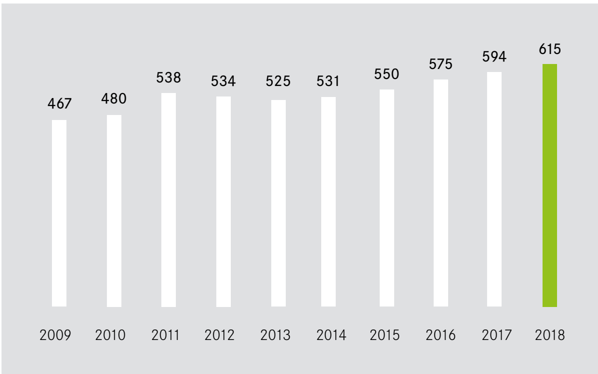
CENTROTEC
Sustainable AG

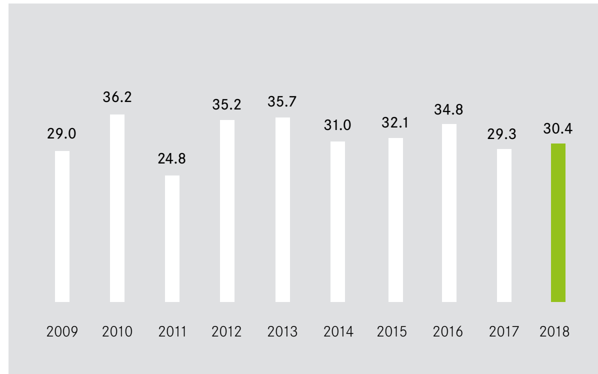
ANNUAL REPORT 2018

CENTROTEC
The European Energy-Saving Company

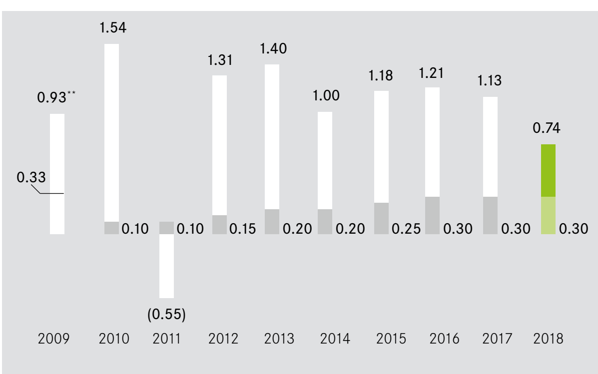
Revenue
[in EUR million]



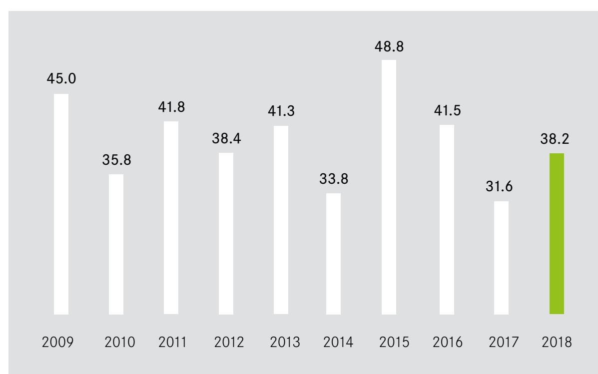
EBIT
[in EUR million]



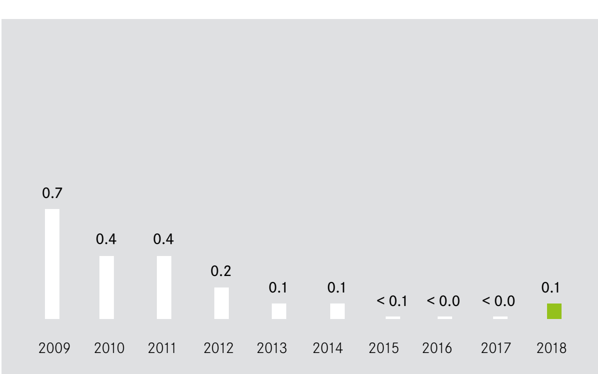
EPS*/Dividend
[in EUR]



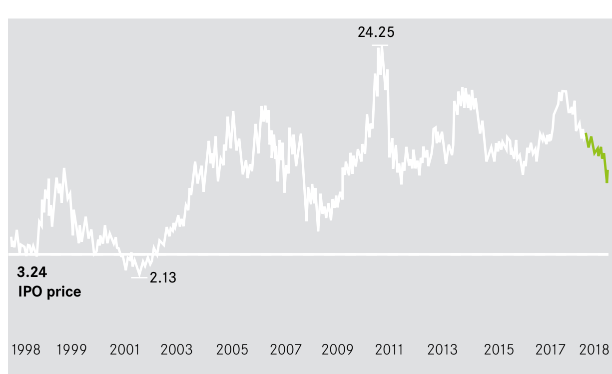
Operative Cash Flow
[in EUR million]



Gearing
[Net interest bearing debt/equity]



Share price
[in EUR]



* Earnings per share, basic

** Excluding the investment results

Ten-Year Comparison

	2018 [EUR '000]	Changes [Percent]	2017 [EUR '000]	2016 [EUR '000]
Total revenue	**614,739**	**3.5**	**594,189**	**575,458**
Climate Systems	434,945	2.7	423,623	416,935
Gas Flue Systems	128,144	5.8	121,093	112,980
Medical Technology & Engineering Plastics	51,650	4.4	49,473	45,543
Earnings				
EBITDA	54,487	0.8	54,057	59,523
EBIT	30,426	3.8	29,321	34,818
EBIT yield (in %)	4.9		4.9	6.1
EBT	19,222	(33.8)	29,038	31,055
EAT	12,670	(39.2)	20,847	21,584
EPS (in EUR; basic)	0.74	(34.5)	1.13	1.21
Balance sheet structure as of 12/31				
Balance sheet total	568,206	(2.1)	580,472	479,695
Shareholders' equity	239,505	(7.0)	257,481	240,602
Equity ratio (%)	42.2		44.4	50.2
Property, plant and equipment	129,979	4.8	124,017	125,606
Intangible assets	43,713	10.0	39,734	39,747
Goodwill	77,295	0.0	77,285	77,220
Net financial position*	(20,978)		13,017	6,568
Net working capital*	70,121	(0.2)	70,275	57,962
Cash flow statement				
Cash flow I (EAT & depreciation/amortisation)	36,731	(19.4)	45,583	46,289
Cash flow from operating activities	38,225	20.8	31,634	41,457
Cash flow from investing activities**	(33,610)	51.7	(22,153)	(28,305)
Employees as of 12/31				
Total (in FTE)	2,962	2.9	2,878	3,285
Shares				
Number of shares***	17,078		17,943	17,811
Highest quotation****	15.88		19.79	15.60
Lowest quotation****	10.10		14.83	11.56
Year-end quotation****	11.44		15.47	15.29

* Taking account for short-term financial assets
** Excluding the impact of investments in short-term financial assets
*** Weighted average shares outstanding (basic; in thousand)
**** Quotation in EUR

	2015	2014	2013	2012	2011	2010	2009
	[EUR ’000]	[EUR ’000]	[EUR ’000]	[EUR ’000]	[EUR ’000]	[EUR ’000]	[EUR ’000]
	549,791	**530,549**	**525,431**	**533,781**	**537,841**	**479,650**	**466,613**
	399,348	386,193	384,799	391,838	381,782	331,769	309,524
	107,012	102,618	99,241	102,569	116,347	112,835	128,111
	43,431	41,738	41,391	39,374	39,712	35,046	28,978
	55,602	53,013	55,512	55,214	46,898	54,582	46,641
	32,104	30,983	35,673	35,231	24,770	36,158	29,037
	5.8	5.8	6.8	6.6	4.6	7.5	6.2
	28,937	26,113	31,105	32,095	(404)	34,541	12,727
	20,657	17,366	23,953	22,292	(9,401)	25,572	5,216
	1.18	1.00	1.40	1.31	(0.55)	1.54	0.33
	452,138	425,583	438,677	419,571	425,690	399,561	379,646
	225,962	207,908	200,427	174,665	157,453	160,816	132,674
	50.0	48.9	45.7	41.6	37.0	40.2	34.9
	119,867	112,488	109,289	95,677	95,180	91,946	91,252
	41,479	42,765	43,971	45,044	46,765	39,265	37,542
	77,166	72,072	71,951	69,991	69,738	61,074	60,914
	(1,567)	(15,528)	(21,932)	(27,495)	(60,113)	(71,123)	(86,451)
	51,499	56,328	54,914	55,325	56,030	57,572	53,642
	44,155	39,396	43,792	42,275	12,727	43,996	22,820
	48,761	33,800	41,332	38,370	41,843	35,840	45,025
	(32,106)	(23,289)	(31,811)	(4,187)	(28,875)	(22,077)	(18,006)
	3,129	2,955	3,036	2,937	2,906	2,663	2,614
	17,667	17,626	17,357	17,289	17,164	16,750	16,610
	15.25	20.20	19.79	14.35	24.25	17.50	10.80
	12.85	12.91	12.56	10.75	10.61	9.15	6.05
	13.21	14.28	18.60	13.47	11.28	16.00	9.44

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Letter to Shareholders

Dear Shareholders,

The 2018 financial year again saw CENTROTEC make progress with internationalising the Group. At the same time it further reinforced its position in the German market through the sales drive launched in the previous year. The entire organisation's clear focus on its market partners prepared the ground for further growth in what remains its most important individual market. In addition, the expansion and modernisation work realised or started at various locations in the period under review laid the foundations for maintaining a positive performance.

With a healthy overall economic development and a strong construction sector as the basis and background, consolidated revenue was increased organically by 3.5 % to EUR 614.7 million in 2018 (previous year EUR 594.2 million). Along with the 3.8 % improvement in the operating result (EBIT) to EUR 30.4 million (previous year EUR 29.3 million) this meant the overall forecast for the year was achieved. The weak general parameters in the market for combined heat and power units prevented an even better revenue and profit performance. The net result was diminished by a weak investment result, which led to earnings per share (EAT) of EUR 0.74 (previous year EUR 1.13). Thanks to our solid financial basis, at the Annual General Meeting we will propose the payment of a dividend of EUR 0.30 per share for 2018, the same level as in the previous year. Furthermore you, Dear Shareholders, have already benefited from a share buyback programme with a volume of EUR 25.4 million conducted in the period under review.

The overall healthy macroeconomic figures continue to provide a positive basis for the expansion of our business volume. Despite the rise in unresolved conflicts and the forecast of a slowdown in global economic growth, we expect that the construction industry will again be a robust performer in 2019. The products for energy-efficient building services engineering in the industrial and domestic sector that CENTROTEC develops, manufactures and sells are also likely to receive a boost from the energy efficiency plans announced by many countries, as well as from expected rises in energy prices.

On this basis, CENTROTEC is planning further organic growth for the financial year in progress of 2019 and, based on the environment previously described, expects to generate consolidated revenue of EUR 620 to 640 million. Within this context the company anticipates further growth in its international sales markets and a continuing improvement in its position in the German heating market, building on the process that started in the previous year. The company will also invest further in the international expansion of business activities and the digitalization of its products and processes, but also in the development of new, innovative business models. In addition a number of important infrastructure measures will be realised in 2019, above all the planned creation of the production location in China as well as the completion of the new production hall at the Gas Flue Systems location in the Netherlands. Amid this environment, we expect CENTROTEC to achieve a full-year operating result (EBIT) of EUR 31 to 33 million. By pursuing an even more conservative investment strategy, we also anticipate a significant improvement in the investment result.

In the medium to long term, too, there are distinctly positive prospects for the industry-specific economic environment because the markets for heating and climate control solutions benefit from the global megatrends of energy efficiency and climate protection, and should grow more strongly than the economy as a whole. Furthermore, the trend towards greater comfort and growing health awareness, specifically as reflected how in living and working space is designed, offers CENTROTEC a generally good basis for further sustained, profitable growth in which we want all stakeholders of the CENTROTEC Group to continue to participate.

With best wishes,

Dr Thomas Kneip
[Management Board]

Bernhard Pawlik
[Management Board]

Dr Christoph Traxler
[Management Board]

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1 Dr Thomas Kneip
2 Bernhard Pawlik
3 Dr Christoph Traxler

The Management Board

Dr Thomas Kneip

Dr Thomas Kneip (born 1971) has been the Chief Financial Officer (CFO) of CENTROTEC Sustainable AG since January 2014. Before joining CENTROTEC the PhD in business studies gained extensive management experience in the fields of finance and strategy at Centrosolar and Siemens VDO. Furthermore he was Senior Consultant and Project Manager at McKinsey & Company for many years. in addition to his function as CFO, Dr Kneip is also responsible for the business areas Gas Flue Systems and Climate Systems, where he puts his focus on the Wolf Group. He took the chair of its management board on July 1, 2016.

Bernhard Pawlik

Bernhard Pawlik (born 1967) has been a member of the Management Board of CENTROTEC Sustainable AG since April 2018. Before joining the CENTROTEC Group, the Industrial Engineering graduate gained many years of experience in various international management roles in the automotive supply and photovoltaic industries, including at Autoliv and Centrosolar. He focused strongly on the areas of project management, purchasing, production and quality. In addition to his function as member of the CENTROTEC Management Board he is also responsible for the Gas Flue Systems area, which he has been involved in managing since 2014.

Dr Christoph Traxler

Dr Christoph Traxler, Ph.D., (born 1968) has been a member of the CENTROTEC Sustainable Management Board since 2004. A physicist by education, he started his career at McKinsey & Company before joining CENTROTEC, where he was initially responsible for the segment Medical Technology & Engineering Plastics. Together with his team, he transformed this business area into an innovative medical devices developer and manufacturer. Also, the Engineering Plastics division was further developed, restructured and prepared for the future. Dr Traxler is also responsible for the Climate Systems business area, where he places his focus on the Brink Group.

Guido A Krass,

Guido A Krass (born 1957), industrial lawyer and entrepreneur, has been focusing on high-growth mid-cap companies since 1986. As the founder and a major shareholder of CENTROTEC, he is closely involved in strategic and personnel management matters. He is able to draw on a worldwide network of contacts for developing new business ideas and identifying acquisition options.

Report of the Supervisory Board

Dear Shareholders, The Supervisory Board of CENTROTEC Sustainable AG again performed the tasks resting upon it in accordance with the law, the Articles of Association and the rules of internal procedure with great care in the 2018 financial year, in the course of which it regularly advised the Management Board on the running of the Group and continually monitored its activities.

CENTROTEC achieved in full the revenue and earnings targets communicated to the capital market for the 2018 financial year and increased its strategic emphasis on becoming a more international group in the period under review, while at the same time bringing the development of its own position in the German heating market successfully back on track. This provides a solid basis for future growth in revenue and earnings.

After a short but serious illness our long-standing Supervisory Board member Dr Bernhard Heiss passed away in the 2018 financial year. Ever since the IPO, Dr Heiss had been a conscientious and dependable adviser on the Supervisory Board; with his commitment and profound specialist expertise, he was a source of vital impulses and ideas on many difficult matters. With effect from July 1, 2018 the competent court of registry appointed Mr Andreas Freiherr von Maltzan as substitute member up until the next Annual General Meeting. Mr von Maltzan is an entrepreneur in the field of digital businesses. The specialist areas of his entrepreneurial activities are big data, process mining, social media marketing and community building. Mr von Maltzan has been involved in a large number of mergers & acquisitions transactions, restructurings and capital measures.
With effect from April 1, 2018 the Supervisory Board appointed Mr Bernhard Pawlik as an additional member of the Management Board. Mr Pawlik was already a long-standing employee of the Group, bringing many years of experience in various international management functions in the automotive supply and photovoltaic industries to the company. One focus of his work to date has been on the areas of project management, purchasing, production and quality.

The Supervisory Board held a total of four regular meetings in the period under review. In addition to these, there was one extraordinary meeting in 2018. The priority topics listed below were discussed at these meetings. All Supervisory Board members attended all meetings.
The Management Board regularly informed the Supervisory Board through detailed, prompt written and oral reports on the current business progress of the companies and the Group, and in particular on the development in its revenue, orders, financial performance and financial position, along with the company's discernible opportunities and risks of future development. The Supervisory Board was involved directly and promptly in all decisions of fundamental importance for the company and discussed important decisions and occurrences at length. Annual financial statements, the Interim Report and quarterly financial communications were discussed with the Board of Management by the Supervisory Board prior to their publication. Decisions of the Management Board requiring approval were examined and discussed thoroughly by the Supervisory Board prior to their approval.

Outside the context of the above meetings, too, the members of the Supervisory Board discussed upcoming projects and matters of material importance with the Management Board and senior management of the company in individual face-to-face meetings and by means of telephone conferences. Written reports were furthermore submitted on specific projects and issues. Through these, the Management Board satisfied the information and reporting requirements laid down by the Supervisory Board in every respect. As the Supervisory Board has only three members, no committees were formed. All matters were discussed by the full board.

In the 2018 financial year there were again no conflicts of interest among Management Board and Supervisory Board members that are to be disclosed to the Supervisory Board without delay and of which the Annual General Meeting is to be informed.

The range of topics discussed at Supervisory Board meetings was very broad, covering fundamental and strategic matters concerning the holding company, the segments and the individual companies. From a Group perspective its further expansion as well as matters concerning the Finance department were paid particular attention. Individual matters of major importance and with far-reaching consequences for the Group were also addressed. The individual priority topics discussed comprised:

- The strategic direction and business policy of the Group, the segments and the Group companies
- The general business performance
- The implementation and impact of the Wolf Group strategy for the German heating market
- The content and scope of the financial reports for publication
- Major or strategically highly significant investment decisions, in particular the construction of a manufacturing facility in China
- The risk position, in particular strategic, operating and financial risks as well as risk management
- The financial reporting process and internal control system
- The strategic and operational handling of Group financing and of the investments
- The implementation of the share buyback programme
- The Group's budget and medium-term planning
- Observance and innovations of the Corporate Governance Code and SCR reporting
- Evaluation of possible options in the sphere of mergers & acquisitions projects
- Changes to regulatory and negotiable instruments law
- Data protection changes and requirements after the introduction of EU GDPR
- Remuneration structures of the Management Board and key management employees
- Changes on the Management Board and Supervisory Board
- The efficiency of the Supervisory Board's own activities

The Supervisory Board and Management Board discussed corporate governance within the company at length in the year under review and, most recently in March 2018, jointly issued a Declaration of Compliance in accordance with Section 161 of the German Stock Corporation Act, and made it permanently available on the company's website. According to Article 3.10. of the German Corporate Governance Code, the Management Board simultaneously reports on corporate governance on behalf of the Supervisory Board in the Corporate Governance Report. That report is incorporated into the Annual Report. The key principles of corporate governance are explained by the Management Board in its Corporate Governance Statement pursuant to Section 289f of the German Commercial Code, which can be accessed on the website of the company. Other topics of detailed consultations by the Supervisory Board included issuing the audit mandate to the auditors following their election by the Annual General Meeting, monitoring their independence as well as the services provided by them, and determining their fee.

The accounting, annual financial statements, Management Report, Consolidated Financial Statements and Group Management Report at December 31, 2018 have been examined by the auditors Pricewaterhouse-Coopers AG Wirtschaftsprüfungsgesellschaft, Kassel, who have issued unqualified audit opinions. The above documents and the proposal by the Management Board on the appropriation of the accumulated profit were made available to each member of the Supervisory Board in a timely manner. These were discussed at length with the auditors at the Supervisory Board meeting on March 27, 2019, when the auditors reported on the principal findings of their audit. The auditors of the accounts furthermore reported on their findings on the internal control and risk management system in respect of the financial reporting process and established that the Management Board has set up a suitable internal system of control and risk management.

The Supervisory Board has considered at length the disclosures made in the Management Report and Group Management Report. Reference is therefore made to the corresponding comments in the Management Report and Group Management Report, which the Supervisory Board has examined and supports.
The Supervisory Board has examined the annual financial statements, Management Report and Consolidated Financial Statements, including Group Management Report, as prepared by the Management Board, together with the dependency report drawn up by the Management Board as a precautionary measure. The Supervisory Board concurs with the findings of the audit of the financial statements. The concluding finding of the examination by the Supervisory Board has revealed no cause for objection. The annual financial statements prepared by the Management Board and the Consolidated Financial Statements at December 31, 2018 were approved by the Supervisory Board. The annual financial statements of the Group parent are hereby established. The proposal by the Management Board on the appropriation of the accumulated profit has been approved by the Supervisory Board.

In addition, reporting of disclosures on non-financial aspects has been required since the 2017 reporting year. The management has decided to fulfil that obligation through the publication of a non-financial report outside the framework of the Group Management Report, and to publish it in the Annual Report. The Supervisory Board, which holds responsibility for examining the content of non-financial reporting, has carefully considered the separate Non-Financial Group Report of CENTROTEC Sustainable AG prepared by the Management Board at December 31, 2018. On the basis of its own examination, the Supervisory Board raised no objections following explanatory remarks by the Management Board and the auditors. The auditing firm PricewaterhouseCoopers GmbH conducted a limited assurance engagement and issued an unqualified audit opinion.

The Supervisory Board assumes that CENTROTEC Sustainable AG will be able to extend its position in the worldwide growth market for energy-saving building technology, and serve the interests of the CENTROTEC Group's stakeholders.

On behalf of the Supervisory Board I would like to thank the Management Board members as well as the employees of the CENTROTEC Group for their active contribution and efforts in the past financial year.

Kind regards,

Guido A Krass
(Supervisory Board Chairman)

On behalf of the Supervisory Board, Brilon, March 2019

System supplier for home ventilation, condensing boilers and heat pumps

RESIDENTAL BUILDINGS

The highly efficient Wolf heat pumps open the way for a pioneering form of heating technology for buildings that taps the potential of renewable energies. For the energy renovation of the existing building stock, condensing systems for oil and gas are recommended. They make optimum use of these fossil fuels and thus conserve scant resources. Both alternatives, in combination with a ventilation system with heat recovery of up to 95 %, ensure permanently high indoor air quality with maximum energy efficiency.

1 ***Wolf split heat pump with integrated home ventilation system of Brink***

2 ***Wolf heat pump program***


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Core Values

Integrity

For CENTROTEC, integrity means a consistently fair, transparent, honest and incorruptible way of behaving, both for the enterprise and for the individual. For us, that means we have to say what we think, and do what we say!

Social responsibility

CENTROTEC bears social responsibility both for its employees and for its wider corporate environment. It is important for us to regard employees as human beings, not merely as a resource, and to address their individual needs as effectively as possible. In addressing the corporate environment, CENTROTEC operates ethically and responsibly, and furthermore shows independent initiative in promoting living conditions and social cohesion within its direct sphere of influence (good corporate citizenship).

Sustainable action

This means meeting today's needs without endangering the scope of future generations to do likewise. The way energy is used and the consequences of its use are of key importance for a sustainable society. To achieve that goal, CENTROTEC supplies affordable solutions for saving energy and putting renewable energies to a wide range of uses in buildings.
In developing, manufacturing and selling our solutions, we strive for the highest possible standards of resource efficiency and sustainability. For each individual, this action begins with a sense of personal responsibility towards the wider community.

Entrepreneurial action

For every employee, entrepreneurial action means treating the company as if it were his or her own, and demonstrating the responsibility and foresight that that would entail. Thisoffers opportunities for both the company and the individual. CENTROTEC promotes this entrepreneurial spirit by granting its employees and subsidiaries the maximum possible freedom of scope.

Separate Non-Financial Group Report

(pursuant to German CSR Directive Implementation Act)

In the separate Non-Financial Group Report, CENTROTEC Sustainable AG – hereinafter also CENTROTEC or the CENTROTEC Group – reports outside the framework of the Group Management Report for the 2018 financial year in accordance with the current statutory requirements of the German CSR Directive Implementation Act (hereinafter German CSR-RL-UG) on the reporting of non-financial information. In presenting this separate non-financial Group report (hereinafter “Non-Financial Report” or “NFR”) pursuant to sections 315b, 315c in conjunction with 289c to 289e of the German Commercial Code, CENTROTEC fulfils the resulting duty of accountability. The business model of the CENTROTEC Group is described in the Group Management Report from page 34.

The option of taking generally valid reporting frameworks for sustainability topics as the basis for the compilation of the NFR was not used because the adoption of a uniform reporting framework appeared excessively cumbersome given the highly non-central, heterogeneous corporate structure, combined with generally locally organised management of the relevant topics.

The auditors PricewaterhouseCoopers GmbH WPG have performed an audit of the Non-Financial Report with limited assurance to auditing standard ISAE 3000 (Revised). Please see the associated audit report on page 122.

Reporting scope and reporting boundaries

For the 2018 reporting year and previously already for the year 2017, the separate Non-Financial Group Report covers disclosures on all active, comprehensively consolidated CENTROTEC companies. The data is submitted using the “Tagetik” financial reporting system established within the Group, starting with the data recorded for the departments of the individual companies that is ultimately consolidated at Group level.

CENTROTEC started to record non-financial data for the manufacturing units of the Group from the 2010 financial year because the data was intended to help provide transparency on the development of the uniform core values of the Group introduced in 2011.

From the 2017 reporting year the CENTROTEC Management Board, in consultation with the Supervisory board and in light of the introduction of mandatory non-financial reporting, had resolved to prepare a separate Non-Financial Group Report.

References to disclosures outside the Group Management Report constitute further information and are not part of the Non-Financial Report.

Materiality analysis and selection of report contents

Pursuant to Section 289 (3) of HGB, disclosable non-financial aspects are to be identified according to the double materiality qualifier. Under this approach, those disclosures that are required for understanding the business progress, business result, situation and the impact of activity on these aspects are material.

The non-financial aspects were selected by the Management Board. Its decisions were based on the criteria of the aforementioned double materiality qualification and in particular the criteria of industry relevance, own corporate structure plus the core values of the Group. Through a variety of business projects, to some extent in cooperation with those holding responsibility for individual Group companies, the Management Board analysed which non-financial aspects are material for sustainable business development both from an internal perspective and from the perspective of the various external target groups (customers, business partners, employees, shareholders, suppliers as well as the general public). In the course of these, it made assumptions for external target groups concerning the significance and impact on the above sustainability aspects.

The topic of carbon emissions was identified as especially material, with the need to differentiate between product-related emissions and company-related emissions. With regard to the impact of the activities of the CENTROTEC Group, we assess the product-related carbon emissions to be especially material, specifically with regard to the impact at customers, where considerable reductions in carbon emissions can be achieved through the use of efficient systems. This is because the modern systems that CENTROTEC produces and sells often consume lower amounts of energy or ventilate buildings more efficiently than their predecessor models did. However CENTROTEC does not report on a concept for this matter within the meaning of German CSR-RL-UG because it does not follow any central management approach here, and it is not feasible to collect data on emissions at customers with reasonable effort. Nevertheless, at least in the highly relevant area of heat-generating systems the adoption of the Europe-wide energy efficiency label renders the environmental friendliness of the product portfolio suitably transparent. While the company-specific carbon emissions of the CENTROTEC Group are comparatively speaking less relevant in terms of their environmental impact, we do see them as being equally relevant to our business and adopt an active management approach, which we present in the concept description under Environmental matters. Sections of the supply chains of the Group companies are also covered here, because we also include preliminary stages for the commodities used when calculating emissions.

Another area of focus in our non-financial reporting is “employee matters”, because employees are often exposed to high burdens in manufacturing companies and our employees are very important for the further development of the company specifically at a time when there is a growing shortage of specialist labour. Within the materiality analysis, the matter of occupational safety was identified as material in line with German CSR-RL-UG. In addition, the aspect of “combating bribery and corruption” contains an explanation of the relevant CENTROTEC concept, identified as the third material aspect. Above and beyond that, CENTROTEC was not able to identify any further mandatory disclosures as material based on the double materiality qualifier. To a large extent CENTROTEC covers the topics of social issues and the upholding of human rights indirectly through the Code of Conduct and accompanying internal and external regulations. In addition CENTROTEC generates the bulk of its revenue in Europe, where the relatively high standards achieved with regard to respect for human rights and social issues mean that from the company’s perspective these aspects are already extensively covered by statutory requirements. For that reason, the aspects of social matters and respect for human rights have not been considered separately in view of the assessment under the double materiality qualification.

Risks

Reportable risks are those that are associated with the company's own business activities, business relationships, products or services, and very probably have or will have a serious negative impact on the material aspects.

The risk management system described in the Group Management Report from page 54 assures the recording and evaluation of corresponding risks in the financial sphere, while simultaneously enabling the inclusion of risks from the non-financial sphere. Starting with the gross recording of the risks, including the measures, a net assessment of the risk exposure is made and risks are managed on the basis of these net values.

CENTROTEC is not aware of any reportable risks that have been taken by CENTROTEC companies or are associated with the business relationships, products and services of the companies and, with a high probability, have or will have a serious negative impact on the reportable aspects.

Environmental matters

CENTROTEC regards the use of resources and the associated carbon footprint as a material non-financial aspect for the company and its environment. Out of a commitment to protect the environment through its core values, but also for business reasons, CENTROTEC has set itself the goal of keeping its own consumption of resources and therefore the direct and indirect carbon emissions as low as possible, to the extent that is economically justifiable. In keeping with this objective and in a reflection of the Group's non-central organisation, CENTROTEC places the emphasis on individual measures that can be implemented by the individual companies. The time horizon for target attainment equally depends on the measures selected in each case, and is not laid down Group-wide. The material effects in the sphere of emissions reduction are achieved through the consumption of material and are in the core interests of all Group companies in view of the major business significance of this topic. Examples of other specific measures to reduce carbon emissions within operating processes are the use of internally produced co-generation plants (CHPs/ Mainburg, Germany), the targeted buying of electricity from renewable sources (Brilon, Germany / Doesburg, Netherlands) and the implementation or partial implementation of the internal guideline on the construction of carbon-neutral buildings (Fulda, Brilon, Germany / Staphorst, Netherlands). These measures are part of a continuous improvement drive that is not enshrined in a Group-wide formal set of rules. Although systematic tracking of target attainment as so far not been practised, the executive management of the individual companies as well as the Group Management Board are informed of the individual measures and their impact.

The carbon emissions figures for the CENTROTEC Group increased only slightly by just under one percent in 2018 compared to the previous year despite a 3.5 % rise in revenue. For greater ease of comparison, CENTROTEC also reports relative carbon emissions. To that end, total emissions are placed in the context of revenue in euros.

The direct business processes and the procurement of electricity result in carbon emissions amounting to 13.8 Kt (thousand tonnes) for the year under review of 2018 (previous year 16.8 Kt). The reason for this decline, despite the increased volume of business, is a below-average rise in electricity consumption measured against revenue, along with the reduced consumption figures e.g. for natural gas. In addition, a higher proportion of electricity was procured from sources that generate less CO_2, for example coal-fired power generation.

Carbon emissions from transportation were significantly reduced in 2018 by optimising freight volumes. The same applied to carbon emissions from air traffic. On the other hand there was a rise in the volume of emissions caused by the use of leased vehicles and the still-negligibly low emissions from rail traffic. The consumption of commodities was by some distance the biggest contributor to carbon emissions caused by CENTROTEC companies. In this category, there was a slightly overproportional rise compared with revenue growth to 105.2 Kt in the period under review (previous year 100.8 Kt).

Overall, CENTROTEC caused 131.1 Kt (previous year 129.8 Kt) of carbon emissions directly and indirectly. Relative to consolidated revenue, specific emissions declined to 0.213 t CO_2 per thousand euros of revenue in the period under review (previous year 0.219 t CO_2 per thousand euros of revenue).

Direct and indirect carbon emissions (from direct business processes, the procurement of electricity, transport and use of materials)	Tonnes	**2018** 131,051	**2017** 129,836
Consolidated revenue	EUR ’000	614,739	594,189
Carbon emissions to revenue	t CO_2/EUR ’000	0.213	0.219

Employee matters

In its dealings with people, CENTROTEC attaches considerable importance to sustainable action, as specified in the core values. Its aim here is to provide a safe and healthy place of work in order to protect all employees against harm and promote their health. To achieve this, the CENTROTEC companies have implemented health and safety programmes, rules and regulations at the various locations. CENTROTEC supports its employees and expects them to comply with the health and safety regulations. The same applies to the planning of workplaces, operating equipment and processes as well as to safety and personal behaviour in day-to-day work. Every CENTROTEC employee and every CENTROTEC manager is responsible for caring for others. The well-being sought for the individual also has a lasting positive impact on the development of all the different areas of CENTROTEC Sustainable AG, with the aim that it will ultimately yield economic success.

At a time when the shortage of skilled labour is a growing issue especially in trade and industry, occupational safety provides a basis for holding onto employees or attracting new ones. The continuous reduction in work related injuries correspondingly represents a key target especially for the Group’s manufacturing companies.

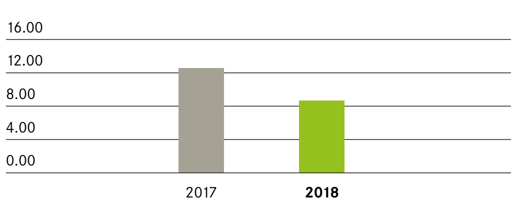
The total number of reported work related injuries that resulted in temporary incapacity for work fell to 42 in 2018, down from 67 in the previous year. Relative to the number of working hours, the figure was brought down to 8.7 work related injuries per million working hours (previous year 12.5). However these figures should be interpreted more as benchmarks because CENTROTEC has previously only given the Group companies in the various countries a general definition of the term “work related injuries”. For that reason, and in view of variations in the national statutory regulations that the Group companies have to observe specifically on this topic, this benchmark is not recorded in an entirely uniform way. The reduced number of working hours in the 2018 financial year is attributable to the reorganisation carried out in 2017 in individual areas of the company, resulting in the outsourcing of human resources management to external companies. This also changed the ratio of productive to non-productive employees, with the result that the comparability of the benchmarks for work related injuries is subject to certain restrictions.

Health and safety	**2018**	**2017**
Working hours	4,838,390	5,338,839
Reported work related injuries	42	67
Work related injuries per per 1 million working hours	8.7	12.5

Because of the non-central Group structure, there are a large number of different measures to increase occupational safety at the subsidiaries of the CENTROTEC Group. They are based on consistent compliance with the statutory minimum standards as well as the customarily higher industry standards, and in almost every case satisfy the latest certifications in each industry affected. In addition there are further measures that promote occupational safety and employee health, such as traffic training for apprentices at certain locations, financing of health training, participation in smoking cessation courses, the free provision of fruit at the workplace and the creation of ergonomic workplaces tailored to employees. The executive management of the individual companies as well as indirectly, above them, the Group Management Board are regularly informed of the respective measures and their impact.

WORK RELATED INJURIES

[per 1 million working hours]



Combating corruption and bribery

Derived from the core values, integrity is a material feature of CENTROTEC's entrepreneurial action. For CENTROTEC, integrity means a comprehensively fair, transparent, honest and incorruptible way of behaving, both for the enterprise and by each individual. What this means for CENTROTEC is that its actions are compelling and transparent. This applies to all divisions, departments and companies of the CENTROTEC Group.

By way of a uniform situation analysis of the existing management tools and risk exposure in the CENTROTEC Group, initial surveys were conducted a few years ago to identify structures that are susceptible to bribery and corruption. The areas considered to be at risk, e.g. Purchasing and Sales, were then addressed in a targeted, systematic way. The existing processes, safeguards and methods were categorised and divided into risk areas. For the sphere of "corruption and bribery" in question here, our focus was particularly on risk areas such as money laundering, gifts, entertainment and sponsoring. In response to these surveys, the results were analysed and recommended actions developed.

Various regulations and internal guidelines on compliance were again refined in 2018. These are in particular:

- Code of Conduct
- Guideline on Business Conduct
- Guideline on Gifts and Invitations
- Rules of Internal Procedure for the Group.

The Managing Directors of all the Group's operational companies have undertaken to comply with the corresponding regulations. In addition, a digital whistleblower system was created in the year under review of 2018 to offer employees scope to report infringements and suspected cases anonymously. The customary reporting channel and a mailroom also continue to be available to receive anonymous reports.

Other measures involve training courses for employees and training courses for new employees upon joining the CENTROTEC Group. These are held predominantly in traditional training classrooms, with the employees present. In subdivisions of the CENTROTEC Group, individual modules are also already available as webinars or using e-learning. Experience with online training has been increased. Efforts are being made to use this option on a wider scale.

No incidents or suspected cases in the sphere of corruption, bribery or money laundering came to light in the Group in the year under review of 2018. Where cases that involve compliance breaches are identified or measures such as internal investigations are launched, the Group Management Board is briefed on the situation by the Legal area.

Corporate Governance Report

Appropriate corporate governance has been a central component of CENTROTEC Sustainable AG's corporate philosophy for many years. The Supervisory Board and Management Board have considered the German Corporate Governance Code at length in each amended version and incorporated the recommendations into their actions. As a result, CENTROTEC Sustainable AG complies in all key respects with the recommendations of the Code. The Declaration of Compliance below indicates and clarifies the departures.

Management and governance structure

In keeping with the German Stock Corporation Act, CENTROTEC Sustainable AG has a two-tier management and governance structure that comprises a three-member Management Board (at the reporting date of December 31, 2018) and, as laid down in its Articles of Association, a three-member Supervisory Board. The Management Board and Supervisory Board work together closely in the interests of the company. The Management Board coordinates both the strategic direction and principal transactions with the Supervisory Board.

The Management Board was increased from two to three members in the course of the financial year (with effect from April 1, 2018). The Management Board is independently responsible for the running of the company and conducts its business. In doing so, it focuses on achieving a lasting increase in the value of the company. It is bound by the law, the provisions of the Articles of Association and the rules of internal procedure for the Management Board, as well as by the resolutions of the Annual General Meeting. The Management Board informs the Supervisory Board regularly and promptly of all relevant topics concerning the strategy and its implementation, the targets, the company's current performance, the risk exposure, and risk management.

The Supervisory Board monitors and advises the Management Board. It specifies the duties of the Management Board to report and inform. The Supervisory Board issues and amends the rules of internal procedure for the Management Board. It in addition appoints and dismisses the members of the Management Board. It may appoint a Chairman of the Management Board. It regularly monitors the effectiveness of the internal control and risk management system, as well as the auditing of the financial statements. The members of the Supervisory Board are appointed until the Annual General Meeting that gives discharge for the fourth financial year after the start of their term of office. The financial year in which the term of office commences is discounted.

Supervisory Board

Taking account of the company's specific situation, the Supervisory Board has identified specific targets in respect of its composition, such as a company-specific limit on a member's length of service and an age limit, the appropriate participation of members with international experience and efforts to ensure that women are adequately represented. The Supervisory Board is moreover to include an adequate number of independent members. The Supervisory Board will take account of these targets when proposing candidates to the electoral bodies, and in particular the Annual General Meeting.

Following the unexpected death of Supervisory Board member Dr Bernhard Heiss after a short, serious illness, Mr Andreas Freiherr von Maltzan was appointed by court order as substitute member with effect from July 1, 2018 up until the next Annual General Meeting

The curricula vitae of the Supervisory Board members as well as disclosures on material activities alongside their Supervisory Board mandate are published on the company's website. There were no cases of conflicts of interest concerning Management Board or Supervisory Board members, which are to be disclosed to the Supervisory Board without delay.

Shareholders and Annual General Meeting

The shareholders exercise their rights through the Annual General Meeting and make use of their voting rights there. Each share carries one vote. Every shareholder is entitled to take part in the Annual General Meeting. The Annual General Meeting takes decisions concerning in essence the appropriation of profits, discharge of the Management Board and Supervisory Board, the Articles of Association and amendments thereto, key entrepreneurial measures, and measures that change the capital such as the issuance of new shares, the acquisition of treasury stock and the conditional capital. The participants of the Annual General Meeting elect the Supervisory Board members and determine their remuneration.

Remuneration system of the Management Board and Supervisory Board

The Supervisory Board is responsible for determining the remuneration of the Management Board, including the principal contractual features. The remuneration system of the Management Board and Supervisory Board is presented in detail in the remuneration report, which forms part of this report.

Third-party financial loss insurance (D&O cover) has been taken out for the company's Management Board and Supervisory Board members, incorporating an appropriate excess for the Management Board members in accordance with the statutory provisions. An appropriate excess has also been agreed for the members of the Supervisory Board, in agreement with the Corporate Governance Code. The managing directors and supervisory/administrative board members of subsidiaries are included in this D&O cover.

Transparency

CENTROTEC Sustainable AG has acted openly and responsibly ever since its establishment, and was therefore already doing so before the company undertook to observe the Corporate Governance Code. The overriding objective of CENTROTEC's corporate communications is to provide prompt, continuous, comprehensive and consistent information to all target groups and to maintain a relationship with its shareholders that is characterised by transparency. In addition to financial data, the financial calendar listing all key dates for CENTROTEC Sustainable AG, ad hoc information and press releases, the latest developments regarding the Corporate Governance Code and notifiable securities transactions (proprietary traders) according to Article 19 of Regulation (EU) No. 596/2014 of the European Parliament and Council on market abuse (Market Abuse Regulation) as well as changes in the principal investments and in the overall voting rights pursuant to Sections 26 and 26a of the German Securities Trading Act are published on the CENTROTEC homepage, following disclosure to the German Financial Supervisory Authority (BaFin) and the stock market.

Article 19 of the Market Abuse Regulation specifies the immediate disclosure obligation for transactions by Management Board or Supervisory Board members or by related parties involving shares or debt instruments of CENTROTEC or related financial instruments if the value of the transactions reaches or exceeds the amount of EUR 5 thousand within one calendar year. CENTROTEC Sustainable AG has passed on notices of all such transactions reported to it to BaFin without delay and published them on its homepage.

Legal transactions with companies in which members of the Supervisory Board and management hold or might hold an interest were also conducted in the financial year. As presented in detail in the Declaration of Compliance, these did not give rise to any conflict of interests.

The mandates held by the Management Board and Supervisory Board members on statutorily constituted supervisory boards or similar regulatory bodies are listed on page 117.

As in previous years, a dependency report was issued by the Management Board as a precautionary measure. We refer to the contents of the dependency report for details.

At December 31, 2018 the current members of the Management Board held no (previous year no) shares. At that date the members of the Supervisory Board held 2,400,000 (previous year 2,477,340) shares.

The current holdings of shares and options by the Management Board and Supervisory Board are documented on the homepage and are updated continuously.

Financial reporting and auditing of financial statements

The Consolidated Financial Statements are prepared by the Management Board, audited by the independent auditors and approved by the Supervisory Board. The Consolidated Financial Statements and interim reports are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, and published in both German and English.

The continuous, systematic management of entrepreneurial opportunities and risks is part of corporate governance for CENTROTEC. The Management Board reports regularly to the Supervisory Board on the latest developments in material risks within the Group. This process helps to identify risks promptly and to manage them. The Management Board and Supervisory Board therefore regularly monitor the effectiveness of the financial reporting process and the internal control and risk management system.

Compliance

Appropriate corporate governance and compliance have been a central component of CENTROTEC Sustainable AG's corporate philosophy for many years. A Group-wide, systematic risk analysis covering all divisions serves as the basis. The continuous, systematic management of entrepreneurial opportunities and risks is part of the corporate culture at CENTROTEC. The Management Board regularly examines the developments and work in the compliance and corporate governance areas. Timely access to important information on early risk detection and the combating of maladministration as well as limiting losses and maladministration by implementing measures and preventive action are the key objectives. Key features of the control and risk management system are indicated in the opportunity and risk report.

As part of its compliance work, CENTROTEC has taken various measures to assure the lawful conduct of employees, the company and the management. The CENTROTEC compliance programme comprises various building blocks that have been implemented in all corporate areas and thus together form the Compliance Management System. Key building blocks are the control and risk management system for financial reporting purposes, compliance in the sphere of capital market law, a competence and conduct guideline for all companies of the Group, as well as guidelines on IT security. Further principles are reflected in a guideline on the handling of gifts and invitations, as well as in the Group-wide Code of Conduct, which specifies the key principles and rules for conduct within the company and vis-à-vis outside parties. The reporting system for compliance incidents also includes a digitalised whistleblower portal for the anonymous reporting of suspected cases.

Further information on corporate governance

Further information on corporate governance can be found in the Corporate Governance Statement on the company's website.

Declaration by the Management Board and Supervisory Board of CENTROTEC Sustainable AG, Brilon, on the German Corporate Governance Code (Section 161 of German Stock Corporation Act)

The background

On February 26, 2002 the "Government Commission on the German Corporate Governance Code" first presented a code of practice for listed companies. This Code was last updated on February 7, 2017 and published in the Federal Gazette on April 24, 2017.

Pursuant to Section 161 of German AktG, the Management Board and Supervisory Board of a company listed on the stock exchange are obliged to declare once a year whether and to what extent the code has been and is complied with:

Declaration of Compliance

The Management Board and Supervisory Board of CENTROTEC Sustainable AG declare that the recommendations of the Government Commission on the German Corporate Governance Code as amended on May 5, 2015 and subsequently the recommendations as amended on February 7, 2017 (published on April 24, 2017) are and have been complied with since the last Declaration of Compliance, dated March 20, 2017, with the restrictions stated below.

1) Article 4.2.1 of the Code recommends that the Management Board should have a Chairman or CEO. The Management Board duties are performed jointly and with equal rights by the members of the Management Board. We believe that in view of the size of the Management Board and its structure, it is not appropriate or in the interests of the company to appoint a CEO or Chairman.

2) Article 5.3 of the Code recommends the formation of committees on the Supervisory Board. These shall, however, be dependent on the specific circumstances of the company and the number of members of the Supervisory Board. Our Supervisory Board consists of three members, who consider all matters concerning the company jointly. Consequently, we do not regard the creation of committees to be appropriate in our case. We believe that our view is compatible with the Code, but supply this information as a precautionary measure by way of clarification.

3) Under 5.4.1 the Code recommends that the Supervisory Board, when determining the goals for its composition, should also specify a limit to the period for which a member may serve on it. Bearing in mind the number of Supervisory Board members and the shareholder structure, we consider the introduction of a limit to the period of service to be inappropriate in our case.

4) Article 5.4.2 of the Code recommends that the Supervisory Board includes an adequate number of members who – in the board's own opinion – are deemed to be independent. A member is to be regarded as independent if they have no business or personal relations with the company, its corporate bodies, a controlling shareholder or an affiliated company that could constitute a substantial and not merely temporary conflict of interests. In its own opinion, our Supervisory Board includes an adequate number of independent members. Although individual members of the Supervisory Board are shareholders and occasionally have business relations with the company, this does not constitute a conflict of interests.

Brilon, March 2018

The Management Board:

Dr Thomas Kneip
[Management Board]

Dr Christoph Traxler
[Management Board]

On behalf of the Supervisory Board:

Guido A Krass
[Supervisory Board Chairman]

Responsibility Statement pursuant to Section 297 (2) fourth sentence and Section 315 (1) sixth sentence of the German Commercial Code

To the best of our knowledge, and in accordance with the applicable accounting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Management Report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Brilon, March 27, 2019

Dr Thomas Kneip
Bernhard Pawlik
Dr Christoph Traxler

Section 289f HGB

LINK to CENTROTEC homepage:
http://www.centrotec.de/investor-relations.html

Remuneration report

The remuneration report of CENTROTEC Sustainable AG is based on the requirements of the International Financial Reporting Standards (IFRS) as adopted by the EU, as well as the German Commercial Code (HGB), while also incorporating the recommendations of the German Corporate Governance Code.

Remuneration of the Management Board

The remuneration system for the Management Board including the key contractual elements is agreed by the Supervisory Board and regularly examined. The remuneration of the members of the Management Board comprises a non-performance-related fixed salary, a performance-related and thus variable remuneration component, as well as miscellaneous remuneration. The level of the remuneration of the Management Board members reflects its size, the customary levels of remuneration taking account of its peer group, as well as the economic and financial position of the company. Task areas, personal performance and experience as well as attainment of targets by the Management Board members are moreover taken into account in determining their remuneration. The remuneration system regularly also sets long-term behavioural incentives and focuses on sustainable development of the company, taking organic, profitable growth as the benchmark.

Remuneration granted

The Management Board of CENTROTEC Sustainable AG comprised two members at the start of the 2018 financial year. Bernhard Pawlik was appointed to the Management Board as its third member with effect from April 1, 2018. He holds responsibility for the Gas Flue Systems segment, in the management of which he has been involved since 2014.

The non-performance-related Management Board remuneration is paid in the form of a fixed monthly salary. In the 2018 financial year these fixed salaries for all three Management Board members totalled EUR 863 thousand (previous year for only two Management Board members EUR 650 thousand). There were employer’s social contributions of 1.2 % on top of these.

Since the termination of the stock options scheme in 2013 the prospect of variable remuneration has been offered in the form of a monetary bonus, the granting and level of which are dependent on attainment of certain targets determined at the start of the financial year. This bonus contains both a short-term (one-year variable remuneration) and a long-term (multi-year variable remuneration/LTI) component. The monetary bonuses granted in 2018 totalled EUR 868 thousand (previous year EUR 537 thousand).

No pension benefits were granted in the 2018 financial year.

The non-cash benefit of the use of company cars in 2018 is reflected in the fringe benefits and amounted to EUR 41 thousand in 2018 (previous year EUR 32 thousand). The total remuneration upon full attainment of targets is EUR 1,772 thousand (previous year EUR 1,219 thousand). The minimum remuneration corresponds to the fixed salary. The maximum remuneration corresponds to the total remuneration granted as shown in the table, with a possible fluctuation in the variable remuneration between 0 and the granted amount stated, depending target attainment.

The following table shows the Management Board remuneration granted:

	Dr Thomas Kneip since January 1, 2014		**Dr Christoph Traxler since April 1, 2004**		**Bernhard Pawlik since April 1, 2018**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Fixed salary	330	320	340	330	193	-
Fringe benefits	19	22	10	10	12	-
Total	**349**	**342**	**350**	**340**	**205**	**-**
One-year variable remuneration	265	235	265	182	218	-
Multi-year variable remuneration:						
- LTI scheme 2017 (3-year term)[1]	0	60	0	60	0	-
- LTI scheme 2018 (3-year term)[1]	60	0	60	0	0	-
Total	**325**	**295**	**325**	**242**	**218**	**-**
Pension benefits	0	0	0	0	0	-
Total remuneration	**674**	**637**	**675**	**582**	**423**	**-**

[1] The figure for 100 % target attainment is shown.

Remuneration received

The following table shows the Management Board remuneration paid. The main difference compared with the above table is the amounts paid out from variable remuneration, the payout of which is either spread over several years (e.g. stock options, LTI programme) or takes place in the year following the year of granting (one-year variable remuneration). The amounts are broken down according to the individual plans and terms. For stock options and other share-based payments, the applicable date and value under German tax law are considered to be the date on which a payment is paid and the amount that is paid.

The actual remuneration paid for the members of the Management Board of CENTROTEC Sustainable AG in the 2018 financial year amounted to EUR 1,354 thousand (previous year EUR 1,328 thousand). Retired members of the Management Board received benefits totalling EUR 57 thousand in the 2018 financial year (previous year EUR 57 thousand). The provisions for pension commitments to former Management Board members came to EUR 1,004 thousand (previous year EUR 992 thousand).

The following table shows the Management Board remuneration received:

	Dr Thomas Kneip since January 1, 2014		Dr Christoph Traxler since April 1, 2004		Bernhard Pawlik since April 1, 2018	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Fixed salary	330	320	340	330	193	-
Fringe benefits	19	22	10	10	12	-
Total	**349**	**342**	**350**	**340**	**205**	**-**
One-year variable remuneration	229	235	177	182	0	-
Multi-year variable remuneration:						
- Stock option (PY 2011-2017)[1]	0	0	0	196	0	-
- LTI programme 2014	9	15	11	18	0	-
- LTI programme 2015	12	0	12	0	0	
Total	**250**	**250**	**200**	**396**	**0**	**-**
Pension benefits	0	0	0	0	0	-
Total remuneration	**599**	**592**	**550**	**736**	**205**	**-**

[1] The first two years of the term are restricted, i.e. options may not be exercised during this period.

At December 31, 2018 neither the Management Board nor the Supervisory Board holds stock options.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is regulated by Section 18 of the Articles of Association of CENTROTEC Sustainable AG and was last adjusted at the Annual General Meeting on May 20, 2014. As well as reimbursement of their out-of-pocket expenses, the members of the Supervisory Board receive a fixed annual remuneration, a variable performance-related remuneration and also attendance fees. The fixed remuneration amounts to EUR 20 thousand per member of the Supervisory Board for each full year of service. The Chairman receives double and the Deputy Chairman one and a half times the amount that is due to a member of the

Supervisory Board. This remuneration of members of the Supervisory Board of CENTROTEC Sustainable AG consequently amounted to EUR 90 thousand in the past financial year (previous year EUR 90 thousand). In addition other expenses amounting to EUR 65 thousand (previous year EUR 14 thousand) were claimed, in particular for travel as well as costs for the appointment and introduction of the new Supervisory Board member Andreas von Maltzan, who was appointed member of the Supervisory Board with effect from July 1, 2018 and until the next Annual General Meeting in the place of the late Dr Heiss. The statutory level of sales tax due on this remuneration is furthermore paid by the company to the extent that it is billed by a Supervisory Board member. No separate remuneration is paid for service on committees, because the three-member Supervisory Board of CENTROTEC Sustainable AG does not form separate sub-committees in view of its size. By way of variable and performance-related remuneration, in accordance with the Articles of Association, each member of the Supervisory Board receives remuneration amounting to 0.1 % of the dividend payable for a given financial year. Like the fixed basic remuneration, this dividend-dependent remuneration is double the amount received by an ordinary Supervisory Board member in the case of the Chairman, and one and a half times in the case of the Deputy Chairman. In the 2018 financial year the total amount of this remuneration came to EUR 22 thousand (previous year EUR 24 thousand). The attendance fees granted for each Supervisory Board meeting have the basic amount of EUR 2 thousand. The Supervisory Board Chairman receives double this basic amount, and the Deputy Chairman one and a half times. Attendance fees totalling EUR 42 thousand (previous year EUR 81 thousand) were paid to the Supervisory Board in the year under review.

The remuneration for the individual members of the Supervisory Board for the 2018 financial year was as shown below (individualised disclosures):

Figures in EUR ’000	**Basic remuneration**	**Attendance fees**	**Dividend share**	**Other expenses**	**Total**	**Previous year**
Supervisory Board members in office at December 31, 2018						
Guido A Krass	40	20	9	51	**120**	96
Andreas Freiherr von Maltzan	15	6	4	11	**36**	0
Mag. Christian C Pochtler	20	10	5	3	**38**	47
Former Supervisory Board members						
Dr Bernhard Heiss	15	6	4	0	**25**	66
Total amount	**90**	**42**	**22**	**65**	**219**	**209**

Shares

The market environment

After six years of growth, 2018 was the first year in which almost all indices worldwide declined, in some cases markedly so. These price losses ranged between three and 25 percent. Of the German indices the SDAX, which had mostly been among the big winners in previous years, exhibited the highest price losses in the 2018 financial year, at over 20 percent.

Share price performance

The characterising developments for CENTROTEC shares in the stock market year of 2018 were an opening price of EUR 15.50 followed soon after by a year-high of EUR 15.88 in early January, then a decline in the trading price to the year-low of EUR 10.10 in December. At the end of the year the trading price then recovered to the year-end level of EUR 11.44. CENTROTEC shares consequently shed 26 % in value over the course of the year, and thus slightly more than the SDAX that is widely considered to be its benchmark index. The volatility of the shares in 2018 was at a comparable level to the previous year.

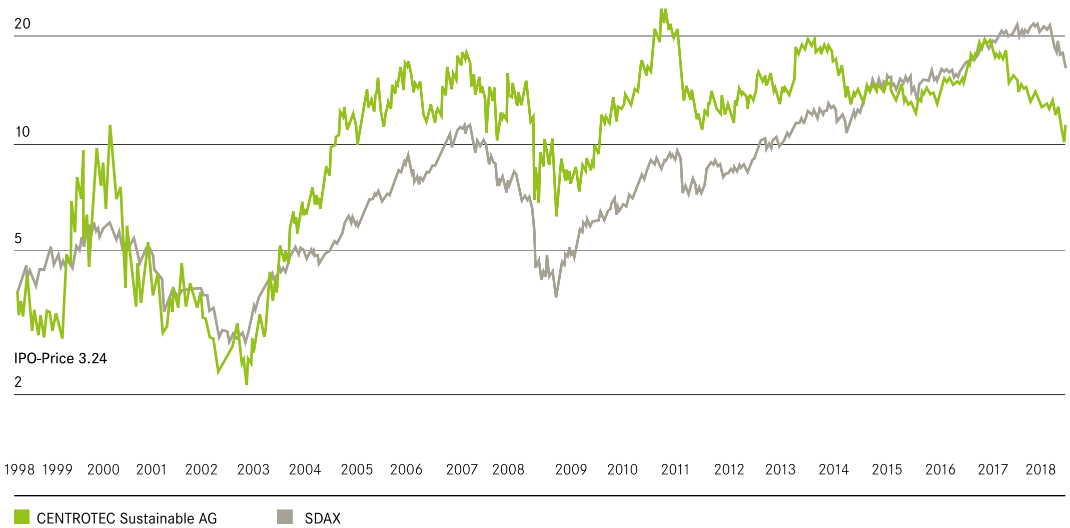
After the end of the period under review and up to mid-March 2019 the trading price of CENTROTEC shares showed a sideways trend.

Share price 2018

[in EUR]

Share price since IPO

[in EUR]

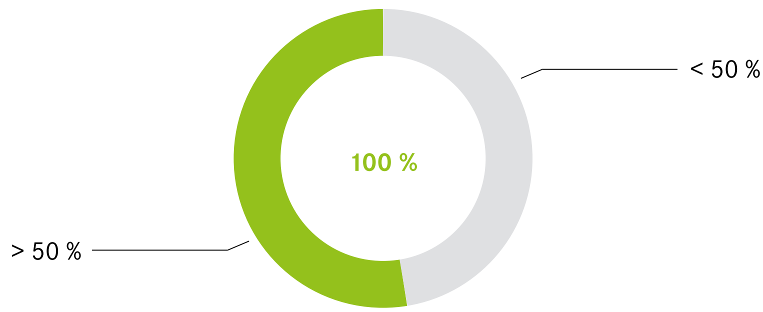


Share statistics

Since the initial public offering in 1998 the shares of CENTROTEC Sustainable AG have been listed at Deutsche Börse under securities identification number WKN 540 750, the international number ISIN DE0005407506 and the stock exchange code CEV. The shares are listed in the Prime All Share and other subindices of the German Share Index (DAX).

The capital stock of CENTROTEC Sustainable AG at December 31, 2018 amounted to EUR 18,020,923, divided into 18,020,923 no par value bearer ordinary shares, each representing an arithmetical nominal share of EUR 1 of the capital stock. There was no change in the number of shares compared with the previous year. However CENTROTEC holds 1,764,470 treasury shares as a result of the share buyback programme conducted in mid-2018. This stock carries neither voting rights at the Annual General Meeting nor dividend rights. All the remaining 16,256,453 shares carry full voting and dividend rights. No shares from the CENTROTEC stock options scheme were exercised in the period under review and no new stock options were offered prospectively or granted. Nor is any further exercising of options from the stock options schemes expected in the coming years. For further particulars of the number of shares and the stock options scheme, please refer to Section 10 of the Notes, under "Shareholder's equity".

Shareholder structure
[in %]



Krass family
Free float

CENTROTEC intends to pay an unchanged dividend for the past financial year. The Management Board, with the consent of the Supervisory Board, will propose to the Annual General Meeting on June 6, 2019 that a dividend of EUR 0.30 per dividend-bearing no par value share be distributed for the 2018 financial year (previous year EUR 0.30). This move is designed to allow the shareholders to continue sharing directly in the Group's fundamentally positive development. However in keeping with the successful past practice, the bulk of the Group's available profits will continue to be invested in further organic, acquisition-led growth.

All prices quoted from XETRA trading	2014	2015	2016	2017	2018
Total shares at Dec 31, '000 (units)	17,647	17,733	17,892	18,021	18,021
Capital stock at Dec 31, EUR	17,647	17,733	17,892	18,021	18,021
Market capitalisation at Dec 31, EUR million	252.0	234.3	273.6	279	206.2
Year-end price, EUR	14.28	13.21	15.29	15.47	11.44
Year-low, EUR	12.91	12.85	11.56	14.83	10.10
Year-high, EUR	20.20	15.25	15.60	19.79	15.88
Daily trading volume average in '000 (units)	27.3	28.3	14.0	23.8	20.8
Earnings per share, EUR	1.00	1.18	1.21	1.13	0.74
Dividend per share	0.20	0.25	0.30	0.30	0.30
Price-to-earnings ratio at Dec 31	14.3	11.2	12.6	13.7	15.5

Since the IPO in 1998 the family of Supervisory Board Chairman Guido A Krass has remained the principal shareholder of CENTROTEC with a holding of more than 50 % to the best of the company's knowledge. Over and above that, the company has no indication that there are other shareholders with interests that run into double figures. A number of notices that investors' holdings had fallen below or exceeded the reporting thresholds pursuant to Section 26 (1) of German Securities Trading Act were received in 2018. The thresholds in question were the 3 % and 5 % thresholds. Detailed information on this topic is available on the website of CENTROTEC Sustainable AG (www.centrotec.de). Information on changes in the voting rights held is also provided in the Notes, under "Other particulars". All shares outstanding are not subject to any restrictions with regard to transferability and voting rights.

In the year under review of 2018 a combined total of 5.4 million CENTROTEC shares were traded on all German stock exchanges combined, and therefore slightly fewer than in the previous year (5.9 million shares). The trading volume amounted to EUR 73 million because of the lower average prices over the year, down from EUR 102 million in the previous year. The average daily trading volume was consequently 20,800 shares or EUR 290 thousand (previous year 23,400 shares or EUR 408 thousand). The proportion of the total German trading volume processed via XETRA climbed significantly to 95 % (previous year 86 %).

Investor relations

CENTROTEC maintains open, prompt and reliable communications with interested financial market participants in an effort to do justice to the confidence that investors show in the company. The transparency guidelines required by law, such as the German Securities Trading Act, the German Stock Corporation Act, the Market Abuse Regulation (MAR), the additional post-admission obligations of Deutsche Börse and the national and international accounting standards including IFRS (International Financial Reporting Standard) and the German Commercial Code, as well as the rules of the Corporate Governance Code, represent a minimum standard that has become steadily more demanding in recent years.

CENTROTEC again maintained direct contact with various financial market participants in 2018 at a large number of telephone conferences, at individual roadshows and at the Annual General Meeting. A large number of one-to-one and group talks were moreover held at the German Equity Forum in Frankfurt. Finally, the Investor Relations area posted the latest information on the homepage of the Group website, and was available throughout to handle enquiries by phone, correspondence or electronic means.

CENTROTEC's performance is monitored by analysts from the following financial institutions:

Coverage

Hauck & Aufhäuser	M.M.Warburg
HSBC	Montega

CENTROTEC regularly posts the core statements from their analyses on the Group homepage soon after their publication.

System supplier for air handling units and combined heat and power solutions

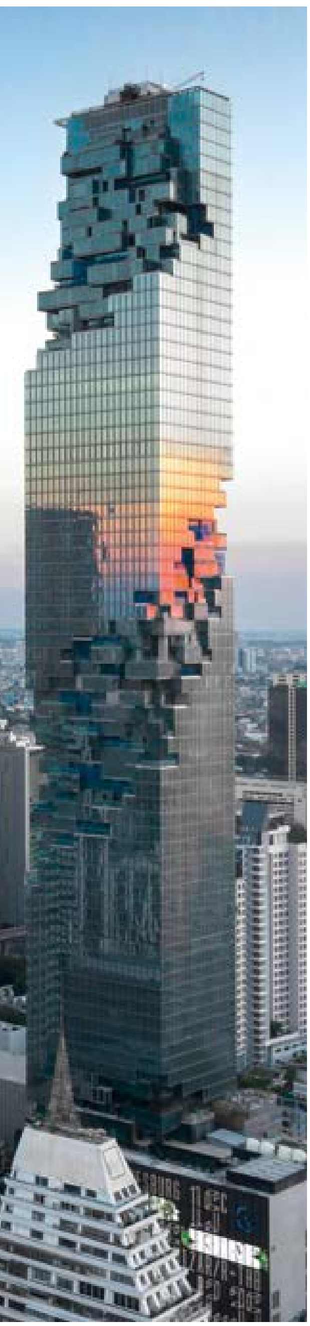
COMMERCIAL BUILDINGS

Ultra-efficient climate control solutions of Wolf create a healthy interior climate. Through heat recovery, they significantly help to save energy and cut heating energy requirements and CO_2 emissions.

Combined heat and power plants (CHP) of Wolf form the basis for energy-efficient and non-central generation of power and heat by means of co-generation at the point of use. Energy sources thus achieve an overall energy efficiency of up to 90 %.

1 ***Wolf large-scale air handling unit***

2 ***Wolf combined heat and power system***

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Group Management Report

Business and underlying situation

Overview

The CENTROTEC Group – hereinafter also referred to as CENTROTEC – is Europe's only listed full-service supplier of heating and climate control technology for buildings. The product range encompasses mainly system solutions for the areas of heating, ventilation and climate control technology, as well as solar thermal, heat pump technology and co-generation. It supplies and optimises solutions both for the new-build sector and also for the steadily growing renovation market.

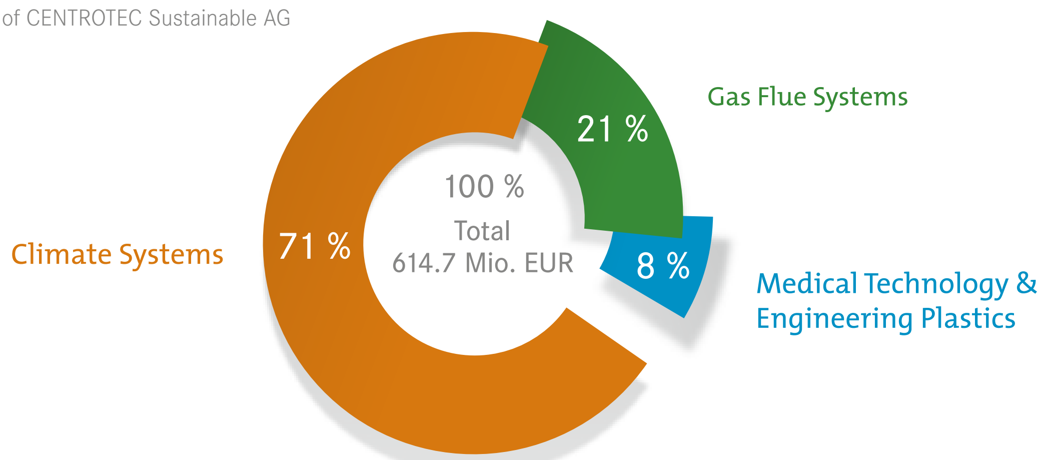
CENTROTEC enjoys a presence in over 50 different countries through subsidiaries and sales partners. Its thirteen production plants are located predominantly in Europe. At December 31, 2018 the Group employed almost 3,000 employees at locations in Europe, North America and Asia. Between them, they generated total revenue of EUR 615 million in 2018, with the German market contributing 52 % of this amount.

Group structure

The business operations of the CENTROTEC Group are divided into three segments. The largest segment in revenue terms, Climate Systems, along with the Gas Flue Systems segment, constitutes the core business area with its energy-saving, sustainable heating and climate control technology for buildings. There is considerable overlap between the customer groups and application scenarios served, but the products differ. Climate Systems focuses on active equipment and complete systems, while the companies in the Gas Flue Systems segment concentrate on accessories. The third segment Medical Technology & Engineering Plastics, which is the smallest by revenue, develops, produces and sells medical technology solutions and engineering plastics.

CENTROTEC Sustainable AG with its registered office in Brilon, Germany, acts as the listed holding company for all subsidiaries and supports them in the strategic, financial and administrative areas. All operating activities in the product markets are handled via the subsidiaries. The major companies for core business are Wolf GmbH and Brink Climate Systems B.V. (Climate Systems segment) as well as Ubbink B.V. and Centrotherm Systemtechnik GmbH (Gas Flue Systems segment). These companies have their own subsidiaries in Germany and internationally. Möller Medical GmbH is the largest company in the Medical Technology & Engineering Plastics segment.

Net sales by segment
of CENTROTEC Sustainable AG



Business activities

Business areas

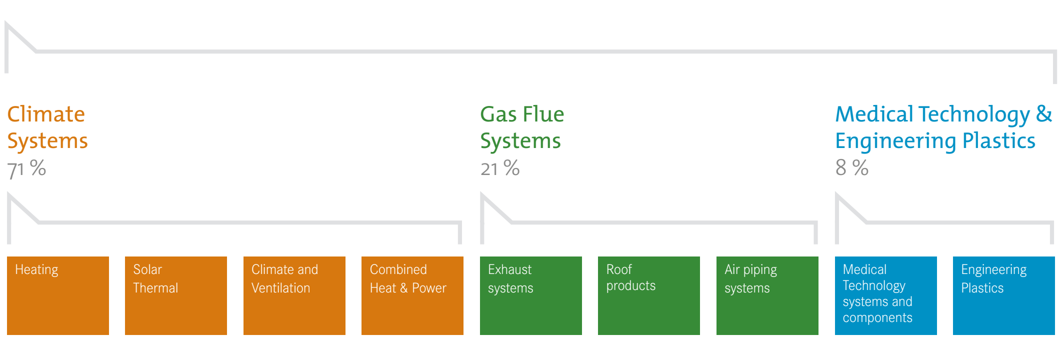
The companies brought together under the umbrella of the **Climate Systems** segment provide a healthy interior climate in all kinds of buildings. To that end, they develop, produce and sell a comprehensive portfolio of heating, climate control and ventilation systems. The heating systems made by Wolf GmbH and its subsidiaries focus mainly on modern condensing boilers for oil and gas-fired heating systems, as well as various systems for the use of renewable energies and for co-generation. In addition, the company offers an extensive range of solutions for climate control in commercial buildings. The Dutch company Brink Climate Systems B.V. has specialised in air heating systems, but especially the growing market segment of home ventilation systems with heat recovery. The major production locations of this segment are situated in Germany, the Netherlands and Croatia. Sales activities in the core markets are handled by Group-owned sales and service offices, and focus increasingly on products purpose-designed for these markets. In many other countries, there are also agreements with sales partners, some of which act as CENTROTEC's exclusive local representatives. The sales channels vary according to product type and sales market. In the case of heating systems, orders are processed mainly via wholesalers. The existing good, direct links with the trade are nevertheless crucial to market success. Meanwhile architects and planners are usually the key contacts in the climate control area.

The **Gas Flue Systems** segment specialises mainly in the areas of gas flue systems for condensing boilers and air piping systems for home ventilation with heat recovery, through the companies Ubbink B.V. and Centrotherm Systemtechnik GmbH. The passive systems developed and manufactured by this segment often serve as complementary components to the active systems made by the Climate Systems segment. In this segment, too, the main production locations are in Germany and the Netherlands. Components are also produced at the locations in the USA and China. There is moreover a pan-European and increasingly worldwide network of local sales subsidiaries. Depending on product group, sales are channelled either via the wholesale trade or directly to other manufacturers of heating and ventilation systems.

The **Medical Technology & Engineering Plastics** segment manufactures medical technology solutions and engineering plastics at locations in Germany and Denmark, for sale internationally.

Business fields

of CENTROTEC Sustainable AG



Management and governance

The management and governance structure of CENTROTEC Sustainable AG and the Group is based on the requirements of the Corporate Governance Code and the German Stock Corporation Act. The Supervisory Board is elected and overseen by the Annual General Meeting, and advises the Management Board on the operational management of the entire Group. Since 2014, the Management Board had comprised two members of equal status. An additional member was appointed to the Management Board in April 2018. Targets are drawn up for the individual companies at annual budget negotiations, with the involvement of the Management Board. These then serve as the basis for defining individual targets for Management Board members, managing directors and executive staff, and for establishing their variable pay components.

CENTROTEC's corporate philosophy is fundamentally based on granting considerable entrepreneurial freedom to the individual operating units as well as to employees and executive staff. This approach enables the operating subsidiaries to act in a swift, innovative and market-led way, which enhances their appeal as employers. However in recent years the Group has also been actively promoting the use of synergies between the individual companies; this remains a focus of its strategy, while not signalling a departure from the fundamentally non-central corporate philosophy.

The Group-wide planning and budgeting system, along with the risk management system which was steadily refined in recent years, serves as the basis for the operational management of the Group. This is accomplished with the help of operational management indicators that are considered on a weekly, monthly or quarterly basis as target/actual and year-on-year comparisons. The revenue and the operating result (EBIT) are of particular help here, especially for the management of the segments. In addition, other indicators that shed light on liquidity, net working capital and the financial situation are used (please refer also to the relevant tables in the economic report below). These indicators are explained and evaluated in regular discussions held at various levels. They allow departures from the targets and changes in the general parameters to be identified early on so that appropriate corrective action can be taken. Furthermore, the ongoing programmes to improve efficiency and cut costs play a fundamental part in setting up the organisation and processes to address the challenges presented by target markets that are changing ever more rapidly.

Corporate Governance Statement pursuant to Section 289f of German Commercial Code and Section 315d of German Commercial Code

The Corporate Governance Statement to be submitted pursuant to Section 289f of the German Commercial Code (HGB) and the Corporate Governance Report published by the company annually can be found on the website of the CENTROTEC Group, under Investor Relations.

Pursuant to Section 317 (2) sixth sentence of HGB, the disclosures pursuant to Section 289f of HGB do not fall within the scope of the review by the company's auditors.

Remuneration report

The remuneration report summarises the principles that are applied in determining the overall remuneration of the members of the Board of Management of CENTROTEC Sustainable AG, and explains the structure and level of the Management Board members' remuneration. It furthermore describes the principles for and level of the Supervisory Board members' remuneration. The remuneration report is a component of the Group Management Report. It can be found on pages 24 to 27 of this Annual Report.

People at CENTROTEC

The people who work for the CENTROTEC Group are a major success factor in the ongoing development of the individual companies and the Group. Keeping its employees motivated and continuing to encourage them is central to the corporate philosophy. This approach is substantiated by the Group guidelines, which advocate social responsibility, entrepreneurial action and sustainable action coupled with absolute integrity. These fundamental principles are put into practice in the individual entities in a variety of ways which reflect the existence of diverse corporate cultures at the companies that have been brought into the Group through past acquisitions. To accompany the fundamentally high level of freedom given to the operating units and individual employees, there is a Group-wide system of targets which, specifically at management level, forms an important part of the performance-based management, pay and incentives system of the Group and its member companies.

An apprentices quota of 4 % as well as the growing number of individually tailored working hours models and other company-specific arrangements are evidence of how the companies of the CENTROTEC Group focus strongly on personnel development and employee loyalty. In addition, the groundwork for the continued development of the Group in that domain was performed in the period under review.

At the end of the 2018 financial year the comprehensively consolidated companies of the CENTROTEC Group had a total of 3,081 employees (previous year 2,990 employees). This figure included 156 temporary workers (previous year 153). Expressed as full-time equivalents (FTE) the figure was 2,962 (including 130 FTE temporary workers; previous year 2,878 FTE, including 123 FTE temporary workers). As an average for the year, the CENTROTEC Group employed 3,067 (previous year 3,407) people. This corresponded to 2,962 full-time equivalents (previous year 3,277 FTE).

The reorganisation carried out in 2017 shifted the emphasis of personnel expenses towards purchased services. As a result, personnel expenses for the CENTROTEC Group declined by 5.6 % in 2018 to EUR 174.0 million (previous year EUR 184.4 million). Including the higher costs of temporary workers, the personnel expenses ratio thus fell to 29.5 % (previous year EUR 32.1 %).

Research and development

CENTROTEC treats research and development (R&D) as a high priority. In keeping with the corporate philosophy, this area is organised non-centrally and is therefore based at the individual production locations. As a result of the growing convergence of the individual systems into complex all-in solutions, cooperation is becoming increasingly common in this area, too, including to some extent across the segments.

The non-central structure allows changing customer requirements or new regulatory controls to be optimally reflected at the product development stage. The various development projects are taken forward in close consultation with the Sales area and address the requirements of the individual national companies. Alongside gradually improving energy efficiency, a priority of R&D work is to increase convenience of installation and operation as well as to use digital solutions in the growing convergence of subsystems into overarching systems that span the areas of heating, ventilation and climate control for buildings.

The dominant trend in the Central European new-build market towards using environment-friendly heat pumps for heat generation has substantially influenced the direction of development activities in the **Climate Systems** segment. Technical solutions based on efficient inverter technologies and climate-friendly refrigerants were developed for this purpose and made available for products that will appear in the future.

Another priority is to bring the product range in line with the Chinese market. To that end, necessary technical adjustments were made to various product series and the integral control system was prepared for digital communication in the Chinese data environment.

In the climate control technology product area, the product range was energy-optimised to satisfy tougher European legislation and expanded with the aim of achieving greater integration of control engineering system components.

In 2018 significant product developments brought to technical completion or market readiness included the following:

- New high-efficiency, environment-friendly monobloc air/water heat pumps
- A series of wall-mounted non-condensing gas boilers developed specially for the Chinese residential market
- New generation of an oil condensing boiler series in the performance range up to 40 kW
- New generation of high-efficiency, low-noise central home ventilation appliances with heat recovery
- Addition of high air volumes up to 20,000 m^3/h to performance spectrum of compact air handling units with rotary heat exchanger

In the **Gas Flue Systems** segment, the product portfolio was expanded in the area of building services engineering solutions in the year under review and products specifically for roof applications were made market-ready. This reflects the strategic goal of reducing dependence on business with gas flue ducting systems. In addition, the solutions for air piping and gas flue ducting were steadily aligned with the requirements of major European suppliers whose custom was recently secured, and similar adjustments were also made for the non-European market.

In the **Medical Technology & Engineering Plastics** segment, the expertise available in the Engineering Plastics area was exploited to develop functional plastics for a variety of applications. In the Medical Technology area, activities in the past year of 2018 focused on bringing out new versions of the established liposuction unit. The main product in this area, including its control console, underwent a full redevelopment. At the same time the accompanying portfolio of cannulae was significantly broadened. There were also significant development activities in the biopsy, urology and liquid handling areas.

The CENTROTEC Group employed a total of 158 employees/FTE (previous year 156 employees/FTE) on research and development projects in the 2018 financial year; this area accounted for expenditure – including where recognised as an asset – of EUR 17.9 million (previous year EUR 16.8 million).

Sustainability

With regard to sustainability, we refer here to the separate Non-Financial Group Report, which is published in the Annual Report of CENTROTEC from page 13.

Systems supplier for collective flue and heating systems

APARTMENT BUILDINGS

Centrotherm and Ubbink have developed collective flue systems that enable multiple-floor connections to one common vertical flue exhaust liner. Other collective flue solutions include in-cascade installations where several centrally installed heating systems again share one common flue exhaust liner.

Large heating capacities of several 1000 kW are covered by the Wolf medium and large boiler series.

1 ***Multiple floor solutions for de-central heating purposes***

2 ***In-cascade heating installation, including flue solution***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Economic report

Overview

The CENTROTEC Group increased its revenue by 3.5 % to EUR 614.7 million in the 2018 financial year (previous year EUR 594.2 million). Based on this organic revenue growth, the operating result (EBIT) rose by a slightly overproportional 3.8 % to EUR 30.4 million (previous year EUR 29.3 million). This meant that the targets communicated to the capital market for 2018 were achieved. However the net result was held back by a weak investment result. The share buyback programme conducted in the first half of 2018 reduced the net financial position to EUR -21.0 million (previous year EUR 13.0 million) and the equity ratio fell to 42.2 % (previous year 44.4 %). The cash flow from operating activities rose to EUR 38.2 million (previous year EUR 31.6 million).

Business performance

The industry-specific seasonal pattern to the core business of the CENTROTEC Group, with a marked rise in revenue in the second half of the year, was fundamentally in evidence again in 2018. Due to the very warm September, the start of the heating season was delayed and the third quarter fell somewhat short of expectations in terms of revenue and earnings. However both revenue and earnings largely caught up in the fourth quarter.

Economic environment

The markets in which the CENTROTEC Group conducts its core business are influenced mainly by construction activity, energy prices and regulatory requirements on the energy efficiency of buildings. From a Group perspective the development of the renovation market is of greater significance than that of the new-build market.

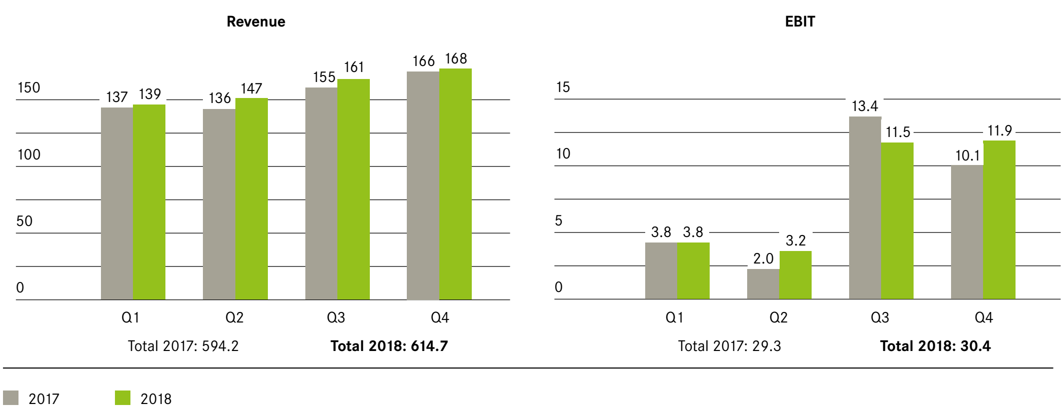
The 2018 financial year saw construction activity put in a positive performance right across the board in the markets that are important for CENTROTEC. For Europe, the industry federation EUROCONSTRUCT indicates real growth figures of 2.8 % for 2018 (previous year 4.1 %). The broad-based growth of 2017 consequently continued in 2018 with reduced growth rates. The core market Germany exhibited a similar development.

Energy-related modernisation of buildings as a share of this activity more or less tracks the movement in energy prices. That is true of private, but especially commercial, customers.

With energy prices already having shown slight upward movement in 2017 after several years of declining prices, this development fundamentally continued in 2018. However the trend was reversed temporarily at the end of the year, so while crude oil prices for example averaging USD 70 over the year were well above the prior-year figure of USD 55, they fell below the benchmark figure at the end of the year. There has been a similar development in heating oil prices in Germany in the past two years. Although the gas price development has been fundamentally decoupled from the oil price for a number

Quarterly Revenue and EBIT Development 2017 - 2018

[in million EUR]



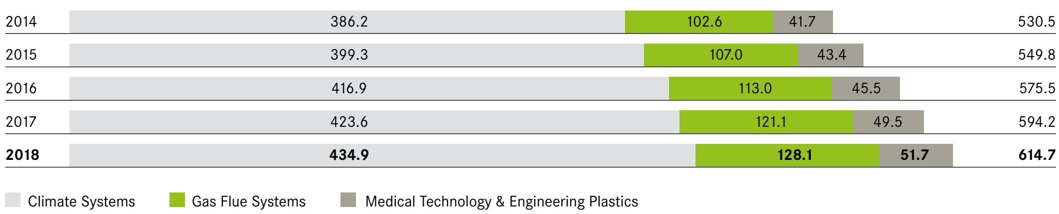
of years, it exhibits similar characteristics with something of a time lag. The long-term decline in end customer prices for natural gas came to a halt in 2018, with prices stabilising and then edging up from mid-way through the year.

The markets for heating and climate control technology showed a fundamentally positive development in most relevant countries for CENTROTEC, as was the case in the previous year. Volume growth was registered in almost all markets throughout Europe. The German heating market that is still especially important for the Group companies grew by around 3 %, supported by new construction business. This development is also highlighted by renewed overproportional growth in heat pumps, which are used principally in new buildings. There was also growth for gas condensing technology, whereas the solar thermal area again contracted further. Business for combined heat and power technology, too, continued to suffer badly from regulatory uncertainty specifically in Germany in 2018. These fundamental developments could be observed throughout Europe in 2018 with some regional variations. In China, the continuing economic slowdown as well as changed regulatory conditions were reflected in the decline in the retail market that is more readily accessible to importing manufacturers. The markets for climate control and ventilation technology in Europe showed a mixed performance depending on product group, but were fundamentally positive.

The activities of the companies in the Medical Technology & Engineering Plastics segment take place in predominantly highly fragmented markets for which no comprehensive market information is available. The market for medical technology fundamentally exhibits a stable long-term growth trend that is being supported by demographic change.

REVENUE BY SEGMENT

[in EUR million]



Financial performance

Revenue

CENTROTEC took its Group-wide revenue past the EUR 600 million mark for the first time in 2018, with 3.5 % growth to a total of EUR 614.7 million (previous year EUR 594.2 million). The export share of total revenue showed another rise to now 48 % (previous year 47 %). However Germany remains by far the most important national market with a revenue share of 52 % (previous year 53 %), followed by the Netherlands and France with eleven and eight percent. The next markets in terms of volume, such as Austria, Spain, Belgium, Italy, Russia, the USA and increasingly China, all account for revenue shares of less than four percent. In the period under review, the especially relevant markets France, the Netherlands, Spain, Russia and China achieved the biggest growth rates.

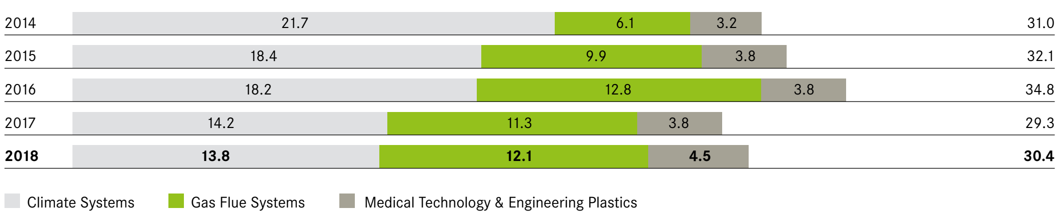
- In the **Climate Systems** segment, CENTROTEC companies achieved revenue growth of 2.7 % to EUR 434.9 million (previous year EUR 423.6 million). This growth is based both on expansion in the German market, where the measures launched in 2017 to increase the market position in the heating market started to bite, and on international business. Both product areas – heating and climate control technology – achieved growth. Merely the area of combined heat and power technology experienced a marked downturn in revenue due to still-unresolved regulatory issues. The positive performance of the Dutch subsidiary Brink meant that the biggest growth rates outside Germany were achieved in the Netherlands. Other international markets with above-average growth were Spain, Russia, Poland, France and China.

- The **Gas Flue Systems** segment experienced a rise of 5.8 % in revenue in 2018, to EUR 128.1 million (previous year EUR 121.1 million), the strongest revenue growth of the three corporate segments. All major product areas, such as gas flue ducting and air piping as well as the roof products, again grew in 2018. Easily the highest growth rates were achieved in the French and Dutch markets that are especially relevant for the companies in the segment.

- The CENTROTEC companies in the **Medical Technology & Engineering Plastics** segment achieved a renewed rise in revenue in 2018. The 4.4 % growth to EUR 51.7 million (previous year EUR 49.5 million) took the segment across the EUR 50 million threshold for the first time. Both Medical Technology and the Engineering Plastics area contributed to this growth. Alongside revenue from the still very important home market Germany, the revenue figures in the USA and Asia rose overproportionally.

EBIT BY SEGMENT

[in EUR million]



Earnings

Alongside revenue from the still very important home market Germany, the revenue figures in the USA and Asia rose overproportionally. Despite the slight fall in the volume of depreciation and amortisation, EBIT (earnings before interest and taxes) went up by 3.8 % to EUR 30.4 million (previous year EUR 29.3 million). The EBIT margin at Group level was consequently at the previous year's level of 4.9 % as a result of revenue growth. In the three corporate segments, the EBIT margin ranged between 3.2 and 9.5 %, and therefore across a similar bandwidth as in the previous year (3.4 to 9.3 %). Organisational changes implemented in the course of 2017 led to a shift away from personnel expenses and towards purchased services, which are included in the cost of materials, in the amount of approx. EUR 27.4 million (previous year EUR 5.5 million). As a result, the personnel and materials ratio offers only limited scope for comparison with the prior-year figure.

- In the **Climate Systems** segment, EBIT of EUR 13.8 million was 3.0 % below the prior-year figure of EUR 14.2 million and the EBIT margin, based on higher revenue, declined to 3.2 % (previous year 3.4 %). The development in the area of combined heat and power units that fell well short of expectations clearly impacted the result for the segment. The purchased materials ratio of 48.3 % from a segment perspective remained on a par with the previous year. On the other hand the personnel expenses ratio rose to 32.9 % (previous year 32.0 %) as a result of the additional activities to expand domestic and international business as well as the collectively negotiated pay increases.

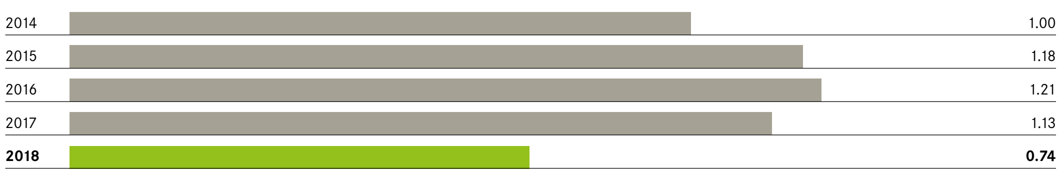
- EBIT for the **Gas Flue Systems** segment reached EUR 12.1 million in 2018 with 7.3 % growth, up from EUR 11.3 million in the previous year. This growth stems from the positive effects of a renewed rise in revenue and the ongoing optimisation of all operational processes. This development has been further underpinned by a slightly reduced volume of depreciation and amortisation.

- In the **Medical Technology & Engineering Plastics** segment, EBIT was increased by 18.0 % to EUR 4.5 million (previous year EUR 3.8 million), with slightly higher depreciation and amortisation. The Medical Technology area made the biggest contribution to this overproportional rise in earnings relative to revenue. The profit contribution of the Engineering Plastics area, too, was up in 2018.

The financial result of the CENTROTEC Group deteriorated to an overall EUR -11.2 million (previous year EUR -0.3 million) due to the poorer net interest and the negative returns from the current investments amounting to EUR -7.0 million (previous year EUR +3.0 million). Especially in the month of December, there was a marked and overwhelmingly unrealised decline in the value of the investments amounting to EUR 2.3 million;

EPS*

[in EUR]



* Earnings per share

the value then almost entirely recovered in January and February 2019, but weighed on the financial result at the reporting date. Earnings before taxes (EBT) thus fell from EUR 29.0 million to EUR 19.2 million. Because there was only partial tax recognition of the negative impact from the current investments, the effective tax rate rose to 34.1 % (previous year 28.2 %). Earnings after tax (EAT) consequently came to EUR 12.7 million (previous year EUR 20.8 million). As a result of the share buyback programme conducted in 2018, the number of dividend-bearing shares declined. Undiluted earnings per share (EPS) came to EUR 0.74 (previous year EUR 1.13).

Net worth and financial position

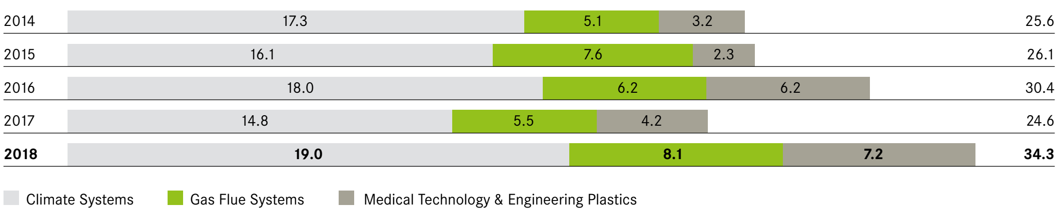
Principles and aims of financial management

Financial management within the CENTROTEC Group is designed to secure the company's long-term future. It seeks to uphold the interests and entitlements of the employees, owners, other lenders and other stakeholders. In addition, the aim is to assure a capital and risk structure that supports the pursuit of the corporate objective of sustainable, profitable growth. This means ensuring that not only are there adequate liquid funds available to the Group companies to finance organic growth, but also that the company enjoys access to adequate financial resources whenever it wishes to seize suitable opportunities for external growth. Financing has until now taken place predominantly at the level of the subsidiaries: in keeping with CENTROTEC's corporate philosophy, whenever it has raised borrowed capital it has given preference to ring-fenced structures for the assets and companies to be financed. In 2017, the favourable financing situation was moreover used to secure long-term financing on attractive terms for the Group, at the level of the holding company, by means of a promissory note loan for EUR 90 million. The promissory note loan from August 2017 provides for a right to terminate in the event of a change of control. Overall, the company consequently has adequate financial resources at its disposal for operational and external growth.

The CENTROTEC holding company is financed by charging for the services it provides, and also by dividends from subsidiaries as well as by external financing.

Investment

[in EUR million (without acquisitions)]



Acquisitions and divestments

The final outstanding 20 % of the long-established US subsidiary Centrotherm Eco Systems, LLC in Albany, USA, was acquired in the 2018 financial year. In addition a business unit with a small team was created in Berlin for the development of new digital business models. Finally, a Chinese subsidiary was established to set up a production site for supplying the local market.

Investment

The objective of the companies of the CENTROTEC Group is to use investment so that the modern, highly efficient development, production, logistics, sales and administrative units are able to access further growth opportunities and actively to realise these.

To that end, the companies of the CENTROTEC Group invested a total of EUR 34.3 million in property plant and equipment and intangible assets in the 2018 financial year, up EUR 9.7 million or 39.5 % on the previous year (EUR 24.6 million). The investment volume consequently exceeded the volume of depreciation and amortisation by EUR 10.2 million. The investment volume rose substantially in all three segments. This rise is largely attributable to several building extensions and modernisation work on the production infrastructure in all three segments. Investment in product development is the other significant driver of this development.

In the **Climate Systems** segment, the investment volume of EUR 19.0 million in 2018 was 28.2 % above the prior-year figure of EUR 14.8 million. In this segment, the investment emphasis was on developing new products or adapting existing products to new markets and new market requirements. In addition, as in previous years the modernisation of the production infrastructure played a major role. There were no individual investments in the Climate Systems segment with a total volume in excess of one million euros in the period under review.

The investment volume in the **Gas Flue Systems** segment came to EUR 8.1 million in 2018, a rise of 47.2 % on the prior-year figure of EUR 5.5 million. The emphasis of investment in this segment was on the construction work to extend the Dutch production location. This investment project, with a volume of over two million euros, was also the biggest single investment of the CENTROTEC Group in the period under review. Other quite substantial investments involved the expansion and modernisation of the IT environment as well as the modernisation of the production infrastructure, without any other single investment exceeding the threshold of one million euros.

Key financial figures

[EUR million]	2018	2017
Balance sheet total	568.2	580.5
Non-current assets	261.3	244.3
(of which goodwill))	77.3	77.3
Shareholders' equity	239.5	257.5
Equity ratio (percent)	42.2	44.4
Net financial position (percent)*	(21.0)	13.0
Net Working Capital**	70.1	70.3

* Cash and cash equivalents + current investments – current and non-current borrowings

** Current assets – cash and cash equivalents – current investments – current, non-interest-bearing borrowed capital

In the **Medical Technology & Engineering Plastics** segment, investment spending was increased by 68.7 % in the period under review to EUR 7.2 million (previous year EUR 4.2 million). In this segment too, the construction of a new building at the Danish production location with a volume of just under two million euros is by far the largest single investment. Other significant investments were made in the Medical Technology area, above all for the product development and modernisation of the production infrastructure.

Balance sheet structure

At December 31, 2018 the balance sheet total of the CENTROTEC Group was EUR 568.2 million. This meant the balance sheet contracted by 2.1 % compared with the end of fiscal 2017.

The biggest change on the assets side of the CENTROTEC balance sheet is the reduction in the level of other current assets by EUR 26.3 million as a result of regroupings of unrealised value losses and disposals. The intangible assets increased as a result of capitalised software and development services rendered. The net level of deferred taxes rose on both the assets and liabilities sides as a result of more limited scope for netting in the financial statements. There were further significant rises on the assets side within property plant and equipment and the increased level of inventories due to growth and reporting date effects.

On the equity and liabilities side the gains realised increased the other reserves and the profit carryforward, but equity and liabilities as a whole were lower by EUR 25.4 million because of the share buyback programme and the treasury stock now held. This reduced shareholders' equity by EUR 18.0 million to EUR 239.5 million, corresponding to a slight fall in the equity ratio to 42.2 % (previous year 44.4 %).

Financing

At December 31, 2018 the borrowings of the CENTROTEC Group amounted to EUR 168.9 million, slightly below the prior-year figure of EUR 171.0 million despite the share buyback programme conducted in the period under review. Taking into account cash and cash equivalents as well as attributable current investments, the net financial position came to EUR -21.0 million (previous year EUR +13.0 million).

That aside, there were only minor changes in the financing structure of the CENTROTEC Group.

The reported financial debt was made up as follows at the balance sheet date:

Financial key figures Borrowings maturities schedule as of 31/12/2018 [in EUR '000]	Total outstanding amount	Of which maturity less than 1 year	Of which maturity 1 to 5 years	Of which maturity over 5 years	Interest rate spread
Real estate loans	51,768	3,798	12,954	35,016	1.4 – 5.4 %
Other loans	98,461	2,358	5,082	91,021	1.3 – 5.3 %
General credit facilities	16,187	16,187	0	0	0.6 – 6.3 %
Borrowings excluding leases	**166,416**	**22,343**	**18,036**	**126,037**	
Finance leases	2,522	720	1,652	150	1.3 – 7.6 %
Total	**168,938**	**23,063**	**19,688**	**126,187**	

The overwhelming portion of financial debt is denominated in euros. In contrast to the predominantly variable interest rates for general credit facilities, other financial debt is for the most part either at a fixed rate or is hedged long-term through interest rate swaps.

There are operating leases e.g. for fixtures and office equipment and for cars. These assets are not reported under fixed assets due to the contractual agreements in place. This will change from the 2019 reporting year in accordance with the new IFRS 16 accounting regulation.

Liquidity position

At the end of the 2018 financial year the cash flow statement showed that CENTROTEC had financial resources, defined as cash and cash equivalents less the general credit facilities drawn amounting to EUR 33.6 million (previous year EUR 44.9 million).

Cash flow from operating activities in the 2018 financial year totalled EUR 38.2 million and was therefore 20.1 % up on the prior-year figure of EUR 31.6 million. The almost constant net working capital compared with the prior-year period and the slightly higher earnings are the main factors behind this increase, with interest and tax effects balancing each other out. Cash flow from investing activities of EUR 14.2 million was much less into negative territory than in the previous year (EUR 115.6 million), when cash and cash equivalents of EUR 93.4 million had been added to current investments. The significantly higher investment volume contrasted with withdrawals from current investments amounting to EUR 19.4 million. On the other hand cash flow from financing activities was negative at EUR -35.3 million mainly because of the share buyback programme amounting to EUR 25.4 million. This item had still been a clearly positive EUR 81.0 million in the previous year from the raising the promissory note loan for EUR 90 million.

At December 31, 2018 CENTROTEC had cash and cash equivalents plus attributable current investments of EUR 148.0 million (previous year EUR 184.0 million). Together with the unutilised credit lines (EUR 37.6 million / previous year EUR 37.4 million) the Group therefore had access to adequate cash and cash equivalents to actively shape its own future.

General statement on the economic development of the Group

The strategy of focusing on international growth, without neglecting the German home market, proved to be fundamentally successful in 2018. On that basis CENTROTEC achieved the forecast for revenue and earnings (EBIT) made at the start of the year. However the net result was held back by a weak investment result.

The CENTROTEC Group will seek to maintain its growth, with rising profit margins in the short to medium term. The conditions for achieving these organic growth targets have significantly improved in recent years. They are based on fundamentally high profitability as well as solid financial metrics, drawing on the significantly broader scope for financing created in recent years.

Report on post-balance sheet date events

There were no events of material significance after the balance sheet date.

Takeover-relevant disclosures pursuant to Sections 315a and 289a of German Commercial Code

Provisions on the appointment and dismissal of the members of the Management Board and on changes to the Articles of Association

The Management Board of the company is appointed and dismissed by the Supervisory Board, which is also responsible for nominating a member of the Management Board as Management Board Chairman. The Annual General Meeting resolves amendments to the Articles of Association. The resolutions of the Annual General Meeting require a simple majority of votes cast and, if a majority of shares is required, a simple majority of shares, unless a higher majority or further requirements are stated in law. The same applies to amendments to the Articles of Association.

No other disclosures pursuant to Section 315a of German Commercial Code are required.

Authorisation of the Management Board to issue or buy back shares

Share buyback
Pursuant to the resolution of the Annual General Meeting of May 20, 2015 the company is authorised until May 19, 2020 to acquire treasury stock which, together with existing treasury stock, represents up to ten percent of the capital stock at the time of the authorisation taking effect. The price for the acquisition of these shares may not be more than 10 % higher or more than 10 % lower than the closing price in XETRA trading on the Frankfurt Stock Exchange (or in a successor system) for shares of the same class and features on the three trading days preceding the acquisition. The Management Board is authorised to offer all or some of the shares thus acquired to third parties in (part) payment of the acquisition of companies or investments in companies, excluding the shareholders' right of subscription. The Management Board is furthermore authorised to retire the company's treasury stock without the need for a further resolution to be adopted by the Annual General Meeting. Retirement may be restricted to part of the purchased shares.

On the basis of this authorisation the company purchased and acquired 1,764,470 treasury shares through the share buyback offer designed for the acquisition of treasury stock as published on the website of the company on May 14, 2018 and in the Federal Gazette on May 16, 2018 with an offer price of EUR 14.40 per no par value share.

The purchase price was EUR 14.40 per no par value share.

At December 31, 2018 the company thus held 1,764,470 treasury shares, for which it does not enjoy voting rights or dividend rights.

The capital stock has remained unchanged compared with December 31, 2017 and is still EUR 18,020,923 at December 31, 2018.

Authorised capital

By the resolution of the Annual General Meeting of May 31, 2017, the Management Board is authorised, with the consent of the Supervisory Board, to increase the capital stock by up to a total of EUR 3,000,000 (Authorised Capital 2017) up until May 30, 2022 for cash or non-cash contributions through the issuance of new no par value bearer shares on one or more occasions. The Management Board was also authorised, with the consent of the Supervisory Board, to specify the details of the share issue and, in defined conditions, to exclude the subscription right (a) for residual amounts, (b) for capital increases for cash if the issuing price of the new shares does not significantly undercut the market price of the shares of the same class and features already listed at the time when the issuing price is finally fixed by the Management Board, in keeping with Section 186 (3), fourth sentence of the German Stock Corporation Act, (c) for capital increases for contributions in kind for the granting of shares for the purpose of acquiring (including indirectly) businesses, business units or participations in businesses or assets of other businesses, (d) for issuance to employees of the company or of domestic and international affiliated companies (Section 202 (4) of the German Stock Corporation Act) and (e) to run a scrip dividend.

Conditional capital

The company had no conditional capital at the reporting date (December 31, 2018).

CENTROTEC used share-based payment transactions counterbalanced by equity instruments. The last options were issued in the 2012 financial year. The exercise deadlines for Conditional Capitals I-III expired on January 23, 2018, in other words before the next possible exercise period. Therefore no further exercising of stock options occurred in the 2018 financial year. The options not exercised have lapsed.

Other disclosures

The composition of the issued capital as well as direct and indirect participations in the capital can be found on page 90 in the Notes to the Consolidated Financial Statements.

Component supplier for other system integrators

RESIDENTAL & COMMERCIAL BUILDINGS

CENTROTEC is a system supplier, but also offers key components for other system integrators. These include Holmak heat exchangers for building ventilation warranting heat recovery up to 95 %. For condensing heating systems, both Ubbink and Centrotherm offer flue exhaust systems that are preferred by leading boiler manufacturers for their integrated solutions. The Ubbink Centrotherm Group also offers a complete range of system components for residential building ventilation as well as construction ventilation.

1 ***Air-to-air heat exchangers***

2 ***Gas flue systems***

3 ***Residential ventilation components***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Risk report

Disclosures on the internal control and risk management system for financial reporting, pursuant to Section 289 (4) of German Commercial Code and Section 315 (4) of German Commercial Code

The internal control and risk management system for financial reporting by the CENTROTEC Group aims to identify potential internal sources of error and to limit or eliminate the risks arising from them. In addition to optimising internal processes and procedures, it above all encompasses financial reporting by the CENTROTEC Group. One core function of financial reporting is to steer the Group as a whole. Target and deviation analyses are conducted on the basis of the budget and mid-range planning approved by the supervisory bodies of the Group and subsidiaries. Regular forecasts are made to monitor the changing framework for ongoing business operations.

CENTROTEC's financial statements are based on a Group-wide reporting system. This constitutes the basis for a standardised data reporting process throughout the Group. The operating companies' accounting functions are organised non-centrally but are harmonised by means of a Group-wide accounting manual that regulates how IFRS accounting standards as adopted in the EU are to be applied in Group-wide financial reporting, and on the basis of a Group-wide, uniform, digital reporting system.

The information obtained within a narrow time frame from this comprehensive reporting system provides the basis for active, prompt Group steering. The holding of regular Management Board and Supervisory Board meetings and the close support provided for managing directors by the Management Board guarantee that the information obtained in reporting is suitably evaluated and leads to appropriate remedial measures, as necessary. Together with the provisions in the Articles of Association and the individual rules of internal procedure for the Supervisory Board, Management Board and managing directors, this portfolio of reporting and analytical measures creates a coherently functioning overall system. The system's efficiency and effectiveness are examined by the Management Board and Supervisory Board at regular intervals, and the system is then revised or widened as necessary.

The Group's Legal department helps to draft or cross-checks all materially significant contracts of Group companies. The auditors of the individual companies, sub-groups and Consolidated Financial Statements examine the internal system of control for financial reporting and the risk early warning system to the extent that is necessary based on the audit standards and chosen audit strategy, and they report on their findings to the Supervisory Board. Suggested improvements are taken up by the Management Board and executive management in order to continually develop and improve the system.

To monitor and control the various risk areas, CENTROTEC implements a Group-wide risk management system. To increase efficiency and comply with the changing regulations, the uniform, recognised, professional risk management tool created in 2016 by an external provider in accordance with the requirements of Section 317 (4) of the German Commercial Code along with auditing standard IDW PS 340 and implemented Group-wide was correspondingly updated continuously in line with the requirements of the CENTROTEC Group. The aim of the risk management system and the central task of risk reporting is to identify and evaluate material, existential risks within and outside the Group companies, and to define or initiate appropriate risk management measures so that the executive management of each company has a sound basis for its management decisions. Risk management is run by a risk committee. It manages the Group-wide non-central network in which each individual company is represented by at least one risk manager. Taking account of the existing guidelines, a quarterly report is issued presenting the risk type, likelihood and potential impact of identified risks, along with risk management measures.

The risks are evaluated primarily in quantitative terms, taking account of their respective probability of occurrence and loss level according to a gross and net assessment, based on the change in earnings (EBIT) compared with the budget figure. The net assessment already takes risk-reducing measures into account and is the basis for risk reporting. However provisions already formed are not considered as risk-reducing factors; they are instead specifically listed separately. Blanket risks such as natural disasters or risks normally encountered in the course of business, such as the fundamental possibility of bad debts, are not taken into account unless there is specific evidence of an increased probability of occurrence.

Within the context of this risk report, Group-level risks are classified as “very low” if their net risk expectation value is below EUR 300 thousand, as “low” if the effect is up to one million euros, as “moderate” if the effect is below two million euros, as “high” if it is up to five million euros, and as “very high” if it is over five million euros.

Operating business is moreover closely monitored by the Management Board. With this as the basis, an early response within the risk management system is initiated and various escalation hierarchies are involved, right up to the Management Board and Supervisory Board, depending on the value of the risk, in order to avoid or hedge risks. The risk management system serves as the basis for the following description of the risk areas and exposure of the Group.

Risk areas

Risks from the economic environment and the industry

The business performance of CENTROTEC is fundamentally dependent on the **wider economic environment** and on general cyclical developments, especially in Europe. Germany remains by far the most significant individual market from the Group perspective. This high dependence continues to represent a *high risk* in the event of a deterioration in the economic situation in Germany. This risk continues to be addressed by concerted efforts to internationalise.

CENTROTEC fundamentally operates in the industry environment of building investment. Falling building investment can fundamentally adversely affect the sales performance of the Group. CENTROTEC addresses the sales risk that is fundamentally assessed as *high* for example by focusing on particularly energy-efficient solutions for heating and climate control of buildings: such solutions are becoming ever more relevant in light of the increasingly tough national regulations on the energy efficiency of buildings, as well as the current and prospectively also long-term rises in energy prices. Although the probability of falling building investment has risen as a result of European and specifically German construction activity having reached a record level in recent years, building investment would still be at a very high level even after a moderate downturn.

Statutory framework conditions and public funding programmes nevertheless continue to have a clear influence. For instance a scaling-back of subsidies if the general conditions remain otherwise unchanged could lead to falling revenue or slower revenue growth. In the past there have been a large number of changes made at various points throughout the year, often causing considerable uncertainty among end customers. Specifically in the area of subsidies, certain countries could moreover be prompted to freeze subsidies or suspend state measures designed to promote construction activity and protect the climate if they encounter financial constraints. This risk is currently classified as *moderate* on account of the relatively stable economic development throughout Europe. Protracted negotiations about possible improvements to the terms of such subsidies, too, could temporarily prompt an investment backlog. Nevertheless, the political commitment to a more consistent policy on subsidies and the corresponding measures recently passed specifically in Germany, but also in other countries, fundamentally render this *moderate risk* less acute. Following on from the strongly negative effects of a lack of support measures for combined heat and power units in the past financial year, we expect the situation this year to be more stable.

Finally, the development in the **prices of fossil fuels** has a major influence on readiness to invest in efficient heating, ventilation and climate technology and the use of renewable energies. The fact that gas and oil prices remain low reduces the pressure to invest in modernising existing heating systems, many of which specifically in Germany are obsolete and inefficient. Notwithstanding such short-term economic benefits, the increased use of fossil fuels will seriously aggravate the problem of climate change. Nevertheless, the comparatively low price level currently reached still offers more potential for a rise than for a decline in energy prices, and therefore in the long term more opportunities than risks from the company's perspective. All in all, the risk presented by the development in energy prices is assessed as *moderate.*

In addition, in the long term there is the possibility that still-dominant fossil fuels such as gas and oil could be banished from the heating market by regulatory means. CENTROTEC addresses this risk, which still lies well into the future and will initially probably be limited to the new-build market, by practising active strategic planning and suitably adjusting the product portfolio.

Corporate strategy risks

Alongside organic growth, another fundamental dimension of CENTROTEC's strategy is **growth through acquisitions.** One key challenge here is to adapt the internal organisation and processes swiftly to the new, larger entity each time and to integrate the acquired or newly established, predominantly foreign businesses into the corporate structure. If ties between new entities and the existing Group are too weak, a loss of transparency and control can ensue. Forcing the corporate culture onto new entities can cause employees to cease identifying with products and companies, ultimately leading to a weakening of the market position and thus of the market value. CENTROTEC therefore strives for a balance between control and entrepreneurial freedom at its Group companies. The dovetailing of acquired or newly established entities with the Group is promoted by an overarching integration management approach and continually monitored until the entity is finally fully integrated into the Group-wide mechanisms of control and steering. The structure of the Group as a whole is continually scrutinised for potential for improvements that are implemented by reorganisation projects in the individual segments, in order to establish a workable basis for the continuing sustained development of the Group. The overall corporate strategy risks arising from acquisitions continue to be rated as *low.*

Growing **internationalisation** furthermore entails wide-ranging risks which are cumulatively of increased significance for CENTROTEC, arising e.g. from changing political and legal frameworks, exchange rate fluctuations, the development of special products for international markets, transport and processing risks, and cultural differences. For its further expansion, in the future CENTROTEC will fundamentally also rely on strong local partners with extensive market-end and logistics expertise and knowledge of their local context. Markets that are the focus of the internationalisation strategy are accessed with the help of Group-owned subsidiaries, and increasingly also through local manufacturing units. By monitoring and examining the risk positions on an ongoing basis in the course of risk management and business operations, the market opportunities and risks that arise are kept under control, and this risk that is classified as growing but *moderate* is clearly limited.

Risks from operating business

Procurement risks

The production and delivery capability of the CENTROTEC companies depends to a great extent on reliable supplies of raw materials and consumables. The risk resulting from the area of procurement is rated as *moderate* and is contained through close technical cooperation with important suppliers and, as far as possible, by maintaining at least two sources of supplies in each case. However the healthy level of business activity across the industry is leading to longer lead times and isolated supply bottlenecks, for example for electronic components, and this could also affect the CENTROTEC companies. A possible rise in procurement prices constitutes another potential risk at the procurement end that could become relevant from a Group perspective. Depending on the segment and product area, the recurrence of this problem as a result of market developments is controlled by methods such as protecting long-term supplier relations and corresponding price agreements, and by continuously observing the market and optimising procurement sources. Price developments in the commodity and supply markets are actively monitored. At the same time potential for compensating for price increases is being identified through the Group-wide profitability improvement programmes and suitable improvements are being implemented. Because impending procurement price increases for raw materials are already factored into the budget, CENTROTEC currently rates the additional risk of rising procurement prices as *moderate.* In addition, there is fundamentally the risk that service companies especially in the IT or staffing areas could fail to meet their contractual obligations or could terminate existing contracts. This specific risk is assessed as *low* overall; the effects would be limited to the individual company concerned and therefore be low for the Group as a whole. Nevertheless, we see a rising tendency in these potential risks, not least as a result of the spread of the “software as a service” approach. Mid to long-term, the risks resulting from the entire procurement process are a significant risk group for the CENTROTEC Group.

Technical and quality risks

Risks may arise from product defects and quality problems. These are addressed for example through internal guidelines at the individual companies and certification to international quality standards such as ISO 9001, ISO 14001 and ISO TS 16949. The individual Group companies always take the most rigorous quality standards in their specific sectors as the benchmark. To safeguard product quality and minimise the associated risks, quality-critical components of CENTROTEC products are subjected to comprehensive quality checks both during the entire production process and in the end products. The methods and systems used to this end are examined and regularly updated in line with current standards. The effect is to significantly reduce the overall impact of this continuing risk, which is fundamentally present in all corporate divisions. Furthermore, appropriate provisions in the amount of the anticipated warranty risks are created. There nevertheless remains a *moderate* risk because the companies of the Group extensively use modern, high-efficiency technologies in their products so product defects and quality risks cannot be excluded altogether.

The risk of accidents and plant breakdowns is countered by providing suitable training for customers and employees, and implementing accident prevention regulations and task instructions.

The biggest single risk to this area is the possible failure of production plant. This risk is addressed by preventive maintenance and ongoing monitoring of the operating parameters. Plant itself, along with the possibility of a business interruption, is insured for potential forms of loss in line with its value. Together, the technical and quality risks in the 2018 financial year are assessed as *low.*

Innovation risks
The development of innovative products fundamentally involves the risk that the desired outcome may not be achieved despite the expending of considerable resources. To minimise this fundamental development risk, there is an intensive dialogue and peer review of product development activities between the individual Group companies, along with intensive market analysis. The internationally growing sales and service organisations are also increasingly called upon to contribute their market knowledge. This helps to identify off-target developments swiftly and limit their potential effects by making adjustments to decisions promptly. All capital investments and development projects are in addition evaluated intensively and promptly in the context of Group-wide development activities, looking at the overall portfolio and the individual opportunities and risks involved. Against a backdrop of a steadily accelerating pace of development, increased product complexity and the specific requirements of international sales markets, there nevertheless remains a moderate innovation risk.

Sales risks
At the sales end, there is the potential risk of losing important customer relationships, in particular with key accounts. Dependence on individual customers is fundamentally reduced by focusing predominantly on products for end users, despite sales via wholesalers. For example CENTROTEC's biggest customer accounted for less than four percent of consolidated revenue, with all other customers well below that figure. At the level of the individual Group companies, this threshold is nevertheless exceeded in exceptional cases. The loss of contact with a wholesale or key account fundamentally always has a palpable impact on revenue and earnings for both the Group itself and the Group companies. This risk of dependence, which is rated as *low* from a Group perspective, is countered by active management of customer relations and by diversifying the sales channels in the various markets. To that end the sales channels in the individual segments and countries have recently undergone steady expansion and will continue to be examined for scope for expansion in line with the strategy. Revenue dependence on individual customers has furthermore fallen along with the growth already realised, and will continue to decline hand in hand with the future international growth that is being targeted.

There is a further *moderate* risk in the sales sphere from the growing pressure on the prices of CENTROTEC products, in particular from existing or, in individual instances, new competitors. CENTROTEC believes it is in a strong position in its various segments thanks to its rigorous focus on customer requirements and the market position it has already achieved. The product portfolio is moreover regularly scrutinised for potential to innovate and for scope to improve customer centricity, as a means of safeguarding and extending its competitive position. Furthermore, the growth being targeted internationally is designed to gradually reduce the diseconomies of scale compared with large competitors. None the less, overall the sales risks stated above constitute a significant risk group for the Group of companies.

Human resources risks
There is fundamentally the potential risk of losing managers and employees in key positions. CENTROTEC addresses this risk that is real, but where its impact has so far been considered *low* from a Group perspective, by broadening the human resources base as part of developing the Group organisation as a whole. The further development and regular training of employees in their individual specialist areas are supported, and employees are encouraged to show independent initiative in developing and implementing new approaches and methods. In addition, the topic of human resources development is increasingly coming into focus as part of the business strategy at a growing number of Group companies. As a result, CENTROTEC is able to offer its employees further improvements in their long-term development perspectives and thus helps to minimise fluctuation in key positions. These are important measures for guarding against a generally observed risk of shortages of specialists; this risk is also specifically addressed through training measures for young people that are tailored to the needs of the individual Group companies.

In addition, specifically at times of general economic buoyancy there is the risk of excessive rises in costs in the human resources area as a result of high wage and salary increases. This regularly recurring risk is countered by active personnel costs management and trust-based partnership between the workforce and the management in a spirit of mutuality. The consequences of potentially high pay settlements are also cushioned by planned revenue increases and the ongoing optimisation of processes throughout the Group, but may fundamentally put pressure on earnings.

Information technology risks

In the domain of information technology, it is fundamentally impossible to exclude the possibility that problems will arise with existing systems or future extensions to existing systems, such as introductions of new software releases, or that system failures will hamper business operations. The customary precautions and security measures in the IT sector are adopted to limit these risks. The appropriateness of the security measures in information technology is regularly checked. The systems and processes in use are adapted to changing requirements if necessary. In addition, a cautious migration approach is adopted for the integration of new business units to avoid major risks to business operations, for instance as a result of incompatibility between systems or inadequate reflection of specific business features. Furthermore, the number of ERP systems used throughout the Group is progressively being reduced to avoid possible errors or incompatibility and further optimise systems maintenance. The operating units are increasingly integrated at systems level in line with their business requirements.

It is also to be noted that the risks from cybercrime are growing in significance. Within the context of its IT strategy, CENTROTEC strives for a balance between the use of modern IT solutions and retaining full control over the central business data needed for business operations in order to limit this risk that it still considers to be *low*.

Finally, the demands of digitalisation are increasing at all value creation stages. The number of IT solutions used in the Group above and beyond classic ERP systems is steadily growing. In implementing these solutions, a balance must regularly be sought between the objectives of unrestricted system stability on the one hand and the swiftest possible implementation on the other.

In summary, the risks from the sphere of information technology are classified as *moderate* from a Group perspective despite the growing dependence on information technology systems.

Financial risks

Financial risks for CENTROTEC result largely from the partial use of borrowed capital for financing its growth and potential acquisitions. The opportunities successfully taken in the past to generate high, steadily rising earnings in this way go hand in hand with the potential risk of earnings falling or even not being achieved, with the corresponding financial consequences. For financing its operating subsidiaries, CENTROTEC limits the risk it bears by generally restricting this to the entities or corporate divisions in question (ring-fenced financing) and conducts comprehensive profit and earnings controlling on the current and future profitability of all corporate entities as well as on compliance with the relevant financial ratios at both individual company and Group level. Deviations are thus rapidly identified. Any corrective measures required are then implemented promptly and thoroughly. For financing, the interest rate risks for the partly variable-rate loans are hedged to some extent by means of interest rate derivatives with banks. The risks remaining in this area are to be classified as *low;* they diminished further in the past year thanks to the restructuring of financing, because the new, non-current loans are collateralised predominantly by existing land and buildings and it was largely possible to avoid financial covenants. In addition, a promissory note loan was placed in the period under review to lock long-term into the attractive interest rates currently available. Furthermore, in the past CENTROTEC has always paid back borrowings according to schedule in order to minimise the resulting financial burdens and maintain sufficient financial leeway.

Adjustments to financing are made as required within the individual financing groups, in line with the needs arising from those financing groups' business operations and the funding requirements. The marked scaling-back of the Group's gearing over recent years has produced a further significant reduction in the financial risks from debt financing, but it nevertheless remains relevant from a Group perspective not least against the backdrop of the promissory note loan raised in the period under review. For more detailed information on the financial situation of the CENTROTEC Group, we refer to the Notes to the Consolidated Financial Statements.

Until now, the focus of business has been on core European countries, specifically in Western Europe. The overwhelming proportion of revenue is generated in the eurozone. This emphasis gives rise to merely limited exposure to risks from **changes in foreign exchange rates**. Business outside the eurozone and in other countries outside Europe will also become increasingly important. The aim here is to build on the pattern of recent years in further broadening the sales basis and thus to reduce dependence on the German market. However this development leads to increased risks from transactions in foreign currencies. In the past, the hitherto *low* risks to the Group from possible exchange rate movements were hedged selectively within the Group by means of appropriate instruments. As well as these risks of a devaluation of foreign currencies, there is also the risk of a devaluation of the euro. This nevertheless goes hand in hand with increased opportunities for exports to countries outside the eurozone. On the other hand an appreciation in the value of the euro could harm the sales prospects of the Group's products, which are made predominantly in the eurozone. In that respect the goal is to reduce this risk by spreading sales markets more widely through internationalisation.

Possible financial risks from debt defaults are minimised for example by means of payment in advance, credit insurance, flat-rate export guarantees (Hermes export credit guarantees), credit processing, ongoing receivables management, general creditworthiness checks as well as through existing del credere liability, so as to limit their possible consequences for the Group. However there remains a *low* risk from possible debt defaults. The current investments within other financial investments represent a balance sheet item that is fundamentally exposed to fluctuations in the financial market. This risk, rated as moderate, therefore goes hand in hand with a greater opportunity for the expectation value. Following the recognition of clear value losses in the past financial year, the corresponding risk (but also the opportunity) will be further reduced in the future by pursuing an even more conservative investment strategy.

The risk from the fiscal area, which results substantially from the growing requirements to document transfer prices and occurs in several countries, is rated as *low* from a Group perspective. The risks arisen from the measurement of inventories are rated as *low* from a Group perspective.

In summary, the risks from the financial sphere are estimated as *moderate.*

Miscellaneous risks

The supply and sale of products, plant and services may expose the CENTROTEC Group and its individual companies to legal risks which stem for example from the possibility of deliveries not being as per agreement, from product liability claims, product defects, quality problems, breaches of intellectual property or from the failure to comply with fiscal regulations. Despite comprehensive quality management activities and the corresponding regularly optimised organisational structures, such risks cannot be ruled out altogether but their level is normal for an industrial enterprise. To guard against this exposure, lump-sum warranty provisions are created to the customary extent for our business operations and corresponding product liability insurance cover is taken out, based on figures from experience of failures and corresponding warranties for potential customer claims, and to reflect potential accountability. All customer complaints are moreover systematically checked and processed, then investigated with a view to identifying scope for internal optimisation. To the extent that specific warranty risks are identified, additional one-off provisions in the amount of the expected risk are created.

In addition, further insurance policies were taken out to minimise the general risks from business operations in order to reduce the possible impact of such risks that are a fundamental part of business operations to a *low* level. Such insurance policies mainly comprise business interruption, business liability, legal protection, business and property, credit sale, loss of earnings and serial losses insurance, as well as D&O cover for Management Board members, managing directors and non-executive directors. There is in addition special property insurance cover (damage by the elements) for warehouses.

There are currently no cases of litigation pending that lead the Group to expect high financial obligations beyond the levels already reflected in the provisions created.

Directors' assessment of the risk situation

While the sales market situation should show a positive development in the long term, subject to stable underlying conditions, the increased number of uncertainties that stem from mainly political but also economic crises represent a risk to overall economic development for the industry, and therefore also for CENTROTEC, that is difficult to quantify. For as long as energy prices remain low, they too weigh on the sales market, though a slight upward movement was observed recently. The healthy net financial position has however given the Group adequate room for manoeuvre: on the one hand for international expansion through organic growth but possibly also through acquisitions, and by boosting its competitiveness further by investing in innovations as well as the sales and service organisation. On the other hand it is well equipped to respond to potential risks that may arise, or to deteriorating market conditions. Operationally, too, the Group has achieved a comparatively flexible costs structure at its main production establishments by engaging temporary workers, buying in other staffing services and adopting working hours models, giving it scope to adjust its production capacities to temporary cyclical and seasonal fluctuations. Considered in this light, the management regards the opportunities and risks profile as balanced, with no individual risks to the company as a going concern in the 2019 financial year.

Report on expected developments

Direction of the Group

CENTROTEC will continue to focus on the area of heating and climate control technology for buildings. The spotlight here is on the continuing optimisation of the already comprehensive product portfolio to facilitate access to international markets, and on expanding the sales and service structures. Cost effectiveness for consumers and fitters, evidenced by ease of installation, operation and maintenance, along with operating efficiency, are top priorities in the development of new products. In future, these megatrends that are likewise in evidence in other sectors in the industry will necessitate the efficient interaction of component systems. The necessary expertise already resides within the Group and is being systematically expanded through research and development work, increased collaboration between the Group companies and also by drawing on external knowledge. In addition, in the Group's core market it develops appropriate product solutions to meet growing demand for renovation as well as for the energy-efficient modernisation of building stock.

Internationalisation is major priority in CENTROTEC's strategy. This is all the more important because it will reduce dependence on the German home market, especially in the Climate Systems segment. It will furthermore put CENTROTEC in a position to profit from the higher economic dynamism of many international markets. Internationalisation will also be at the heart of the Group's strategy in the coming year. In addition, it will place particular emphasis on further stabilising and growing German heating business, along with increasing the margins in the climate control area. Finally, optimising and professionalising internal processes as well as exploiting digital solutions at all value creation stages will be priority topics for the management of the Group.

The CENTROTEC companies' largest production locations are situated in Germany and the Netherlands. In those locations CENTROTEC is in a position to manufacture the range and quality of products that customers expect, at reasonable cost. There are also logistical advantages. None the less, as part of its internationalisation strategy the Group has resolved to seize further economic opportunities to set up local production plants to help it access internationally relevant markets, and to achieve a broader production base by adopting appropriate structures. Initial steps in that direction have so far been taken in the Gas Flue Systems segment with the activities in China and the USA. In China, it also aims to include the Climate Systems segment in these activities in 2019. To that end, it is constructing a production plant this year in Jiaxing, where all the Group's production activities for the Chinese market are to be consolidated from next year.

Expected economic environment

As forecast in this publication a year ago, the positive development of the markets that are especially relevant for CENTROTEC continued in 2018. Although the coming years are expected to bring lower overall economic growth worldwide, the market for heating and climate control technology in the building sector should exhibit above-average growth thanks to extensive efforts in many parts of the world to cut carbon emissions, coupled with rising energy prices.

Nevertheless, the development of the international conflicts surrounding USA trade policy, but also the complete uncertainty as to the impact of Brexit as well as the still-unresolved problems in Russia/Ukraine and the Arab region harbour growing risks for the world economy and thus pose a threat to the fundamentally positive economic developments. CENTROTEC monitors these trends carefully and, if in doubt, adopts a conservative market strategy in the countries that are directly affected.

Likewise for the year 2019, CENTROTEC expects a fundamentally positive economic environment for its business development. The public plans to reduce energy consumption together with the climate protection targets announced should give the market in Europe a major stimulus by 2020, because in Germany alone over 70 % of the installed 20.5 million heating systems rank as inefficient and technically obsolete. A trend towards reducing dependence on fossil fuels and thus reducing carbon emissions can fundamentally be identified in all countries. Because the climate control/ventilation and heating sector ought to perform a key function in achieving the climate protection targets, the prospects for its further development are brighter than average in the long term.

The development in prices for fossil fuels has a major influence on readiness to invest in efficient heating, ventilation and climate technology and the use of renewable energies. There are consequently are more opportunities than risks for the industry in the price rises of fossil energy sources that were already observed in the previous year and may potentially continue. Also, more and more people in an increasing number of countries are coming to realise that economic development needs to be uncoupled from the consumption of fossil energy sources from both an ecological and an economic viewpoint. Resurgent energy prices, the dependence of entire national economies on producing countries often plagued by instability and the growing environmental consequences are key reasons for this fundamental rethink. In the CHP area, potential plant operators have been deterred from investing over recent years because of the constantly changing and distinctly uncertain terms for financial incentives. Although a clear regulatory framework has now been created for incentivising natural-gas CHPs, we expect the market to be on the slow side in recovering. Biogas CHPs can still be brought onto the market this year, before the transitional period for further installations ends prospectively in mid-2020, thus bringing this sales market in Germany to a standstill.

Dividend distributed for financial year

[in EUR]

Anticipated financial performance and financial position

CENTROTEC plans further organic growth for the financial year in progress of 2019 and, based on the environment previously described, expects to generate consolidated revenue of EUR 620 to 640 million. Within this context the company anticipates further growth in its international sales markets and a continuing improvement in its position in the German heating market, building on the process that started in the previous year. The company will also invest further in the international expansion of business activities and the digitalization of its products and processes, but also in the development of new, innovative business models. On this basis, the company expects a full-year operating result (EBIT) amounting to EUR 31 to 33 million. By pursuing an even more conservative investment strategy, we also anticipate a significant improvement in the investment result. Because of the planned creation of the production location in China and the completion of the new production hall in the Netherlands, the investment volume is furthermore expected to edge up this year.

Beyond 2019, CENTROTEC anticipates continuing organic revenue growth combined with a recovery in the profit margins. The Supervisory Board and Management Board of CENTROTEC Sustainable AG will propose to the Annual General Meeting that, notwithstanding the negative effects of the weak investment result in 2018, an unchanged dividend of EUR 0.30 per dividend-bearing no par value share be distributed for the 2018 financial year in a reflection of the continuing sound financial position of the Group.

Opportunities report

The market position achieved in the existing principal sales markets and the progress made with implementing the internationalisation strategy as well as the successful development in the German heating market offer ample scope to profit from global growth in the market for building efficiency and fundamentally to increase the Group's revenue and earnings.

- Positive economic environment:
  The continuing positive overall economic situation of the relevant markets in Germany and internationally as well as the more rigorous building efficiency requirements that are already having an impact in many countries offer a sustainable basis for a positive development in the business performance. This trend may be accelerated by even tighter statutory requirements governing the energy efficiency of buildings and the availability of improved financial incentives as well as by further rises in energy prices.

- Capitalising on market position:
  CENTROTEC has a unique combination of competitive Group companies operating in the field of energy-efficient solutions for commercial and private buildings. By integrating its expertise in the adjacent areas of heating, climate control and ventilation, it is able to develop and offer coordinated system solutions that

reflect the requirements of each target market. The significance of such integrated system solutions will rise steadily in the medium term, especially in light of the increasingly interconnected nature of building services engineering.

- Sound financial position:
  The scope for further organic and external growth has steadily increased over the past few years despite the high investment volume. The solid equity ratio as well as the consistently high cash flow, plus the significantly improved financial leeway since 2017, provide a broad basis on which to continue exploiting the growth prospects including in markets not yet in our focus, and to significantly improve the position in already well-established markets.

General statement on the expected development of the Group

In the medium to long term there are distinctly positive prospects for the industry-specific economic environment because the markets for heating and climate control solutions benefit from the global megatrends of energy efficiency and climate protection, and should grow more strongly than the economy as a whole. The trend towards greater comfort and growing health awareness, specifically as reflected in how living space is used, offers the CENTROTEC Group a generally good basis for sustained growth. For the short term, too, the important underlying data is fundamentally positive despite the still-high number of elements of uncertainty worldwide. The German heating market should remain in a healthy state in 2019 and CENTROTEC should improve on the position it has built up there over the years. Furthermore, CENTROTEC's success in developing international business serves to endorse the path it has chosen to position itself as an international group. CENTROTEC will again invest further in the development of new business models, sales channels and sales markets in 2019. Even if the current economic weakness could adversely affect the Chinese market, we identify that economic region as an attractive sales market for our products and systems in the long term, thus justifying the planned investment in local production operations there.

On this basis CENTROTEC expects full-year revenue to reach EUR 620 to 640 million, with an operating result (EBIT) of EUR 31 to 33 million.

Rendering of accounts

Some of the disclosures provided in the Management Report, including statements on anticipated revenues, earnings and capital expenditures, as well as potential changes in the framework conditions of markets and of the financial position, contain forward-looking statements. These have been formulated on the basis of expectations and estimates by the Management Board with regard to future occurrences that could affect the Group. Such future-related statements are intrinsically open to risks, uncertainties, exceptions and other factors that could result in the actual revenues and earnings of CENTROTEC significantly departing from or falling short of those explicitly indicated or implicitly assumed or described in these statements.

In the rendering of the accounts, the potential for leeway in measurements in the Consolidated Financial Statements was analysed, assessed and handled in such a way as to present figures that the Management Board believes are as fair and reliable as possible. Open, timely and continual communication with the capital market moreover forms part of CENTROTEC's philosophy, which the rendering of accounts satisfies.

Financial Statements

2018

Assets in EUR thousand	[Notes]	31/12/2018	31/12/2017
Non-current assets			
Goodwill	1	77,295	77,285
Intangible assets	2	43,713	39,734
Property, plant and equipment	3	129,979	124,017
Financial investments accountend for using the equity method	4	64	39
Loans and investments	4, 15	822	1,076
Other financial assets	5, 15	9	9
Other assets	5	30	78
Deferred tax assets	6	9,355	2,108
		261,267	**244,346**
Current assets			
Inventories	7	78,661	71,639
Trade Receivables	8, 15	65,224	67,684
Income tax receivable		2,695	3,219
Cash and cash equivalents	9, 15	49,761	59,492
Other financial assets	5, 15	101,892	128,237
Other assets	5	8,706	5,855
		306,939	**336,126**
Assets		**568,206**	**580,472**

Equity and Liabilities in EUR thousand	[Notes]	31/12/2018	31/12/2017
Shareholders' equity	10		
Share Capital		18,021	18,021
Capital reserves		40,659	40,659
Treasury stock		(25,408)	0
Retained earnings and profit carryforward		193,563	179,155
Profit attributable to shareholders of CENTROTEC Sustainable AG		12,670	20,205
		239,505	**258,040**
Non-controlling interests		0	(559)
		239,505	**257,481**
Non-current liabilities			
Pension provisions	11	45,634	46,231
Other provisions	12	12,690	16,079
Financial liabilities	13, 15	145,875	149,484
Other financial liabilities	14, 15	853	960
Other liabilities	14	19	25
Deferred tax liabilities	6	11,709	6,862
		216,780	**219,641**
Current liabilities			
Other provisions	12	4,318	3,571
Income tax payable		3,324	1,781
Financial liabilities	13, 15	23,063	21,533
Trade liabilities	15	32,453	28,856
Other financial liabilities	14, 15	17,463	14,068
Other liabilities	14	31,300	33,541
		111,921	**103,350**
Equity and Liabilities		**568,206**	**580,472**

Consolidated Statement of Financial Position

Consolidated Income Statement

in EUR thousand	[Notes]	01/01/2018 31/12/2018	01/01/2017 31/12/2017
Revenues	16	**614,739**	**594,189**
Cost of purchased materials and services	17	(303,278)	(269,230)
Changes in inventories of finished goods and work in progress	17	3,975	(856)
Production for own fixed assets capitalised		5,041	3,871
Other income	18	10,173	9,474
Personnel expenses	19	(174,042)	(184,442)
Other expenses	20	(102,121)	(98,949)
EBITDA		**54,487**	**54,057**
Depreciation and amortisation	2, 3	(24,061)	(24,736)
Operating income (EBIT)		**30,426**	**29,321**
Interest income	21	214	291
Interest expense	21	(4,405)	(3,553)
Other financial income	22	(7,013)	2,979
Result before income taxes (EBT)		**19,222**	**29,038**
Income taxes	23	(6,552)	(8,191)
Net income (EAT)		**12,670**	**20,847**
Attributable to:			
Non-controlling interests	24	0	642
Shareholders of CENTROTEC Sustainable AG		12,670	20,205
EPS (Earnings per share in EUR)			
Earnings per share (basic)	25	0.74	1.13
Earnings per share (diluted)	25	0.74	1.13
Weighted average shares outstanding (in thousand units; basic)	10, 25	17,078	17,943
Weighted average shares outstanding (in thousand units; diluted)	10, 25	17,078	17,951

Consolidated Statement of Comprehensive Income

in EUR thousand	[Notes]	01/01/2018 31/12/2018	01/01/2017 31/12/2017
Net income (EAT)		**12,670**	**20,847**
Items that may be reclassified subsequently to profit or loss			
Exchange Rate differences on translation		(245)	270
Derivative financial instruments		(291)	204
Available-for-sale financial assets		0	(737)
Income tax relating to components of other comprehensive income	6	135	(88)
Other comprehensive income for items that may be reclassified subsequently to profit or loss		**(401)**	**(351)**
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans	11	1,040	166
Income tax relating to components of other comprehensive income	6	(304)	(55)
Other comprehensive income for items that will not be reclassified to profit or loss		**736**	**111**
Other comprehensive income		**335**	**(240)**
Total comprehensive income		**13,005**	**20,607**
Attributable to:			
Non-controlling interests		0	652
Shareholders of CENTROTEC Sustainable AG		13,005	19,955

Consolidated Statement of Cash Flows

in EUR thousand	[Notes]	01/01/2018 31/12/2018	01/01/2017 31/12/2017
Net income before interest and taxes (EBIT)		30,426	29,321
Depreciation and amortisation	2, 3	24,061	24,736
Gain/loss on disposal of fixed assets		36	125
Other non-cash items		(761)	425
Increase/decrease in provisions		(2,175)	(2,241)
Increase/decrease in inventories, trade receivables and other assets that cannot be allocated to investing or financing activities		(7,700)	(11,983)
Increase/decrease in trade payables and other liabilities that cannot be allocated to investing or financing activities		4,876	1,793
Interest received		94	291
Interest paid		(3,483)	(1,465)
Income tax paid		(7,149)	(9,368)
Cash flow from operating activities	27	**38,225**	**31,634**
Acquisition of shares in participations less net of cash acquired		(247)	0
Purchase of property, plant and equipment/intangible assets/investments/finanical assets/loans receivable	2, 3, 4	(33,595)	(23,315)
Proceeds from disposal of property, plant and equipment/intangilbe assets/loans receivable		232	1,162
Investments in short-term financial assets		19,435	(93,430)
Dividend received		0	2
Cash flow from investing activities	27	**(14,175)**	**(115,581)**
Purchase of treasury stock/proceeds from issuance of shares	10	(25,408)	1,674
Proceeds from financial liabilities		2,609	91,543
Repayment of financial liabilities		(7,056)	(6,867)
Dividend payment		(5,406)	(5,368)
Cash flow from financing activities	27	**(35,261)**	**80,982**
Change in financial resources		**(11,211)**	**(2,965)**
Foreign currency exchange gain/loss of the financial resources		(112)	(163)
Financial resources at the beginning of the financial year*		44,897	48,025
Financial resources at the end of the financial year*	27	33,574	44,897

* Cash and cash equivalents deducted of credits current account

Consolidated Statement of Changes in Equity

in EUR thousand [Note 10]	Share capital	Capital reserve	Treasury stock	Stock option reserve	Income tax relating to components of other comprehensive income	Exchange rate differences on translation
January 1, 2018	**18,021**	**40,659**	**0**	**0**	**137**	**92**
Transfer to revenue reserves						
Change from exercise of options						
Stock option plan						
Dividend payment						
Net income (EAT)						
Other comprehensive income, net of tax					135	(245)
Total comprehensive income					**135**	**(245)**
Other changes			(25,408)			
December 31, 2018	**18,021**	**40,659**	**(25,408)**	**0**	**272**	**(153)**
January 1, 2017	**17,892**	**38,037**	**0**	**1,077**	**224**	**(167)**
Transfer to revenue reserves						
Change from exercise of options	129	1,545				
Stock option plan		1,077		(1,077)		
Dividend payment						
Net income (EAT)						
Other comprehensive income, net of tax					(87)	259
Total comprehensive income					**(87)**	**259**
Other changes						
December 31, 2017	**18,021**	**40,659**	**0**	**0**	**137**	**92**

Derivative financial instruments	Available-for-sale financial assets	Retainedearnings and profit/loss carryforward	Sum other retained earnings and profit/loss carryforward	Profit attributable to shareholders of CENTROTEC Sustainable AG	Total capital to shareholders of CENTROTEC Sustainable AG	Non-controlling interests	Consolidated equity
(330)	**166**	**179,090**	**179,155**	**20,205**	**258,040**	**(559)**	**257,481**
		20,205	20,205	(20,205)	0		0
					0		0
					0		0
		(5,406)	(5,406)		(5,406)		(5,406)
				12,670	12,670		12,670
(291)		736	335		335		335
(291)		**736**	**335**	**12,670**	**13,005**		**13,005**
	(166)	(560)	(726)		(26,134)	559	(25,575)
(621)	**0**	**194,065**	**193,563**	**12,670**	**239,505**	**0**	**239,505**
(534)	**903**	**162,756**	**164,259**	**21,591**	**241,779**	**(1,177)**	**240,602**
		21,591	21,591	(21,591)	0		0
					1,674		1,674
			(1,077)		0		0
		(5,368)	(5,368)		(5,368)		(5,368)
				20,205	20,205	642	20,847
204	(737)	111	(250)		(250)	10	(240)
204	**(737)**	**111**	**(250)**	**20,205**	**19,955**	**652**	**20,607**
					0	(34)	(34)
(330)	**166**	**179,090**	**179,155**	**20,205**	**258,040**	**(559)**	**257,481**

Solar thermal – at the heart of modern heating systems

COMMERCIAL BUILDINGS

Innovative solar thermal systems of Wolf with highly effective solar collectors, a well-insulated hot water tank and an intelligent control system are at the very heart of a modern heating system.
By harnessing the sun's energy, andwith no climate-harming emissions, they can cover as much as 60 % of he annual energy requirements for hot water.

1 ***Wolf solar thermal collectors***

2 ***Wolf stratification cylinder and condensing boiler technology***


1
2

Consolidated Segment Reporting

Segment Structure in EUR thousand *Income Statement* [Note 26]	Climate Systems 01/01/2018 31/12/2018	01/01/2017 31/12/2017
Revenue from third parties	434,945	423,623
Revenue from other segments	1,367	1,601
Cost of purchased materials and services	(213,005)	(203,225)
Changes in inventories of finished goods and work in progress	2,231	(2,053)
Personnel expenses	(139,123)	(133,079)
Other expenses and income	(57,800)	(57,651)
EBITDA	**28,615**	**29,216**
Depreciation and amortisation	(14,794)	(14,974)
Segment result (EBIT)	**13,821**	**14,242**
Interest income	183	208
Interest expense	(2,110)	(2,212)
Other financial income	(716)	385
EBT	**11,178**	**12,623**
Balance sheet key figures		
Assets*	295,079	281,292
Financial investments accounted for using the equity method	0	0
Loans and investmens	812	1,066
Net Working Capital	39,350	39,533
Investments		
Total investments in property, plant, equipment and intangible assets	18,971	14,796

Regional Structure in EUR thousand	European euro countries 2018	2017
Revenue from third parties	518,492	498,752
thereof Germany	314,785	308,655
Assets*	520,614	543,029
thereof Germany	246,666	247,065
Total investments in property, plant, equipment and intangible assets	30,920	23,372

* Excl. financial investments accounted for using the equity method, loans and investments, entitlement to income tax rebates as well as deferred tax

Gas Flue Systems		Medical Technology & Engineering Plastics		Consolidation		Total	
01/01/2018 31/12/2018	01/01/2017 31/12/2017	**01/01/2018 31/12/2018**	01/01/2017 31/12/2017	**01/01/2018 31/12/2018**	01/01/2017 31/12/2017	**01/01/2018 31/12/2018**	01/01/2017 31/12/2017
128,144	121,093	51,650	49,473	0	0	614,739	594,189
7,941	8,024	82	228	(9,390)	(9,853)	0	0
(65,009)	(59,047)	(34,663)	(16,805)	9,399	9,847	(303,278)	(269,230)
248	392	1,496	805	0	0	3,975	(856)
(31,306)	(32,073)	(3,613)	(19,290)	0	0	(174,042)	(184,442)
(21,850)	(20,524)	(7,257)	(7,429)	0	0	(86,907)	(85,604)
18,168	**17,865**	**7,695**	**6,982**	**9**	**(6)**	**54,487**	**54,057**
(6,052)	(6,576)	(3,215)	(3,186)	0	0	(24,061)	(24,736)
12,116	**11,289**	**4,480**	**3,796**	**9**	**(6)**	**30,426**	**29,321**
300	387	14	1	(283)	(305)	214	291
(2,024)	(1,070)	(554)	(576)	283	305	(4,405)	(3,553)
(6,908)	2,977	0	0	611	(383)	(7,013)	2,979
3,484	**13,583**	**3,940**	**3,221**	**620**	**(389)**	**19,222**	**29,038**
203,733	243,390	55,814	49,413	644	(65)	555,270	574,030
0	0	64	39	0	0	64	39
0	0	10	10	0	0	822	1,076
11,404	13,420	18,726	17,390	641	(68)	70,121	70,275
8,141	5,532	7,165	4,246	0	0	34,277	24,574

European non-euro countries		Rest of world		Consolidation		Total	
2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
64,986	63,712	31,261	31,725	0	0	614,739	594,189
						314,785	308,655
23,135	22,944	12,941	9,708	(1,420)	(1,651)	555,270	574,030
						246,666	247,065
3,110	789	247	413	0	0	34,277	24,574

A_ Basic data for the Group

The CENTROTEC Group – hereinafter also referred to as CENTROTEC – is an international group with subsidiaries in Europe, Asia and the USA with annual revenue of EUR 615 million (previous year EUR 594 million). The focus of CENTROTEC's activities is the development, production and sale of the following product areas:

- Heating systems, in particular condensing-boiler technology for gas and oil as the energy source, together with solar thermal systems
- Heat pumps
- Gas flue and air piping systems made predominantly from plastic components
- Construction materials for airtight and watertight, sustainable building
- Ventilation systems with and without heat recovery
- Climate control systems
- Combined heat and power units, in particular fuelled by natural gas, sewage gas and biogas
- Medical technology components and equipment, as well as
- Plastic semi-finished and prefabricated products.

In addition to the existing businesses, the CENTROTEC Group defines its business purpose as creating and acquiring new business areas and companies in which energy-saving products are developed and sold, and/or the expertise of which lies in the domain of medical technology products, innovative plastic-based products or gas flue and ventilation systems.

CENTROTEC Sustainable AG has been listed on the Frankfurt Stock Exchange as a public limited liability company since December 8, 1998. Many of the companies included in the Consolidated Financial Statements nevertheless go back further. The Group parent, CENTROTEC Sustainable AG, Brilon, Germany, is listed in the Prime Standard under the codes CEV, WKN 540750 and ISIN DE0005407506. CENTROTEC Sustainable AG is entered on the Commercial Register of the Local Court of Arnsberg, Germany, under the number HRB 2161. That Group parent's registered offices are located at Am Patbergschen Dorn 9, 59929 Brilon, Germany. CENTROTEC Sustainable AG is not part of a superordinate group, and is the ultimate parent company of the Group presented in these Notes and Consolidated Financial Statements. Further financial and corporate information on CENTROTEC is available from the above address, or on the homepage www.centrotec.de.

The financial year of CENTROTEC corresponds to the calendar year. The income statement therefore covers the period from January 1 to December 31, 2018 and has been prepared using the nature of expenditure method. The Consolidated Financial Statements are prepared based on a historical cost approach, with the exception that certain financial instruments are accounted for at market value and the pension obligations are accounted for using the projected unit credit method. The Consolidated Financial Statements have been prepared in euros. Unless otherwise indicated, the amounts quoted here are in thousand euros (EUR thousand). For mathematical reasons, there may be rounding differences of +/- one unit.

B_ Standards applied

The Consolidated Financial Statements at December 31, 2018 have been prepared in accordance with the “International Financial Reporting Standards” (IFRS) and their interpretations by the International Accounting Standards Board (IFRIC) issued by the International Accounting Standards Board (IASB), as adopted within the European Union (EU), taking account of Section 315e (1) of German Commercial Code. All IFRS standards the adoption of which is mandatory for the financial year from January 1, 2018 have been adopted.

CENTROTEC Sustainable AG, as the parent company of the CENTROTEC Group, is required to prepare annual financial statements in accordance with the requirements of German Commercial Code.

Accounting standards adopted for the first time

The following new standards and interpretations or amendments to existing standards and interpretations were to be adopted for the financial year from January 1, 2018:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers

The accounting method was modified in agreement with the transitional provisions. As a result of IFRS 9 Financial Instruments, CENTROTEC now recognises the securities held within fixed assets in the amount of EUR 613 thousand (previous year EUR 850 thousand) through profit or loss, rather than within equity. The item previously measured within equity in the amount of EUR 166 thousand at December 31, 2017 was reclassified to the profit/loss carryforward. The two standards have not led to any further material changes in the net worth, financial position and financial performance. However they have resulted in a number of amended or additional disclosures in the notes.

Accounting standards applicable from the 2019 financial year or later

A large number of new or amended standards and interpretations are only to be adopted from the 2019 financial year or later and were not adopted in these Consolidated Financial Statements. None of these standards has a material effect on the net worth, financial position and financial performance except for the following:

IFRS 16	Leases

IFRS 16

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases in its financial statements.
The standard provides a single lessee accounting model. This model requires lessees to recognise rights of use to assets and liabilities for all leases on the balance sheet unless the lease term is twelve months or less or the underlying asset has a low value (in each case option). For accounting purposes the lessor continues to distinguish between finance and operating leases. The accounting model of IFRS 16 does not differ significantly here from that of IAS 17, Leases.
IFRS 16 was published in January 2016 and is to apply for the first time for financial years beginning on or after January 1, 2019; earlier adoption is permissible. CENTROTEC will adopt IFRS 16 starting from the financial year beginning on January 1, 2019. This is likely to have an influence on the net worth, financial position and financial performance because we recognise our assets and liabilities from (finance) leases on the balance sheet. As matters stand, CENTROTEC expects the balance sheet total to rise as a result of the capitalisation of the lease obligations and their corresponding recognition as liabilities of approx. EUR 15 million. Under the new rules of IFRS 16, the rental expense according to the current rules of IAS 17 will be reflected in the depreciation and amortisation (approx. EUR 5 million) and in interest (EUR 0.4 million).

C__Consolidation methods

The balance sheet date of the companies included in the Consolidated Financial Statements is December 31, 2018. The annual financial statements of the domestic and foreign subsidiaries prepared in accordance with local law are prepared according to uniform Group recognition and measurement principles.

Unless indicated to the contrary, the consolidation methods applied in these accounts have remained unchanged from the previous year.

a_Subsidiaries

Subsidiaries are included in the Consolidated Financial Statements insofar as controlling influence is exercised by the Group. Controlling influence is exercised if the Group is exposed to fluctuating returns from its involvement in the affiliated company or has entitlements to these and has the capacity to influence these returns by way of its power of disposal over the affiliated company. The date of first or last inclusion in the Consolidated Financial Statements within the context of full consolidation is fundamentally based on the date on which controlling influence is achieved or lost.

Business combinations are reported according to the purchase method. For this purpose, all assets and liabilities as well as contingent liabilities of the acquired company in existence at the time of acquisition are measured at fair value, irrespective of the existence of minority interests. For each corporate acquisition, CENTROTEC decides on a case by case basis whether the non-controlling interests in the acquired enterprise are measured at fair value or based on the proportion of net assets held in the acquired enterprise. The transaction costs directly attributable to the acquisition are offset immediately through profit or loss. The difference in amount between the cost of acquisition and the pro rata net equity is initially allocated to the assets, liabilities and contingent liabilities where its fair value differs from the carrying amount at the time of first-time consolidation. The deferred tax effects resulting from a business combination are likewise taken into account. Any remaining balance in the cost of acquisition over the fair value measurement of the net assets acquired is reported as goodwill. This is then tested for impairment at least once a year and, if necessary, written down to the lower value determined. Shares in the equity of subsidiaries that are not attributable to the Group parent are reported within equity as a non-controlling interest. Where the cost of acquisition falls below the fair value measurement of the net assets acquired, the remaining difference is recognised in the income statement.

Where acquisitions occur over a period of time, the interests already held are measured at fair value at the date of acquisition. The difference between the carrying amount and the fair value is recognised in the Consolidated Income Statement.

Conditional purchase price components are included in the determination of the purchase price at their fair value at the time of the acquisition based on their probability of occurrence. The conditional purchase price components may be both equity instruments and financial liabilities. Depending on category, changes in the fair value are taken into account upon subsequent measurement.

Intra-Group transactions, balances, revenues, expenses and earnings, gains, losses as well as accounts receivable and payable between consolidated companies are eliminated. For consolidation measures with an effect on income, the effects on income taxes are accounted for and deferred taxes are recognised. Any intercompany profits from trade are eliminated on a pro rata basis if the companies concerned had not left the Group as at the balance sheet date. In each case the data of the company managing the inventory has been taken as the basis here.

b_Associated companies

Investments in associated companies are included in the Consolidated Financial Statements by the equity method if the ownership interest is between 20 % and 50 % or if the Group exercises considerable influence, but no control, by another means. Under the equity method, shares in associated companies are measured initially at cost. The carrying amount is increased or decreased to recognise the investor's profit share of the investee's earnings for the period after the date of acquisition. The share also includes goodwill arisen at the date of acquisition. At each balance sheet date the investment is then tested for impairment and, if impairment is established, written down to the lower value determined.

Unrealised gains from business transactions between the Group and its associated companies are eliminated in proportion to the company's ownership interest; unrealised losses are likewise eliminated proportionally, unless the value of the transferred asset has been diminished. Where the Group's share of the loss of an associated company exceeds the carrying amount of its investment, the Group does not record any further losses, unless it has assumed liabilities on behalf of the associated company or made payments for obligations of the associated company.

c_Miscellaneous investments

Investments over which the CENTROTEC Group exercises no control or no significant influence and where its ownership interest is generally not in excess of 20 % are recognised as available-for-sale financial assets. Moreover, certain economically insignificant investments are likewise classified as financial assets available for sale.

D_ Foreign currency translation

The Consolidated Financial Statements are prepared in euros (EUR), as this is the functional currency of CENTROTEC Sustainable AG.

As part of the consolidation process, the financial statements of foreign Group companies are translated into EUR where they have been prepared in a different currency. Assets and liabilities are translated at closing rates, and expense and income items are translated at average exchange rates for the period under review. Any currency translation differences from this translation into the Group reporting currency are recognised within equity with no effect on income. In the event of the disposal of business operations, translation differences hitherto recognised income-neutrally within equity are recognised through profit or loss. Where necessary, shareholders' equity is translated at historical rates. Goodwill having arisen from business combinations as well as adjustments of valuations to fair values are attributed to the respective units, reassessed in their currency and, if necessary, translated at the exchange rates valid at the reporting date. None of the companies included in the Consolidated Financial Statements is based in a hyperinflationary economy.

The following table shows the exchange rates used for these accounts:

Foreign currency translation

ISO code	Rate at reporting date 31/12/2018	31/12/2017	Average rate 2018	2017
CHF	1.1269	1.1702	1.1550	1.1117
CNY	7.8751	7.8044	7.8081	7.6290
DKK	7.4673	7.4449	7.4532	7.4386
GBP	0.8945	0.8872	0.8847	0.8767
HKD	8.9675	9.3720	9.2559	8.8045
HRK	7.4125	7.4400	7.4182	7.4637
PLN	4.3014	4.1770	4.2615	4.2570
RUB	79.7153	69.3920	74.0416	65.9383
USD	1.1450	1.1993	1.1810	1.1297

E_Accounting policies

a_Goodwill
Goodwill is the excess of the cost of an investment over the market value of the acquiree's assets (on a time proportion basis) less liabilities and contingent liabilities at the time of acquisition. For the purpose of testing for impairment, goodwill must be allocated to a cash generating unit or group of cash generating units where it is assumed that they will benefit from the merger. Every unit or group of units to which goodwill is allocated must reflect the lowest level within the company at which goodwill is monitored for internal management purposes, and may not be larger than an operating segment.

Goodwill is assessed for impairment (value in use) once a year by means of an impairment test, irrespective of whether or not there is evidence of impairment. If necessary, an impairment loss is applied. Goodwill is recognised at cost, less accumulated impairment. If the reasons for a reduction for impairment applied to an asset on the basis of an impairment test have wholly or partly ceased to apply in a subsequent period, that impairment is not reversed accordingly.

b_Intangible assets
Intangible assets are capitalised at cost and depreciated by the straight-line method in accordance with their anticipated useful lives. To the extent that intangible assets (e.g. brand rights) have an indeterminate useful life, they are included in the annual impairment test.

The following table shows the useful lives serving as the basis for depreciation and amortisation by the straight-line method for intangible assets:

	Years
Brand rights, licences and customer bases	3 - 20
Patents and technologies	3 - 25
Software and software developments	2 - 10
Capitalised development costs	3 - 10

c_Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated regular depreciation occasioned by use and impairment. Provided borrowing costs are in connection with the production, construction and acquisition of qualifying assets that necessarily take a substantial period of time to get ready for their intended use or sale, they are capitalised as part of the cost of the asset pursuant to IAS 23. Depreciation is applied according to the straight-line method. If necessary, a reduction for impairment is recognised for property, plant and equipment down to the recoverable amount.

The following table shows the useful lives serving as the basis for depreciation and amortisation by the straight-line method for property, plant and equipment:

	Years
Buildings	10 - 50
Plant and machinery	3 - 20
Fixtures and office equipment	3 - 15

d_Impairment of intangible assets and property, plant and equipment
Assets that are subject to depreciation and amortisation are tested for impairment if corresponding events or changes in circumstances indicate that the carrying amount may potentially no longer be realisable. Assets that have an indeterminate useful life are tested annually for impairment unless indications are detected earlier that impairment may have occurred. The amount by which the carrying amount exceeds the recoverable amount is recognised as an impairment loss. The recoverable amount is the higher of the fair value of the asset less the costs of disposal, or the value in use. In subsequent years it is examined whether to apply a recovery in value to the recoverable amount, but to no more than the scheduled values, i.e. without impairment loss. The reversal of impairment losses recognised in previous periods is recognised immediately through profit or loss.

e_Inventories

Inventories are measured at the lower of cost or net realisable value. Raw materials and supplies are valued at the average cost. Work in progress, finished goods and merchandise are measured at average values or on the basis of cost, using the FIFO method. The cost of conversion for work in progress and finished goods consists of direct costs of materials, direct labour, other direct costs as well as appropriate shares of production-related indirect materials and indirect labour which have arisen as a result of bringing the inventories to their current location and current state. It is determined on the basis of normal capacity utilisation. Appropriate discounts are performed for sales-related risks. The net realisable value constitutes the estimated selling price in the ordinary course of business less the estimated costs of completion and sale yet to be incurred.

f_Deferred tax

Deferred tax relates to tax deferrals resulting from temporally diverging stated amounts between the balance sheet prepared in accordance with IFRS and the tax balance sheets of the individual companies, as well as from consolidation processes. The deferred tax assets also include tax rebate claims resulting from the anticipated use of existing loss carryforwards in subsequent years and which are to be realised with reasonable certainty. Deferred tax is determined on the basis of the tax rates which are likely to apply in the individual countries at the time of reversal of the differences. It is furthermore based on current legislation and ordinances. Deferred tax assets and liabilities are not discounted. Deferred tax resulting from temporary differences in connection with investments in subsidiaries and associated companies is reported unless differences cannot be reversed within a foreseeable time frame or the timing of the reversal can be controlled by the company. The deferred tax assets on temporary differences are tested for impairment at each reporting date. Deferred tax is fundamentally classified as non-current on the balance sheet. Deferred tax assets and liabilities are offset if a corresponding legally enforceable right to offsetting exists and if the deferred tax assets and liabilities are in respect of income taxes levied by the same taxation authority either for the same taxable entity or for different taxable entities that intend to settle on a net basis.

The tax expense for the period comprises current and deferred tax. Tax is reported in the income statement, unless it refers to items that have been recognised directly within equity or within the other result. In that instance, the tax is likewise recognised within equity or within the other result. The current tax expense is calculated using the tax regulations applicable at the balance sheet date (or being introduced shortly) of the countries in which the company and its subsidiaries are active and generate taxable income. The management examines tax declarations regularly, above all in respect of matters that are open to interpretation, and if appropriate creates provisions based on the amounts that are expected to be payable to the tax authorities.

g_Cash and cash equivalents

Cash and cash equivalents comprises cash in hand, demand deposits, and deposits with a maturity of up to three months. Amounts owed to banks repayable on demand form an integral part of the Group's cash management. For the purpose of the cash flow statement, they are therefore included in the financial resources alongside cash and cash equivalents with a maturity of three months. These amounts owed to banks and due at any time are shown on the balance sheet as short-term financial debt.

h_Pension provisions

The pension provisions are created for defined benefit pension obligations to management and other employees, and calculated on the basis of the present value of future commitments pursuant to IAS 19 using the projected unit credit method, taking into account future pay and pension increases and the mortality tables currently available. A variety of pension plans exist within the Group. The pension obligations are disclosed netted against the plan assets on the equity and liabilities side of the balance sheet. The remeasurements from pension plans are reflected in equity, under the retained earnings, with no income effect. They may not be reclassified to profit or loss at a later date (recycling).

For further information on the pension obligation and plan assets, please refer to Note [11].

In many countries in which CENTROTEC employees are engaged, there exists a contribution-based statutory basic pension scheme that pays out a pension on the basis of income and contributions made. In the case of defined contribution plans, fixed amounts are paid to funds outside the Group. In paying the contributions to public pension schemes, CENTROTEC has no further benefit obligations. In addition, individual employees in the Group have taken out policies with private insurance companies which are subsidised in certain respects on the basis of company agreements. Apart from the personnel expenses for subsidies that are included in employee benefit costs, the Group has no further benefit obligations. This applies in particular if a fund outside the Group does not maintain sufficient assets to settle the claims made against it from current and previous financial years.

i_Other provisions

Other provisions are created for all present obligations at the balance sheet date resulting from previous business transactions or past occurrences, where the amount and due date are uncertain. These accruals and provisions are stated at the present value of the most likely, reliably estimable amount of settlement and are not netted against revenue and gains. The likelihood of the cash outflow must be more than 50 % (“more likely than not” criterion). Provisions are created only where a legal or factual obligation to third parties exists and the level of the provisions could be reliably determined. In the event of a wide range of obligations of a similar nature resulting for instance from statutory warranty obligations, these are determined on the basis of this group of obligations. Provisions may in certain circumstances be recognised as a liability if the likelihood of an isolated obligation materialising within the underlying overall Group is slight.

The provision for warranties should likewise be created for free-of-charge reworking, substitute deliveries, price reductions or compensation payments for nonfulfilment. It may be based on statutory obligations or on an independent warranty commitment. Within the CENTROTEC Group, as well as individual provisions, general provision should be created if a warranty claim must be expected on the basis of past events. The flat rate is to be determined independently by each Group company on the basis of past experience and updated annually.

j_Leases

Leases where all opportunities and risks are attributable in substance to the Group are classified as finance leases. They are measured at the fair value of the asset at the start of the lease term or at the lower present value of the future leasing instalments. A lease liability for an equivalent same amount is recognised under non-current liabilities. Every lease payment is divided up into a capital and an interest portion. Leases where significant portions of the opportunities and risks rest with the lessor are classified as operating lease obligations. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the term of the lease.

k_Financial instruments

A financial instrument is any contract that gives rise to both a financial asset at one enterprise and a financial liability or equity instrument at another enterprise. The balance sheet includes both primary and derivative financial instruments. Normal market purchases and sales of financial assets are recognised at the settlement date.

For the measurement of financial assets IFRS 9, as previously IAS 39, applies the concept of categorisation and measurement. To that end, each financial instrument initially needs to be assigned to one of the three measurement categories:

- Amortised cost
  (AC category)
- Fair value through other comprehensive income
  (FVTOCI category)
- Fair value through profit or loss
  (FVTPL category).

Classification is fundamentally dependent on two criteria. First, on the nature of the business model in which the financial instrument is held, and second, on the form of the contractual cash flows. Reclassification is permissible exclusively if the business model changes.

Overview of CENTROTEC financial Instruments and their categories

Financial instrument	New category	Old category
Assets		
Loans originated by the enterprise and investments	AC category	AC category
Long-term securities	FVTPL category	FVTOCI category
Trade receivables	AC category	AC category
Cash and cash equivalents	AC category	AC category
Current investments	FVTPL category	FVTPL category/ FVTOCI category
Derivatives that satisfy the rules on hedge accounting	FVTOCI category	FVTOCI category
Derivatives that do not satisfy the rules on hedge accounting	FVTPL category	FVTPL category
Other financial assets	AC category	AC category
Liabilities		
Borrowings	AC category	AC category
Trade payables	AC category	AC category
Derivatives that satisfy the rules on hedge accounting	FVTOCI category	FVTOCI category
Derivatives that do not satisfy the rules on hedge accounting	FVTPL category	FVTPL category
Other financial liabilities	AC category	AC category

The switch from IAS 39 to IFRS 9 did not lead to any changes in the carrying amounts. However securities are now measured through profit or loss rather than within equity. This meant that the income-neutral measurement amounting to EUR 166 thousand at January 1, 2018 was reclassified to the profit/loss carryforward.

Impairment

The impairment model in IFRS 9 is based on the premise of providing for expected losses instead of losses that have arisen. Accordingly, losses should already be recognised if they are to be expected based on the credit risk. This is done by assigning all financial instruments to one of three levels that reflect the loss to be recognised. Upon addition, all financial instruments are fundamentally assigned to level 1. At this level, the impairment loss to be recognised is measured according to the so-called 12-month expected credit loss. This means the present value of payment defaults that arise from possible default events within 12 months after the reporting date. If the credit risk has increased significantly since the time of addition, a transfer to level 2 of the impairment model should be made. This has the consequence that risk provisioning needs to take place in the amount of the present value of the losses expected over the entire maturity. If there is objective evidence of impairment, the asset should then be classified to level 3. The risk provisioning to be recognised should be calculated in the same way as for level 2. There is the option of applying a simplified impairment model for trade receivables and for leasing receivables.

Accounting of hedging relationships

Derivative financial instruments are used within the Group for hedging the interest and exchange rate risks resulting from operating activities, financial transactions and investments, and are designated through cash flow hedges. Initial and subsequent measurement is at the fair value. The measurement result is broken down into an effective and an ineffective portion. The effective portion is recognised income-neutrally under a separate item within equity. The ineffective portion of the measurement result, on the other hand, is recognised through profit or loss. The accumulated measurement results within equity are liquidated with an income effect if the hedged item starts to affect income. The measurement result from derivative financial instruments that are classified as an economic hedge, and not for hedge accounting, is recognised through profit or loss.

Determination of the fair values of financial instruments
An enterprise is to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. This hierarchy comprises three levels: a) the prices quoted in active markets for identical assets or liabilities (and adopted unchanged) (Level 1); b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and c) inputs for the asset or liability that are not based on observable market data (non-observable inputs) (Level 3).

The fair values carried on the balance sheet generally correspond to the market prices of the financial assets and liabilities (Level 1). If no market prices are available, they are calculated with the aid of accepted valuation models (Level 2). In the CENTROTEC Group, securities that are measured at market prices come under Level 1. The financial derivatives for which the fair value is determined with the aid of the DCF method come under Level 2. The relevant market prices, interest rates and interest rate volatilities observed at the balance sheet dates and obtained from accepted external sources serve as the input parameters for this method. There are no other financial instruments that are carried at fair value, i.e. there are no financial instruments to be classified as Level 3. CENTROTEC determines disclosure of the fair value of bank liabilities by discounting the expected future payment streams (Level 2).

l_Revenue

Revenue is recognised for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is implemented in a five-step framework model:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Contract costs that have arisen for the acquisition of a contract are to be recognised as an asset if the enterprise expects that their future reimbursement and these costs would not have arisen without the contract. However as a practical simplification, these costs may be recognised immediately as an expense if the contract concluded has an expected maturity of no more than one year.

m_Government grants

Government grants for costs are recognised as income-effective over the period in which the corresponding costs which they are intended to cover arise.

n_Financing costs

Financing costs such as interest are recognised as income or expense time-proportionally and on an accrual basis that reflects the terms of the asset or liability, using the effective interest rate method.

o_Dividends

Dividends such as dividend revenue from investments and shareholders’ entitlements to dividend payments are recognised as payments when the right to receive payment arises.

F_Financial risk management

a_Financial risk factors

Financial risk management objectives and policies

The CENTROTEC Group operates internationally. In view of the variety of its activities, the Group is exposed to a large number of financial risks. We take risk to mean unexpected occurrences and possible developments that adversely affect the attainment of set targets and expected progress. Risks that have a material influence on the net worth, financial position and financial performance are of relevance. The Group's risk management system analyses various risks and attempts to minimise negative effects on the financial position of the Group. Risk management is practised on the basis of existing guidelines. Risk managers identify, measure, assess and support the steering of potential sources of risks.

In measuring and controlling significant individual risks, a distinction is made between credit, market and liquidity risks.

Credit risk

We take credit risk to mean the risk of a loss following the defaulting or deterioration in creditworthiness of a business partner. The maximum credit risk corresponds to the aggregate of the carrying amounts of financial assets on the balance sheet which are recognised net of reductions for impairment, plus these same reductions for impairment.

Impairment of trade receivables is applied according to uniform rules and covers all discernible creditworthiness risks. Portfolio impairment was created for losses that have materialised but not yet been identified. For further disclosures on impairment and the maturities structure of receivables, we refer to the disclosures on trade receivables.

Credit risks regarding accounts receivable are in essence limited by the application of credit approvals, credit insurance, credit limits and monitoring procedures. The level of a credit limit reflects the creditworthiness of a counterparty and the typical size of the transaction volume with that counterparty. The assessment of creditworthiness is based on the one hand on information from external credit reporting agencies and on the other hand on internally acquired past experience in dealing with the counterparty in question. With regard to receivables that are neither overdue nor impaired, there is no evidence at the reporting date that the debtors will not meet their commitments from these receivables.

As a result of the large number of customers in various customer groups and their international structure and the application of credit insurance, the credit risk of trade receivables is diversified. CENTROTEC has no significant concentration of credit risk with any single customer. The largest customer in the Group accounts for around 4 % of revenue (previous year around 4 %).

Liquidity risk

We take the liquidity risk in the narrower sense to mean the risk of being unable to meet current or future payment commitments or only being able to meet them on unfavourable terms. The Group generates financial resources predominantly through its business operations. The liquidity risk is controlled by maintaining adequate levels of cash and unutilised credit lines with banks. All contractual loan arrangements are continuously monitored. The following table shows the contractually agreed, undiscounted cash flows from financial instruments. Variable interest payments were stated at the rates determined at the reporting date. Foreign currency amounts were translated using the spot rate at the reporting date.

Liquidity analysis (including forecast on interest payments as well as the revolving credit lines)

in EUR '000	Total outstanding amount	Of which maturity less than 1 year	Of which maturity 1 to 2 years	Of which maturity 2 to 5 years	Of which maturity over 5 years
2018	**234,972**	**75,169**	**8,772**	**19,972**	**131,059**
2017	231,644	66,620	9,298	20,903	134,823

There are moreover the following anticipated outflows of liquidity from the derivatives concluded:

in EUR '000	Total outstanding amount	Of which maturity less than 1 year	Of which maturity 1 to 2 years	Of which maturity 2 to 5 years	Of which maturity over 5 years
2018	**1,351**	**221**	**187**	**526**	**417**
2017	1,421	182	181	521	537

Market risk

We take the market risk to mean the risk of a loss that may arise as a result of a change in market parameters that have a bearing on measurement (exchange rate, interest rate, price).

The market risks from currency translation within CENTROTEC are limited, as the transactions take place principally in eurozone countries. However, a growing portion of business activities is taking place in European countries outside the eurozone, particularly Eastern Europe, but the markets outside Europe are also coming increasingly into focus. This geographical expansion gives rise to limited, manageable exposure to market risks from changes in interest and exchange rates. The Group therefore uses instruments for hedging foreign currency risks only selectively.

If the euro had gained 10 % in value against the principal foreign currencies for CENTROTEC at December 31, 2018, EBIT would have been higher by EUR 247 thousand (previous year EUR 15 thousand lower). If the euro had lost 10 % in value, EBIT would have been lower by EUR 300 thousand (previous year EUR 17 thousand higher).

Currency sensitivity

in EUR '000 Currency	Reporting-date rate	Rate if EUR gains 10 % in value	Sensitivity if EUR gains 10 % in value	Rate if EUR loses 10 % in value	Sensitivity if EUR loses 10 % in value
CHF	1.1269	1.24	5	1.01	(6)
CNY	7.8751	8.66	2	7.09	(2)
DKK	7.4673	8.21	267	6.72	(329)
GBP	0.8945	0.98	(53)	0.81	68
HKD	8.9675	9.86	0	8.07	0
HRK	7.4125	8.15	(25)	6.67	31
PLN	4.3014	4.73	(44)	3.87	54
RUB	79.7153	87.69	(33)	71.74	40
USD	1.1450	1.26	128	1.03	(156)
Total			**247**		**(300)**

If the euro had gained 10 % in value at December 31, 2018, shareholders' equity would have been EUR 848 thousand (previous year EUR 494 thousand) higher or, if the euro had lost 10 % in value, EUR 889 thousand (previous year EUR 750 thousand) lower. The determination of currency sensitivities took account of all significant financial instruments where the currency of the contract is not the same as the functional currency of the CENTROTEC Group. The calculations do not contain currency translation risks, nor deferred and actual taxes.

The market risks from interest rate changes stem predominantly from rate-sensitive financial assets and liabilities as well as cash and cash equivalents where interest rate changes result in changes in the anticipated cash flows. To hedge against adverse interest rate movements, mainly interest rate swaps have been concluded in order to hedge against the cash flow risks of loans with variable interest rates; they can be designated cash flow hedges in accordance with IFRS 9. For further disclosures on the hedging instruments used, please refer to the disclosures on the derivative financial instruments.

If market interest rates had been 100 base points higher or lower at December 31, 2018, earnings would have been EUR 362 thousand (previous year EUR 419 thousand) higher or EUR 88 thousand (previous year EUR 96 thousand) higher. Shareholders' equity would correspondingly have been EUR 1,547 thousand

Capital structure

Figures in EUR '000	31/12/2018	31/12/2017	31/12/2016	31/12/2015	31/12/2014
Equity	239,505	257,481	240,602	225,962	207,908
Long-term debt	216,780	219,641	134,898	125,375	122,068
Short-term debt	111,921	103,350	104,195	100,801	95,607
Balance sheet total	568,206	580,472	479,695	452,138	425,583
Equity ratio	42.2 %	44.4 %	50.2 %	50.0 %	48.9 %
Debt ratio	57.8 %	55.6 %	49.8 %	50.0 %	51.1 %

Belongs to section b_Capital risk management (previous year EUR 1,601 thousand) higher or EUR 263 thousand (previous year EUR 735 thousand) lower at December 31, 2018. All significant variable-interest receivables and liabilities from primary financial instruments of the CENTROTEC Group as well as cash flows from derivative financial instruments were taken into account in determining the sensitivity of earnings to interest rates. Equity sensitivity was calculated on the basis of hypothetical changes in the market value of the derivatives designated as hedges.

Other risks affecting the prices of financial instruments exist for the CENTROTEC Group above all in the form of trading prices and redemption prices that may affect the current investments. As a result of the conservative investment policy, this risk is assessed as moderate. The fair value of the current investments would increase or decrease by EUR 9,820 thousand as a result of a fluctuation of plus/minus 10 %.

Operating risks

Through its operating activities, the Group is exposed to market price risks in the form of commodity price risks. These may have a negative effect on the net worth, financial position and financial performance. CENTROTEC assesses these risks on a regular basis by monitoring changes in key indicators as well as market information. These market price risks are controlled predominantly via routine business operations and financing activities.

Credit risks on the procurement side are limited in the case of CENTROTEC. There are a great many suppliers for many raw materials and supplies. In critical areas of procurement, at least two sources of supply exist in virtually every case.

b_Capital risk management

The Group's aims with regard to capital management are to maintain the company as a going concern, in order to protect the interests and expectations of our shareholders, employees and other stakeholders. Another aim is to maintain an optimum capital structure in order to reduce the capital costs and control the risks, building in a premium for maintaining financial flexibility. To minimise risks, a financing structure is being established in which the financing of the individual parts of the Group is ring-fenced, i.e. they are kept strictly separate. It is necessary to ensure that both internal and external growth prospects and opportunities can be realised by parts of the Group at any time.
Potential measures for influencing the capital structure may concern both equity (e.g. ploughback) and debt (e.g. through the raising/repayment of loans). The target equity ratio should not normally be below 20 %.

G_Critical assumptions and estimates

The preparation of the Consolidated Financial Statements in agreement with IFRS requirements as adopted in the EU renders it necessary to make assumptions and estimates that influence the net worth, financial position and financial performance. These include expectations regarding the likelihood of events occurring, formed in the prevailing circumstances. Estimates relate to affairs that are uncertain at the time of recognition or up until the preparation of the financial statements

The assumptions and estimates that can materially influence the net worth, financial position and financial performance are explained below.

CENTROTEC carries out an impairment test at least once a year on its goodwill-bearing cash generating units. To estimate the value in use, the management must estimate the anticipated future cash flows of the cash generating units and in addition select an appropriate discount rate to determine the present value of these cash flows. The management's expectations consequently have an indirect impact on the measurement of goodwill and other assets. Conducting sensitivity analyses yields the following results: if the estimates of the underlying free cash flow had been 10 % lower, there would have been no impairment of goodwill. If an interest rate 100 base points higher had been taken as the basis for discounting of the cash flows, this would likewise not have led to any reduction in goodwill.

The recognition and measurement of provisions are equally influenced by the assumptions made on the probability of occurrence, timing, discount factor applied and absolute amount of the risk. In the case of pension entitlements in particular, actuarial calculations and estimates are indispensable.

Other key estimates concern determining the useful lives of intangible assets and property, plant and equipment, estimating the collectability of receivables and other assets, measuring inventories as well as the scope for realising tax receivables and deferred tax assets on temporary differences in accounting entries and tax loss carryforwards. In addition, at initial consolidation there are estimation uncertainties and areas of judgement in determining the fair values of the assets acquired and liabilities assumed.

H_ Disclosures on the consolidated companies

The following companies, which simultaneously constitute the CENTROTEC Group, were consolidated within CENTROTEC Sustainable AG at December 31, 2018:

Company

	Place and country of incorporation	Share of capital	Subscribed capital	Currency (ISO-code)	Founded/ acquired
Fully consolidated					
CENTROTEC Sustainable AG	Brilon, DE	-	18,020,923.00	EUR	*17/07/1998
Climate Systems segment					
Brink Climate Systems B.V.	Staphorst, NL	100 %	20,004.00	EUR	02/01/2002
Brink Climate Systems France S.A.S.	Nantes, FR	100 %	10,000.00	EUR	02/01/2014
Air Instal Group B.V.	Deventer, NL	100 %	18,152.00	EUR	02/01/2002
Air Instal B.V.	Deventer, NL	100 %	10,000.00	EUR	01/12/2015
ComfortExpert B.V.	Deventer, NL	100 %	10,000.00	EUR	25/06/2015
CENTROTEC Real Estate B.V.	Doesburg, NL	100 %	1.00	EUR	30/01/2014
Ned Air Holding Deutschland GmbH	Brilon, DE	100 %	25,000.00	EUR	08/04/2014
Ned Air Holding B.V.	Ijsselmuiden, NL	100 %	54,454.00	EUR	05/06/2003
Ned Air B.V.	Ijsselmuiden, NL	100 %	54,454.00	EUR	05/06/2003
Holmak HeatX B.V.	Sassenheim, NL	100 %	38,500.00	EUR	08/09/2005
Innosource B.V.	Sassenheim, NL	100 %	18,000.00	EUR	08/09/2005
HOLMAK D.O.O.E.L.	Bitola, MK	100 %	816,623.00	MKD	13/06/2013
CENTROTEC Energy Solutions B.V.	Staphorst, NL	100 %	18,000.00	EUR	08/09/2005
CENTROTEC Energy Solutions Nederland B.V.	Staphorst, NL	100 %	18,000.00	EUR	19/11/2010
Brink Climate Systems Deutschland GmbH	Ahaus, DE	100 %	450,000.00	EUR	29/11/2005
Wolf Holding GmbH	Mainburg, DE	100 %	25,000.00	EUR	22/09/2006
Wolf GmbH	Mainburg, DE	100 %	20,000,000.00	EUR	05/10/2006
Wolf France S.A.S.	Massy, FR	100 %	1,040,000.00	EUR	05/10/2006
Wolf Iberica S.A.	Madrid, ES	100 %	1,181,315.74	EUR	05/10/2006
Wolf Technika Grzewcza Sp.z.o.o.	Warsaw, PL	100 %	3,189,100.00	PLN	05/10/2006
Wolf Power Systems GmbH	Wolfshagen, DE	100 %	500,000.00	EUR	23/07/2018
Wolf Sustainable AG	Zürich, CH	100 %	100,000.00	CHF	24/06/2011
OOO Wolf Energiesparsysteme	Moscow, RU	100 %	113,200,000.00	RUB	25/11/2011
Wolf Klimaatechniek B.V.	Kampen, NL	100 %	150,000.00	EUR	05/10/2006
Wolf Italia S.R.L.	San Donato Melansese, IT	100 %	100,000.00	EUR	01/07/2013
PRO-KLIMA d.o.o.	Samobor, HR	100 %	9,107,600.00	HRK	01/07/2015
Wolf HVAC Systems Co. Ltd	Shanghai, CN	100 %	7,692,755.00	CNY	01/02/2016
Wolf HVAC HK Limited	Hong Kong	100 %	10,000.00	HKG	31/08/2015
CENTROTEC Energy Solutions GmbH	Brilon, DE	100 %	25,000.00	EUR	23/07/2008

Company

	Place and country of incorporation	Share of capital	Subscribed capital	Currency (ISO-code)	Founded/ acquired
Gas Flue Systems segment					
Ubbink B.V.	Doesburg, NL	100 %	46,290.00	EUR	21/12/1999
Ubbink N.V./ S.A.	Gentbrugge, BE	100 %	592,117.00	EUR	21/12/1999
Ubbink UK Ltd.	Brackley, UK	100 %	2,485,000.00	GBP	21/12/1999
Ubbink France S.A.S.	La Chapelle sur Erdre, FR	100 %	310,000.00	EUR	21/12/1999
Centrotherm Systemtechnik GmbH	Brilon, DE	100 %	108,360.00	EUR	15/12/1993
Centrotherm Gas Flue Technologies Italy S.R.L.	Verona, IT	100 %	119,000.00	EUR	19/10/2000
Centrotherm Eco Systems, LLC	Albany, USA	100 %	300,000.00	USD	22/04/2009
Centrotherm Gas Flue Technology (Jiangsu) Co., Ltd.	Nantong, CN	100 %	4,297,885.52	CNY	11/02/2015
Ubbink Deutschland GmbH	Brilon, DE	100 %	25,000.00	EUR	14/07/2008
CENTROTEC Composites GmbH	Brilon, DE	100 %	27,000.00	EUR	01/08/1990
CENTROTEC International GmbH	Brilon, DE	100 %	25,000.00	EUR	18/12/2002
CENTROTEC Finance BV	Staphorst, NL	100 %	20,000.00	EUR	03/12/2015
CENTROTEC Finance BV & Co. KG	Brilon, DE	100 %	14,876.00	EUR	16/12/2015
FIS CENTROTEC Finance	Luxembourg	100 %	114,967,157.18	EUR	27/01/2016
Centrotec Building Technology (Jiaxing) Co. Ltd	Jiaxing, CN	100 %	2,500,000.00	USD	20/09/2018
XCNT GmbH	Berlin, DE	100 %	25,000.00	EUR	27/09/2018
Medical Technology & Engineering Plastics segment					
medimondi AG	Fulda, DE	100 %	11,640,000.00	EUR	*16/10/2006
Möller GmbH	Fulda, DE	100 %	60,000.00	EUR	28/08/2003
Möller Medical GmbH	Fulda, DE	100 %	1,400,000.00	EUR	28/08/2003
Möller Medical USA Inc.	Saratoga Springs, USA	100 %	10.00	USD	27/05/2014
Centroplast Engineering Plastics GmbH	Marsberg, DE	100 %	250,000.00	EUR	01/08/1990
Rolf Schmidt Industriplast A/ S	Kolding, DK	100 %	3,000,000.00	DKK	16/03/2001
Companies consolidated using the equity method					
VAC-Stent Medtec AG	Canton Zug, CH	25 %	100,000.00	CHF	01/08/2017
Companies recognised as available-for-sale financial assets (non-consolidated companies), as they are of no material significance:					
Wolf (Schweiz) AG	Kilchberg, CH	9 %	100,000.00	CHF	18/02/2014

* Date of creation by modifying conversion

The company Kuntschar & Schlüter GmbH was merged with Wolf Power Systems GmbH on July 23, 2018.

Explanatory notes on components of the consolidated financial statements

1 Goodwill

The classification and movements of goodwill are shown in the following schedule:

in EUR '000	
2018	
Accumulated cost Jan 1	79,548
Exchange differences	10
Additions	0
Disposals	0
Accumulated cost Dec 31	79,558
Accumulated impairment Jan 1	(2,263)
Exchange differences	0
Additions	0
Disposals	0
Accumulated impairment Dec 31	(2,263)
Net carrying amount 31/12/2018	**77,295**
2017	
Accumulated cost Jan 1	79,483
Exchange differences	88
Additions	0
Disposals	(23)
Accumulated cost Dec 31	79,548
Accumulated impairment Jan 1	(2,263)
Exchange differences	0
Additions	0
Disposals	0
Accumulated impairment Dec 31	(2,263)
Net carrying amount 31/12/2017	**77,285**

The goodwill totalling EUR 77,285 thousand reported at December 31, 2017 rose by an amount of EUR 10 thousand in the 2018 financial year to EUR 77,295 thousand. This increase is attributable to exchange rate fluctuations.

In the CENTROTEC Group a distinction is made between four cash generating units to which goodwill is allocated. The impairment test was performed on the basis of value in use. The calculations were based on a cash flow oriented model. The calculations are based on the approved plans for 2019. The average growth over the past five years has been assumed for the years 2020 to 2023. Growth is 2.2 % for the Wolf CGU, 5.5 % for the Brink CGU, 5.3 % for the Ubbink CGU and 4.4 % for the medimondi CGU. A perpetual pension is in addition calculated on the basis of the fifth year of the planning period for cash flow. The perpetual pension was assumed to have a growth rate in cash flow of 1.0 % (previous year 1.0 %) for all CGUs. The discount rate was formed from the weighted costs of borrowed capital and equity capital, with the equity capital costs derived using CAPM. The discount rate before tax is 4.24 % for the Wolf CGU, 4.08 % for the Brink CGU, 4.50 % for the Ubbink CGU and 4.44 % for the medimondi CGU (previous year 4.64 % to 5.23 %).

The impairment tests revealed no need for impairment of goodwill in either the 2018 financial year or in the comparative period 2017.

The following table shows the distribution of goodwill between the cash generating units:

Cash generating units

	31/12/2018	**31/12/2017**
Wolf Group	36,472	36,458
Brink Group	25,433	25,433
Ubbink Group	11,092	11,092
Medimondi Group	4,298	4,302
Total	**77,295**	**77,285**

2 Intangible assets

The classification and movements of intangible assets are shown in the following schedule:

in EUR '000	Industrial rights and similar rights	Software	Capitalised development costs	Assets in course of construction	Total intangible assets Total
2018					
Accumulated cost Jan 1	24,700	25,488	55,832	4,937	110,957
Exchange differences	3	(1)	2	0	4
Additions	26	1,266	2,831	6,981	11,104
Reclasses	(6)	1,667	54	(1,715)	0
Disposals	(51)	(318)	(207)	0	(576)
Deconsolidation	0	0	0	0	0
Accumulated cost Dec 31	24,672	28,102	58,512	10,203	121,489
Accumulated depreciation/ amortisation and impairment Jan 1	(8,778)	(18,843)	(43,602)	0	(71,223)
Exchange differences	0	0	(1)	0	(1)
Additions	(568)	(2,408)	(4,048)	0	(7,024)
Disposals	49	216	207	0	472
Deconsolidation	0	0	0	0	0
Accumulated depreciation/ amortisation and impairment Dec 31	(9,297)	(21,035)	(47,444)	0	(77,776)
Net carrying amount 31/12/2018	**15,375**	**7,067**	**11,068**	**10,203**	**43,713**
2017					
Accumulated cost Jan 1	24,654	22,323	53,100	3,861	103,938
Exchange differences	14	(8)	(2)	0	4
Additions	48	1,797	1,905	4,033	7,783
Reclasses	0	1,943	994	(2,937)	0
Disposals	(16)	(567)	(165)	(20)	(768)
Deconsolidation	0	0	0	0	0
Accumulated cost Dec 31	24,700	25,488	55,832	4,937	110,957
Accumulated depreciation/ amortisation and impairment Jan 1	(8,144)	(16,649)	(39,398)	0	(64,191)
Exchange differences	(1)	1	1	0	1
Additions	(649)	(2,703)	(4,370)	0	(7,722)
Disposals	16	508	165	0	689
Deconsolidation	0	0	0	0	0
Accumulated depreciation/ amortisation and impairment Dec 31	(8,778)	(18,843)	(43,602)	0	(71,223)
Net carrying amount 31/12/2017	**15,922**	**6,645**	**12,230**	**4,937**	**39,734**

The industrial rights and similar rights include the "Wolf" brand (EUR 11.5 million). The Wolf brand has no specified useful life because we have secured the exclusive right to use the "Wolf" brand under trademark rights; its useful life is therefore indefinite from a legal perspective. Even taking the economic perspective as a basis, we are unable to forecast for how long the company and therefore the "Wolf" brand will exist; as a result, based on an analysis of all relevant factors we are unable to express any foreseeable limit to the period in which the asset is likely to generate net cash flows for the company. No amortisation takes place in view of the indefinite useful life. The "Wolf" brand is therefore subjected to a yearly impairment test, which has hitherto revealed no need for impairment. The parameters used for this correspond to the parameters for the impairment test of goodwill in Note 1. Expenses for predominantly internal research and development (incl. expenditure that may be recognised as an asset) in the financial year amounted to EUR 17,905 thousand (previous year EUR 16,835 thousand). Development activities in essence concerned new, high-efficiency, environmentally friendly monobloc air/water heat pumps, a series of wall-mounted non-condensing gas boilers developed specially for the Chinese residential market, a new generation of an oil condensing boiler series in the performance range up to 40 kW, a new generation of high-efficiency, low-noise central home ventilation appliances with heat recovery, and the widening of the performance spectrum of compact air handling units with rotary heat exchanger for handling high air volumes of up to 20,000 m^3/h. There in addition exist commitments amounting to EUR 457 thousand (previous year EUR 210 thousand) for intangible assets.

3 Property, plant and equipment

The classification and movements of property, plant and equipment are shown in the following schedule:

in EUR '000	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Assets in course of construction	Total property, plant and equipment
2018					
Accumulated cost Jan 1	114,289	107,702	72,064	4,026	298,081
Exchange differences	6	77	(9)	(2)	72
Additions	785	4,041	5,430	12,917	23,173
Reclasses	212	2,835	1,316	(4,363)	0
Disposals	(952)	(1,377)	(1,298)	(88)	(3,715)
Deconsolidation	0	0	0	0	0
Accumulated cost Dec 31	114,340	113,278	77,503	12,490	317,611
Accumulated depreciation/ amortisation and impairment Jan 1	(48,124)	(74,000)	(51,940)	0	(174,064)
Exchange differences	0	(14)	6	0	(8)
Additions	(3,818)	(7,144)	(6,074)	0	(17,036)
Disposals	946	1,352	1,178	0	3,476
Reclasses	0	54	(54)	0	0
Deconsolidation	0	0	0	0	0
Accumulated depreciation/ amortisation and impairment Dec 31	(50,996)	(79,752)	(56,884)	0	187,632
Net carrying amount 31/12/2018	**63,344**	**33,526**	**20,619**	**12,490**	**129,979**
2017					
Accumulated cost Jan 1	112,888	101,899	66,184	5,463	286,434
Exchange differences	39	(168)	(41)	(59)	(229)
Additions	1,383	5,182	5,660	4,567	16,792
Reclasses	20	3,614	2,311	(5,945)	0
Disposals	(41)	(2,825)	(2,050)	0	(4,916)
Deconsolidation	0	0	0	0	0
Accumulated cost Dec 31	114,289	107,702	72,064	4,026	298,081
Accumulated depreciation/ amortisation and impairment Jan 1	(43,965)	(68,984)	(47,879)	0	(160,828)
Exchange differences	(2)	47	15	0	60
Additions	(4,198)	(7,035)	(5,781)	0	(17,014)
Disposals	41	1,829	1,848	0	3,718
Reclasses	0	143	(143)	0	0
Deconsolidation	0	0	0	0	0
Accumulated depreciation/ amortisation and impairment Dec 31	(48,124)	(74,000)	(51,940)	0	(174,064)
Net carrying amount 31/12/2017	**66,165**	**33,702**	**20,124**	**4,026**	**124,017**

Land and buildings comprise mainly the production and office buildings in Brilon (Germany), Mainburg (Germany), Doesburg (Netherlands), Kampen (Netherlands), Staphorst (Netherlands), La Chapelle sur Erdre (France), Fulda (Germany), Marsberg (Germany), Wolfhagen (Germany), Gorleben (Germany), Kolding (Denmark), San Donato Milanese (Italy), Madrid (Spain) and Samobor (Croatia). Construction work on new buildings and extensions to production halls started at the Doesburg and Kolding locations in the 2018 financial year.

Technical equipment and machinery at the production plants was extended and technologically upgraded. Other furniture, fixtures and office equipment consists of various items in production, warehouses and administration. Property, plant and equipment includes assets to the value of EUR 3,553 thousand (previous year EUR 2,744 thousand) reported as finance leases. The bulk of these comprises technical equipment and machinery amounting to EUR 3,468 thousand (previous year EUR 2,639 thousand) and other furniture, fixtures and office equipment amounting to EUR 85 thousand (previous year EUR 105 thousand).
In addition there exist commitments amounting to EUR 3,646 thousand for property, plant and equipment.

4 Investments accounted for using the equity method, investments and loans originated by the enterprise

These assets comprise investments accounted for using the equity method, other investments that are not included in consolidation as they are of no material significance (see Section H. Disclosures on the consolidated companies), as well as loans originated by the enterprise, and securities.

Associated companies accounted for using the equity method:

Industrial Solar GmbH was already written down to EUR 0 in 2013. The company was wound up in the 2018 financial year and is no longer a CENTROTEC consolidated company. VAC-Stent Medtec AG is accounted for at equity. Möller Medical holds a 25 % participating interest in this company. The cost of acquisition for this investment totalled EUR 39 thousand. There was a further contribution of EUR 25 thousand in the financial year, taking the total value accounted for at equity to currently EUR 64 thousand. No annual financial statements are available for this company for the latest reporting date, so no further disclosures can be made on VAC-Stent Medtec AG. However the effects from these financial statements for the CENTROTEC Group are insignificant.

5 Other financial assets and other assets

The following table shows a breakdown of other financial assets and non-financial assets according to maturity. The prepaid expenses largely comprise insurance premiums and service expenses.

Other financial assets and other assets

in EUR ’000	31/12/2018	31/12/2017
Miscellaneous financial assets	9	9
Other non-current financial assets	**9**	**9**
Prepaid expenses	18	65
Other assets	12	13
Other non-current non financial assets	**30**	**78**
Current investments	98,199	124,542
Derivative assets	0	578
Miscellaneous financial assets	3,693	3,117
Other current financial assets	**101,892**	**128,237**
Receivables from VAT	3,583	2,611
Prepaid expenses	3,606	2,374
Payments on account for inventories	816	229
Other assets	701	641
Other current non financial assets	**8,706**	**5,855**

The current investments mainly comprise available-for-sale funds, which are to be regarded like liquidity. Thanks to the diversification of financial instruments across various priority investments and professional asset management, the overall risk position is regarded as moderate.

6 Deferred tax assets and tax liabilities

Pursuant to IAS 12 the deferred tax assets and deferred tax liabilities are calculated on the temporary difference between the stated amounts of assets and liabilities in the IFRS balance sheet and the tax balance sheet, and also from tax loss carryforwards. These differences in the stated amounts result among other things from adjustments to stated amounts in the context of business combinations. The net values shown represent the netted values of deferred tax assets and deferred tax liabilities of the Group companies in respect of a taxation authority.

The deferred tax assets result principally from other provisions and pension provisions, and are comprised as follows:

Deferred tax assets on temporary differences and tax loss carryforwards

		Gross		**After netting**
In EUR '000	**31/12/2018**	**31/12/2017**	**31/12/2018**	**31/12/2017**
Reversal expected within 12 months	2,025	940	1,921	802
Reversal expected after more than 12 months	11,496	10,223	7,434	1,306
Total	**13,521**	**11,163**	**9,355**	**2,108**

The deferred tax assets from loss carryforwards are comprised as follows:

Tax loss carryforwards

in EUR '000	**31/12/2018**	**31/12/2017**
Loss carryforwards	19,234	18,022
Deferred tax assets from loss carryforwards	5,195	4,778
Reductions for impairment	(3,247)	(4,227)
Deferred tax assets from loss carryforwards	**1,948**	**551**

Of the deferred tax assets on loss carryforwards, EUR 1,015 thousand (previous year EUR 189 thousand) relates to companies which also posted a loss in the current year. The deferred tax assets in question were tested for impairment on the basis of earnings forecasts. No deferred tax assets were recognised on loss carryforwards amounting to EUR 9,994 thousand (previous year EUR 15,907 thousand).

Except for an amount of EUR 1,962 thousand, the loss carryforwards can be carried forward indefinitely. Of the losses for which carryforward is restricted, EUR 0 thousand expires in over five years, EUR 236 thousand within five years, EUR 125 thousand within four years, EUR 1,600 thousand within three years, EUR 1 thousand within two years and EUR 0 thousand within one year.

The composition of deferred tax liabilities is as follows:

Deferred tax liabilities on temporary differences

Deferred tax liabilities		Gross		After netting
in EUR '000	**31/12/2018**	**31/12/2017**	**31/12/2018**	**31/12/2017**
Reversal expected within 12 months	230	435	126	298
Reversal expected after more than 12 months	15,646	15,482	11,583	6,564
Total	**15,876**	**15,917**	**11,709**	**6,862**

The composition of deferred tax assets and deferred tax liabilities by balance sheet item is as follows:

Deferred tax

in EUR '000	2018	2017
Deferred tax assets (gross)		
Intangible assets	91	143
Property, plant and equipment	940	609
Inventories	532	564
Other financial assets	1,119	121
Pension provisions	6,277	7,077
Other provisions	1,371	1,054
Other liabilities	929	823
Other	314	221
Tax loss carryforwards	1,948	551
	13,521	**11,163**
Deferred tax liabilities (gross)		
Intangible assets	9,119	9,159
Property, plant and equipment	6,114	5,957
Inventories	57	69
Other provisions	88	22
Other liabilities	223	240
Other	275	470
	15,876	**15,917**

Of the deferred tax assets and deferred tax liabilities, EUR 5,519 thousand (previous year EUR 5,686 thousand) was netted directly with equity. Exchange differences represent EUR 108 thousand of this amount (previous year EUR 51 thousand), and interest rate derivatives EUR 164 thousand (previous year EUR 84 thousand). Pension provisions account for EUR 5,247 thousand (previous year EUR 5,551 thousand).

Deferred tax balance sheet items

in EUR '000	31/12/2018	31/12/2017
Deferred tax assets	9,355	2,108
Deferred tax liabilities	(11,709)	(6,862)
Balance	**(2,354)**	**(4,754)**
Of which: from netting against shareholders' equity	5,519	5,686

Development of indeferred tax

in EUR '000	31/12/2018	31/12/2017
Recognition of deferred tax (balance)	(2,354)	(4,754)
Difference year on year	2,400	(1,339)
Of which:		
Through profit or loss	2,576	(1,174)
Netted against shareholders' equity (incl. exchange differences)	(167)	(143)
Other	(9)	(22)

No deferred tax liabilities were recognised on temporary differences resulting from shares in subsidiaries (outside basis differences) amounting to EUR 10,412 thousand (previous year EUR 9,697 thousand), because these differences will probably not be reversed in the foreseeable future and the parent is in a position to control the timing of the reversal of the temporary differences.

7 Inventories

Group inventories are broken down as follows:

Inventories by category

in EUR '000	31/12/2018	31/12/2017
Raw materials and supplies	29,205	27,984
Work in progress	15,957	12,934
Finished goods and merchandise	33,499	30,721
Total	**78,661**	**71,639**

Inventories in the amount of EUR 1.8 million are recognised at their lower net realisable value.

Impairment of inventories developed as follows:

in EUR '000	31/12/2018
Impairment at the start of the financial year	5,837
Additions recognised as an expense	1,540
Reversal/utilisations	(1,420)
Currency translation effects	(2)
Impairment at end of financial year	**5,955**

8 Trade receivables

2018 in EUR '000	Default rate	Gross value	Impairment	Net value
Not overdue	1,6 %	52,705	(855)	51,850
Overdue 1 - 30 days	0,1 %	8,359	(6)	8,353
Overdue 31 - 90 days	1,2 %	2,557	(29)	2,528
Overdue 91 - 180 days	3,6 %	1,273	(46)	1,227
Overdue by more than 181 days	58,7 %	3,067	(1,801)	1,266
Total		**67,961**	**(2,737)**	**65,224**

2017 in EUR '000	Default rate	Gross value	Impairment	Net value
Not overdue	1,8 %	49,602	(877)	48,725
Overdue 1 - 30 days	0,7 %	11,138	(79)	11,059
Overdue 31 - 90 days	0,4 %	5,577	(20)	5,557
Overdue 91 - 180 days	20,0 %	1,898	(379)	1,519
Overdue by more than 181 days	67,1 %	2,503	(1,679)	824
Total		**70,718**	**(3,034)**	**67,684**

The trade receivables do not contain any significant financing component because they are due within 30 days of the invoice date. The number of customers is high. The largest customer accounts for approx. 4 % of revenue. Impairment is based on observable historical credit risks and is adjusted with forward-looking estimates.

The following table shows the changes in impairment:

in EUR '000	31/12/2018	31/12/2017
Impairment at the start of the financial year	3,034	3,111
Income-effective changes in impairment during the period under review	395	691
Derecognition of receivables/deconsolidation	(569)	(704)
Payments received and recovery in value of receivables originally written off	(115)	(71)
Currency translation effects	(8)	7
Impairment at end of financial year	**2,737**	**3,034**

The carrying amounts of the trade receivables are denominated in the following currencies:

in EUR '000	31/12/2018	31/12/2017
EUR	63,265	64,150
GBP	743	1,092
HKR	839	1,553
DKK	782	1,138
USD	748	1,390
PLN	784	877
Other currencies	800	518
Total	**67,961**	**70,718**
Impairment	2,737	3,034
Trade receivables	**65,224**	**67,684**

9 Cash and cash equivalents

Cash and cash equivalents

in EUR '000	31/12/2018	31/12/2017
Cash in hand	47	33
Cash and cash equivalents	49,714	59,459
Total	**49,761**	**59,492**

10 Shareholders' equity

General

The issued capital of the company was unchanged at EUR 18,020,923 at December 31, 2018. It is divided into 18,020,923 no par value shares with a notional value of EUR 1.00 per share. The capital stock is fully paid in.

Development of number of shares

in thousand	2018	2017
Total, January 1	18,021	17,892
Addition through the exercising of options	0	129
Total, December 31	**18,021**	**18,021**

The stock options scheme has expired. There no longer exist any options, with the result that no further changes within stock options will occur.

Proposal for the distribution of accumulated profit

According to German commercial and stock corporation requirements, the annual financial statements of the Group parent CENTROTEC Sustainable AG constitute the basis for the appropriation of profit for the 2018 financial year. A distributable dividend therefore depends, among other things, on the profit available for distribution reported by that company in the separate financial statements at December 31, 2018. The net loss for the year reported there is EUR 1,432 thousand and the reported retained earnings EUR 29,922 thousand. The Supervisory Board and Management Board of CENTROTEC Sustainable AG will propose to the Annual General Meeting that a dividend of EUR 0.30 per dividend-bearing no par value share be distributed for the 2018 financial year. The balance of the profit available for distribution is to be carried forward for new account.

Treasury stock

Pursuant to the resolution of the Annual General Meeting of May 20, 2015 the company is authorised until May 19, 2020 to acquire treasury stock which, together with existing treasury stock, represents up to ten percent of the capital stock at the time of the authorisation taking effect. The price for the acquisition of these shares may not be more than 10 % higher or more than 10 % lower than the closing price in Xetra trading on the Frankfurt Stock Exchange (or in a successor system) for shares of the same class and features on the three trading days preceding the acquisition. The Management Board is authorised to offer all or some of the shares thus acquired to third parties in (part) payment of the acquisition of companies or investments in companies, excluding the shareholders' right of subscription. The Management Board is furthermore authorised to retire the company's treasury stock without the need for a further resolution to be adopted by the Annual General Meeting. Retirement may be restricted to part of the purchased shares.

On the basis of this authorisation the company purchased and acquired 1,764,470 treasury shares through the share buyback offer designed for the acquisition of treasury stock as published on the website of the company on May 14, 2018 and in the Federal Gazette on May 16, 2018 with an offer price of EUR 14.40 per no par value share. The purchase price was EUR 14.40 per no par value share. The company thus holds 1,764,470 treasury shares, for which it does not enjoy voting rights.

Authorised capital

Pursuant to the resolution of the Annual General Meeting on May 22, 2017 the Management Board is, with the consent of the Supervisory Board, authorised to increase the capital stock on one or more occasions by up to EUR 3,000,000 (in words: three million euros) by May 30, 2022 for cash and/or contributions in kind through the issuance of new no par value bearer shares (Authorised Capital 2017).

The new shares are fundamentally to be offered to the shareholders for subscription; they may also be accepted by banks or enterprises within the meaning of Section 186 (5) first sentence of the German Stock Corporation Act (AktG) with the obligation to offer them for subscription to the shareholders.

The Management Board is, with the consent of the Supervisory Board, authorised to exclude the shareholders' statutory subscription right in the following instances:

- In order to exclude residual amounts from the subscription right;
- For a capital increase for cash, if the issuing price of the new shares does not significantly undercut the market price of the shares of the company already listed at the time when the issuing price is finally fixed by the Management Board and the number of new shares as an arithmetic proportion of the capital stock issued excluding the subscription right pursuant to Section 186 (3) fourth sentence of the German Stock Corporation Act does not exceed the limit of 10% of the capital stock of the company, either at the time of this authorisation becoming effective or at the time of its exercising; this limiting authorisation shall include those shares that, during the term of Authorised Capital 2017 (i), were issued or sold excluding the subscription right in direct or analogous application of Section 186 (3) fourth sentence of the German Stock Corporation Act or (ii) that can or must be issued to service debt instruments (including participating bonds) with conversion or option rights or a conversion obligation, provided the debt instrument or participating bonds are issued during the term of Authorised Capital 2017 in analogous application of Section 186 (3) fourth sentence of the German Stock Corporation Act, excluding subscription right of shareholders;
- For a capital increase for cash for the purpose of acquiring (including indirectly) businesses, operations, business units, participations in other businesses or other assets or entitlements to acquire assets, including receivables from the company or its Group companies;
- For issuance to employees of the company or of domestic and international affiliated companies (Section 202 (4) of the German Stock Corporation Act); as well as
- For running a scrip dividend where the shareholders are given the offer to contribute their dividend entitlement to the company in whole or part by way of a contribution in kind in return for the granting of new shares.

The Management Board is authorised, with the approval of the Supervisory Board, to specify the further details of the effecting of capital increases from the Authorised Capital 2017.

Conditional capital and share-based payments

CENTROTEC used share-based payment transactions counterbalanced by equity instruments. The last options were issued in the 2012 financial year. The exercise deadlines for Conditional Capitals I-III expired on January 23, 2018, in other words before the next possible exercise period. Therefore no further exercising of stock options occurred in the 2018 financial year. The options not exercised have lapsed.

		2018		2017
Units/price in EUR	**Options**	**Avg. exercise price**	**Options**	**Avg. exercise price**
Start of year	**7,360**	**14.50**	**140,782**	**13.17**
Exercised	0	0	(129,222)	12.96
Expired or forfeited	(7,360)	14.50	(4,200)	7.20
End of year	**0**	**0**	**7,360**	**14.50**
of which exercisable	0	0	7,360	14.50

11 Pension provisions

Employees' entitlements to defined benefit plans are based on statutory or contractual arrangements and direct commitments. The pension liabilities in Germany stem from company agreements or individual contractual arrangements. They comprise defined benefits (direct commitments) based on the guidelines on the granting of company pensions and, building on that, on a company agreement. There in addition exist defined benefits in the form of direct commitments based on the benefit regulation of the Essener Verband pension plan. It is furthermore possible to participate in a defined benefit plan on the basis of individual contractual agreements. In addition, the company offers defined contribution plans. The obligations comprise the payment of retirement benefits, payable upon reaching pensionable age. The level of the payments depends in essence on the number of years' service completed and the pensionable salary prior to the start of benefit payments or the converted amount. In Germany, they are financed principally by means of pension provisions. The existing benefit obligations in the Netherlands consist of individual contractual arrangements for a limited number of management employees, who will receive life-long retirement benefit payments from the time their employed relationship ceases as a result of reaching pensionable age. The level of the payments depends in essence on the qualifying number of years' service and the (average) pensionable salary. This defined benefit obligation is financed through Nationale Nederlanden (Delta Lloyd Levensverzekering N.V.), an outside insurer.
The entitlements of the Italian and Belgian employees are based on statutory arrangements. The level of the payments depends in essence on the qualifying number of years' service and the pensionable salary.

The pension provision is calculated using the projected unit credit method pursuant to IAS 19, which also takes account of anticipated pay and retirement benefit increases. The provision amount has been calculated using actuarial methods and the latest mortality tables (Germany: G Heubeck 2018; Netherlands: AG Prognosetafel 2014).

The calculation parameters for calculating the provisions for pension entitlements have changed as follows:

Key actuarial assumptions

				2018				2017
%	**Germany**	**Netherlands**	**Belgium**	**Italy**	**Germany**	**Netherlands**	**Belgium**	**Italy**
Discount rate	1.90	1.50	1.70	1.57	1.60	1.30	1.70	1.20
Assumed salary increases	2.50	2.00	2.20	1.00	2.50	2.00	2.20	1.00
Assumed pension increase	1.25	2.00	0.00	2.63	1.30	2.00	0.00	2.60

Retirement benefit payments

in EUR '000	**31/12/2018**	**31/12/2017**
Fund-financed obligations	11,117	10,577
Fair value of plan assets	(11,004)	(10,445)
Subtotal	113	132
Present value of non-fund-financed obligation	45,521	46,099
Influence of the upper assets threshold	0	0
Pension provisions reported	**45,634**	**46,231**

The following table shows the development of pension obligations and plan assets:

Development in pension obligations and plan assets

in EUR '000	Present value of the defined benefit obligation	External plan assets	Total	Influence of the upper assets threshold	Total
01/01/2018	**56,676**	**(10,445)**	**46,231**	**0**	**46,231**
Service cost	985	0	985	0	985
Past service cost	0	0	0	0	0
Interest expense/interest income (incl. expected return on plan assets)	862	(138)	724	0	724
Payments made	(1,616)	416	(1,200)	0	(1,200)
Contributions paid by employer	12	(60)	(48)	0	(48)
Contributions paid by employee	0	(18)	(18)	0	(18)
Gains and losses from compensation	0	0	0	0	0
Remeasurement effects:					
from plan assets	0	(759)	(759)	0	(759)
from changes in financial assumptions	(2,954)	0	(2,954)	0	(2,954)
from changes in demographic assumptions	1,882	0	1,882	0	1,882
from experience adjustments	791	0	791	0	791
changes in the upper assets threshold	0	0	0	0	0
Total of remeasurement effects	**(281)**	**(759)**	**(1,040)**	**0**	**(1,040)**
31/12/2018	**56,638**	**(11,004)**	**45,634**	**0**	**45,634**

in EUR '000	Present value of the defined benefit obligation	External plan assets	Total	Influence of the upper assets threshold	Total
01/01/2017	**56,152**	**(10,320)**	**45,832**	**0**	**45,832**
Service cost	1,022	0	1,022	0	1,022
Past service cost	0	0	0	0	0
Interest expense/interest income (incl. expected return on plan assets)	843	(119)	724	0	724
Payments made	(1,193)	193	(1,000)	0	(1,000)
Contributions paid by employer	12	(86)	(74)	0	(74)
Contributions paid by employee	0	(60)	(60)	0	(60)
Gains and losses from compensation	0	(48)	(48)	0	(48)
Remeasurement effects:					
from plan assets	0	(5)	(5)	0	(5)
from changes in financial assumptions	3	0	3	0	3
from changes in demographic assumptions	16	0	16	0	16
from experience adjustments	(179)	0	(179)	0	(179)
changes in the upper assets threshold	0	0	0	0	0
Total of remeasurement effects	**(160)**	**(5)**	**(165)**	**0**	**(165)**
31/12/2017	**56,676**	**(10,445)**	**46,231**	**0**	**46,231**

The plan assets are comprised as follows:

in EUR '000	31/12/2018	31/12/2017
Insurance	11,004	10,445
Total	**11,004**	**10,445**

The bulk of the plan assets is managed by the pension insurer Nationale Nederlanden (Delta Lloyd), Netherlands. Nationale Nederlanden invests in a variety of portfolios, such as government bonds, corporate bonds, mortgages, shares and real estate. Once a year a payment is made to Nationale Nederlanden, as calculated by Nationale Nederlanden using various parameters such as age. The cash outflow for 2019 will be approx. EUR 39 thousand. Nationale Nederlanden makes the payments to the employees.

The average weighted term of the existing pension obligations is 17 years. The pension payments for the coming year are expected to amount to EUR 1,649 thousand.

The following table shows the sensitivity analysis for pension obligations to reflect changes in the various assumptions made during measurement:

Sensitivities in the main actuarial assumptions

			31/12/2018		31/12/2017
% Change	**%**	**Increase in parameters**	**Decrease in parameters**	**Increase in parameters**	**Decrease in parameters**
Interest rate	0.5	(7.9)	9.0	(8.2)	9.4
Pension trend	0.5	6.4	(5.8)	6.5	(5.9)
Salary trend	0.5	0.4	(0.4)	0.5	(0.5)

The effects of the sensitivity analysis were calculated in the same way to measure the pension obligation.

12 Other provisions

The following table shows the movements in provisions in the year under review:

Other provisions

in EUR '000	Warranty obligations	Legal claims and court proceedings	Personnel-related costs	Miscellaneous provisions	Total
01/01/2018	**14,424**	**493**	**3,631**	**1,102**	**19,650**
Added	4,112	10	1,945	2,105	8,172
Used	(5,889)	(71)	(1,512)	(1,939)	(9,411)
Reversed	(766)	(149)	(197)	(167)	(1,279)
Exchange differences	2	0	(1)	(27)	(26)
Compounding	(116)	0	18	0	(98)
31/12/2018	**11,767**	**283**	**3,884**	**1,074**	**17,008**
Of which use expected < 1 year	1,142	282	1,961	933	4,318

A distinction between short-term and long-term provisions was made on the balance sheet, based on the estimated timing of their use. The provisions for warranty obligations are calculated for each type of revenue according to values indicted by experience, as well as for specific individual cases. The warranty obligations were created for general and individual warranty risks on the basis of various warranty factors. The warranty periods generally last between two and six years, possibly varying upwards for goodwill reasons. Utilisation of the warranty provisions this year was unusually high. We expect a decline to the customary level of around EUR 1.1 million in the following year. The outflow of resources for legal claims and court proceedings is expected substantially within the next year. The personnel-related provisions relate e.g. to provisions for long-service payments made after employment by the company for a specified number of years' service.

13 Borrowings

The following table shows bank liabilities and other loans, broken down according to real estate loans, general credit facilities and other loans.

Borrowings maturities schedule

in EUR '000	Total outstanding amount	Of which maturity less than 1 year	Of which maturity 1 to 5 years	Of which maturity over 5 years	Interest rate spread
31/12/2018					
Real estate loans	51,768	3,798	12,954	35,016	1.4 – 5.4 %
Other loans	98,461	2,358	5,082	91,021	1.3 – 5.3 %
General credit facilities	16,187	16,187	0	0	0.6 – 6.3 %
Borrowings excluding leases	**166,416**	**22,343**	**18,036**	**126,037**	
Finance leases	2,522	720	1,652	150	1.3 – 7.6 %
Total	**168,938**	**23,063**	**19,688**	**126,187**	
31/12/2017					
Real estate loans	54,702	3,837	13,461	37,404	1.4 – 5.4 %
Other loans	99,114	2,376	5,969	90,769	0.8 – 5.3 %
General credit facilities	14,595	14,595	0	0	0.3 – 6.3 %
Borrowings excluding leases	**168,411**	**20,808**	**19,430**	**128,173**	
Finance leases	2,606	725	1,656	225	1.3 – 7.6 %
Total	**171,017**	**21,533**	**21,086**	**128,398**	

The carrying amounts of the liabilities are denominated in the following currencies:

in EUR '000	31/12/2018	31/12/2017
EUR	163,774	167,559
DKK	3,538	1,780
USD	50	1,619
PLN	0	56
HRK	1,576	3
Total	**168,938**	**171,017**

In the case of the real estate loans, the fixed interest rates in the individual loan agreements expire at various times between 2019 and 2028, with the result that the risk is adequately diversified. The same applies to the other loans, where the fixed interest rates expire between 2019 and 2027. The fair value of the financial debt that was determined by discounting future cash flows is approx. EUR 2.3 million above the carrying amounts.

Security for liabilities to credit institutions

in EUR '000	31/12/2018	31/12/2017
Property, plant and equipment	45,671	42,298
Intangible assets	37	23
Inventories	13,222	13,692
Receivables	4,225	5,097
Other assets	808	302
Total	**63,963**	**61,412**

Pledged interest in companies	Ownership interest
Brink Climate Systems B.V.	100 %

Security was furnished on the customary commercial terms for lending.

Finance leases

Lease agreements are entered into only to a limited extent. The decision on whether to finance an investment measure by bank loan or by lease agreement is reached on a case-by-case basis and depends primarily on the prevailing terms available at the time of deciding. The following table shows the lease obligations with corresponding discounted and nominal leasing instalments including the interest component, broken down according to term.

14 Other financial liabilities and other liabilities

The following table shows the breakdown of other financial liabilities and other liabilities on both an item by item basis and by maturity:

in EUR '000	31/12/2018	31/12/2017
Purchase price liability	170	420
Derivative liabilities	615	467
Miscellaneous financial liabilities	68	73
Other non-current financial liabilities	**853**	**960**
Miscellaneous liabilities	19	25
Other non-current liabilities	**19**	**25**
Bonus payments to customers	10,781	7,690
Outstanding invoices	3,653	3,792
Credits outstanding	365	335
Interest deferrals	558	563
Miscellaneous financial liabilities	2,106	1,688
Other current financial liabilities	**17,463**	**14,068**
Employee remuneration	7,788	7,979
Vacation and overtime	8,878	8,711
Advances received	3,983	3,205
Taxation and social premiums	3,920	4,679
VAT	1,917	2,187
Partial retirement	2,976	1,948
Miscellaneous liabilities	1,838	4,832
Other current liabilities	**31,300**	**33,541**

Finance leases

in EUR '000	Total	Of which maturity less than 1 year	Of which maturity 1 to 5 years	Of which maturity more than 5 years
31/12/2018				
Minimum lease payments	2,650	760	1,729	161
Of which interest portion	128	40	77	11
Present value	**2,522**	**720**	**1,652**	**150**
31/12/2017				
Minimum lease payments	2,751	770	1,741	240
Of which interest portion	145	45	85	15
Present value	**2,606**	**725**	**1,656**	**225**

The actuarially determined obligations for partial retirement were discounted at 0.88 % and recognised as a liability at their present value. The liabilities, which relate to current partial retirement obligations, were netted against assets from securities amounting to EUR 2,160 thousand (previous year EUR 2,265 thousand). The securities were acquired via a trusteeship in order to fulfil statutory requirements in respect of statutory insolvency insurance for partial retirement obligations entered into. The greater portion of derivative financial instruments is due in the next five years.

15 Additional disclosures on financial instruments

The following tables show the carrying amounts of financial assets and liabilities according to measurement category, as well as their fair values:

Financial assets

	At amortised cost		At fair value		Total	
in EUR '000	**Financial liabilities**	**Financial assets**	**Through profit or loss**	**Through other compre-hensive income**	**Carrying amount**	**Fair value**
Balance sheet item at December 31, 2018						
Loans originated by the enterprise and investments		209			209	209
Securities			613		613	613
Cash and cash equivalents		49,761			49,761	49,761
Trade receivables		65,224			65,224	65,224
Derivative financial instruments					0	0
Current investments			98,199		98,199	98,199
Miscellaneous financial assets		3,702			3,702	3,702
Total financial assets, December 31, 2018	**0**	**118,896**	**98,812**	**0**	**217,708**	**217,708**
Borrowings excluding finance leases	166,416				166,416	168,719
Trade payables	32,453				32,453	32,453
Derivative financial instruments			32	620	652	652
Miscellaneous financial liabilities	17,664				17,664	17,664
Total financial liabilities, December 31, 2018	**216,533**	**0**	**32**	**620**	**217,185**	**219,488**
Balance sheet item at December 31, 2017						
Loans originated by the enterprise and investments		226			226	226
Securities			850		850	850
Cash and cash equivalents		59,492			59,492	59,492
Trade receivables		67,684			67,684	67,684
Derivative financial instruments			449	129	578	578
Current investments			112,816	11,726	124,542	124,542
Miscellaneous financial assets		3,126			3,126	3,126
Total financial assets, December 31, 2017	**0**	**130,528**	**114,115**	**11,855**	**256,498**	**256,498**
Borrowings excluding finance leases	168,411				168,411	171,583
Trade payables	28,856				28,856	28,856
Derivative financial instruments			93	467	560	560
Miscellaneous financial liabilities	14,468				14,468	14,468
Total financial liabilities, December 31, 2017	**211,735**	**0**	**93**	**467**	**212,295**	**215,467**

The category of loans originated by the enterprise includes long-term loans that are measured at amortised cost. The fair value of the loans corresponds approximately to the carrying amount.

Interests in companies not included in consolidation and not accounted for by the equity method are summarised in the investments category. These are exclusively non-listed corporate enterprises. The investments are measured at acquisition cost as no publicly listed market prices exist and the fair value cannot be reliably determined due to the uncertainty of future cash flows. The fair value could only be reliably determined through specific sales negotiations.

The carrying amounts of the assets in the securities category correspond to the respective market prices.

The assets in the categories cash and cash equivalents, trade receivables and miscellaneous assets have predominantly short maturity dates, with the result that their carrying amounts at the balance sheet date correspond to the fair values.

The categories derivative assets and liabilities include financial derivatives that are designated both as cash flow hedges and as derivatives serving as economic hedging transactions, but not for hedge accounting, which are recognised at fair value.

Current investments include investment funds recognised at fair value.

The categories trade payables and miscellaneous financial liabilities fundamentally contain liabilities with regularly short maturities. The carrying amounts therefore correspond to the fair values.

The borrowings categories excluding finance leases contain liabilities predominantly with maturities of more than one year. The fair values are determined by discounting the cash flows associated with the liabilities, taking account of the current interest rate parameters. The individual creditworthiness ratings within the Group are taken into account in the form of market creditworthiness and liquidity spreads when determining the present value.

Net gains or losses from financial instruments by measurement category

The following table shows the net gains or losses on financial instruments taken into account in the income statement, by measurement category. Interest, currency translation, impairment, reversals and results from disposals were taken into account in determining the net results.

in EUR '000	Financial liabilities	Financial assets	Through profit or loss	Total
2018	(3,297)	(714)	(6,173)	(10,184)
2017	(2,615)	(841)	3,032	(424)

Derivative financial instruments

The Group uses interest rate swaps for hedging interest rate risks. To hedge against exchange rate fluctuations, forward contracts are also concluded as required. They comprise cash flow hedges. There are in addition other derivatives that are to be regarded as economic hedging transactions but are not designated for hedge accounting. The following table shows the contracts concluded.

In EUR '000 Financial derivatives	2018 Contract volume	Total assets	2018 Total liabilities	Total assets	2017 Total liabilities
Interest rate swap	18,761	0	615	0	467
Forward contracts	5,950	0	5	129	0
Other derivatives	32	0	32	449	93
Total	**24,743**	**0**	**652**	**578**	**560**
of which short-term		0	37	578	93

The full fair value of a derivative hedging instrument is classified as a non-current asset/liability provided its maturity exceeds 12 months; it is otherwise classified as a current asset/liability.

The ineffective portion of cash flow hedges recognised in the income statement amounts to EUR 14 thousand (previous year EUR 0 thousand).

At December 31, 2018 the fixed interest rates for interest rate swaps varied between 0.66 % and 3.99 % (previous year 0.66 % and 3.99 %). The gains and losses from interest rate hedging instruments recognised within equity (reserve for cash flow hedges) are continually recognised through profit or loss until the bank loans have been repaid (Note 13). Of the forward contracts, USD and GBP are hedged.

The other derivatives are economic hedging transactions that are, however, not designated for hedge accounting. Unrealised and realised measurement results are recognised at fair value through profit or loss, under the result from financial assets/liabilities.

16 Revenue

Climate Systems

Our largest segment Climate Systems manufactures and sells heating systems for gas and oil, renewable energy (solar thermal, heat pumps, biomass, biogas plants), combined heat and power units, ventilation systems with heat recovery and also climate control and ventilation technology. To a minor extent it also offers maintenance work and commissioning services. The principal customers include wholesalers, distributors, tradespeople and plant engineers. Revenue is generally realised when control has been transferred to the customer. In terms of timing this occurs when legal ownership and therefore the material risks and opportunities associated with the goods as well as the actual power of disposal have passed to the customer. This will generally be when the customer has taken receipt of the goods.
The entitlement to the consideration is generally due 30 days after delivery. Because the entitlement to receive the consideration arises unconditionally at the time of fulfilment of the performance obligation to deliver the goods, a receivable is generally capitalised immediately. No measurement of a contractual asset or contractual liability occurs. Combined heat and power units are a different case. Here, the payment terms have normally been negotiated, e.g. 30 % upon placing the order, 60 % when ready for shipment and 10 % upon commissioning/ acceptance. In this case contractual liabilities (received in advance) may then be recognised. The same applies to service contracts. The level of the entitlement is based on the contractually agreed consideration. There is no contractual right of return. However the statutorily prescribed warranty period naturally applies. As before, appropriate provisions are created within the meaning of IAS 37.

Gas Flue Systems

The Gas Flue Systems segment manufactures and sells gas flue systems for boilers, air piping systems for ventilation with heat recovery, and construction materials for airtight, watertight and sustainable building. The bulk of business is handled via OEM customers and distribution partners. Revenue is realised when control has been transferred to the customer. In terms of timing this occurs when legal ownership and therefore the material risks and opportunities associated with the goods as well as the actual power of disposal have passed to the customer. This will generally be when the customer has taken receipt of the goods.
The entitlement to the consideration is generally due between 30 and 60 days after delivery. Because the entitlement to receive the consideration arises unconditionally at the time of fulfilment of the performance obligation to deliver the goods, a receivable is generally capitalised immediately. No measurement of a contractual asset or contractual liability occurs. The level of the entitlement is based on the contractually agreed consideration. There is no contractual right of return. However the statutorily prescribed warranty period naturally applies. As before, appropriate provisions are created within the meaning of IAS 37.

Medical Technology & Engineering Plastics

The Medical Technology & Engineering Plastics segment manufactures and sells medical technology equipment and components, as well as engineering plastics (semi-finished articles and technical parts). In the Medical Technology area, sales are made to industrial customers and clinics, as well as directly to doctors. In the Engineering Plastics area, business is generally channelled through industrial customers. Here again, revenue is realised when legal ownership and therefore the material risks and opportunities associated with the goods as well as the actual power of disposal have passed to the customer. This will generally be when the customer has taken receipt of the goods. The entitlement to the consideration is generally due 30 days after delivery. Because the entitlement to receive the consideration arises unconditionally at the time of fulfilment of the performance obligation to deliver the goods, a receivable is generally capitalised immediately. No measurement of a contractual asset or contractual liability occurs. The level of the entitlement is based on the contractually agreed consideration. There is no contractual right of return. However the statutorily prescribed warranty period naturally applies. As before, appropriate provisions are created within the meaning of IAS 37.

Revenue by segment, subdivided by product group and country

2018 Revenue from third parties by product group	Climate Systems	Gas Flue Systems	MT & EP	Total
Sale of products	407,850	128,023	51,623	587,496
Sale of services	27,020	0	0	27,020
Other revenues	75	121	27	223
Total	**434,945**	**128,144**	**51,650**	**614,739**
Revenue from third parties by country				
European euro countries	380,396	103,379	34,717	518,492
of which Germany	265,598	20,705	28,482	314,785
European non-euro countries	41,502	10,730	12,754	64,986
Rest of world	13,047	14,035	4,179	31,261
Total	**434,945**	**128,144**	**51,650**	**614,739**
2017				
Revenue from third parties by product group				
Sale of products	401,296	120,989	49,446	571,731
Sale of services	22,325	13	0	22,338
Other revenues	2	91	27	120
Total	**423,623**	**121,093**	**49,473**	**594,189**
Revenue from third parties by country				
European euro countries	368,212	97,121	33,419	498,752
of which Germany	261,038	20,933	26,684	308,655
European non-euro countries	40,996	10,210	12,506	63,712
Rest of world	14,415	13,762	3,548	31,725
Total	**423,623**	**121,093**	**49,473**	**594,189**

Net contracts:

Advances received	
01/01/2018	3,205
Revenues recognised in the period under review that were included in the net contractual liabilities at the start of the period	(2,131)
New contractual liabilities	2,909
31/12/2018	**3,983**

No costs for the fulfilment or acquisition of a contract were capitalised.

17 Cost of purchased materials and services as well as change in inventories

Cost of purchased materials

in EUR '000	2018	2017
Cost of purchased materials	273,011	260,140
Cost of purchased services	31,506	10,259
Supplier discounts	(1,239)	(1,169)
Total	**303,278**	**269,230**
Change in inventories of finished goods and work in progress	(3,975)	856
Cost of materials including inventory change	299,303	270,086

18 Other income

The breakdown of other income is as follows:

Other income

in EUR '000	2018	2017
Foreign exchange gains	1,493	1,677
Reversal of provisions	1,428	1,111
Costs passed on/costs refunded	956	863
Government grants	440	535
Liquidation/reversal of impairment of receivables	435	509
Insurance and other compensation	328	170
Sales proceeds from the disposal of fixed assets	90	58
Other	5,003	4,551
Total	**10,173**	**9,474**

Government grants

in EUR '000	2018	2017
Personnel-related	136	151
Other	304	384
Total	**440**	**535**

19 Personnel expenses and total employees

Personnel expenses

in EUR '000	2018	2017
Wages and salaries	143,796	152,118
Social insurance	19,842	20,654
Expenses for defined benefit plans	985	1,022
Expenses for defined contribution plans	9,419	10,648
Total	**174,042**	**184,442**

Total employees

		2018		2017
	Average	At reporting date	Average	At reporting date
Individuals	3,067	3,081	3,407	2,990
FTE	2,962	2,962	3,277	2,878
of which office staff	1,679	1,720	1,726	1,640
of which industrial workers	1,283	1,242	1,551	1,238

The figures at the reporting date include 130 temporary workers expressed as FTE (previous year 123) as well as 156 temporary workers expressed as individuals (previous year 153). The averages include 163 FTE temporary workers (previous year 153) as well as 182 individuals employed as temporary workers (previous year 173).

20 Other expenses

Other expenses are made up as follows:

Other expenses

in EUR '000	2018	2017
Outward freight	16,332	15,415
Travel expenses and fleet	14,295	13,467
Promotional costs	12,240	11,907
Temporary employees	7,318	6,332
Maintenance costs	5,140	4,744
Legal and consultancy costs	5,055	5,307
Energy	5,001	4,759
IT expenses	4,872	3,830
Rent for buildings/other rent	4,299	3,662
Other personnel expenses	3,494	3,364
Sales commissions	3,105	3,887
General running costs	2,571	1,948
Insurance	2,038	1,884
Guarantee expenses	1,893	3,180
Exchange rate losses	1,682	2,262
Communication	1,205	1,296
Bad debt losses	479	12
Impairment of receivables	367	988
Other	10,735	10,705
Total	**102,121**	**98,949**

21 Interest income and expense

Interest income and expense is broken down as follows:

in EUR '000	2018	2017
Interest income	214	291
Interest expense on loans	(3,526)	(2,615)
Other interest expense	(879)	(938)
Total	**(4,191)**	**(3,262)**
of which Retirement benefit obligations	(724)	(724)

The total interest income and total interest expense for financial assets and financial liabilities that are not measured at fair value through profit or loss amount to EUR (3,418) thousand (previous year EUR (2,368) thousand).

22 Other financial result

EUR minus 7,013 thousand (previous year EUR 2,979 thousand) is reported in the other financial result. This results mainly from measurement of the current investments at the reporting date.

23 Income tax

Income tax is composed as follows:

in EUR '000	2018	2017
Actual income tax expense for the current financial year	8,930	7,225
Actual income tax expense for previous financial years	197	(209)
Deferred tax for the current financial year	(2,357)	1,144
Deferred tax for prior periods	(218)	31
Total	**6,552**	**8,191**

Deferred tax expense developed as follows:

in EUR '000	2018	2017
From temporary differences	(1,409)	95
From loss carryforwards	(1,167)	1,079
Deferred tax expense (previous year tax income)	**(2,576)**	**1,174**

The relationship between actual tax expense and anticipated tax expense is as follows:

in EUR '000	2018	2017
Result before income taxes (EBT)	19,222	29,038
Anticipated tax expense (on basis of respective corporate tax rates)	**6,651**	**7,956**
Anticipated tax rate (in %)	34.6	27.4
Adjustments to anticipated tax expense		
Effects from non-deductible expenses and tax-exempt income	174	(175)
Effects from loss carryforwards	(638)	106
Adjustments for earlier financial years (actual income tax expense and deferred tax)	(23)	(178)
Other tax effects	388	482
Tax expense according to income statement	**6,552**	**8,191**
Effective tax rate (in %)	34.1	28.2

The reported tax expense of EUR 6.6 million (previous year EUR 8.2 million) differs by EUR 0.1 million (previous year EUR 0.2 million) from the anticipated tax expense of EUR 6.7 million (previous year EUR 8.0 million) that is obtained if a weighted anticipated average tax rate is applied to EBT. This average rate was determined on the basis of the respective local corporate tax rates and was, due to divergent local distribution of profits compared to last year, with 34.6 % higher than previous year (27.4 %). The effective tax rate is 34.1 % (previous year 28.2 %).

24 Non-controlling interests

A share of gains and losses is due to the other shareholders of CENTROTEC, as stated separately under non-controlling interests. The net earnings at the reporting date come to EUR 0 thousand (previous year 642 thousand). The remaining shares in Centrotherm USA were bought in the 2018 financial year, with the result that the CENTROTEC Group currently no longer has other shareholders, or non-controlling interests.

25 Earnings per share

The earnings per share (basic) and the diluted earnings per share are illustrated in the following table. The basic earnings per share are calculated on the basis of the profit or loss for the period attributable to the shareholders of CENTROTEC Sustainable AG in relation to the weighted number of shares issued throughout the year, less treasury stock (1,764,470 shares, previous year 0).

Basic earnings per share

	31/12/2018	31/12/2017
Consolidated net income (net loss) of shareholders in EUR '000	12,620	20,205
Weighted average ordinary shares issued, '000	17,078	17,943
Basic earnings per share in EUR	**0.74**	**1.13**

For the diluted figure, potential shares from stock options have been taken into account in the number of shares, over and above the number of shares in the basic figure. Because the stock options scheme has expired, there will no longer be any effects from this.

Diluted earnings per share

	31/12/2018	31/12/2017
Consolidated net income (net loss) of shareholders in EUR ’000	12,620	20,205
Weighted average ordinary shares issued, ’000	17,078	17,943
Assumed exercise of stock options granted (weighted average), ’000	0	8
Weighted average diluted ordinary shares, ’000	17,078	17,951
Diluted earnings per share in EUR	**0.74**	**1.13**

26 Segment reporting

The operating segments are reported on in agreement with internal reporting to the principal decision-makers. The principal decision-maker is responsible for decisions regarding the allocation of resources to the operating segments and for examining their profitability. The principal decision-maker is the Management Board, which controls the following three segments:
1_„Climate Systems“: in this segment, heating, ventilation and climate control systems together with systems for using renewable energies for detached and semi-detached houses as well as for utility buildings such as public amenities, schools etc. are developed, produced and sold. The main focus of the product range is on a high degree of energy-saving and on interlinking heating, ventilation and climate control systems. In this market segment, CENTROTEC is among the leading companies in Europe.
2_„Gas Flue Systems“: here, gas flue systems for heating units and air piping systems as well as construction materials for airtight and watertight, sustainable construction are developed, produced and marketed. The emphasis of these systems is on plastic gas flue systems for condensing boiler systems. In this segment, CENTROTEC is one of the leading companies in Europe.
3_„Medical Technology & Engineering Plastics“: this segment develops, manufactures and sells medical technology and diagnostic articles and instruments. This segment also comprises the manufacture and sale of semi-finished plastic articles, prefabricated products and assemblies for small series in various sectors.

Segment reporting is based on the same accounting policies as for the other sections of the Consolidated Financial Statements. Income and expenditure are attributed directly to the segments on the basis of source or origin. The data is taken from the accounting systems of the companies that are allocated to the respective segments. The way they are allocated is evident in the presentation of the consolidated companies.

The key indicators used for managing the segments are revenue and EBIT, which are shown in segment reporting. The revenues relate principally to deliveries of goods. They are reported net of VAT, returns, discounts and price reductions. The “Gas Flue Systems” segment also includes the figures for CENTROTEC Sustainable AG. Inter-segmental business is priced according to the arm’s length principle. Pricing is comparable to third party transactions less cost items (in particular distribution costs), which do not occur in inter-segmental transactions.

Reconciliation of assets

in EUR ’000	2018	2017
Total assets	555,270	574,030
Loans originated by the enterprise and investments (incl. at equity)	886	1,115
Income tax receivable as well as deferred tax assets	12,050	5,327
Total (ASSETS):	**568,206**	**580,472**

27 Cash flow statement

The Consolidated Cash Flow Statement shows how the Group's cash and cash equivalents changed in the course of the financial year under review as a result of cash inflows and outflows. The financial resources consist almost exclusively of demand deposits and the drawing on current accounts with commercial banks. The financial resources are composed as follows:

Breakdown of financial resources

in EUR '000	31/12/2018	31/12/2017
Cash and cash equivalents	49,761	59,492
Bank overdrafts repayable on demand	(16,187)	(14,595)
Total	**33,574**	**44,897**

At the end of the 2018 financial year financial resources amounted to EUR 33,574 thousand, a decrease of EUR 11,323 thousand compared with the previous year. The cash flow from operating activities rose by EUR 6,591 thousand to EUR 38,225 thousand. Within the negative cash flow from investing activities, the significantly higher allocation to current investments in the previous year meant there was a sharp decline to EUR minus 14,175 thousand (previous year EUR minus 115,581 thousand). On the other hand cash used for investments in property, plant and equipment was higher. The cash flow from financing activities compared to the previous year was again well into negative territory at EUR 35,261 thousand because of the raising of the promissory note loan. The buyback of treasury stock accounted for EUR 25,408 thousand of this sum.

Short-term credit facilities to secure constant liquidity have been arranged with several credit institutions that are independent of each other. At the balance sheet date, the available borrowing facilities from current overdraft facilities amount to EUR 37.6 million (previous year EUR 37.4 million).

Substantial non-cash transactions result e.g. from exchange rate fluctuations.

Reconciliation for borrowed capital excluding bank overdrafts repayable on demand

	01/01	Changes in cash		Non-cash changes		31/12/2018
		Repayments	New loans	Exchange rate fluctuations	Reclassification	
Non-current borrowings	147,604	(831)	2,610	102	(5,412)	144,073
Non-current lease obligations	1,881	(237)	698	(3)	(537)	1,802
Current borrowings	6,212	(5,471)	0	4	5,412	6,157
Current lease obligations	725	(517)	8	(34)	537	719
Total	**156,422**	**(7,056)**	**3,316**	**69**	**0**	**152,751**

J_ Other disclosures

1_ Contingent liabilities and miscellaneous particulars

The customary warranty obligations are assumed, for which provisions have been formed where claims are probable. In the context of its ordinary business activities, the company moreover regularly enters into contingent liabilities from guarantees, cheques and bills of exchange, among other things. Furthermore, contingent liabilities may arise from areas of the Group in which there exist statutory arrangements on partial retirement but for which no provisions have been recognised, as it is unlikely that employees in those areas will call upon the existing statutory arrangements. Provisions were formed for areas in which the probability of use is greater than 50 %.

Overall, it is assumed that over and above the situations described here, no substantial liabilities arose as a result of the contingent liabilities during the period under review, or only to the extent evident in these Notes.

The following table shows the non-capitalised operating lease obligations at the balance sheet date, with the corresponding lease instalments broken down by maturity or minimum remaining term.

Operating leases

in EUR '000	Total	Of which maturity less than 1 year	Of which maturity 1 to 5 years	Of which maturity more than 5 years
31/12/2018				
Minimum lease payments	12,559	5,160	6,635	764
Of which interest portion	529	80	301	148
Present values	**12,030**	**5,080**	**6,334**	**616**
31/12/2017				
Minimum lease payments	10,883	4,858	5,170	855
Of which interest portion	469	74	306	89
Present values	**10,414**	**4,784**	**4,864**	**766**

The operating leases result mainly from lease agreements with a term of between one and five years for passenger cars that are used principally by our field service employees. We in addition have tenancy agreements for buildings at various locations. No purchase option exists.

2_ Significant events occurring after the balance sheet date

There were no significant events at and after the balance sheet date.

3_Related party disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party's financial and operating decisions. Pursuant to IAS 24, the members of the Management Board and Supervisory Board, close members of their families as well as subsidiaries that are not fully consolidated and equity investments can fundamentally be considered to be related parties in the case of the CENTROTEC Group.

Legal transactions with Management Board members and Supervisory Board members

The Management Board members did not hold any other high-ranking positions with other companies in the past year. A number of members of the Supervisory Board work in high-ranking positions at other companies with which CENTROTEC maintains relationships in the normal course of business. Transactions with such companies are conducted in the same manner as arm's length transactions. The goods and services received from these companies amounted to EUR 27,422 thousand in the financial year (previous year EUR 5,592 thousand), and comprised mainly production-related and other services. They are balanced out by company expenses saved elsewhere of roughly the same amount. The business volume of services provided to these companies by CENTROTEC in the financial year came to EUR 114 thousand (previous year EUR 710 thousand).

Relations between the parent company and the subsidiaries

The activities of CENTROTEC Sustainable AG focus essentially on performing strategic and financial holding functions for the operating affiliated companies, on advising and supporting them for individual projects, and on providing services on behalf of Group companies in the areas of accounts, taxes, payroll accounting and data processing. CENTROTEC in addition steers the Group finances, coordinates investor relations and provides support for projects at the subsidiaries, including particularly mergers and acquisitions activities.

Total remuneration of the Management Board and Supervisory Board

The enlarged Management Board of three (previously two) members since April 1, 2018 received remuneration pursuant to the German Commercial Code totalling EUR 1,354 thousand (previous year EUR 1,132 thousand). The expenses reported for the financial year for short-term benefits amounted to EUR 1,310 thousand (previous year EUR 1,099 thousand), and EUR 120 thousand for long-term benefits (previous year EUR 120 thousand). The provisions for the variable remuneration came to EUR 1,275 thousand at the end of the financial year (previous year EUR 887 thousand).
The remuneration of the members of the Management Board, including travel expenses, came to EUR 219 thousand (previous year EUR 209 thousand). As in the previous year, there were no loans or advances to Management Board and Supervisory Board members in the 2018 financial year.

Retired members of the Management Board received benefits totalling EUR 57 thousand in the 2018 financial year (previous year EUR 57 thousand). The provisions for pension commitments to former Management Board members came to EUR 1,004 thousand (previous year EUR 992 thousand).

The Management Board and Supervisory Board remuneration is shown by member in a separate remuneration report. The remuneration report forms part of the Group Management Report.

Directors' holdings

The following table shows directors' holdings at the balance sheet date:

Management Board	Shares (total)	31/12/2018 Options (total)	Shares (total)	31/12/2017 Options (total)
Dr. Thomas Kneip	0	0	0	0
Bernhard Pawlik	0	0	0	0
Dr. Christoph Traxler	0	0	0	0
Supervisory Board				
Guido A. Krass	2,400,000	0	2,400,000	0
Andreas Freiherr von Maltzan	0	0	0	0
Christian C. Pochtler	0	0	0	0
CENTROTEC				
Ordinary shares	18,020,923	0	18,020,923	0
Treasury stock	1,764,470	0	0	0

Management Board and Supervisory Board
Members of the Management Board:
Dr Thomas Kneip,
Regensburg, Germany, merchant
Since January 2014 Management Board member of CENTROTEC Sustainable AG and since April 2014 jointly responsible for the Climate Systems segment

Bernhard Pawlik,
Ottobrunn, Germany, industrial engineer
Since April 2018 Management Board member of CENTROTEC Sustainable AG and since the same date responsible for the Gas Flue Systems segment, in the management of which he has been involved since 2014

Dr Christoph Traxler,
Fulda, Germany, physicist
Since April 2004 Management Board member of CENTROTEC Sustainable AG and since the same date responsible for Medical Technology & Engineering Plastics segment and, since April 2014, jointly responsible for the Climate Systems segment

Members of the Supervisory Board:
Guido A Krass, Oberwil-Lieli, Switzerland,
entrepreneur (Chairman)
Dr Bernhard Heiss, Munich, Germany,
Rlawyer (Deputy Chairman) until June 30, 2018
Andreas Freiherr von Maltzan, Munich, Germany,
entrepreneur (Deputy Chairman) since July 1, 2018
Mag. Christian C Pochtler, Vienna, Austria,
entrepreneur

The following members of the Management and Supervisory Boards also hold other non-executive directorships as defined in Section 125 (1), fifth sentence of the German Stock Corporation Act:

Guido A Krass	Wolf GmbH, Mainburg, Germany medimondi AG, Fulda, Germany (Chairman)
Andreas Freiherr von Maltzan	None
Mag. Christian C Pochtler	Denzel AG, Vienna, Austria Schoeller Holding SE & Co. KGaA, Pullach
Dr Thomas Kneip	Wolf France S.A.S., Massy, France Wolf Sustainable (Schweiz) AG, Kilchberg, Switzerland Wolf Energiesparsysteme OOO, Moscow, Russia Wolf HVAC Systems Co. Ltd., Shanghai, China
Bernhard Pawlik	None
Dr Christoph Traxler	Rolf Schmidt Industriplast A/S, Kolding, Denmark (Chairman)

4_Corporate Governance Code

Pursuant to Section 161 of the German Stock Corporation Act, the Management Board and Supervisory Board of a company listed on the stock exchange are obliged to declare once a year whether and to what extent the code has been and is complied with.

The Management Board and Supervisory Board of CENTROTEC Sustainable AG have declared the extent to which the recommendations of the Government Commission on the German Corporate Governance Code are complied with by the respective companies. The regularly submitted declarations and explanations are available to the public on the website of CENTROTEC Sustainable AG at www.centrotec.com.

5_Independent auditors' fees

The auditors of CENTROTEC are PricewaterhouseCoopers GmbH WPG, Germany. The amounts shown below do not contain the fees for other independent auditors of Group subsidiaries, nor do they contain the amounts for international subsidiaries of the Group.

in EUR '000	2018	2017
Auditing services for the financial statements	433	429
Tax consultancy services	128	106
Other services	0	0
Total expenses	**561**	**535**

The tax consultancy services relate to the preparation of tax returns and to support for tax audits by the tax authorities.

6_Date and approval of the financial statements

The financial statements were approved by the Management Board and authorised as a whole for issue on March 27, 2019.

Once approved and ratified by the corporate bodies and following their publication, these financial statements may only be amended to the extent that is permissible by law.

Brilon, March 27, 2019

Dr Thomas Kneip

Bernhard Pawlik

Dr Christoph Traxler

Independent auditor's report

To CENTROTEC Sustainable AG, Brilon

Note on the auditing of the consolidated financial statements and group management report

Audit opinions

We have audited the Consolidated Financial Statements of CENTROTEC Sustainable AG, Brilon, and its subsidiaries (the Group) – comprising the Consolidated Balance Sheet at December 31, 2018, the Consolidated Statement of Comprehensive Income, the Consolidated Income Statement, the Consolidated Statement of Movements in Equity and the Consolidated Cash Flow Statement for the financial year from January 1 to December 31, 2018 as well as the Notes to the Consolidated Financial Statements, including a summary of significant accounting policies. In addition we have audited the Group Management Report of CENTROTEC Sustainable AG for the financial year from January 1 to December 31, 2018. In accordance with the requirements of German law, we have not examined the content of the components of the Group Management Report stated in the "Other information" section of our Auditor's Report.

In our opinion, based on the findings of our audit,

- the enclosed Consolidated Financial Statements comply in all material respects with the IFRS as adopted in the EU, and the additional requirements of German law pursuant to Section 315e (1) of the German Commercial Code (HGB), and in accordance with these requirements give a true and fair view of the net worth and financial position of the Group at December 31, 2018 as well as of its financial performance for the financial year from January 1 to December 31, 2018, and

- the enclosed Group Management Report as a whole provides a suitable view of the Group's position. In all material respects this Group Management Report is consistent with the Consolidated Financial Statements, complies with the requirements of German law and suitably presents the opportunities and risks of future development. Our audit opinion of the Group Management Report does not extend to the contents of the Group Management Report components stated in the "Other information" section.

Pursuant to Section 322 (3) first sentence of HGB, we declare that our audit has not led to any objections regarding the correctness of the Consolidated Financial Statements and Group Management Report.

Basis for the audit opinions

We conducted our audit of the Consolidated Financial Statements and Group Management Report in accordance with Section 317 of HGB and the EU Regulation on specific requirements regarding statutory audit of public-interest entities (hereinafter: "Regulation (EU) No. 537/2014") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, IDW). Under those regulations and principles our responsibility is described further in the section "Responsibility of the auditor for the auditing of the Consolidated Financial Statements and Group Management Report" of our Auditor's Report, We are independent of the Group companies, as is consistent with the regulations under European law, German commercial law and professional law, and have fulfilled our other German professional duties in accordance with these requirements. In addition, we declare that, pursuant to Article 10 (2) letter f) of Regulation (EU) No. 537/2014 we did not perform any prohibited non-audit services within the meaning of Article 5 (1) of Regulation (EU) No. 537/2014. We are of the opinion that the audit evidence we obtained is adequate and suitable to serve as a basis for our audit opinions on the Consolidated Financial Statements and Group Management Report.

Key audit matters in the auditing of the Consolidated Financial Statements

Key audit matters are those matters which, according to our sound judgment, were of most significance in our audit of the Consolidated Financial Statements for the financial year from January 1 to December 31, 2018. Those matters were taken into account as a whole with regard to our audit of the Consolidated Financial Statements and the forming of our audit opinion on them; we do not provide any separate audit opinion on those matters.

In our opinion the following matter was of key importance in our audit:

1. Intrinsic value of goodwill

We have structured our presentation of this key audit matter as follows:

1. Matter and problem statement
2. Audit approach and findings
3. Reference to additional information

We present the key audit matter below:

1. Intrinsic value of goodwill

1. The Consolidated Financial Statements of the company report goodwill with an overall amount of € 77.3 million under the balance sheet item “Goodwill”. Goodwill is tested for impairment by the company once a year or ad hoc to identify a possible need for amortisation. The impairment test is performed at the level of the groups of cash-generating units to which the respective goodwill is allocated. In the impairment test, the carrying amount of the respective cash-generating units including goodwill is compared with the appropriate recoverable amount. The recoverable amount is fundamentally determined on the basis of the value in use. The basis of the valuation is regularly the present value of future payment streams of the respective group of cash-generating units. The present values are determined using discounted cash flow models. Here the approved medium-range planning of the Group serves as the starting point, which is reassessed using assumptions on long-term growth rates. Expectations regarding the future market development and assumptions on the development of macroeconomic factors are also taken into account here. Discounting is performed using the weighted average capital costs of the respective group of cash-generating units. No need for impairment was established as the result of testing for impairment.

   The result of this evaluation depends to a high degree on management’s assessment of the future cash inflows of the respective group of cash-generating units, the discount rate applied, the growth rate as well as other assumptions, and therefore subject to considerable uncertainty. In light of the above and in view of the complexity of the evaluation, this matter was of particular importance in the course of our audit.

2. In the course of our audit, among other things we evaluated the methodological procedures for testing for impairment. After comparing the future cash inflows used in the calculation with the approved medium-range planning of the Group, we assessed the appropriateness of the calculation in particular by reconciling it with general and industry-specific market expectations. Supplementary adjustments to the medium-range planning for purposes of impairment testing were discussed by us with the company employees responsible and evaluated. We also evaluated whether the costs for Group functions were properly reflected. With the knowledge that even relatively small changes in the discount rate applied can have material effects on the enterprise value determined in this way, we considered in depth the parameters used to determine the discount rate applied, and evaluated the measurement model. To reflect the existing forecast uncertainty, we evaluated the sensitivity analyses prepared by the company and performed our own sensitivity analyses. As a result, we established that the carrying amounts of the cash-generating units including the allocated goodwill, taking account of the available information, are adequately covered by the discounted future cash surpluses.

   The measurement parameters and assumptions used by management as a whole agree with our expectations and are also within the ranges that we consider to be reasonable.

3. The company’s disclosures on goodwill are contained in Sections E and I of the Notes to the Consolidated Financial Statements.

Other Information

Management is responsible for the other information. The other information comprises the following components of the Group Management Report, the content of which we have not examined:

- The Corporate Governance Statement pursuant to Section 289f of HGB and Section 315d of HGB contained in the section “Business activities” of the Group Management Report
- The Corporate Governance Report according to No. 3.10 of the German Corporate Governance Code
- The separate Non-Financial Group Report pursuant to Section 315b (3) of HGB

The other information also comprises the remaining sections of the Annual Report – disregarding further cross-references to external information – with the exception of the audited Consolidated Financial Statements, audited Group Management Report as well as our Auditor’s Report.

Our audit opinions of the Consolidated Financial Statements and Group Management Report do not extend to the other information, and we accordingly express neither an audit opinion nor any other form of audit conclusion in that regard.

In connection with our audit, it is our responsibility to read the other information and to assess whether the other information

- exhibits material discrepancies with the Consolidated Financial Statements, Group Management Report or our knowledge obtained in the course of the audit, or
- appears in any other respects to be misrepresented.

Responsibility of management and the supervisory body for the Consolidated Financial Statements and Group Management Report

The management is responsible for the preparation of the Consolidated Financial Statements, which comply in all material respects with the IFRS as adopted in the EU, and the additional requirements of German law pursuant to Section 315e (1) of HGB, and for ensuring that in accordance with these requirements the Consolidated Financial Statements give a true and fair view of the net worth, financial position and financial performance of the Group. The management is also responsible for the internal controls that it has determined to be necessary to enable the preparation of Consolidated Financial Statements that are free from material – intentional or unintentional – misrepresentations.

In preparing the Consolidated Financial Statements, the management is responsible for assessing the Group's ability to remain a going concern. In addition it has the responsibility to state matters, where relevant, in connection with remaining a going concern. Furthermore, it is responsible for preparing the accounts based on the going concern accounting principle, unless there is the intention to liquidate the Group or cease business operations or no realistic alternative to such a course exists.

The management is also responsible for the preparation of the Group Management Report, which as a whole provides a suitable view of the Group's position and is consistent in all material respects with the Consolidated Financial Statements, complies with the requirements of German law and suitably presents the opportunities and risks of future development. The management is in addition responsible for the precautions and measures (systems) that it has deemed necessary to enable the preparation of a Group Management Report that is consistent with the applicable requirements of German law, and to enable it to furnish sufficient suitable evidence for the statements made in the Group Management Report.

The Supervisory Board is responsible for overseeing the Group's accounting process for the preparation of the Consolidated Financial Statements and Group Management Report.

Responsibility of the auditors for the auditing of the Consolidated Financial Statements and Group Management Report

Our objective is to obtain reasonable assurance whether the Consolidated Financial Statements are as a whole free from material – intentional or unintentional – misrepresentations, and whether the Group Management Report as a whole provides a suitable view of the Group's position and is consistent in all material respects with the Consolidated Financial Statements as well as with the findings of our audit, complies with the requirements of German law and suitably presents the opportunities and risks of future development, as well as to provide an audit report that contains our audit opinions on the Consolidated Financial Statements and Group Management Report.

Reasonable assurance means a high degree of assurance, but no guarantee that an audit conducted in accordance with Section 317 of HGB, Regulation (EU) No. 537/2014 and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer will always reveal a material misrepresentation. Misrepresentations may result from infringements or misstatements and are regarded as material if it could reasonably be expected that they might individually or as a whole influence the economic decisions of the reader made on the basis of these Consolidated Financial Statements and this Group Management Report.

During the audit we exercise sound judgment and maintain a critical basic stance. In addition

- we identify and assess the risks of material – intentional and unintentional – misrepresentations in the Consolidated Financial Statements and Group Management Report, plan and conduct audit procedures in response to those risks, and obtain audit evidence that is sufficient and suitable to serve as the basis for our audit opinions. The risk that material misrepresentations are not identified is greater for infringements than for misstatements, because infringements may involve fraudulent collaboration, forgeries, intentional incompleteness, misleading representations and bypassing of internal controls.
- we acquire an understanding of the relevant internal control system for the audit of the Consolidated Financial Statements and the relevant precautions and measures for the audit of the Group Management Report in order to plan audit procedures that may be appropriate in the circumstances, but not with the aim of submitting an audit opinion on the effectiveness of those systems.
- we assess the appropriateness of the accounting methods used by the management as well as the justifiability of the value estimates presented by the management and of related disclosures.

- we draw conclusions on the appropriateness of the going concern accounting principle used by the management and, based on the audit evidence obtained, on whether a material uncertainty exists in connection with events or circumstances that may raise significant doubts about the ability of the Group to remain a going concern. If we reach the conclusion that a material uncertainty exists, we are obliged to point out the affected disclosures contained in the Consolidated Financial Statements and Group Management Report in the Auditor's Report or, if those disclosures are inappropriate, to modify our audit opinion on the matter in question. We draw our conclusions on the basis of the audit evidence obtained by the date of our Auditor's Report. However future events or circumstances may result in the Group no longer being able to operate as a going concern.
- we assess the overall presentation, structure and content of the Consolidated Financial Statements including the disclosures, as well as whether the Consolidated Financial Statements present the underlying transactions and events such that, taking account of the IFRS as adopted in the EU and the additional requirements of German law pursuant to Section 315e (1) of HGB, the Consolidated Financial Statements give a true and fair view of the net worth, financial position and financial performance of the Group.
- we obtain sufficient, suitable audit evidence for the accounting information of the enterprises or business activities within the Group to be able to provide audit opinions on the Consolidated Financial Statements and Group Management Report. We are responsible for instructing, overseeing and executing the audit of the Consolidated Financial Statements. We bear sole responsibility for our audit opinions.
- we assess whether the Group Management Report is consistent with the Consolidated Financial Statements, and also its compliance with the legal requirements and the impression it gives of the situation of the Group.
- we conduct audit procedures on the future-related statements by management in the Group Management Report. Based on sufficient, suitable audit evidence we in particular seek to comprehend the material assumptions which underlie the future-related statements by management and assess whether the future-related statements have been derived properly from those assumptions. We do not give a separate audit opinion on the future-related statements as well as on their underlying assumptions. There is a considerable unavoidable risk that future events will deviate materially from the future-related statements.

We discuss for example the planned scope and timetable of the audit with the officers responsible for monitoring, as well as significant audit findings, including any shortcomings that we identify in the Internal Control System in the course of our audit.

We make a declaration to the officers responsible for monitoring that we have complied with the relevant independence requirements, and discuss with them all relationships and other matters that can reasonably be assumed to affect our independence, as well as the precautions taken in that regard.

Of the matters that we have discussed with the officers responsible for monitoring, we identify those that were of greatest significance for the period in question in the audit of the Consolidated Financial Statements and therefore constitute the key audit matters. We describe these matters in the Auditor's Report, unless laws or other regulations stipulate that the matter cannot be stated publicly.

Miscellaneous statutory and other legal requirements

Other disclosures pursuant to Article 10 of Regulation (EU) No. 537/2014

We were appointed as Group auditor by the Annual General Meeting on May 15, 2018. We were issued with our mandate by the Supervisory Board on December 12, 2018. We have served as Group auditor of CENTROTEC Sustainable AG, Brilon, without interruption since the 2001 financial year.

We declare that the audit opinions contained in this Auditor's Report are consistent with the supplementary report to the Audit Committee pursuant to Article 11 of Regulation (EU) No. 537/2014 (audit report).

Responsible auditor

The independent auditor responsible for the audit is Holger Plaum.

Kassel, March 27, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Holger Plaum (German public auditor)	ppa. Markus Küfner (German public auditor)

Independent auditors’ report on a business audit to obtain limited assurance on the non-financial reporting

To CENTROTEC Sustainable AG, Brilon

We have subjected the separate Non-Financial Group Report according to Section 315b (3) of the German Commercial Code of CENTROTEC Sustainable AG, Brilon, (hereinafter referred to as the “Company”) for the period from January 1, 2018 to December 31, 2018 (hereinafter referred to as the “Non-Financial Report”) to a business audit to obtain limited assurance.

Responsibility of the management

The management of the Company is responsible for the preparation of the Non-Financial Report in accordance with Sections 315b and 315c in conjunction with 289c to 289e of the German Commercial Code.

This responsibility of the Company’s management comprises the selection and application of suitable methods of non-financial reporting as well as the making of assumptions and estimates for individual non-financial disclosures that are appropriate in the circumstances. In addition, the management is responsible for the internal controls that it has deemed necessary to enable the preparation of a non-financial report that is free from material – intentional or unintentional – misstatements.

Independence and quality assurance of the auditing firm

We have complied with the German professional regulations on independence as well as with other requirements of professional conduct.

Our auditing firm adopts the national statutory regulations and professional declarations – in particular the Professional Code of Conduct for Public Auditors and Sworn Accountants (BS WP/vBP) as well as the IDW Quality Assurance Standards 1 “Quality assurance requirements in audit practice” (IDW QS 1) of the Institute of Public Auditors in Germany (IDW) and correspondingly operates a comprehensive quality assurance system that comprises documented regulations and measures in respect of compliance with requirements of professional conduct, professional standards as well as critical statutory and other legal requirements.

Responsibility of the auditors

Our responsibility is to give an audit opinion with limited assurance on the disclosures in the Non-Financial Report, on the basis of our review.

Our engagement does not include the assessment of external documentation sources or expert opinions that are referred to in the Non-Financial Report.

We conducted our business audit taking into consideration the International Standard on Assurance Engagements (ISAE) 3000 (Revised): “Assurance Engagements other than Audits or Reviews of Historical Financial Information”, published by the IAASB. This requires that we plan and perform the audit such that we can assess with limited assurance whether matters have come to our attention that cause us to believe that the Non-Financial

Report of the Company for the period from January 1, 2018 to December 31, 2018 has not in all material respects been prepared in agreement with Sections 315b and 315c in conjunction with 289c to 289e of the German Commercial Code.

In a business audit to obtain limited assurance, the audit procedures carried out are less extensive compared to a business audit to obtain reasonable assurance, with the result that correspondingly a much lower level of assurance is obtained. The selection of the audit procedures is a matter for the auditor's professional judgement.

In the course of our audit we carried out the following audit procedures, among others, as well as other activities:

- Obtaining an understanding of the structure of the sustainability organisation
- Interviewing management and relevant employees who were involved in the preparation of the Non-Financial Report about the preparation process, about the internal system of control for this process as well as about disclosures in the Non-Financial Report
- Identifying probable risks of material misstatements in the Non-Financial Report
- Analytical assessment of disclosures in the Non-Financial Report
- Reconciling disclosures with the corresponding data in the Consolidated Financial Statements and Group Management Report
- Assessing the presentation of the disclosures

Audit opinion

Based on the audit procedures carried out and the audit evidence obtained, no matters have come to our attention that cause us to believe that the Non-Financial Report of the Company for the period from January 1, 2018 to December 31, 2018 has not in all material respects been prepared in agreement with Sections 315b and 315c in conjunction with 289c to 289e of the German Commercial Code.

Purpose of the report

We issue this report on the basis of the engagement agreed with the Company. The audit was carried out for the purposes of the Company and the report is intended merely to inform the Company of the findings of the audit.

The report is not intended as a basis for third parties to reach (investment) decisions. Our responsibility is solely towards the Company. On the other hand we bear no responsibility in respect of third parties.

Frankfurt am Main, March 27, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

ppa. Nicolette Behncke
German Public Auditor

ppa. Barbara Wieler

Financial calendar 2019

March 28	Analysts Meeting/Publication of 2018 accounts
May 14	Publication of 01/2019 Quarterly Report
June 18	Annual General Meeting of Shareholders, Mainburg
August 14	Publication of 02/2019 Half-Year Report
November 14	Publication of 03/2019 Quarterly Report
November 25-27	Deutsches Eigenkapitalforum 2019, Frankfurt am Main

Imprint

Text
CENTROTEC Sustainable AG

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CENTROTEC
MetaCom, Hanau

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MetaCom, Hanau

Printing
Printed on heaven 42 absolute whitesoft matt coated from IGEPA, manufactured from raw materials from environmentally sound forestry and other controlled origins.

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CENTROTEC group
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