities of group companies located abroad into the reporting currency of the Group), are not generally hedged.

Foreign currency risks from financing activities result from financial liabilities in foreign currencies and foreign currency loans.

These risks are covered by the Treasury Department. Currency derivatives are used to convert financial obligations and intra-group loans denominated in foreign currencies into the Group entities' functional currencies.

On the balance sheet date, the receivables and liabilities denominated in foreign currencies, and for which the currency risks have been hedged, exist in USD, CHF, PLN, GBP and SEK.

In the operating area, the individual group companies do most of their business in their own functional currencies. This means that any currency risk to EDAG from current operating activities is assessed as being moderate. Some group companies are, however, exposed to foreign currency risks in connection with planned payments not in their own functional currencies.

For the presentation of market risks, IFRS 7 requires sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on profit or loss and equity. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments on the reporting date. It is assumed that the balance on the reporting date is representative of the entire year.

Currency risks as defined by IFRS 7 arise as a result of financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature; differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration. Relevant risk variables are generally all non-functional currencies in which EDAG has financial instruments.

The currency sensitivity analysis is based on the following assumptions:

Major non-derivative monetary financial instruments (liquid assets, receivables, interest-bearing liabilities, non-interest-bearing liabilities) are either directly denominated in the functional currency, or transferred to the functional currency through the use of derivatives. Changes in exchange rates therefore have no effect on profit or loss or equity.

EDAG is subject only to currency risks from certain currency derivatives. These are currency derivatives which are part of neither a hedging relationship as defined by IAS 39, nor a hedging relationship with on-balance-sheet underlying transactions (natural hedge). These derivatives serve as hedges for planned items. Exchange rate fluctuations in the currencies on which such financial instruments are based affect other operating expenses/income, as any currency losses/gains from the underlying transactions are also shown here (net gain/loss from the adjustment of financial assets to fair value).

*Sensitivity Analysis*

If each of the functional currencies had increased or decreased in value by 10 percent compared with the other currencies, the following effects on the profit or loss for the period after income tax and on equity would have resulted in relation to the currency relations outlined below. For the effects of the sensitivities on the profit or loss for the period, a group tax rate of 32.00 percent was anticipated (previous year 33.00 percent). It would not be useful to add together the individual values, as, depending on the functional currency in question, the results are based on different scenarios.

| **in € thousand** | **12/31/2018** | **12/31/2017** |
|---|---|---|
| **Currency sensitivities** | | |
| **10% appreciation** | | |
| EUR/USD | - 228 | - 195 |
| EUR/CHF | 31 | 71 |
| EUR/CZK | 174 | 176 |
| MXN/USD | 39 | 70 |
| EUR/MXN | 84 | 13 |
| **Total revaluation** | **99** | **135** |
| **10% devaluation** | | |
| EUR/USD | 260 | 239 |
| EUR/CHF | - 37 | - 87 |
| EUR/CZK | - 181 | - 215 |
| MXN/USD | - 48 | - 86 |
| EUR/MXN | - 69 | - 13 |
| **Total devaluation** | **- 74** | **- 163** |

**Other price risks**

In the presentation of market risks, IFRS 7 also requires details of the effects hypothetical changes of risk variables would have on the prices of financial instruments. Important risk variables are stock exchange prices or indices. There are no substantial risks in this area in the EDAG Group.

## Related Parties

In the course of its regular business activities, EDAG correlates either directly or indirectly not only with the subsidiaries included in the consolidated financial statements, but also with subsidiaries which are affiliated but not consolidated, and with other related companies and persons. The disclosure requirements set out in IAS 24 apply with regard to these relations. Related companies which are controlled by the EDAG Group, or upon which the EDAG Group can exercise significant influence, are listed in section 5.2.4 "Scope of Consolidation".

EDAG Group AG is the ultimate group company and therefore the parent company of the EDAG Group. With a 70.66 percent share, the major shareholder in the EDAG Group is ATON Austria Holding GmbH, Going am Wilden Kaiser, Austria. ATON Austria Holding GmbH is wholly owned by the family of Dr. Helmig.

The volumes of the services rendered by the EDAG Group to, and the services it received from related companies and individuals, are as follows:

| in € thousand | 2018 | 2017 |
|---|---|---|
| **EDAG Group with boards of directors (EDAG Group AG & EDAG Schweiz Sub-Holding AG)** | | |
| Work-related expenses | 808 | 818 |
| Travel and other expenses | 24 | 15 |
| Rental expenses | 158 | 317 |
| Consulting expenses | 44 | 11 |
| Liabilities from remuneration | 422 | 478 |
| **EDAG Group with supervisory boards (EDAG Engineering GmbH & EDAG Engineering Holding GmbH)** | | |
| Work-related expenses | 61 | 47 |
| Travel and other expenses | 3 | 3 |
| Compensation costs | 675 | 647 |
| Consulting expenses | - | 33 |
| **EDAG Group with group executive management** | | |
| Liabilities from remuneration | 688 | 293 |
| Goods and services received | - | 13 |

| in € thousand | 2018 | 2017 |
|---|---|---|
| **EDAG Group with ATON GmbH** | | |
| Goods and services rendered | 27,851 | 34,296 |
| Goods and services received | 2,414 | 1,553 |
| Interest expenses | 2,618 | 4,202 |
| Other operating income | 610 | 1,158 |
| Other operating expenses | 520 | 493 |
| Receivables | 2,543 | 3,414 |
| Advance payments received | 183 | 240 |
| Liabilities | 1,060 | 2,461 |
| Current loan obligations | - | 61,264 |
| **EDAG Group with unconsolidated subsidiaries** | | |
| Other operating expenses | 3 | 3 |
| **EDAG Group with associated companies** | | |
| Goods and services rendered | 3,560 | 783 |
| Goods and services received | 120 | 307 |
| Interest income | 5 | - |
| Other operating income | 713 | 732 |
| Other operating expenses | 50 | 61 |
| Other nonoperating income | 1 | 1 |
| Income from investments | 1,203 | 644 |
| Receivables | 229 | 139 |
| Liabilities | 5 | 194 |
| **EDAG Group with other related companies and persons** | | |
| Goods and services rendered | 432 | 1,477 |
| Goods and services received | - | 10 |
| Interest expense | 516 | 516 |
| Other operating income | 56 | 37 |
| Other operating expenses | 4,118 | 4,152 |
| Receivables | 1 | 1,307 |
| Advance payments received | - | 30 |
| Current loan obligations | 20,876 | 20,932 |

Standard market conditions apply to the sale or delivery of products and services to, and the purchase of products or services from related companies and persons.

On September 9, 2015, five properties and their operating facilities belonging to EDAG were transferred to six subsidiaries of KINREFD GmbH, Munich, as part of a sale and leaseback agreement effective until September 15, 2030. On February 23, 2016 a further long-term real estate lease with a fixed term until March 31, 2026 was also entered into with a subsidiary of KINREFD GmbH. A company and a person related to EDAG have shares in KINREFD GmbH and its wholly-owned subsidiaries, with which EDAG has entered into long-term rental contracts: HORUS Vermögensverwaltungs GmbH & Co. KG has a 49.9 percent share, and the previous Chairman of the Board of Directors of EDAG Group AG has a 7.6 percent share. On the reporting date, other financial obligations totaling € 38.6 million (including incidental expenses) arise from the leases for EDAG.

Further long-term real estate leases exist with MD 7 Immobilien GmbH, Munich, and MD 7 BV GmbH, Munich, with fixed terms until October 31, 2031. A company and a person related to EDAG have shares in both MD 7 Immobilien GmbH and MD 7 BV GmbH: HORUS Vermögensverwaltungs GmbH & Co. KG has a 49.9 percent share, and the previous Chairman of the Board of Directors of EDAG Engineering Group AG has a 10.1 percent share.

Since January 25, 2017, a real estate lease with a fixed term until December 31, 2018 has existed with FR 105 Immo GmbH, Munich. HORUS Vermögensverwaltungs GmbH & Co. KG has a 49.9 percent share in this company, and the previous Chairman of the Board of Directors of EDAG Engineering Group AG has a 7.6 percent share. On the reporting date, other financial obligations totaling € 10.2 million arise from the leases with MD 7 Immobilien GmbH, MD 7 BV GmbH and FR 105 Immo GmbH for EDAG.

The two unsecured fixed interest loans with the ATON Group Finance GmbH (12/31/2017: € 61.3 million including interest accrued), were redeemed at maturity on November 6, 2018. Until this point in time, they carried an interest rate of 5 percent per annum.

In addition, there is a short-term unsecured loan with VKE Versorgungskasse EDAG-Firmengruppe e.V. This loan will run until further notice, and carries an interest rate of 2.5 percent per annum. On the reporting date, the book value, including interest, amounts to € 20.9 million.

The other items which were open at the end of the financial year are not collateralized, nor are they interest-bearing, and they are paid in cash.

As far as the receivables refer to down payments that have been made, these are balanced through services rendered. Receivables due from related companies and persons were not impaired in the 2018 financial year. An impairment test is carried out annually. This includes an assessment of the financial position of the related company or person, and the development of the market in which they are active.

## Compensation of the Members of the Board of Directors and the Group Executive Management

Details of the compensation of the members of the Group Executive Management and Board of Directors in accordance with the requirements of the Swiss Code of Obligations and the Swiss regulation to counter excessive compensation in listed companies are disclosed in the compensation report.

The ***Board of Directors*** of EDAG Group AG consisted of the following persons in the financial year just ended:

- Thomas Eichelmann (until 7/18/2018)
  Chairman of the board of directors, chairman of the nomination and compensation committee
  *Mandates in other management committees until leaving the board:*
  - EDAG Engineering Schweiz Sub-Holding AG, Arbon, Switzerland (chairman of the board of directors)
  - EDAG Engineering Holding GmbH, Munich, Germany (chairman of the supervisory board)
  - EDAG Engineering GmbH, Wiesbaden, Germany (chairman of the supervisory board)
  - HAEMA AG, Leipzig, Germany (member of the supervisory board)
  - J.S. Redpath Holdings Inc., North Bay, Canada (member of the board of directors)
  - V-Bank AG, Munich, Germany (vice-chairman of the supervisory board)
  - ATON US Inc., Wilmington, USA (member of the board of directors)
  - FFT GmbH & Co. KGaA, Fulda, Germany (member of the supervisory board)
  - Bankhaus Ellwanger & Geiger KG, Stuttgart, Germany (chairman of the board of directors)
  - OrthoScan Inc., Scottsdale, USA (member of the board of directors)

- Georg Denoke (since 8/21/2018)
  Chairman of the board of directors, chairman of the nomination and compensation committee
  Managing Director of ATON GmbH, Munich
  *Mandates in other management committees*:
  - EDAG Engineering Schweiz Sub-Holding AG, Arbon, Switzerland (chairman of the board of directors)
  - EDAG Engineering Holding GmbH, Munich, Germany (chairman of the supervisory board)
  - EDAG Engineering GmbH, Wiesbaden, Germany (chairman of the supervisory board)
  - ATON Group Finance GmbH, Going am Wilden Kaiser, Austria (chairman of the supervisory board)
  - J.S. Redpath Holdings Inc., North Bay, Canada (member of the board of directors)
  - SGL Carbon SE, Wiesbaden, Germany (vice-chairman of the supervisory board and chairman of the audit committee)
  - FFT GmbH & Co. KGaA, Fulda, Germany (member of the supervisory board)

- Sylvia Schorr
  Member of the audit committee
  Investment manager ATON GmbH, Munich
  *Mandates in other management committees:*
  - EDAG Engineering Schweiz Sub-Holding AG, Arbon, Switzerland (member of the board of directors)
  - EDAG Engineering Holding GmbH, Munich, Germany (member of the supervisory board)
  - EDAG Engineering GmbH, Wiesbaden, Germany (member of the supervisory board)

- Dr. Michael Hammes
  Chairman of the audit committee
  Management consultant, Frankfurt/Main
  *Mandates in other management committees:*
  - EDAG Engineering Schweiz Sub-Holding AG, Arbon, Switzerland (member of the board of directors)
  - EDAG Engineering Holding GmbH, Munich, Germany (member of the supervisory board)
  - EDAG Engineering GmbH, Wiesbaden, Germany (member of the supervisory board)

  - Bankhaus Ellwanger & Geiger KG, Stuttgart, Germany (member of the board of directors)
  - V-Bank AG, Munich, Germany (member of the supervisory board)
  - Spiekermann & Co. AG, Osnabrück, Germany (chairman of the supervisory board)

- Dr. Philippe Weber
  Member of the nomination and compensation committee
  Managing partner and chairman of the executive board of Niederer Kraft Frey AG, Zurich
  *Mandates in other management committees:*
  - EDAG Engineering Schweiz Sub-Holding AG, Arbon, Switzerland (member of the board of directors)
  - Newron Suisse SA, Zurich, Switzerland (member of the board of directors)
  - NorthStar Holding AG, Schindellegi, Switzerland (member of the board of directors)
  - Banca del Ceresio SA, Lugano, Switzerland (member of the board of directors)

The compensation of members of the board of directors is regulated in § 25 of the articles of association of EDAG Group AG. The level of compensation is set at the annual shareholders' meeting in accordance with article 12 of the articles of association.

For taking over the function of the ultimate control and management organ of EDAG Group AG and EDAG Engineering Schweiz Sub-Holding AG, and for committee activities in the supervisory boards of EDAG Engineering Holding GmbH and EDAG Engineering GmbH, the members of the Board of Directors only receive short-term benefits. In the 2018 financial year, these amounted to € 801 thousand (2017: € 813 thousand). Employer's social security contributions amounted to € 20 thousand (2017: € 18 thousand). For the personal performance of services above and beyond board activities, particularly consulting and rental services, the members of the board of directors are remunerated at the usual market rates. In the reporting year, costs of € 202 thousand (2017: € 329 thousand) were incurred. No advances or loans were granted to members of the board of directors of EDAG Group AG. No share-based payments were received by members of the board of directors.

The members of the board of directors are insured for legal expenses and D&O liability through the company insurance policies.

The **Group Executive Management** consists of the following persons:

- Cosimo De Carlo, Diplom-Ingenieur
  Member of the Group Executive Management, CEO (since April 15, 2018)
  *Mandates in other management committees:*
  - None

- Jürgen Vogt, Diplom-Kaufmann
  Member of the Group Executive Management, CEO (until April 14, 2018), CFO
  *Mandates in other management committees:*
  - None

- Holger Merz, Diplom-Betriebswirt, MBA
  Member of the Group Executive Management, COO (since January 1, 2019; CFO with effect from June 6, 2019)
  *Mandates in other management committees:*
  - None

- Harald Poeschke, Diplom-Kaufmann
  Member of the Group Executive Management, COO (until December 31, 2018)
  *Mandates in other management committees:*
  - None

In the reporting year, the short-term compensation of the Group Executive Management (payments due at short notice) amounted to € 2,350 thousand (2017: € 2,115 thousand). Included in this is also the proportion attributable to the reporting year of continued payments to a member of the Group Executive Management who left the company the year before until the end of his period of notice, for which provisions were not made in the previous year (severance pay).

The compensation of the Group Executive Management includes non-cash benefits (including non-cash benefits for company cars). It does not include the aggregated expenses for accident, legal protection and D&O insurance in the amount of € 144 thousand (2017: € 144 thousand). Furthermore, EDAG Group AG did not grant the members of the Group Executive Management credits or loans. As at December 31, 2018, the present value of current pension obligations for active members of the Group Executive Management totaled € 3,186 thousand (2016: € 2,848 thousand). For members of the Group Executive

Management leaving the company that year, it totaled € 60 thousand as at December 31, 2018. In 2018, the current service cost for the pension obligations according to IFRS amounted to € 0 thousand, as in the previous year.

At the end of the financial year, the individual members of the Board of Directors and Group Executive Management hold the following number of shares in EDAG Engineering Group AG:

| Number of shares | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Board of Directors** | | |
| Georg Denoke | - | - |
| Sylvia Schorr | - | - |
| Dr. Michael Hammes | - | - |
| Dr. Philippe Weber | - | - |
| **Total Board of Directors[1]** | **-** | **-** |
| | | |
| **Group Executive Management** | | |
| Cosimo De Carlo | 6,000 | - |
| Jürgen Vogt | 3,631 | 3,631 |
| Holger Merz | 115 | 115 |
| Harald Poeschke | - | - |
| **Total Group Executive Management** | **9,746** | **3,746** |

[1] *Thomas Eichelmann left the Board of Directors in 2018. On the date on which he left the Board of Directors, Thomas Eichelmann held a total of 87,500 shares (12/31/2017: 87,500) in EDAG Engineering Group AG.*

## Auditor's Fees and Services

The following table provides a breakdown of the auditor's fees for the consolidated financial statement for the financial year as per Art. 961a No. 2 of the Swiss Code of Obligations (OR) or § 314, para. 1, No. 9 of the German Commercial Code (HGB):

| in € thousand | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Total | thereof | | Total | thereof | |
| | | Switzerland | Germany | | Switzerland | Germany |
| Auditing services | 490 | (69) | (341) | 458 | (67) | (330) |
| Tax consulting services | - | - | - | 15 | - | - |
| Miscellaneous services | - | - | - | 56 | - | - |
| **Total** | **490** | **(69)** | **(341)** | **529** | **(67)** | **(330)** |

In particular, the fees for the auditing services include fees for the statutory auditing of annual and consolidated financial statements.
Tax consulting fees in the previous year primarily include fees for tax consulting services performed in connection with transfer pricing documentation.
The other services include the payroll accounting for Rücker Lypsa S.L. in the previous year.

## Subsequent Events

No important events took place after the reporting period.

Arbon, April 2, 2019
EDAG Engineering Group AG

G. Denoke

Georg Denoke, Chairman of the Board of Directors

Dr. Michael Hammes, Member of the Board of Directors and
Chairman of the Audit Committee

Cosimo De Carlo, Chairman of the Group Executive Management, CEO

Jürgen Vogt, Member of the Group Executive Management, CFO

Holger Merz, Member of the Group Executive Management, COO

# 5.8 Shareholdings

| | Registered in Switzerland and Germany | City | Domicile | Capital share in % | |
|---|---|---|---|---|---|
| | | | | Direct | Indirect |
| 1. | EDAG Engineering Group AG[2] | Arbon | Switzerland | - | - |
| 2. | EDAG Engineering Schweiz Sub-Holding AG | Arbon | Switzerland | 100 | - |
| 3. | EDAG Engineering Holding GmbH | Munich | Germany | - | 100 |
| 4. | EDAG Engineering GmbH | Wiesbaden | Germany | - | 100 |
| 5. | EDAG-Beteiligung GmbH[3] | Fulda | Germany | - | 100 |
| 6. | EDAG Production Solutions GmbH & Co. KG | Fulda | Germany | - | 100 |
| 7. | EDAG Production Solutions Verwaltungs GmbH[3] | Fulda | Germany | - | 100 |
| 8. | EDAG Werkzeug + Karosserie GmbH | Fulda | Germany | - | 49 |
| 9. | BFFT Gesellschaft für Fahrzeugtechnik mbH | Gaimersheim | Germany | - | 100 |
| 10. | BFFT aeromotive GmbH | Gaimersheim | Germany | - | 100 |
| 11. | BFFT Holding GmbH | Wiesbaden | Germany | - | 100 |
| 12. | EDAG EE Treuhand GmbH[3] | Gaimersheim | Germany | - | 100 |
| 13. | Rücker Akademie GmbH | Wiesbaden | Germany | - | 100 |
| 14. | EDAG Engineering Schweiz GmbH | Arbon | Switzerland | - | 100 |
| 15. | VR-Leasing Malakon GmbH & Co. Immo. KG[4] | Eschborn | Germany | - | 100 |

| | Registered in Switzerland and Germany | Voting right | Currency | Equity[1] 12/31/2018 | Result[1] 2018 |
|---|---|---|---|---|---|
| 1. | EDAG Engineering Group AG[2] | - | EUR | 410,555,196 | - 2,225,621 |
| 2. | EDAG Engineering Schweiz Sub-Holding AG | 100 | EUR | 476,099,058 | 31,435,593 |
| 3. | EDAG Engineering Holding GmbH | 100 | EUR | 74,268,569 | 11,843,890 |
| 4. | EDAG Engineering GmbH | 100 | EUR | 248,759,316 | - |
| 5. | EDAG-Beteiligung GmbH[3] | 100 | EUR | 35,817 | - 1,159 |
| 6. | EDAG Production Solutions GmbH & Co. KG | 100 | EUR | 10,000,000 | 4,509,304 |
| 7. | EDAG Production Solutions Verwaltungs GmbH[3] | 100 | EUR | 15,605 | - 912 |
| 8. | EDAG Werkzeug + Karosserie GmbH | 49 | EUR | 19,453,014 | 2,299,072 |
| 9. | BFFT Gesellschaft für Fahrzeugtechnik mbH | 100 | EUR | 21,048,864 | - |
| 10. | BFFT aeromotive GmbH | 100 | EUR | 549,382 | 176,054 |
| 11. | BFFT Holding GmbH | 100 | EUR | 4,594,225 | 526,776 |
| 12. | EDAG EE Treuhand GmbH[3] | 100 | EUR | 21,730 | - 3,270 |
| 13. | Rücker Akademie GmbH | 100 | EUR | 212,432 | - |
| 14. | EDAG Engineering Schweiz GmbH | 100 | CHF | 1,233,881 | 510,051 |
| 15. | VR-Leasing Malakon GmbH & Co. Immo. KG[4] | 25 | EUR | 34,565 | 212,653 |

| | Registered in other countries | City | Domicile | Capital share in % | |
|---|---|---|---|---|---|
| | | | | Direct | Indirect |
| 16. | EDAG Engineering Limited | Markyate | Great Britain | - | 100 |
| 17. | EDAG do Brasil Ltda. | São Bernardo do Campo | Brazil | - | 100 |
| 18. | EDAG, Inc. | Troy | USA | - | 100 |
| 19. | EDAG HOLDING SDN. BHD. | Shah Alam | Malaysia | - | 100 |
| 20. | EDAG Hungary Atófejlesztö Méröki Kft. | Györ | Hungary | - | 100 |
| 21. | EDAG Production Solutions India Pvt. Ltd. | New Delhi | India | - | 100 |
| 22. | EDAG Technologies India Priv. Ltd. | New Delhi | India | - | 100 |
| 23. | EDAG Production Solutions CZ s.r.o. | Mladá Boleslav | Czech Republic | - | 100 |
| 24. | EDAG Japan Co., Ltd. | Yokohama | Japan | - | 100 |
| 25. | EDAG Engineering and Design (Shanghai) Co.,Ltd. | Shanghai | China | - | 100 |
| 26. | EDAG México S.A. de C.V. | Puebla City | Mexico | - | 100 |
| 27. | EDAG Servicios México S.A. de C.V. | Puebla City | Mexico | - | 100 |
| 28. | EDAG Production Solutions, Inc. | Troy | USA | - | 100 |
| 29. | CKGP/PW & Associates, Inc. | Troy | USA | - | 100 |
| 30. | BFFT Italia Srl | Bolzano | Italy | - | 100 |
| 31. | BFFT of America, Inc. | Belmont | USA | - | 100 |
| 32. | Rücker Vehicle Design (Shanghai) Co.,Ltd. | Shanghai | China | - | 100 |
| 33. | EDAG Italia S.R.L. | Turin | Italy | - | 100 |
| 34. | EDAG Engineering CZ spol. s r.o. | Mladá Boleslav | Czech Republic | - | 100 |
| 35. | EDAG Engineering Polska Sp.z.o.o. | Warsaw | Poland | - | 100 |
| 36. | Rücker Lypsa S.L. | Cornellá de Llobre-gat | Spain | - | 100 |
| 37. | HRM EDAG Engineering AB | Gothenburg | Sweden | - | 100 |
| 38. | HRM Engineering AB | Gothenburg | Sweden | - | 100 |
| 39. | Müller HRM Engineering AB | Gothenburg | Sweden | - | 100 |
| 40. | OOO EDAG Production Solutions RU | Kaluga | Russia | - | 100 |
| 41. | EDAG Netherlands B.V. | Helmond | Netherlands | - | 100 |

| | Registered in other countries | Voting right | Currency | Equity[1] 12/31/2018 | Result[1] 2018 |
|---|---|---|---|---|---|
| 16. | EDAG Engineering Limited | 100 | GBP | - 540,229 | 49,571 |
| 17. | EDAG do Brasil Ltda. | 100 | BRL | 16,851,333 | 312,200 |
| 18. | EDAG, Inc. | 100 | USD | 8,374,395 | 1,071,762 |
| 19. | EDAG HOLDING SDN. BHD. | 100 | MYR | 1,713,984 | 349,734 |
| 20. | EDAG Hungary Atófejlesztö Méröki Kft. | 100 | EUR | 2,705,611 | 442,985 |
| 21. | EDAG Production Solutions India Pvt. Ltd. | 100 | INR | 238,846,618 | 51,336,290 |
| 22. | EDAG Technologies India Priv. Ltd. | 100 | INR | 41,467,809 | 6,430,586 |
| 23. | EDAG Production Solutions CZ s.r.o. | 100 | CZK | 39,046,442 | 27,103,142 |
| 24. | EDAG Japan Co., Ltd. | 100 | JPY | 67,205,935 | 4,379,157 |
| 25. | EDAG Engineering and Design (Shanghai) Co.,Ltd. | 100 | CNY | 36,346,443 | 12,458,247 |
| 26. | EDAG México S.A. de C.V. | 100 | MXN | 46,919,767 | 46,083,779 |
| 27. | EDAG Servicios México S.A. de C.V. | 100 | MXN | 140,407 | - |
| 28. | EDAG Production Solutions, Inc. | 100 | USD | 9,053,709 | 411,601 |
| 29. | CKGP/PW & Associates, Inc. | 100 | USD | 3,273,493 | - 417,420 |
| 30. | BFFT Italia Srl | 100 | EUR | 297,180 | 87,034 |
| 31. | BFFT of America, Inc. | 100 | USD | 468,942 | 173,619 |
| 32. | Rücker Vehicle Design (Shanghai) Co.,Ltd. | 100 | CNY | 2,500,924 | - 26,932 |
| 33. | EDAG Italia S.R.L. | 100 | EUR | 637,655 | 142,449 |
| 34. | EDAG Engineering CZ spol. s r.o. | 100 | CZK | 34,634,994 | 1,495,156 |
| 35. | EDAG Engineering Polska Sp.z.o.o. | 100 | PLN | 6,932,965 | 1,811,120 |
| 36. | Rücker Lypsa S.L. | 100 | EUR | 13,946,970 | 2,189,810 |
| 37. | HRM EDAG Engineering AB | 100 | SEK | 2,529,663 | 1,253,118 |
| 38. | HRM Engineering AB | 100 | SEK | 9,756,390 | - 43,881 |
| 39. | Müller HRM Engineering AB | 100 | SEK | 1,288,069 | - 121,723 |
| 40. | OOO EDAG Production Solutions RU | 100 | RUB | - 1,321,059 | - 535,904 |
| 41. | EDAG Netherlands B.V. | 100 | EUR | 428,010 | 239,719 |

*[1] National trade law*
*[2] The company EDAG Engineering Group AG, Arbon, is part of the EDAG Group. However, the company is not a component of the Shareholdings as defined in Art. 959c Abs. 2 Ziff. 3 OR.*
*[3] Companies included at acquisition cost.*
*[4] VR-Leasing Malakon GmbH & Co Immo. KG is included as a fully consolidated company, although only 25 percent of voting rights are held.*
*For a more detailed explanation, see chapter "Companies included in Consolidation".*

# REPORT OF THE STATUTORY AUDITOR (CONSOLIDATED FINANCIAL STATEMENTS)

## REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF THE EDAG ENGINEERING GROUP AG, ARBON

**Report on the audit of the consolidated financial statements**

**Opinion**

We have audited the consolidated financial statements of EDAG Engineering Group AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2018 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 148 to 289) give a true and fair view of the consolidated financial position of the Group as at December 31, 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as these are applied in the EU and comply with Swiss law.

**Basis for opinion**

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Valuation of goodwill

| Key audit matters | How our audit addressed the key audit matters |
| --- | --- |
| The consolidated financial statements of EDAG Engineering Group AG disclose goodwill in the amount of EUR 74,3 million (15% of the Group's total assets). This goodwill is tested for impairment in accordance with IAS 36. In this process, the company considers each of its three segments as a cash-generating unit (CGU). Centralised impairment tests are performed at the CGU level on an annual basis or when necessary. The goodwill included in this item is tested for impairment in accordance with IAS 28.42, which is consistent with the requirements of IAS 36 regarding impairment testing.<br><br>The basis for the valuation of goodwill is generally the value in use of the future cash flows of the cash-generating unit to which the assets concerned are to be allocated. This is because a market price for the individual units is usually not observable. The value is use is calculated using the discounted cash flow method, based in principle on a three-year planning horizon. The approved three-year plan is the starting point for the impairment tests and is updated with assumptions relating to, among others, the future order intake, costs, industry growth, long-term market growth rates and the business cycle. The | During our audit, we (accompanied by an internal expert) examined the method used to test the investment for impairment and assessed the calculation of the weighted average cost of capital rates. We were able to confirm the appropriateness of the future cash inflows used for the valuation, in particular by judgement of the forecast accuracy and comparing the future cash inflows with the latest budget figures taken from the three-year plan and reconciling them to general and industry-specific market expectations. Relatively small changes in the discount rate used can have a significant impact on the company valuation as determined by this method. Hence, we focussed on the parameters, including the average weighted cost of capital rates, used in the determination of the discount rate and verified the calculation method. The valuation parameters and assumptions used by the Board of Directors are in line with our expectations, based on the available information. |

discounting is based on the weighted average cost of capital rates of the cash-generating units concerned. The outcome of this valuation depends heavily on the estimates by the Board of Directors of future cash inflows and on the discount rate used; hence, it is subject to a high degree of uncertainty. In light of this and given the complexity of the valuation method's requirements, we deemed this to be a key audit matter in our audit.

The Group disclosures concerning goodwill and the associated company are set out in the section 'Accounting and valuation principles' under 'Impairment' of the notes to the consolidated financial statements.

**Recognition of sales revenue from contracts with customers (construction contracts)**

**Key audit matters**

The consolidated financial statements of EDAG Engineering Group AG disclose sales revenue from contracts with customers in the amount of EUR 788.3 million. The Group's income is influenced significantly by the recognition and measurement of construction contracts. Provided the requirements of IFRS 15 are met, the Group applies the percentage-of-completion (POC) method. The income from the construction contract is estimated as part of the valuation process. The stage of completion is determined using the cost-to-cost method. We considered revenue recognition to be a key audit matter because the valuation of these contracts is subject to uncertainty regarding future income from the project and its stage of completion.

The Group disclosures regarding contracts with customers are set out in the section 'Accounting and valuation principles', under 'Contracts with Customers' and in the section 'Contract assets [20]' and 'Contract liabilities [31]' of the notes to the consolidated financial statements.

**How our audit addressed the key audit matters**

In the context of our audit, we first appraised the internal control system implemented by EDAG Engineering Group AG relating to revenue recognition from contracts with customers. To this end, we assessed, in particular, the appropriateness and effectiveness of the implemented internal control system, including the relevant IT systems, relating to the recording and recognition of project income. Building on this, on the basis of the related contractual agreements, we challenged the determination of the stage of completion based on the costs incurred to date and on the estimate of the expected total costs, and compared this with the underlying evidence. Further, we assessed the revenues expected by the Board of Directors from ongoing construction contracts and the estimates relating to contracts that had already been completed. In the event of negative impacts on the construction contracts, we assessed the modifications made to the initial project assumptions (in particular, project costs until completion) and the resulting accounting treatment. Further, we verified the continuity and the consistency of the method used to calculate the sales revenue. On the basis of our audit procedures, we were able to confirm the appropriateness of the approach and the valuation relating to these material items and that the disclosures in the notes fully comply with the requirements of IFRS 15. At the same time, we were able to confirm that the estimates and assumptions made by EDAG Engineering Group AG are adequately documented and substantiated so as to justify the accounting treatment of the sales revenues from contracts with customers.

**Other information in the annual report**

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the combined management report, the consolidated financial statements, the stand-alone financial statements and the compensation report of EDAG Engineering Group AG and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the Board of Directors for the consolidated financial statements**

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors intends either to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the of the consolidated financial statements is located at the website of EXPERTsuisse: http://www.expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

**Report on other legal and regulatory requirements**

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

Furthermore, we confirm that the appropriation of net income complies with Swiss law and the Articles of Association and recommend that the finanical statements submitted to you be approved.

Deloitte AG

| | |
|---|---|
| ROLAND MÜLLER | UELI STURZENEGGER |
| Accredited Audit expert | Accredited Audit expert |
| Auditor in charge | |

Zurich, April 2, 2019

# STATUTORY FINANCIAL STATEMENT

# Statutory Financial Statement

## EDAG Engineering Group AG

From January to December 2018


| | |
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# ANNUAL FINANCIAL STATEMENT

## 1 Statement of Financial Position

| in € / CHF thousand | Note | 12/31/2018 € thousand | 12/31/2018 CHF thousand | 12/31/2017 € thousand | 12/31/2017 CHF thousand |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | | 182 | 205 | 129 | 151 |
| Other current receivables | (A1) | 10 | 11 | 3 | 4 |
| Accrued items | (A2) | 80 | 90 | 105 | 123 |
| **TOTAL current assets** | | **272** | **307** | **237** | **277** |
| **Non-current assets** | (A3) | | | | |
| Investment | | 420,610 | 473,985 | 452,060 | 529,001 |
| Property, plant and equipment | | 45 | 51 | 55 | 64 |
| **TOTAL non-current assets** | | **420,655** | **474,036** | **452,115** | **529,065** |
| **TOTAL assets** | | **420,927** | **474,343** | **452,352** | **529,342** |

| in € / CHF thousand | Note | 12/31/2018 € thousand | 12/31/2018 CHF thousand | 12/31/2017 € thousand | 12/31/2017 CHF thousand |
|---|---|---|---|---|---|
| **Liabilities, Provisions and Equity** | | | | | |
| **Current liabilities and provisions** | | | | | |
| Current accounts payable | (A4) | 114 | 128 | 170 | 199 |
| Current financial liabilities | (A4) | 9,650 | 10,875 | 19,900 | 23,287 |
| Other current liabilities | (A4) | 426 | 480 | 558 | 653 |
| Other current provisions | (A5) | 182 | 205 | 153 | 179 |
| Accrued items | (A6) | 0 | 0 | 40 | 47 |
| **TOTAL current liabilities and provisions** | | **10,372** | **11,688** | **20,821** | **24,365** |
| **Equity** | | | | | |
| Share capital | (A7) | 920 | 1,000 | 920 | 1,000 |
| Capital reserves | (A8) | 418,330 | 451,488 | 437,080 | 473,137 |
| thereof capital insertion reserves | | (418,410) | (451,575) | (437,160) | (473,224) |
| thereof other reserves | | (- 80) | (- 87) | (- 80) | (- 87) |
| Retained earnings | | - 8,695 | - 9,650 | - 6,469 | - 7,079 |
| Currency conversion difference | | 0 | 19,816 | 0 | 37,920 |
| **TOTAL equity** | | **410,555** | **462,654** | **431,531** | **504,978** |
| **TOTAL liabilities, provisions and equity** | | **420,927** | **474,343** | **452,352** | **529,342** |

# 2 Income Statement

| in € / CHF thousand | Note | 2018<br>€ thousand | 2018<br>CHF thousand | 2017<br>€ thousand | 2017<br>CHF thousand |
|---|---|---|---|---|---|
| Other operating income | (A9) | 121 | 140 | 124 | 138 |
| Personnel expenses | (A10) | - 1,332 | - 1,538 | - 1,346 | - 1,496 |
| Other expenses | (A11) | - 695 | - 803 | - 613 | - 681 |
| Depreciation and impairment | (A12) | - 10 | - 12 | - 10 | - 11 |
| Financial income and financial expenses | (A13) | - 288 | - 333 | - 229 | - 255 |
| Direct taxes | (A14) | - 22 | - 25 | - 16 | - 18 |
| **Profit or Loss** | | **- 2,226** | **- 2,571** | **- 2,090** | **- 2,323** |

# 3 Cash Flow Analysis

| | in € / CHF thousand | 2018<br>€ thousand | 2018<br>CHF thousand | 2017<br>€ thousand | 2017<br>CHF thousand |
|---|---|---|---|---|---|
| | **Profit or Loss** | **-2,226** | **-2,571** | **-2,090** | **-2,323** |
| +/- | Depreciation and amortization/Write-ups on tangible and intangible assets | 10 | 12 | 10 | 11 |
| -/+ | Increase/Decrease in future receivables from construction contracts, receivables and other assets that are not attributable to investing or financing activities | 18 | 21 | -45 | -50 |
| +/- | Increase/Decrease in current provisions | 28 | 32 | -228 | -253 |
| +/- | Increase/Decrease in accounts payables and other liabilities and provisions that are not attributable to investing or financing activities | -227 | -262 | 178 | 198 |
| = | **Cash inflow/outflow from operating activities/ operating cash flow** | **-2,397** | **-2,768** | **-2,175** | **-2,418** |
| - | Payments for investments in tangible fixed assets | 0 | 0 | -1 | -1 |
| + | Received dividends | 31,450 | 36,312 | 0 | 0 |
| = | **Cash inflow/outflow from investing activities/ investing cash flow** | **31,450** | **36,312** | **-1** | **-1** |
| - | Payments to shareholders/partners (prior year dividend, capital repayments, other distributions) | -18,750 | -21,649 | -18,750 | -20,434 |
| +/- | Deposits/Payments from financing activities to affiliated companies | -10,250 | -11,551 | 20,700 | 24,223 |
| = | **Cash inflow/outflow from financing activities (direct determination)/financing cash flow** | -29,000 | **-33,200** | **1,950** | **3,789** |
| | **Net cash changes in financial funds** | **53** | **344** | **-226** | **1,370** |
| -/+ | Effect of changes in currency exchange rate and other effects from changes of financial funds | 0 | -291 | 0 | -1,601 |
| + | Financial funds at the start of the period | 129 | 151 | 355 | 381 |
| = | **Financial funds at the end of the period [cash & cash equivalents]** | **182** | **205** | **129** | **151** |
| = | **Free cash flow (FCF) – equity approach** | **29,053** | **33,544** | **-2,176** | **-2,419** |

# 4 Notes

## 4.1 General Information

EDAG Engineering Group AG, Arbon (EDAG Group AG) was founded on November 2, 2015, and entered in the commercial register of the Swiss canton Thurgau on November 3, 2015. The registered office of the company is: Schlossgasse 2, 9320 Arbon, Switzerland.

At the time when the company was founded, according to the contract of November 2, 2015, the former shareholder, ATON GmbH, Munich, purchased 100 percent of the shares by cash capital contribution. ATON GmbH provided the entire share capital, split into 25,000,000 bearer shares each with a nominal value of CHF 0.04, as a contribution (CHF 1,000,000).

Since December 2, 2015, the company has been listed for trading on the regulated market of the Frankfurt Stock Exchange with concurrent admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard):

| | |
|---|---|
| International Securities Identification Number (ISIN): | CH0303692047 |
| Securities identification number (WKN): | A143NB |
| Trading symbol: | ED4 |

The shares are denominated in Swiss francs. The operating currency is the euro, and shares are traded in euros. The company's shares are briefed in a global certificate and deposited with Clearstream. Each company share entitles its holder to a vote at the company's annual shareholders' meeting. There are no restrictions on voting rights. On December 31, 2018, the largest individual shareholder of EDAG Group AG is ATON Austria Holding GmbH, which holds 70.66 percent.

For the financial year ending December 31, 2018, all the company shares fully qualify for dividends.

According to the company's articles of association, the company's objective is the holding and administration of domestic and foreign investments. The company performs no operative business activities.

The only direct subsidiary is EDAG Engineering Schweiz Sub-Holding AG, a Swiss intermediate holding company with its head office in Arbon, which indirectly holds all the shares in EDAG Engineering GmbH, Wiesbaden, through EDAG Engineering Holding GmbH, a German intermediate holding company based in Munich.

In principle, this company, with its subsidiaries, manages the entire operative business of the corporate group. Its main activities are the development of vehicles, derivatives, modules and production facilities. The EDAG Group is divided into the following three segments:

- Vehicle Engineering
- Production Solutions
- Electrics/Electronics

This annual financial statement was prepared in compliance with the regulations governing commercial accounting set out in the Swiss Code of Obligations (articles 957 – 963b of the Swiss Code of Obligations (OR), valid from January 1, 2013).

The financial year is the same as the calendar year. The reporting period is from January 1, 2018 to December 31, 2018. The functional currency of the company is the euro.

Unless otherwise stated, all amounts are given in thousands of euros and in thousands of francs. Where percentage values and figures are given, differences may occur due to rounding.

In the interests of clarity and transparency, any comments legally required to be added when posting items in the statement of financial position and income statement, along with any comments that may optionally be included in the statement of financial position and income statement, will, for the most part, be included in the Notes.

## 4.2 Information on Accounting, Valuation and Disclosure Methods

### General Information

The income statement has been prepared in accordance with the nature of expense method (production income statement) in accordance with article 959b No. 2 of the Swiss Code of Obligations (OR). The annual financial statements were prepared on the assumption that the company is a going concern, according to article 958a No. 1 of the Swiss Code of Obligations (OR).

### Foreign Currency Translation

Foreign currency transactions are always recognized at the historical exchange rate on the date of initial booking. For initial recognition, foreign currency transactions are valued using the exchange rate at the time of the business transaction. Balance sheet items (current foreign currency liabilities and receivables and liquid funds or other current assets) in foreign currencies are converted into the functional currency using the spot exchange rate on the balance sheet date. The exchange rate gains and losses arising from the valuation or settlement of these items are shown in the income statement.

According to article 958d No. 3 of the Swiss Code of Obligations (OR), if the house currency is not the Swiss franc, values in the statement of financial position and income statement must also be given in the national currency. In this case, the following conversion rates are used:

| | | 2018 | 2017 | |
|---|---|---|---|---|
| Statement of Financial Position | EUR into CHF | 1.1269 | 1.1702 | (spot exchange rate on accounting date) |
| Income Statement | EUR into CHF | 1.1548 | 1.1116 | (average exchange rate for the financial year) |

Equity is valued at historical rates. The currency conversion differences arising from conversion into the national currency are included in equity.

## Accounting for and Valuation of Assets

**Liquid funds** are shown at nominal value on the balance sheet key date.

**Receivables and other assets** are recognized at their nominal values, or at their attributable values on the accounting date, if these are lower. Should the recoverability of receivables be at risk, the value of such receivables is reduced proportionately; non-recoverable receivables are written off. No flat-rate valuation allowance is formed to cover the general credit risk.

Expenses before the accounting date are recognized as **accrued income**, provided they do not represent expenditure for a certain period after this date.

For **investments** purchased by way of the non-cash contribution when the company was founded, the transfer value of the items contributed always counts as the acquisition value according to the audited formation report (according to article 634 No. 3 of the Swiss Code of Obligations [OR]). Due to the fact that investments are not typically subject to a decrease in value due to either use or age, there is no scheduled depreciation of the acquisition costs in the subsequent valuation; instead, adjustments, or impairments, are made for any decrease in value (cf. article 960 para. 3 and 960a para. 3 of the Swiss Code of Obligations [OR]). Should the book value of the investment be lower than the recoverable amount[1] of the investment, then no impairment is required. Investments are subject to the principle of separate valuation (in accordance with article 960 para. 1 of the Swiss Code of Obligations [OR]).

**Property, plant and equipment** are valued at acquisition or production cost less scheduled, straight-line depreciation. Depreciation, amortization and impairments of additions to property, plant and equipment are always reported on a pro rata temporis basis.

The depreciation schedule is based predominantly on the following estimated useful lives:

| | Years |
|---|---|
| Other equipment, operating and office equipment | 3 – 13 |

[1] *Recoverable amount = the lower of the two values utility value (overall company value) and net market value (market value less selling costs)*

### Accounting for and Valuation of Liabilities

**Liabilities** are recognized at their nominal values.

For past events which are expected to result in a cash outflow in future years, **provisions** amounting to the sum which, based on sound commercial judgement, the company can expect to have to pay (expected value) are formed.

Expenses relating to the reporting year for which the corresponding invoice has not yet been received from the supplier are recognized as **deferred income**. The expenditure is concretized in terms of reason and amount.

**Share capital** is recognized at nominal value.

## 4.3 Notes on the Balance Sheet Items

### Receivables and Other Assets (A1)

All receivables and other assets have a term to maturity of less than a year.

| in €/CHF thousand | 12/31/2018<br>€ thousand | 12/31/2018<br>CHF thousand | 12/31/2017<br>€ thousand | 12/31/2017<br>CHF thousand |
|---|---|---|---|---|
| **Other current receivable** | **10** | **11** | **3** | **4** |
| third parties | 10 | 11 | 3 | 4 |
| **Total** | **10** | **11** | **3** | **4** |

### Accrued Income (A2)

Essentially, the **accrued income** includes advance payments for insurance services and to other suppliers.

## Fixed Assets (A3)

Under **investments**, only EDAG Engineering Schweiz Sub-Holding AG, Arbon is listed. All shares - specifically 25,000,000 bearer shares, each with a nominal value of CHF 1.00 - were acquired by ATON GmbH, Munich for a transfer value of € 474,660 thousand (CHF 514,294 thousand), by means of a non-cash contribution and without any consideration in return on December 1, 2015. The contribution value was the product of the initial listing price multiplied by the number of shares, minus the net assets of EDAG Engineering Group AG. The initial listing price of the EDAG Engineering Group AG shares (€ 19.00) * number of shares (25,000,000) - total net assets of EDAG Engineering Group AG (€ -340 thousand) = recoverable amount (€ 474,660 thousand).

EDAG Engineering Schweiz Sub-Holding AG, Arbon is a Swiss intermediate holding company. It holds 100 percent of the shares in EDAG Engineering Holding GmbH, Munich, which in turn holds 100 percent of the shares in EDAG Engineering GmbH, Wiesbaden, which, along with its subsidiaries, in turn embodies the entire operative business of the EDAG Group.

By resolution of the ordinary general meeting of EDAG Engineering Schweiz Sub-Holding AG of June 5, 2018, it was decided that a dividend payout in the amount of € 31,450 thousand (CHF 36,312 thousand) should be made from the reserves from capital contributions. This dividend payout was made directly through the balance sheet account (investments) without influencing the income statement. This results in a book value of € 420,610 thousand (CHF 473,985 thousand) [previous year: € 452,060 thousand (CHF 529,001 thousand)].

The shares **in affiliated companies and holdings** (shareholdings) reported under financial assets - i.e. the companies for which the company either directly or indirectly holds at least 20 percent of the shares - are included in the Notes.

The **intangible assets** include software.

## Liabilities (A4)

| in €/CHF thousand | 12/31/2018<br>€ thousand | 12/31/2018<br>CHF thousand | 12/31/2017<br>€ thousand | 12/31/2017<br>CHF thousand |
|---|---|---|---|---|
| **Liabilities** | **114** | **128** | **170** | **199** |
| third parties | 57 | 64 | 64 | 75 |
| affiliated companies and related parties | 57 | 64 | 107 | 125 |
| **Other interest-bearing current liabilties** | **9,650** | **10,875** | **19,900** | **23,287** |
| affiliated companies and related parties | 9,650 | 10,875 | 19,900 | 23,287 |
| **Other current liabilities** | **426** | **480** | **558** | **653** |
| third parties | 4 | 5 | 61 | 71 |
| affiliated companies and related parties | 0 | 0 | 19 | 22 |
| Board of Directors | 422 | 475 | 478 | 559 |
| **Total** | **10,190** | **11,483** | **20,628** | **24,139** |

All **liabilities** have a term to maturity of less than a year.

## Provisions (A5)

| in €/CHF thousand | 12/31/2018<br>€ thousand | 12/31/2018<br>CHF thousand | 12/31/2017<br>€ thousand | 12/31/2017<br>CHF thousand |
|---|---|---|---|---|
| Other provisions | 182 | 205 | 153 | 179 |
| **Total** | **182** | **205** | **153** | **179** |

The **other provisions** include personnel expenses in the amount of € 106 thousand (CHF 119 thousand) [previous year: € 111 thousand (CHF 130 thousand)] as well as accounting and auditing costs in the amount of € 76 thousand (CHF 86 thousand) [previous year: € 43 thousand (CHF 50 thousand)].

### Deferred Income (A6)

No expenses relating to the following year are recognized as **deferred income** during the reporting year [previous year: € 40 thousand (CHF 47 thousand)].

### Share Capital (A7)

On the reporting date, the company's **share capital**, which was paid in full on November 2, 2015, amounted to € 920 thousand (CHF 1,000 thousand), and is covered by 25 million bearer shares. This is equivalent to a nominal value of € 0.04 (CHF 0.04) per share. Each share entitles its holder to a right to vote and to receive dividends.

### Capital Reserves (A8)

On the reporting date, the **capital reserves** amounted to € 418,330 thousand (CHF 451,488 thousand) [previous year: € 437,080 thousand (CHF 473,137 thousand)], and are composed of the **capital contribution reserves** in the amount of € 418,410 thousand (CHF 451,575 thousand) [previous year: € 437,160 thousand (CHF 473,224 thousand)] and **other capital reserves** in the amount of € -80 thousand (CHF -87 thousand), which have not changed compared to the previous year.

## 4.4 Notes on Income Statement

### Other Operating Income (A9)

The **other operating income** in the amount of € 121 thousand (CHF 140 thousand) [previous year: € 124 thousand (CHF 138 thousand)] is composed of administrative service contracts with affiliated companies, income from the reversal of provisions, foreign currency earnings and income from rents.

### Personnel Expenses (A10)

**Personnel expenses** can be broken down as follows:

| in €/CHF thousand | 2018<br>€ thousand | 2018<br>CHF thousand | 2017<br>€ thousand | 2017<br>CHF thousand |
|---|---|---|---|---|
| Salaries | 1,265 | 1,461 | 1,270 | 1,412 |
| Social security contributions | 67 | 77 | 76 | 84 |
| **Total** | **1,332** | **1,538** | **1,346** | **1,496** |

The salaries of the Executive Management, Board of Directors and administrative employees are listed under Salaries. Also included in the salaries are claims for settlement expenses in the amount of € -56 thousand (CHF -65 thousand) [previous year: € 56 thousand (CHF 63 thousand)] and bonuses in the amount of € 117 thousand (CHF 135 thousand) [previous year: € 42 thousand (CHF 47 thousand)].

## Other Operating Expenses (A11)

Other operating expenses are mainly made up of:

| in €/CHF thousand | 2018<br>€ thousand | 2018<br>CHF thousand | 2017<br>€ thousand | 2017<br>CHF thousand |
|---|---|---|---|---|
| Consulting, contributions and fees | 321 | 371 | 250 | 278 |
| General administration expenses | 95 | 110 | 116 | 129 |
| Travel expenses | 88 | 102 | 68 | 76 |
| Insurance | 65 | 75 | 65 | 72 |
| Sales and marketing expenses | 32 | 37 | 37 | 41 |
| Rents and leases | 32 | 37 | 36 | 40 |
| Miscellaneous ancillary personnel expenses | 30 | 35 | 2 | 2 |
| Expenses from group services affiliated companies | 17 | 20 | 18 | 20 |
| Maintenance | 1 | 1 | 3 | 3 |
| Personnel training and development expenses | 1 | 1 | 2 | 2 |
| Prepaid expenses for affiliated companies | 1 | 1 | 0 | 0 |
| Other operating expenses | 1 | 1 | 1 | 1 |
| Expenses from currency losses | 11 | 13 | 15 | 17 |
| **Total** | **695** | **803** | **613** | **681** |

No material expenses for other accounting periods were incurred.

## Depreciation, Amortization and Impairment (A12)

**Depreciation** was carried out on intangible assets and on property, plant and equipment.

### Financial Expense and Financial Income (A13)

| in €/CHF thousand | 2018<br>€ thousand | 2018<br>CHF thousand | 2017<br>€ thousand | 2017<br>CHF thousand |
|---|---|---|---|---|
| Interest and similar income | 0 | 0 | 2 | 2 |
| (thereof from affiliated companies) | 0 | 0 | (2) | (2) |
| Interest and similar expenses | 288 | 333 | 231 | 257 |
| (thereof to affiliated companies) | (288) | (333) | (231) | (257) |
| **Total** | **- 288** | **- 333** | **- 229** | **- 255** |

No interest income or interest expense for other accounting periods is included.

### Direct Taxes (A14)

| in €/CHF thousand | 2018<br>€ thousand | 2018<br>CHF thousand | 2017<br>€ thousand | 2017<br>CHF thousand |
|---|---|---|---|---|
| Capital tax | 22 | 25 | 16 | 18 |
| **Total** | **22** | **25** | **16** | **18** |

No material tax expenses or tax revenues for other accounting periods are included.

## 4.5 Other Information

### Employees

The company employed no more than an annual average of 10 employees during the financial year and the previous year.

### Contingent Liabilities

Neither on December 31, 2018 nor on December 31, 2017 contingent liabilities did exist, according to article 959c para. 2 No. 10 of the Swiss Code of Obligations (OR).

### Other Financial Obligations

**Other financial obligations** due to affiliates exist; these amount to € 134 thousand [previous year: (CHF 151 thousand) € 133 thousand (CHF 156 thousand)] for future costs from existing rental and service contracts.

## Auditor's Fees and Services

Details of the auditor's fees according to article 961a No. 2 of the Swiss Code of Obligations (OR) are not included, as these are given in the consolidated financial statements of EDAG Group AG.

## Information on the Company's Organs

### Group Executive Management

The members of the Group Executive Management represent the company jointly, in twos. The Group Executive Management consisted of the following persons in the financial year:

- Cosimo De Carlo, Munich, Chairman of the Group Executive Management, CEO (since April 15, 2018)
- Jürgen Vogt, Wiesbaden, Chairman of the Group Executive Management, CEO (until April 14, 2018), Member of the Executive Management, CFO
- Holger Merz, Hosenfeld, Member of the Group Executive Management, COO (since January 1, 2019)
- Harald Poeschke, Düsseldorf, Member of the Group Executive Management, COO (until December 31, 2018)

The compensation of the Group Executive Management amounts to € 169 thousand (CHF 195 thousand) [previous year: € 137 thousand (CHF 152 thousand)] plus bonus payments in the amount of € 117 thousand (CHF 135 thousand) [previous year: € 42 thousand (CHF 47 thousand)] and a fixed one-off payment in the amount of € 50 thousand (CHF 58 thousand), which is shown proportionally [previous year: € 25 thousand (CHF 28 thousand)].

At the end of the financial year, the individual members of the Executive Management hold the following number of shares in EDAG Group AG:

| Number of shares | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Group Executive Management** | | |
| Cosimo De Carlo | 6,000 | - |
| Jürgen Vogt | 3,631 | 3,631 |
| Holger Merz | 115 | 115 |
| Harald Poeschke | - | - |
| **Total Group Executive Management** | **9,746** | **3,746** |

**Board of Directors**

The Board of Directors consisted of the following persons:

- Georg Denoke, Munich, Chairman of the Board of Directors (single signatory)
  [Chairman of the Nomination and Compensation Committee] (since August 21, 2018)
- Dr. Michael Hammes, Frankfurt am Main, Member of the Board of Directors
  (joint signatory, two signatures required)
  [Chairman of the Audit Committee]
- Dr. Philippe Weber, Pura, President of the Board of Directors (single signatory)
  (from July 18, 2018 until August 21, 2018)
  Member of the Board of Directors (single signatory)
  [Member of the Nomination and Compensation Committee]
- Sylvia Schorr, Munich, Member of the Board of Directors
  (joint signatory, two signatures required)
  [Member of the Audit Committee]
- Thomas Eichelmann, Munich, Chairman of the Board of Directors (single signatory)
  [Chairman of the Nomination and Compensation Committee] (until July 18, 2018)

The proportional compensation of the Board of Directors amounts to € 744 thousand (CHF 838 thousand) [previous year: € 800 thousand (CHF 889 thousand)].

On the date on which Thomas Eichelmann left the Board of Directors, he held a total of 87,500 shares (12/31/2017: 87,500) in EDAG Engineering Group AG. As in the previous year, the other individual members of the Board of Directors do not hold any shares in EDAG Group AG at the end of the financial year.

Further information on the compensation of the Group Executive Management and the Board of Directors can be found in the compensation report in accordance with article 14-16 of the Swiss regulation to counter excessive compensation in listed companies (VegüV).

## Group Relations

The annual financial statements will be included in the consolidated financial statements. These are based on the International Financial Reporting Standards, as applicable in the European Union. The consolidated financial statements and management report of the parent company can be obtained from the address of EDAG Group AG. It is also available on the Internet on the following link: http://ir.edag.com, and will be submitted to the Electronic Federal Gazette in Germany.

## Appropriation of Net Income

| in € thousand/ CHF thousand | 2018 € thousand | 2018 CHF thousand | 2017 € thousand | 2017 CHF thousand |
|---|---|---|---|---|
| **Balance brought forward** | **- 6,469** | **- 7,079** | **- 4,379** | **- 4,756** |
| Appropriation of earnings in accordance with resolution of the Annual General Meeting | **0** | **0** | 0 | **0** |
| Removal from legal capital reserve | 18,750 | 21,649 | 18,750 | 20,434 |
| Dividend payout to shareholders | - 18,750 | - 21,649 | - 18,750 | - 20,434 |
| **Net income of the year** | **- 2,226** | **- 2,571** | **- 2,090** | **- 2,323** |
| **Total available earnings at the disposal of the Annual General Meeting** | **- 8,695** | **- 9,650** | **- 6,469** | **- 7,079** |

**Appropriation of reserves proposed by the Board of Directors**

| in € thousand/ CHF thousand | 2018 Proposal of Board of Directors € thousand | 2018 Proposal of Board of Directors CHF thousand | 2017 Resolution of Annual general Meeting € thousand | 2017 Resolution of Annual general Meeting CHF thousand |
|---|---|---|---|---|
| **Total available earnings** | **- 8,695** | **- 9,650** | **- 6,469** | **- 7,079** |
| Allocation to legal retained earnings | 0 | 0 | 0 | **0** |
| Removal from legal retained earnings | 0 | 0 | 0 | **0** |
| Allocation to legal capital reserve | 0 | 0 | 0 | **0** |
| Removal from legal capital reserve | 18,750 | 21,129 | 18,750 | 21,941 |
| Dividend payout to shareholders | - 18,750 | - 21,129 | - 18,750 | - 21,941 |
| **Balance to be carried forward** | **- 8,695** | **- 9,650** | **- 6,469** | **- 7,079** |

Subject to approval of the annual shareholders' meeting, the Board of Directors recommends that the net loss of € 8,695 thousand (CHF 9,650 thousand) should be carried forward to the new statement as a negative retained profit, and is in favor of a dividend payout of € 0.75 (CHF 0.85) per share, which will result in an overall payout of € 18,750 thousand (CHF 21,129 thousand). The Board of Directors recommends that the entire dividend payout in the amount of € 0.75 (CHF 0.85) per share proposed for 2018 should be withdrawn from the capital reserves. Subject to this proposal being passed at the annual shareholders' meeting, any such payout will not be subject to Swiss withholding tax.

The dividend falls due on June 30, 2019 at the latest, and is payable in euros. The dividend will be converted from euros into Swiss francs (CHF) at the rate applying on the date of the annual shareholders' meeting. The resolution approving dividends in CHF will therefore differ from the above amount in CHF. The CHF/EUR conversion rate must not exceed 1.50, at which rate the dividend payout total could amount to CHF 28,125 thousand, with corresponding adjustment of the capital contribution reserves in the new statement.

Arbon, April 2, 2019

EDAG Engineering Group AG

G. Denoke

Georg Denoke, Chairman of the Board of Directors

Dr. Michael Hammes, Member of the Board of Directors and
Chairman of the Audit Committee

Cosimo De Carlo, Chairman of the Group Executive Management, CEO

Jürgen Vogt, Member of the Group Executive Management, CFO

Holger Merz, Member of the Group Executive Management, COO

# 4.6 Appendices

## Development of Fixed Assets

| in € thousand | (Historical) Cost | | | |
|---|---|---|---|---|
| | 01/01/2018 | Disposals | Currency translation | 12/31/2018 |
| **Intangible assets** | | | | |
| Software | 1 | 0 | 0 | 1 |
| **Total intangible assets** | **1** | **0** | **0** | **1** |
| **Property, plant and equipment** | | | | |
| Other equipment, operating and office equipment | 74 | 0 | 0 | 74 |
| **Total property, plant and equipment** | **74** | **0** | **0** | **74** |
| **Financial assets** | | | | |
| Shares in affiliated companies | 452,060 | 31,450 | 0 | 420,610 |
| **Total financial assets** | **452,060** | **31,450** | **0** | **420,610** |
| **TOTAL** | **452,135** | **31,450** | **0** | **420,685** |

| in CHF thousand | (Historical) Cost | | | |
|---|---|---|---|---|
| | 01/01/2018 | Disposals | Currency translation | 12/31/2018 |
| **Intangible assets** | | | | |
| Software | 2 | 0 | 0 | 2 |
| **Total intangible assets** | **2** | **0** | **0** | **2** |
| **Property, plant and equipment** | | | | |
| Other equipment, operating and office equipment | 86 | 0 | -3 | 83 |
| **Total property, plant and equipment** | **86** | **0** | **-3** | **83** |
| **Financial assets** | | | | |
| Shares in affiliated companies | 529,001 | 35,441 | -19,574 | 473,985 |
| **Total financial assets** | **529,001** | **35,441** | **-19,574** | **473,985** |
| **TOTAL** | **529,089** | **35,441** | **-19,577** | **474,070** |

| in € thousand | Accumulated depreciation | | | | Carrying amount | |
|---|---|---|---|---|---|---|
| | 01/01/2018 | Additions | Currency translation | 12/31/2018 | 01/01/2018 | 12/31/2018 |
| **Intangible assets** | | | | | | |
| Software | 1 | 0 | 0 | 1 | **0** | **0** |
| **Total intangible assets** | **1** | **0** | **0** | **1** | **0** | **0** |
| **Property, plant and equipment** | | | | | | |
| Other equipment, operating and office equipment | 19 | 10 | 0 | 29 | **55** | **45** |
| **Total property, plant and equipment** | **19** | **10** | **0** | **29** | **55** | **45** |
| **Financial assets** | | | | | | |
| Shares in affiliated companies | 0 | 0 | 0 | 0 | **452,060** | **420,610** |
| **Total financial assets** | **0** | 0 | **0** | **0** | **452,060** | **420,610** |
| **TOTAL** | **20** | **10** | **0** | **30** | **452,115** | **420,655** |

| in CHF thousand | Accumulated depreciation | | | | Carrying amount | |
|---|---|---|---|---|---|---|
| | 01/01/2018 | Additions | Currency translation | 12/31/2018 | 01/01/2018 | 12/31/2018 |
| **Intangible assets** | | | | | | |
| Software | 1 | 0 | 0 | 2 | **0** | **0** |
| **Total intangible assets** | **1** | **0** | **0** | **2** | **0** | **0** |
| **Property, plant and equipment** | | | | | | |
| Other equipment, operating and office equipment | 22 | 11 | -1 | 32 | **64** | **51** |
| **Total property, plant and equipment** | **22** | **11** | **-1** | **32** | **64** | **51** |
| **Financial assets** | | | | | | |
| Shares in affiliated companies | 0 | 0 | 0 | 0 | **529,001** | **473,985** |
| **Total financial assets** | 0 | 0 | 0 | 0 | **529,001** | **473,985** |
| **TOTAL** | **23** | **12** | **-1** | **34** | **529,065** | **474,036** |

## Changes in Equity

| in € thousand | Subscribed capital | Capital reserve | Other capital reserve | Total capital reserve | Profit or loss | Others | Total equity |
|---|---|---|---|---|---|---|---|
| **As per 01/01/2018** | **920** | **437,160** | **- 80** | **437,080** | **- 6,469** | **-** | **431,531** |
| Profit or loss | - | - | - | - | - 2,226 | - | - 2,226 |
| Removal | - | - 18,750 | - | - 18,750 | - | - | - 18,750 |
| **As per 12/31/2018** | **920** | **418,410** | **- 80** | **418,330** | **- 8,695** | **-** | **410,555** |

| | | | Retained earnings | | | | |
|---|---|---|---|---|---|---|---|
| **in CHF thousand** | **Subscribed capital** | **Capital reserve** | **Other capital reserve** | **Total capital reserve** | **Profit or loss** | **Others** | **Total equity** |
| **As per 01/01/2018** | **1,000** | **473,224** | **- 87** | **473,137** | **- 7,079** | **37,920** | **504,978** |
| Currency conversion difference at the beginning balance | - | - | - | - | - | - 18,104 | - 18,104 |
| Profit or loss | - | - | - | - | - 2,571 | - | - 2,571 |
| Removal | - | - 21,649 | - | - 21,649 | - | - | - 21,649 |
| **As per 12/31/2018** | **1,000** | **451,575** | **- 87** | **451,488** | **- 9,650** | **19,816** | **462,654** |

## Share ownership list in accordance with article 959c p. 2 No. 3 of the Swiss Code of Obligations (OR)

| | Registered in Switzerland and Germany | Domicile | Capital share in % | | Voting right |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| 1. | EDAG Engineering Schweiz Sub-Holding AG | Switzerland | 100 | - | 100 |
| 2. | EDAG Engineering Holding GmbH | Germany | - | 100 | 100 |
| 3. | EDAG Engineering GmbH | Germany | - | 100 | 100 |
| 4. | EDAG-Beteiligung GmbH | Germany | - | 100 | 100 |
| 5. | EDAG Production Solutions GmbH & Co. KG | Germany | - | 100 | 100 |
| 6. | EDAG Production Solutions Verwaltungs GmbH | Germany | - | 100 | 100 |
| 7. | EDAG Werkzeug + Karosserie GmbH | Germany | - | 49 | 49 |
| 8. | BFFT Gesellschaft für Fahrzeugtechnik mbH | Germany | - | 100 | 100 |
| 9. | BFFT aeromotive GmbH | Germany | - | 100 | 100 |
| 10. | BFFT Holding GmbH | Germany | - | 100 | 100 |
| 11. | EDAG EE Treuhand GmbH | Germany | - | 100 | 100 |
| 12. | Rücker Akademie GmbH | Germany | - | 100 | 100 |
| 13. | EDAG Engineering Schweiz GmbH | Switzerland | - | 100 | 100 |
| 14. | VR-Leasing Malakon GmbH & Co. Immo. KG | Germany | - | 100 | 25 |

| | Registered in other countries | Domicile | Capital share in % | | Voting right |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| 15. | EDAG Engineering Limited | Great Britain | - | 100 | 100 |
| 16. | EDAG do Brasil Ltda. | Brazil | - | 100 | 100 |
| 17. | EDAG, Inc. | USA | - | 100 | 100 |
| 18. | EDAG HOLDING SDN. BHD. | Malaysia | - | 100 | 100 |
| 19. | EDAG Hungary Atófejlesztö Méröki Kft. | Hungary | - | 100 | 100 |
| 20. | EDAG Production Solutions India Pvt. Ltd. | India | - | 100 | 100 |
| 21. | EDAG Technologies India Priv. Ltd. | India | - | 100 | 100 |
| 22. | EDAG Production Solutions CZ s.r.o. | Czech Republic | - | 100 | 100 |
| 23. | EDAG Japan Co., Ltd. | Japan | - | 100 | 100 |
| 24. | EDAG Engineering and Design (Shanghai) Co.,Ltd. | China | - | 100 | 100 |
| 25. | EDAG México S.A. de C.V. | Mexico | - | 100 | 100 |
| 26. | EDAG Servicios México S.A. de C.V. | Mexico | - | 100 | 100 |
| 27. | EDAG Production Solutions, Inc. | USA | - | 100 | 100 |
| 28. | CKGP/PW & Associates, Inc. | USA | - | 100 | 100 |
| 29. | BFFT Italia Srl | Italy | - | 100 | 100 |
| 30. | BFFT of America, Inc. | USA | - | 100 | 100 |
| 31. | Rücker Vehicle Design (Shanghai) Co.,Ltd. | China | - | 100 | 100 |
| 32. | EDAG Italia S.R.L. | Italy | - | 100 | 100 |
| 33. | EDAG Engineering CZ spol. s r.o. | Czech Republic | - | 100 | 100 |
| 34. | EDAG Engineering Polska Sp.z.o.o. | Poland | - | 100 | 100 |
| 35. | Rücker Lypsa S.L. | Spain | - | 100 | 100 |
| 36. | HRM EDAG Engineering AB | Sweden | - | 100 | 100 |
| 37. | HRM Engineering AB | Sweden | - | 100 | 100 |
| 38. | Müller HRM Engineering AB | Sweden | - | 100 | 100 |
| 39. | OOO EDAG Production Solutions RU | Russia | - | 100 | 100 |
| 40. | EDAG Netherlands B.V. | Netherlands | - | 100 | 100 |

# REPORT OF THE STATUTORY AUDITOR (STATUTORY FINANCIAL STATEMENT)

## REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF THE EDAG ENGINEERING GROUP AG, ARBON

**Report on the audit of the financial statements**

**Opinion**

We have audited the financial statements of the EDAG Engineering Group AG, which comprise the balance sheet as at December 31, 2018, the income statement and cash flow statement for the year then ended and notes.

In our opinion, the accompanying financial statements (pages 296 to 321) as at December 31, 2018 comply with Swiss law and the articles of incorporation.

**Basis for opinion**

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Report on key audit matters based on the Circular 1/2015 of the Federal Audit Oversight Authority**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Recoverability of the investment in the subsidiary**

**Key audit matters**

We consider the impairment testing of the investment in the subsidiary to be a key audit matter for the following two reasons:

The investments in EDAG Engineering Schweiz Sub-Holding AG in the amount of EUR 421 million (CHF 474 million) represents the largest asset on the balance sheet (99% of total assets) as at December 31, 2018. If this investment had to be impaired, it would have a significant impact on the net assets/equity of the Company. Testing the investment for impairment depends on the future results of the company concerned. In addition, there is significant scope for judgement in determining the assumptions relating to future results.

Please refer to the notes and, in particular, 'Information on accounting, valuation and disclosure methods' (Accounting for and valuation of assets) and the 'Notes on balance sheet items' (Fixed assets).

**How our audit addressed the key audit matters**

We performed audit procedures on the valuation of the investment as at December 31, 2018. Management carried out an impairment test on the investment in EDAG Engineering Schweiz Sub-Holding AG.

We performed the following:

- We verified the method used to test the investment for impairment and assessed the calculation of the weighted average cost of capital rates.
- We checked the appropriateness of the future cash inflows used for the valuation by judgement of the forecast accuracy and comparing the future cash inflows with the latest budget figures taken from the three-year plan prepared by the Board of Directors and by reconciling them to general and industry-specific market expectations of the company.
- We checked the parameters, including the weighted average cost of capital rates, used in calculating the discount rate and examined the calculation model.

**Responsibilities of the Board of Directors for the financial statements**

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors intends either to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://www.expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

**Report on other legal and regulatory requirements**

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

Furthermore, we confirm that the appropriation of net income complies with Swiss law and the Articles of Association and recommend that the finanical statements submitted to you be approved.

Deloitte AG

| | |
|---|---|
| ROLAND MÜLLER | UELI STURZENEGGER |
| Accredited Audit expert | Accredited Audit expert |
| Auditor in charge | |

Zurich, April 2, 2019

# *FINALLY ...*

Responsibility Statement

Legal Notice

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Responsibility Statement
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# **AFFIRMATION** OF THE LEGAL REPRESENTATIVE (BALANCE SHEET OATH)

We hereby certify, to the best of our knowledge, that in accordance with the applicable accounting principles, the consolidated financial statement conveys a proper picture of the assets, financial position and financial performance of the Group, and that the management report represents the company's business trends, including the financial results and the position of the Group, such that the actual conditions and the essential opportunities and risks pertaining to the anticipated development of the Group are accurately delineated.

Arbon, April 2, 2019
EDAG Engineering Group AG

Cosimo De Carlo, Chairman of the Group Executive Management, CEO

Jürgen Vogt, Member of the Group Executive Management, CFO

Holger Merz, Member of the Group Executive Management, COO

Georg Denoke, Chairman of the Board of Directors

Dr. Michael Hammes, Member of the Board of Directors

Sylvia Schorr, Member of the Board of Directors

Dr. Philippe Weber, Member of the Board of Directors

# **LEGAL** NOTICE

This report includes predictive statements about future developments that are based on the current views of the management team. Statements of this kind are associated with certain risks and uncertainties. Should one of these uncertainty factors or other uncertainties materialize, or the assumptions on which the statements are based prove to be inaccurate, the actual results may differ substantially from the results which are either expressed or implied in these statements. We neither have the intention nor undertake any obligation to continuously update forward-looking statements, as they exclusively relate to the circumstances that existed on the date of their publication.

# IMPRINT

**Legal notice & contact**
Do you have any questions or suggestions regarding our Annual Report?
Then please contact us:
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Reesbergstraße 1 · 36039 Fulda

The English version of the Annual Report is a translation of the German version. The German version is legally binding.

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