Report on the 2nd Quarter and 1st Half 2018

elringklinger

Key figures

ElringKlinger Group

		2nd Quarter 2018	1st Quarter 2018	4th Quarter 2017	3rd Quarter 2017	2nd Quarter 2017
Order Situation						
Order intake	€ million	458.6	474.2	443.4	381.0	413.3
Order backlog	€ million	1,038.2	1,027.2	1,000.6	976.5	999.1
Sales/Earnings						
Sales revenue	€ million	430.8	430.7	419.3	403.6	407.8
Cost of sales	€ million	331.1	335.3	332.8	299.9	299.1
Gross profit margin		23.1%	22.1%	20.6%	25.7%	26.7%
EBITDA	€ million	49.3	61.1	55.9	59.4	60.5
EBIT/Operating result	€ million	25.3	37.4[3]	29.7	33.9	35.8
EBIT margin		5.9%	8.7%[3]	7.1%	8.4%	8.8%
EBIT pre ppa[1]	€ million	26.3	38.4[3]	30.7	34.8	37.2
EBIT margin pre ppa		6.1%	8.9%[3]	7.3%	8.6%	9.1%
Earnings before taxes	€ million	20.3	32.1[3]	21.6	25.9	28.0
Net income	€ million	9.4	26.4[3]	11.3	17.2	19.4
Net income attributable to shareholders of ElringKlinger AG	€ million	8.5	25.7[3]	10.3	16.1	18.4
Cash flow						
Net cash from operating activities	€ million	20.7	7.0	31.9	13.0	30.9
Net cash from investing activities	€ million	-40.0	22.1	-45.5	-44.5	-41.0
Net cash from financing activities	€ million	22.3	-26.2	18.7	22.3	22.1
Operating free cash flow[2]	€ million	-19.0	-23.3	-13.3	-31.5	-10.2
Balance Sheet						
Balance sheet total	€ million	2,046.7	2,008.0	2,022.4	2,006.0	1,988.3
Equity	€ million	876.8	901.9	889.7	884.1	883.6
Equity ratio		42.8%	44.9%	44.0%	44.1%	44.4%
Human Resources						
Employees (as at end of quarter)		9,954	9,618	9,611	9,376	9,012
Stock						
Earnings per share	€	0.13	0.41	0.16	0.25	0.29

[1] EBIT adjusted for amortization resulting from purchase price allocation

[2] Net cash from operating activities minus net cash from investing activities (excluding M&A activities and excluding investments in financial assets)

[3] Incl. gain from sale of Hug subgroup (EUR 21.2 million before taxes)

»Our expertise in lightweighting and our know-how in the field of e-mobility will play a pivotal role when it comes to the future performance of the Group.«

Dr. Stefan Wolf,
Chief Executive Officer of ElringKlinger AG

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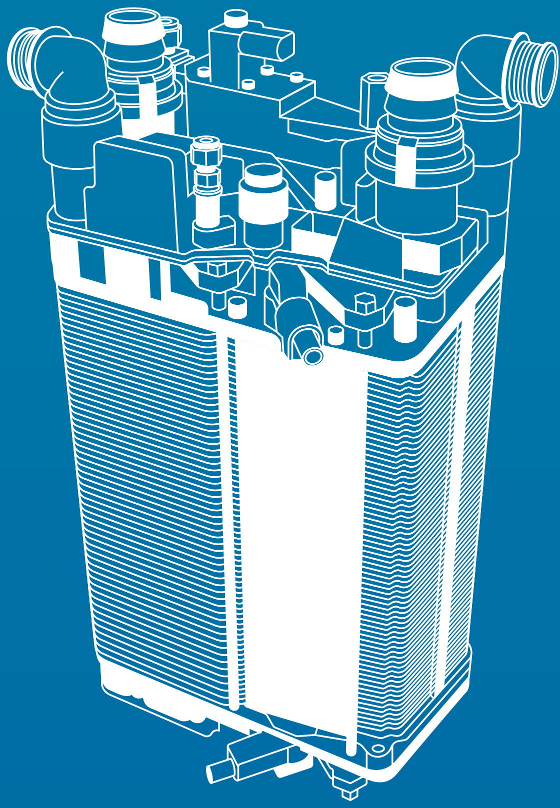


The fuel cell is a genuine all-rounder: discover the tremendous potential of this technology on page 38 of the ElringKlinger AG „pulse" magazine or get there by the internet link www.elringklinger.de/en/company/insights/all-rounder

First half of 2018 in brief

- **Group revenue** increased by 2.4% to EUR 861.5 million in first half. Organic (adjusted for currency effects and changes to scope of consolidation) revenue growth amounted to 8.4% at Group level. In the second quarter revenue was up by 5.6% at EUR 430.8 million and by 11.6% organically. Gains made in all regions; NAFTA particularly strong in second quarter

- **EBIT before purchase price allocation** totaled EUR 64.6 million in first half (1st Half 2017: EUR 76.3 million) ; EBIT margin before purchase price allocation at 7.5 % (9.1 %)

- Against the backdrop of significant commodity price hikes and persistently high follow-on costs associated with large-volume orders placed by customers in the NAFTA region as part of their production scheduling, the Group revised its annual earnings guidance in June and now forecasts an **EBIT margin before purchase price allocation** of around 7% in the year as a whole

- **Sale of Hug Group** formally completed effective from March 1, 2018

- **Capital expenditure** on property, plant, and equipment of EUR 67.7 million and capex ratio of 7.9% below prior-year level

- Record order backlog of EUR 1,038.2 million and substantial order intake illustrate **solid order book situation**

Macroeconomic Conditions and Business Environment

Global upturn continues

The world economy maintained its growth trajectory in the first half of the year, although the individual markets and regions displayed greater divergence when it came to the rate of economic expansion. A higher oil price, the decision by the US Federal Reserve to raise its benchmark interest rates, and confirmation by the European Central Bank of its intention to leave its base rates unchanged until mid-2019 were key factors influencing the direction taken by the respective regions and economies. What is more, the international trade dispute triggered by the introduction of specific customs tariffs became increasingly acute in the second quarter of 2018.

Calculated on the basis of gross domestic product (GDP), growth was very different in the individual markets. The euro area recorded a loss in economic momentum during the second quarter of 2018. Economists point, among other factors, to the temporary appreciation of the euro and the associated deterioration in price-based competitiveness among companies operating with production sites in the eurozone. The German economy has also seen a dip in its rate of expansion in recent months. Fundamentally, however, it continues to benefit from substantial private consumption and the expansive monetary policy still being pursued by the European Central Bank. The US economy managed to accelerate its solid growth rate during the second quarter of 2018. The recent tax reform, government spending programs aimed at providing structural impetus, and favorable conditions within the labor market were among the key stimulating factors. Economic growth in China dipped slightly, albeit from a strong base. Alongside smoldering trade disputes, the country continues to be faced with substantial corporate and private household debt.

GDP growth rates

Year-on-year change in %	4th Quarter 2017	1st Quarter 2018	2nd Quarter 2018
Germany	2.9	2.3	2.2
Eurozone	2.8	2.5	2.2
USA	2.6	2.8	3.0
Brazil	2.1	1.2	1.2
China	6.8	6.8	6.7
India	7.0	7.7	7.9
Japan	1.9	1.1	1.0

Source: HSBC (June 2018)

Production Light Vehicles

Year-on-year change (in %)	2nd Quarter 2018	1st Half 2018
European Union	**8.1**	**4.0**
Germany	10.1	4.2
Eastern Europe[1]	**2.5**	**6.3**
Russia	3.7	9.9
North America	**-0.8**	**-1.7**
USA	-2.9	**-3.7**
South America	**15.1**	**13.1**
Brazil	16.3	11.6
Asia-Pacific	**7.7**	**2.5**
China	11.8	4.4
Japan	-5.0	-9.1
India	24.8	13.3
Middle East & Africa	**19.5**	**20.8**
World	**6.6**	**3.0**

[1] Inkl. Russland
Quelle: PwC Autofacts (Juli 2018)

Auto markets remain in relatively good health

On the whole, the world's automobile markets developed favorably during the first half of 2018. Based on figures published by Germany's automotive industry association, the VDA, new registrations in the major sales markets of China, the US, and Europe rose by 5.5%, 2.0%, and 2.8% respectively. India, which is considered an important market for motor vehicles, recorded double-digit growth – up by 13.3%. Compared to the same period a year ago, demand for new vehicles also expanded by a double-digit percentage rate in Russia and Brazil. Among the major markets only Japan and the United Kingdom saw a year-on-year decline – down by 2.3% and 6.3% respectively.

Production output for vehicle manufacturers was also encouraging in the majority of cases. The volume of passenger cars and light commercial vehicles produced during the first half of the year rose by 3.0% year on year. The second quarter of 2018, in particular, saw a strong performance in some of the regions. This was in part due to the effects of pre-emptive purchases in anticipation of tax increases, such as those coming into force in the United Kingdom and India during the second half of the year. Similarly, the imminent introduction of the new WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure) throughout the EU was an influencing factor. Effective from September 1, 2018, the latter will become mandatory for all newly registered vehicles.

While new passenger car registrations rose by 3% in Germany in the period under review, production output by domestic car makers was again down at -3%. With German manufacturers increasingly favoring production in local markets, exports from Germany also fell by 2%.

Commercial vehicle markets: upturn in US, slowdown in Europe

Favorable macroeconomic conditions provided a solid foundation for growth within the global commercial vehicle markets. In Europe, demand for mid-sized and heavy trucks (>3.5 tons) was up, thereby boosting new registrations in the European Union by 3.4% in the first six months. The individual markets developed along divergent lines during this period. Germany, as the largest individual market, exceeded last year's figure slightly – up 0.8%, which corresponds to 47.2k new trucks. By contrast, France, Poland, Italy, and Spain recorded substantial growth. As expected, demand in the United Kingdom was weaker, which translated into a downturn of 9.8%.

On the back of substantial order intake from transport companies in the United States toward the end of 2017, the overall volume of registrations was up substantially in the first quarter of 2018. The segment encompassing heavy-duty Class 8 trucks proved particularly buoyant in terms of sales. Despite a slight loss in forward momentum during the second quarter, sales growth for the first half of the year as a whole amounted to a healthy 15.7% with regard to mid-sized and heavy Class 4 to 8 trucks.

Significant Events

Merger of subsidiary

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

New company established in United States

ElringKlinger Manufacturing Indiana, Inc., based in Fort Wayne, USA, was established effective from February 28, 2018. The parent company ElringKlinger AG holds 100.0% of the interests in this new subsidiary.

Closing of Hug transaction

The contract signed in December 2017 between ElringKlinger and a French automotive supplier, covering the sale of the Hug Group, based in Elsau, Switzerland, was closed effective from March 1, 2018. The 93.67% interest held by ElringKlinger in Hug Engineering AG, Elsau, Switzerland, passed entirely to the contracting party upon closing of the transaction.

The sale of the Hug Group is to be seen against the background of industry transition and increasing globalization, which would have necessitated further substantial investments by ElringKlinger in order to remain competitive within the exhaust gas purification market in the long term. ElringKlinger's strategic focus is mainly centered on the promising fields of lightweighting and e-mobility with the three supportive pillars of battery technology, fuel cell technology, and electric drive systems.

Dedicated Management Board role created for e-mobility – Reiner Drews appointed new COO

At its meeting on March 23, 2018, the Supervisory Board of ElringKlinger AG passed a resolution for the introduction of a new area of Management Board responsibility covering e-mobility. It is headed by Theo Becker. Having previously held the position of COO within the ElringKlinger Group, Theo Becker will in future focus on battery and fuel cell technology as well as on the integration of the Group's hofer investee. In creating a fourth area of Management Board responsibility, the company has further reinforced the significance of e-mobility to ElringKlinger's future operations.

Reiner Drews (48), who had previously headed the Cylinder-head Gaskets and Specialty Gaskets divisions at ElringKlinger, was appointed to the Management Board effective from April 1, 2018, and named as successor to Theo Becker and thus as the Group's new COO. Reiner Drews has taken over Management Board responsibility from Theo Becker for manufacturing operations, the German plants, and the area of quality assurance.

Extension of Management Board contract of Chief Financial Officer Thomas Jessulat

The Supervisory Board of ElringKlinger AG extended the contract of Chief Financial Officer Thomas Jessulat by five years as from January 1, 2019, i.e., until December 31, 2023. Thomas Jessulat was appointed to the Management Board of ElringKlinger AG effective from January 1, 2016. In accordance with the German Corporate Governance Code, the term of the contract had initially been set at three years.

Passing of Professor Walter H. Lechler

The Honorary Chairman of the Supervisory Board of ElringKlinger AG, Professor Walter H. Lechler, passed away on May 17, 2018, at the age of 75. Holding senior roles, Professor Lechler shaped the business activities of ElringKlinger AG and its predecessor companies over a period of four decades. From 2012 and 2017, he served ElringKlinger AG as Chairman of the Supervisory Board. Having retired from the Supervisory Board in May 2017 for reasons of age, Professor Lechler was elected Honorary Chairman of the Supervisory Board. Additionally, he held the position of managing partner of Lechler GmbH, Metzingen, from 1976 onward.

After Professor Lechler's passing, the ownership interest of around 22% he held in ElringKlinger AG was transferred to the Lechler trust that had been founded by his uncle Klaus Lechler upon the latter's death. The Lechler trust thus holds, either directly or indirectly, around 52% of the interests in ElringKlinger AG.

Sales and Earnings Performance

Strong organic growth in revenue of 8%

Exploiting the tailwind produced by automotive markets around the globe, ElringKlinger Group expanded its revenues not only in the second quarter but also in the first half of 2018 as a whole. Compared to the previous year, sales revenue increased by 5.6% to EUR 430.8 (407.8) million in the second quarter of 2018 and by 2.4% to EUR 861.5 (841.1) million in the first half. The revenue contribution from M&A activities stood at EUR -10.9 million in the second quarter and EUR -15.1 million in the first half of 2018. Alongside a positive effect from the hofer acquisition, this also includes – since March 1, 2018 – the sale of the Hug subgroup, which had a negative impact on revenue growth. Due to the continued strength of the euro, currency effects – particularly the US dollar, the Swiss franc, and the Mexican peso – diluted revenues by EUR 13.6 million in the second quarter and by EUR 35.2 million in the first six months of 2018. Eliminating M&A activities and currency effects, Group revenue expanded by 11.6% in the second quarter of 2018 and by 8.4% in the first half of 2018.

Substantial growth in Group revenue in most regions

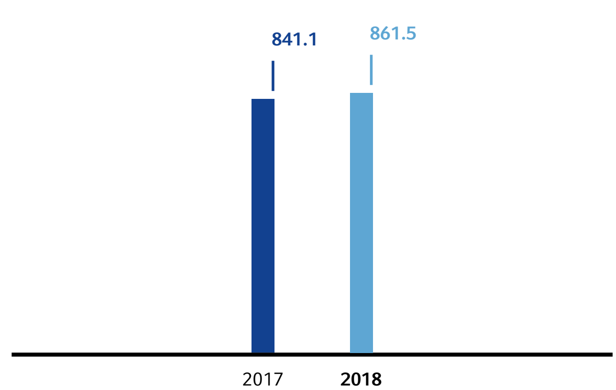
Drawing on the Group's strengths as an innovator, ElringKlinger benefited from buoyant demand for its products in the second quarter of 2018, complemented by several new product rollouts. The European countries, including Germany, as well as the NAFTA region developed particularly well. Revenue from sales in the NAFTA region increased by 9.4% to EUR 89.2 (81.5) million in the second quarter, despite sluggish production output in the light vehicle sector (-0.8%). Adjusted for currency effects, the growth rate achieved in this region was as high as 15.5%. For the first half of 2018 as a whole revenue from the NAFTA region thus totaled EUR 169.5 (166.6) million.

Over the course of the second quarter the region covering the Rest of Europe managed to sustain the strong performance it had recorded at the beginning of the year. The Group succeeded in expanding second-quarter sales revenue by 3.7% to EUR 135.4 (130.6) million in its largest sales market. Together with sales from the first quarter of 2018, revenue increased by 3.2% to EUR 277.9 (269.4) million. If exchange rates had remained unchanged, growth would have reached as much as 5.9%. Many of the Group's subsidiaries operating within the European markets managed to expand their revenues year on year. Taking into account the relocation of production, the Swiss subsidiary would also have recorded higher revenues in the period under review.

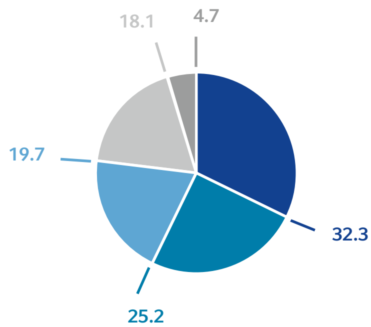
In the region encompassing Asia-Pacific sales revenue increased marginally by EUR 0.6 million to EUR 78.2 (77.6) million. Adjusted for currency effects, growth stood at 2.3%. In this context, several projects were still in the start-up phase, during which revenues tend to be lower. Assuming that foreign exchange rates had remained stable, the region would also have recorded revenue growth of 3.4% in the first half of 2018.

ElringKlinger continued to record strong revenue growth in the region comprising South America and Rest of the World. This was attributable to underlying market performance as well as the fact that the company's aftermarket business developed particularly well in Brazil. Against this backdrop, ElringKlinger saw revenue from sales in these regions grow by 9.4% to EUR 19.7 (18.0) million in the second quarter and by 8.8% to EUR 40.6 (37.3) million in the first half of 2018. Adjusted for currencies, revenue climbed by 21.7% in both the second quarter and the first half.

Sales revenue 1st Half
in € million



Group sales by region 1st Half 2018
(prior year) in %



Rest of Europe	**32.3**	(32.0)
Germany	**25.2**	(25.1)
NAFTA	**19.7**	(19.8)
Asia-Pacific	**18.1**	(18.7)
South America and Rest of World	**4.7**	(4.4)

Having trended lower year on year in the first quarter of 2018 as a result of fewer working days, Group revenue from domestic sales increased by a very solid 8.1% in the second quarter. In total, revenues generated in the first half of 2018 exceeded the prior-year figure by 2.9%, rising to EUR 217.1 (211.0) million.

Correspondingly, the percentage share of domestic sales in relation to total Group revenue now stands at 25.2% (25.1%). As a result, foreign sales calculated in relation to total revenue generated by the ElringKlinger Group fell slightly to 74.8% (74.9%).

Levels of capacity utilization remain high in Original Equipment segment

ElringKlinger expanded revenues across all divisions in the second quarter, with the exception of E-Mobility and Exhaust Gas Purification. The Group continued to benefit from buoyant demand for lightweight and elastomer products as well as specialty gaskets. The Cylinder-head Gaskets and Shielding Technology divisions, by contrast, fell short of the corresponding prior-year revenue figures, which was in part due to currency effects. At EUR 354.9 (337.9) million in the second quarter of 2018 and EUR 708.6 (697.8) million in the first half of 2018, segment revenue was up on the respective figures recorded in the previous year.

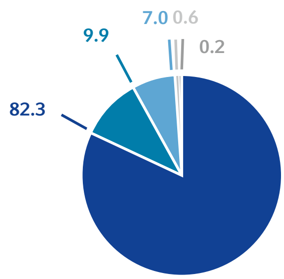
The situation within the NAFTA region remained challenging in the second quarter of 2018, both in terms of revenue and earnings. Persistently high levels of capacity utilization, coinciding with disproportionately large increases in costs – e.g., in the form of higher staff and freight costs – had an adverse effect on earnings in the Cylinder-head Gaskets, Specialty Gaskets, Lightweighting/Elastomer Technology, and Shielding Technology divisions in particular, as the plants in question cover a broad range of the product portfolio. ElringKlinger initiated extensive measures at an early stage for the purpose of addressing the situation in the NAFTA region, the focus being on stabilizing processes and expanding capacity levels.

Within the Shielding Technology division, the optimization measures currently being implemented at a production facility in Switzerland are advancing as planned. In the meantime, further progress has been made in migrating production capacity from this site to other subsidiaries. As a result, ElringKlinger is confident that the determined execution of streamlining measures will see the site return to more normal levels of fixed operating costs in the coming two years.

Revenue generated by the E-Mobility division totaled EUR 8.0 (8.3) million in the first half of 2018. This division is currently establishing further production capacity in the United Kingdom and Germany for the manufacture of electric drive systems. For this reason – coupled with continued sluggishness in demand for products essential to alternative drive technology – earnings before interest and taxes were down year on year within the E-Mobility division.

The Exhaust Gas Purification division recorded revenue of EUR 11.9 (22.8) million in the first six months of 2018. A large part of the division, which supplies exhaust gas purification systems for industrial applications and ships, was sold as of March 1, 2018. This produced a gain on disposal of EUR 21.2 million, which was attributable to the first quarter of 2018.

Sales revenue by segment 1st Half 2018
(prior year) in %



Original Equipment		**82.3**	(83.0)
– Cylinder-head Gaskets			
– Specialty Gaskets			
– Lightweighting/Elastomer Technology			
– Shielding Technology			
– E-Mobility			
– Exhaust Gas Purification			
Aftermarket		**9.9**	(9.5)
Engineered Plastics		**7.0**	(6.6)
Services		**0.6**	(0.6)
Industrial Parks		**0.2**	(0.3)

Alongside the additional operating costs mentioned above, the individual divisions are having to contend with the adverse effects of a recent surge in commodity prices. Both factors had a visible impact on segment earnings before interest and taxes (EBIT) in the first half of 2018. Despite the proceeds from the sale of the Hug subgroup, segment EBIT fell substantially year on year to EUR 38.2 (48.3) million in the period under review. Correspondingly, the EBIT margin of the OE segment decreased to 5.4% (6.9%).

Strong revenues for Aftermarket segment in second quarter

Despite geopolitical tensions in many regions, ElringKlinger managed to expand revenue in its Aftermarket segment by 5.2% to EUR 42.3 (40.2) million in the second quarter. In the first half, segment revenue increased by as much as 6.1%, taking the total to EUR 85.2 (80.3) million. Alongside sustained buoyancy in Eastern Europe, the Aftermarket segment also developed particularly well in South America. Having languished in the economic doldrums for several years, this market produced another strong surge in demand for spare parts supplied by ElringKlinger.

ElringKlinger implemented key strategic measures in the Aftermarket segment over the course of the first half of 2018. They included efforts to further improve the availability of materials. In addition, there is an active commitment on the part of the ElringKlinger Group to accelerate market penetration in China. In combination, these measures saw costs rise in the period under review, although these additional expenses are of a temporary nature. As a result, segment earnings before interest and taxes for the period from January to June 2018 were down year on year at EUR 14.9 (16.6) million. Correspondingly, the EBIT margin decreased to 17.5% (20.7%).

EBIT margin up in Engineered Plastics segment

Within the Engineered Plastics segment, the high-performance plastic PTFE (polytetrafluoroethylene) is used for the purpose of developing and producing applications for various industries. Alongside its business dealings with the automotive industry, this segment also supplies sectors such as mechanical engineering, medical devices, and chemical and plant technology.

Supported by solid demand from the automotive industry and the mechanical engineering sector as well as a larger number of working days compared to the previous year, the segment managed to expand revenue by 14.1% year on year to EUR 30.0 (26.3) million in the second quarter of 2018. In the first half of 2018, revenue grew by 8.6% to EUR 60.6 (55.8) million.

The Engineered Plastics segment saw earnings before interest and taxes increase at a faster rate than revenue, up 14.8% to EUR 9.3 (8.1) million. Correspondingly, its EBIT margin rose to 15.3% (14.5%). The year-on-year increase was attributable mainly to the successful execution of optimization measures within the production areas, complemented by stringent cost management.

Revenue from Industrial Parks remains stable

Rental income from premises at the Group's industrial parks in Idstein, Germany, and Kecskemét, Hungary, was stable at EUR 2.1 (2.1) million in the first half of 2018. Segment earnings before interest and taxes also remained largely unchanged at EUR 0.0 (-0.1) million in the first half of 2018.

Slight year-on-year decline for Services

Elring Klinger Motortechnik GmbH, Idstein, Germany, KOCHWERK Catering GmbH, Dettingen/Erms, Germany, and ElringKlinger Logistic Service GmbH, Dettingen/Erms, Germany, generated segment revenue of EUR 4.9 (5.1) million in total in the first six months of 2018. Segment earnings before interest and taxes amounted to EUR 0.5 (0.9) million.

Headcount up markedly in NAFTA region

In the first half of 2018 the number of people employed within the Group rose by 3.6% to 9,954 (Dec. 31, 2017: 9,611). For the purpose of raising capacity levels in the NAFTA region, the Group recruited 104 new employees in the second quarter of 2018. ElringKlinger also increased its staffing levels at its German sites – up 5.9% on the figure recorded at the end of 2017. Here the headcount rose to 4,107 (Dec. 31, 2017: 3,877). The percentage share of employees working at domestic sites increased to 41.3% (Dec. 31, 2017: 40.3%). The proportion of people employed abroad fell to 58.7% (Dec. 31, 2017: 59.7%) in the same period, primarily due to the disposal of the Hug subgroup.

Gross profit margin falls to 23%

The cost of sales amounted to EUR 666.4 (622.9) million in the first six months of 2018, of which a total of EUR 331.1 (299.1) million was attributable to the second quarter. The unexpectedly severe surge in commodity prices proved to be a key cost driver, with the price of steel, aluminum, and polymer granules being worst affected. As a result, material-related expenses, which had already increased by 4.4% in the first quarter, expanded by a further 18.1% to EUR 185.8 (157.3) million in the second quarter. Pursuing a consistent policy with regard to supplier selection and operating with a balanced structure of contractual terms, the Group has already been counteracting commodity price development for the purpose of mitigating associated risk. However, these measures require a certain lead time before they can take full effect. ElringKlinger uses the raw materials for the production of cylinder-head and specialty gaskets, shielding systems, and lightweight plastic components. Due to the spike in commodity prices, the Group's gross profit margin fell to 23.1% (26.7%) in the second quarter and to 22.6% (25.9%) in the first half of 2018.

Alongside global upstaffing, the collective wage increase – effective from April 1, 2018 – applying to all domestic companies covered by union regulations prompted an increase in staff costs by 5.2% in the second quarter of 2018, taking this figure to EUR 129.9 (123.5) million. Compared to the first quarter of 2018, however, staff costs fell by 5.4%, because the first quarter still included staff costs attributable to the Hug subgroup that was sold as of March 1, 2018. As in the first half of 2017, the cost of sales figure for the period under review includes the staff profit-sharing bonus of EUR 5.7 (5.2) million agreed for the financial year 2017 with regard to the employees of ElringKlinger AG, ElringKlinger Kunststofftechnik GmbH, and Elring Klinger Motortechnik GmbH. This bonus is attributable mainly to the cost of sales. In total, staff costs amounted to EUR 267.2 (249.8) million in the first half of 2018. Staff costs in relation to revenue remained largely unchanged year on year in the second quarter at 30.2% (30.3%). For the first half of 2018, however, this ratio was higher at 31.0% (29.7%).

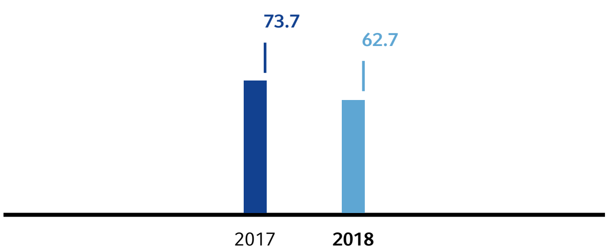
In the period from April to June 2018 selling expenses were down by 3.0%. This reduction is to be seen against the backdrop of a high prior-year base, which included the effects of ERP system migration at the Swiss production site. In the first half of 2018 selling expenses rose by 3.5% to EUR 71.5 (69.1) million. Yet again, large-volume orders placed by customers as part of their scheduling arrangements with production companies in the NAFTA region had a visible impact in the form of a higher cost base.

In the first six months of 2018, general and administrative expenses rose by EUR 1.2 million to EUR 42.6 (41.4) million. The slight reduction in costs in the second quarter of 2018 – down by EUR 0.1 million – was attributable primarily to the disposal of the Hug subgroup.

Research and development costs up by 10%

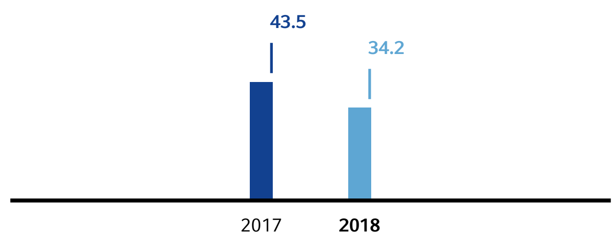
Order-specific development activities and the steady expansion of staffing levels in the new fields of business, which also encompass battery and fuel cell technologies, led to an increase in research and development costs of 8.3% in the second quarter of 2018, taking the figure to EUR 19.5 (18.0) million. R&D costs were up 9.6% at EUR 41.1 (37.5) million in the first six months of 2018. Additionally, research and development costs amounting to EUR 0.6 (0.8) million were capitalized in the second quarter and EUR 1.1 (1.3) million in the first half of 2018. Taking into account R&D costs capitalized by the Group, the R&D ratio, i.e., R&D costs relative to Group revenue, was 4.9% (4.6%); this was just slightly short of the long-term target of between 5 and 6%.

EBIT * 1st Half
in € million



* Pre purchase price allocation

Profit attributable to shareholders of ElringKlinger AG 1st Half
in € million



ElringKlinger's ongoing development projects are supported in part by government grants. In the first half of 2018 they amounted to EUR 2.5 (3.4) million. In parallel, the company incurred project-related expenses at a comparable level for development work and prototyping.

Other operating income rose by EUR 21.6 million to EUR 30.7 (9.1) million in the first six months of 2018. In this context, a total of EUR 21.2 million was attributable to the sale of the Hug subgroup.

EBITDA falls to EUR 110 million

Depreciation and amortization fell by 3.4% to EUR 47.7 (49.4) million in the first half of 2018. Of this total, an amount of EUR 24.0 (24.7) million was attributable to the second quarter. The reduction was due in part to the changes associated with IFRS 15. In addition, depreciation and amortization relating to the Hug subgroup had no longer been accounted for in depreciation and amortization of the ElringKlinger Group since as far back as November 2017.

In both the first half and the second quarter of 2018, earnings before interest, taxes, depreciation, and amortization (EBITDA) were adversely affected above all by high levels of capacity utilization in the NAFTA region and by a surge in commodity prices. In total, EBITDA stood at EUR 110.4 (123.1) million. In the second quarter, it amounted to EUR 49.3 (60.5) million.

Earnings before interest and taxes (EBIT) fell to EUR 62.7 (73.7) million in the first half of 2018, with the second quarter accounting for EUR 25.3 (35.8) million of this total. Accounting for depreciation and amortization relating to purchase price allocation, Group EBIT before purchase price allocation stood at EUR 64.6 (76.3) million in the first half and EUR 26.3 (37.2) million in the second quarter. Calculated in relation to sales revenue, the EBIT margin before purchase price allocation was 7.5% (9.1%) in the first half of 2018 and 6.1% (9.1%) in the period from April to June 2018.

Net finance result benefits from foreign exchange gains

While foreign exchange gains were substantially higher, foreign exchange losses increased only marginally year on year in both the first half and the second quarter of 2018. Correspondingly, the net foreign exchange loss and miscellaneous items were lower at EUR 1.4 (4.5) million in the first half of the year and EUR 0.5 (4.3) million in the second quarter. The net interest result also improved in the second quarter at EUR -3.0 (-3.2) million. On this basis, net finance costs, which primarily consist of the net result of currency translation and the net interest result, totaled EUR 5.0 (7.8) million in the period from April to June 2018. Together with the figure for the first quarter of 2018, net finance costs amounted to EUR 10.3 (11.2) million.

Thus, earnings before taxes (EBT) fell to EUR 52.4 (62.5) million in the first six months of 2018 and to EUR 20.3 (28.0) million in the second quarter of 2018.

Net income for the period impacted by high tax rate

Due on the one hand to higher tax rates for extremely profitable production companies and on the other hand to losses from subsidiaries for which no deferred taxes were recognizable, income tax expenses fell to EUR 16.7 (17.2) million in the first half of 2018. The overall tax rate, however, increased to 31.9% (27.5%) as of June 30, 2018. After deducting these tax expenses, net income generated by the ElringKlinger Group in the first half of 2018 fell short of the prior-year figure at EUR 35.7 (45.4) million. Net income attributable to the shareholders of ElringKlinger AG stood at EUR 34.2 (43.5) million. Of this total, an amount of EUR 8.5 (18.4) million was attributable to the second quarter of 2018. Thus, earnings per share were also down on the prior-year figure at EUR 0.54 (0.69) in the first half of 2018 and at EUR 0.13 (0.29) in the second quarter of 2018.

Financial Position and Cash Flows

The financial position and cash flows of the ElringKlinger Group remained solid as of June 30, 2018. The Group's equity ratio of 42.8% was within the target range defined by its management, i.e., between 40 and 50% of the balance sheet total. In the first half of 2018, the Group generated net cash from operating activities of EUR 27.8 million.

Total assets up 1.2%

Having contracted in the first quarter following the disposal of the Hug subgroup, total assets rose to EUR 2,046.7 million as of June 30, 2018, an increase of 1.2% compared to the year-end 2017 figure (EUR 2,022.4 million). This was due primarily to the investment-induced expansion of property, plant, and equipment as well as an increase in working capital (inventories and trade receivables).

Property, plant, and equipment totaled EUR 952.1 million at the end of the first half, up EUR 22.5 million on the figure reported as of December 31, 2017 (EUR 929.6 million). This is by far the largest item within non-current assets of EUR 1,205.6 million, which account for 58.9% of total assets.

Working capital rose to EUR 729.4 (Dec. 31, 2017: EUR 672.1) million in the period under review. As regards the

Current and non-current assets

EUR million	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017
Intangible assets	183.9	184.2	190.5
Property, plant, and equipment	952.1	931.3	929.6
Other	69.6	72.1	67.7
Non-current assets	**1,205.6**	**1,187.6**	**1,187.8**
Inventories	390.2	367.2	369.5
Trade receivables	339.2	341.1	302.6
Other	111.7	112.1	100.7
Current assets	**841.1**	**820.4**	**772.8**
Assets held for sale	0	0	61.8
Total assets	**2,046.7**	**2,008.0**	**2,022.4**

increase compared to the figure recorded at the end of 2017, a total of EUR 20.7 million was attributable to inventories and a total of EUR 36.6 million was due to trade receivables. Adjusted for currencies and the effects of the first-time application of the new IFRS 15, inventories rose by 7.4% – a positive trend when viewed in relation to organic revenue growth of 8.4%. Excluding tools, which are only accounted for in inventories on a temporary basis in preparation for series production orders, the overall increase would have been even less pronounced. Adjusted for currency effects, receivables have increased by 12.3% since the beginning of the year. Compared to the end of the first quarter, the Group managed to scale back its receivables slightly by EUR 1.9 million to EUR 339.2 million – despite strong revenue growth in the second quarter (11.6% in organic terms).

Deconsolidation of Hug subgroup concluded as of March 1

As a result of the sale of the Hug subgroup, which came into effect as of March 1, 2018, assets and liabilities were reduced by the preliminary book value of EUR 40.4 million. The items in question had already been reclassified in the Group statement of financial position as of December 31, 2017, and had been presented as assets held for sale (EUR 61.8 million) and as liabilities (EUR 23.7 million). Within equity, reclassification adjustments for currency translation, which are included in other reserves, and non-controlling interests decreased upon deconsolidation. By contrast, the gain on disposal resulted in higher net income for the period and therefore also higher revenue reserves. Further details relating to the divestment of the Hug Group are presented in the Notes, page 35.

Marginal effect in first half from first-time application of IFRS 15

Compared to the previous year, the period under review also includes the effects of the first-time application of IFRS 15 "Revenue from Contracts with Customers." The Standard, which has to be applied as from January 1, 2018, under IFRS reporting, includes provisions on revenue recognition that have an impact on the amounts, timing, and presentation of revenue. ElringKlinger chose the modified retrospective method, i.e., rather than restating the prior-year amounts, the transitional effects have been accounted for cumulatively in revenue reserves as of January 1, 2018. Due to the underlying tool and serial production contracts, revenue reserves were diluted by EUR 4.0 million in total. In terms of assets, the transition as of January 1, 2018, had a dilutive effect on intangible assets (EUR -4.1 million), property, plant, and equipment (EUR -2.2 million), and inventories (EUR -7.4 million). At the same time, current and non-current "contract assets" of EUR 7.3 million were recognized by the Group as well as "costs to fulfill a contract" totaling EUR 0.8 million. Additionally, deferred taxes amounted to EUR 1.6 million.

Equity ratio at 43%

At the end of the first half of 2018 ElringKlinger AG's equity totaled EUR 876.8 (Dec 31, 2017: 889.7) million. The decline compared to the year-end 2017 figure was attributable primarily to the dividend of EUR 31.7 (31.9) million paid in the second quarter. Additionally, the change in the scope of consolidation, the transition on applying IFRS 15 for the first time, and the effects of foreign currency translation were dilutive in nature. The contrary effects from the allocation of

Current and non-current liabilities

EUR million	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017
Equity	**876.8**	**901.9**	**889.7**
Provisions for pensions	127.5	126.4	126.0
Non-current financial liabilities	478.9	477.9	478.8
Other	29.0	28.8	30.0
Non-current liabilities	**635.4**	**633.1**	**634.8**
Trade payables	123.5	124.9	118.8
Current financial liabilities	254.4	195.3	221.9
Other	156.6	152.8	133.5
Current liabilities	**534.5**	**473.0**	**474.2**
Liabilities relating to assets held for sale	0	0	23.7

net income of EUR 35.7 (45.4) million for the first half of 2018 were not sufficiently strong to fully offset these negative factors.

As a result, the equity ratio receded to 42.8%, down from 44.0% at the end of fiscal 2017. Thus, it still remains within the target corridor of 40 to 50% defined for the Group.

There were no significant changes to non-current provisions, including pension provisions, compared to December 31, 2017. At EUR 27.7 million, current provisions were up EUR 4.7 million on the figure as of December 31, 2017. Among other things, contingent losses were recognized under this line item, prompted – particularly in the second quarter – by remeasurements in connection with higher commodity prices.

Higher level of net debt

As of June 30, 2018, net debt (current and non-current financial liabilities less cash) stood at EUR 682.6 (Dec. 31, 2017: 655.3) million. It had been scaled back in the first quarter, due in part to the proceeds from the sale of the Hug Group (EUR 52.5 million). In the second quarter, however, net debt increased again as a result of the dividend payment together with investment spending and funds required in the context of business growth. Compared to the end of 2017, net debt was up by EUR 27.3 million.

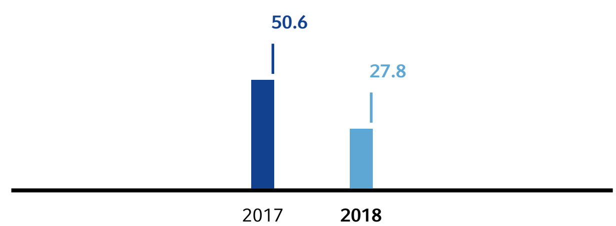
Trade payables totaled EUR 123.5 million at the end of the first half. The change in this item was marginal when compared to the figure posted in the preceding quarter and that reported as of December 31, 2017 (EUR 118.8 million).

Cash flow reflects direction taken by net working capital

In the first six months of 2018, the Group generated net cash from operating activities of EUR 27.8 (50.6) million, of which a total of EUR 20.7 (30.9) million was accounted for in the second quarter. The year-on-year decline is attributable to lower net income. In this context, it should be noted that the contribution from the disposal of the Hug Group is not associated with cash flow from operating activities but rather with cash flow from investing activities.

Despite this, the figures show that cash outflow, which is to be seen against the backdrop of an expansion in net working capital (inventories and trade receivables less trade payables) in the first half of 2018, developed more favorably than in the previous year. The change in net working capital, including other assets and liabilities not attributable to investing or financing activities, produced a cash outflow of EUR 45.7 million in the first six months, after a net outflow of EUR 49.8 million in the same period last year. The second quarter accounted for EUR 19.7 (16.8) million.

Cash flow from operating activities 1st Half
in € million



As regards year-on-year comparisons, it should be noted that the scope of consolidation for fiscal 2017 still included the Hug Group. In conjunction with the effects of the transition to IFRS 15, this explains to a large extent the reduction in depreciation and amortization of non-current assets, which totaled EUR 47.7 (49.4) million in the first half of 2018 and EUR 24.0 (24.7) million in the second quarter.

"Other non-cash expenses and income," amounting to EUR - 19.8 (+7.9) million, includes currency effects. Additionally, this item includes the adjustment relating to the one-time gain from the disposal of the Hug Group.

Investments in property, plant, and equipment at prior-year level

The Group's disciplined approach to investment spending is reflected in its capital expenditure on property, plant, and equipment and investment property. At EUR 67.7 (72.0) million, total outflow in this area during the first half of 2018 was slightly lower than in the same period a year ago. Expenditure was down year on year in the second quarter in particular at just EUR 38.4 (42.4) million. After the above-average volume of investment spending recorded in previous years the Group is now seeing a return to the more normal levels of capital expenditure it has been targeting.

The investment ratio (capital expenditure on property, plant, and equipment and on investment property relative to Group sales revenue) thus stood at 7.9% (8.6%) in the first half and 8.9% (10.4%) in the second quarter of 2018.

The focus of investment spending with regard to property, plant, and equipment and intangible assets was on the Original Equipment segment. This was directed primarily at the Group's foreign production sites, the emphasis being on expansion measures, efforts to raise capacity levels, and the installation of production systems for new ramp-ups.

In Europe, the focus of investment measures was on the new plant at the Hungarian site in Kecskemét. The Group's plant in Redcar, United Kingdom, purchased a highly automated servo press for the production of specialty gaskets. At the Group headquarters in Dettingen/Erms investment measures were centered around the production and assembly lines for upcoming large-scale serial projects as well as capital expenditure on fuel cell production. Furthermore, construction work commenced on a new technology center for the E-Mobility division and New Business Areas.

The Group also invested in expansion and streamlining measures at the three major North American production sites in Leamington, Canada, Buford, USA, and Toluca, Mexico. Machinery for the production of thermal and acoustic shielding systems is being installed at the newly established site in Fort Wayne, USA. Additionally, expansion work commenced at the facility in Piracicaba, Brazil. At the Chinese plant in Changchun capital expenditure was directed mainly at achieving a higher level of automation for the production of cylinder-head and specialty gaskets. The Group has made preparations for the commencement of production of door module carriers in Chongqing, which was established in 2017 as the fourth plant in China.

Capital expenditure on intangible assets amounted to EUR 2.8 (3.7) million in the first half of 2018.

The Group's proceeds from the sale of the Hug Group totaled EUR 52.5 million in the first quarter. Payments accounted for in the same quarter a year ago for the acquisition of associates (EUR 28.9 million) related to the purchase on interests in hofer AG.

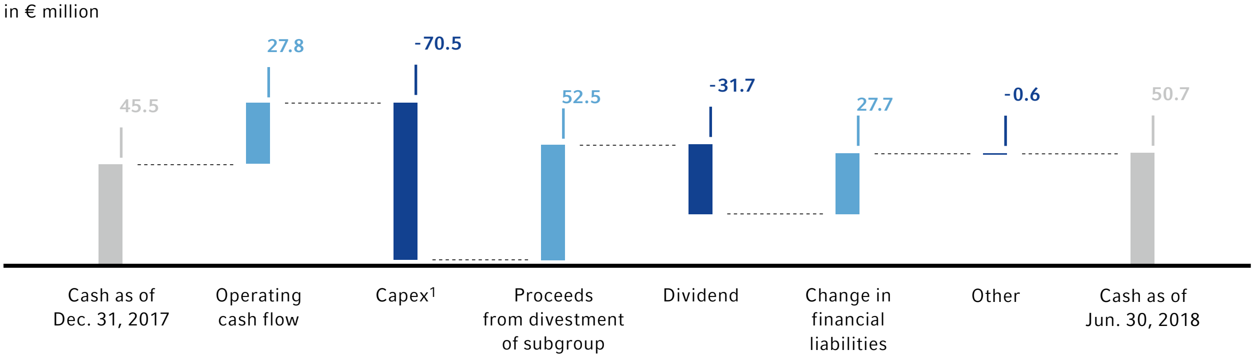
Overall, net cash used in investing activities totaled EUR 17.9 (103.2) million in the first half of 2018, of which EUR 40.0 (41.0) million was attributable to the second quarter.

Financing activities dominated by cash inflow and dividend payment

In the first six months of 2018 financing activities produced a negative cash flow of EUR -4.0 (68.3) million. The first quarter was dominated by a cash inflow from the sale of Hug. At EUR 22.3 (22.1) million, the second quarter, which again included the dividend payment, was similar to the previous year.

In the first six months of 2018 operating free cash flow totaled EUR -42.2 (-21.8) million; in the second quarter of 2016 it stood at EUR -19.0 (-10.2) million. Operating free cash flow is calculated as cash flow from operating activities less cash flow from investing activities, adjusted for payments in respect of acquisitions and financial assets as well as proceeds from divestments.

Changes in cash 1st Half 2018
in € million



[1] Investments in property, plant, and equipment, investment property, and intangible assets

Opportunities and Risks

The global trade clash became increasingly hostile in the second quarter of 2018. The United States executed its plans and imposed tariffs on aluminum and steel imported from Mexico, Canada, and the EU member states. Since June, tariffs on steel amount to 25%, while those imposed on aluminum stand at 10%. At the end of June, the European Union responded with retaliatory tariffs on a number of goods imported from the United States. In the meantime, China attempted to de-escalate fraught trade relationships by lowering its duties on foreign car imports effective from July – from 25% to 15%. Irrespective of this, the US administration is still considering its option to levy punitive tariffs with regard to foreign-made cars imported into the United States. Therefore, the political risks emanating from the customs spat and the repercussions that they may have on the ElringKlinger Group or the automotive industry remain palpable.

If the United Kingdom were to not only leave the European Union as a consequence of the Brexit referendum but also give up access to the European Single Market and the customs union or be forced to do so in the absence of a negotiated agreement ("hard Brexit"), the UK-based subsidiaries Elring Klinger (Great Britain) Ltd., Redcar, United Kingdom, and Elring Parts Ltd., Gateshead, United Kingdom, would be impacted. Due to the complexity of the various scenarios, it is at present impossible to predict with reasonable certainty the extent of such an impact.

From an operational perspective, sustained price hikes affecting a number of raw materials have prompted a re-assessment of material-related risks within ElringKlinger AG as regards fiscal 2018. As commodity prices – particularly for polyamide, steel, and aluminum – have increased substantially since the beginning of the year, there is now the distinct possibility of a significant financial impact on the ElringKlinger Group in the annual period as a whole, i.e., in excess of 10% in respect of earnings before interest and taxes. Pursuing a consistent policy with regard to supplier selection and operating with a balanced structure of contractual terms, ElringKlinger is looking to counteract commodity price development for the purpose of mitigating associated risk.

As from September 2018 a new, harmonized approach will become mandatory for the purpose of determining fuel consumption and emissions – in the form of the WLTP standard (Worldwide Harmonized Light-Duty Vehicles Test Procedure). Over the course of the second quarter of 2018 there has been increasing evidence to suggest that some car makers could adjust their production schedules for the current year as certification processes have not yet been completed. At the end of the reporting quarter, ElringKlinger saw no signs within its order books of a decline in demand. If, however, vehicle production were to be scaled back by some manufacturers during the second half of the year, this could have repercussions for ElringKlinger.

Beyond these aspects, as regards the assessment of opportunities and risks for the ElringKlinger Group in respect of the second quarter and first half of 2018, there were no significant changes to the details discussed in the 2017 Annual Report of the ElringKlinger Group (page 53 et seqq.).

There are currently no identifiable risks that might jeopardize the future existence of the Group as a going concern, either in isolation or in conjunction with other risk factors.

The report on opportunities and risks from the 2017 Annual Report can also be accessed on the website of ElringKlinger at www.elringklinger.de/ar2017/report-on-opportunities-and-risks.

Report on Expected Developments

Outlook – Market and Sector

Continued economic upturn amid mixed forecasts

In its most recent economic outlook of July 2018 the International Monetary Fund (IMF) confirmed its original forecast, according to which the world economy is set to grow by 3.9% in terms of gross domestic product (GDP) and thus edge forward slightly compared to the previous year. Amid escalating trade tensions, however, IMF economists also point to more pronounced downside risks and, increasingly, a situation in which expansion is becoming less even.

Against this backdrop, the outlook for the eurozone has deteriorated slightly, which is in part due to waning growth in Germany and France as well as tighter financial conditions in Italy. The US economy, by contrast, should gain further momentum. According to IMF data, the economies of China and the other Asian countries look set to maintain their robust performance. The outlook for emerging economies is less favorable. Higher oil prices have given a boost to petroleum exporting countries. At the same time, however, other risk factors – alongside the debate over tariffs – such as rising interest rates in the United States and geopolitical uncertainties have become more pronounced. Latin America is expected to see a sustained recovery, although here too encumbrances in the form of more restrictive financial conditions, for example, are likely to decelerate economic progress.

GDP growth projections

Year-on-year change in %	2017	Projections 2018	Projections 2019
World	**3.7**	**3.9**	**3.9**
Industrialized countries	2.4	2.4	2.2
Emerging and developing countries	4.7	4.9	5.1
Germany	2.5	2.2	2.1
Eurozone	2.4	2.2	1.9
USA	2.3	2.9	2.7
Brazil	1.0	1.8	2.5
China	6.9	6.6	6.4
India	6.7	7.3	7.5
Japan	1.7	1.0	0.9

Source: International Monetary Fund (July 2018)

Outlook for global vehicle markets in 2018 remains positive

Despite increasingly negative economic and political influences, ElringKlinger remains confident that – given the solid state of vehicle markets – global automobile production will expand by 2 to 3% in 2018. According to figures published by the German automotive industry association, the VDA, global car sales will grow by 2% to 86 million units.

At its half-year conference the VDA also presented an encouraging outlook with regard to the performance of the individual sales markets. Europe is expected to expand slightly by 1%, taking the figure to 15.8 million passenger cars. The German auto market is also likely to grow by 1% to around 3.5 million units. At 16.9 million light vehicles sold, the United States will be faced with a downturn of 2%, while China – with 24.7 million cars and +2% – should maintain its trajectory of growth. Brazil is expected to see its strong recovery continue.

Light vehicle production forecast for 2018

	Million units	Year-on-year change
European Union	**19.5**	**3.6%**
Germany	6.0	1.2%
Eastern Europe [1]	**3.5**	**2.4%**
Russia	1.6	6.0%
North America	**17.1**	**0.5%**
USA	11.1	-0.5%
South America	**3.5**	**9.7%**
Brazil	2.7	8.4%
Asia-Pacific	**50.4**	**2.9%**
China	28.4	3.6%
Japan	8.5	-4.3%
India	4.8	12.8%
Middle East & Africa	**2.9**	**13.5%**
World	**96.8**	**3.1%**

[1] Inkl. Russland
Quelle: PwC Autofacts (Juli 2018)

Despite greater uncertainties such as the introduction of the new WLTP-based test cycle in the European Union and the possibility of additional import duties, annual automobile production should expand at a solid rate in the majority of markets.

German manufacturers are likely to see vehicle production rise by 1% in 2018, taking the figure to a new all-time high of 16.7 million units. Domestic production will continue to decline slightly (-3%). What is more, around 76% of all vehicles produced in Germany are destined for export markets.

Outlook for commercial vehicle markets

Industry analysts have presented a largely favorable outlook for the commercial vehicle markets in 2018. Having trended sideways in recent years, the European market has slackened over the course of this year. However, it is expected to make it into positive territory in the annual period as a whole. The respective markets are likely to develop along divergent lines. The UK market, for example, is expected to plunge quite severely, while France, Spain, and Poland should record further growth.

Due to the considerable dynamics of the US truck market, the commercial vehicle industry within the NAFTA region is likely to experience healthy growth in 2018 as a whole.

Outlook – Company

Strong order book

On the back of solid order intake in the first quarter of 2018, a particularly large volume of incoming orders during the second quarter bore testimony to the sustained buoyancy in global demand for ElringKlinger products. The Group received new orders totaling EUR 458.6 (413.3) million, which corresponds to an increase of 11.0% on the figure recorded in the same quarter a year ago. Assuming that exchange rates had remained unchanged, growth would have amounted to as much as 13.3% or EUR 54.9 million. Order backlog also expanded. In the second quarter of 2018 it rose by EUR 39.1 million or 3.9% to EUR 1,038.2 million. Adjusted for currency effects, order backlog would have risen by EUR 63.2 million or 6.3%. Drawing on the strength of its order book, the Group will continue to cement its foundations for future organic growth.

Revenue growth expected to outpace industry expansion

After a three-month period in which the automotive industry delivered a strong performance, the second half of the year will see more pronounced economic and political uncertainties. The business-related effects associated with the process of WLTP certification for new vehicles may also have an impact on ElringKlinger. At the same time, it is impossible to predict the future direction taken by international trade tariffs and the extent to which these tariffs will influence key corporate financials in general. Operating within this increasingly ambivalent business environment, ElringKlinger at present still anticipates that global automobile production will expand by 2 to 3% in 2018 and remains confident that it can exceed this figure by around 2 to 4 percentage points in terms of revenue growth.

EBIT margin target of around 7% before purchase price allocation

In terms of earnings performance, the Group's EBIT margin, before purchase price allocation, of 8.9% in the first quarter of 2018 was in line with its original expectations for the year as a whole. However, it transpired that earnings continued to be impacted by additional operating costs associated with consistently large orders placed by customers as part of their production scheduling. As the improvement in earnings performance in the subsequent months of April and May was not as dynamic as originally anticipated, which was in part due to a noticeable surge in commodity prices, the Group revised its earnings guidance for the current financial year in June 2018. Against this backdrop, the Group expects to achieve an EBIT margin, before purchase price allocation, of around 7% (previously: around 9%) for the 2018 financial year.

Other control criteria and indicators

While the capex ratio in respect of property, plant, and equipment and investment property is still expected to lie within a range of around 9 to 10% of Group revenue, ElringKlinger has revised its expectations for other KPIs relating to fiscal 2018, in line with the adjustments made to its earnings guidance. Net Working Capital (as a percentage of Group revenue) is expected to come in slightly above prior-year level. Given the prospect of lower earnings, operating free cash flow for the current financial year is likely to be slightly down on the prior-year figure; the same applies to the return on capital employed (ROCE). Further indicators remain unchanged.

Mid-term outlook

The operational challenges experienced in the current financial year have no bearing on the Group's medium-term projections. As an early mover in the field of alternative drive technology, ElringKlinger has established an excellent vantage point from which to engage in the process of transition within the automotive industry. At the same time, the company's strong market position with regard to long-standing products provides a very solid foundation. Therefore, the Group remains confident that it can continue to exceed the expansion rate of global car production in terms of organic revenue growth. Turning to earnings performance, as in the past the Group anticipates that it can gradually improve profitability calculated on the basis of its EBIT margin before purchase price allocation.

Dettingen/Erms, August 7, 2018
The Management Board

Dr. Stefan Wolf
Chairman/CEO

Theo Becker

Thomas Jessulat

Reiner Drews

ElringKlinger on the Capital Market

Slight recovery for stock markets – Trade war gives rise to uncertainty

After a stuttering start to the new year of trading, the second quarter of 2018 saw a return of more favorable conditions that produced a slight upturn within the markets. This was attributable, among other factors, to the appreciation of the US dollar against the euro, the reduction of import tariffs on cars in China, and the announcement by the European Central Bank (ECB) that its main interest rate would remain unchanged for the time being. By contrast, the smoldering trade war exerted downside pressure on stock markets. Boosted by a weaker euro, the German equity market saw a slight improvement in its performance during the second quarter of 2018. Germany's blue chip index, the DAX, rose by 1.7%. As a result, losses incurred in the first three months – equivalent to more than six percent – were slightly offset.

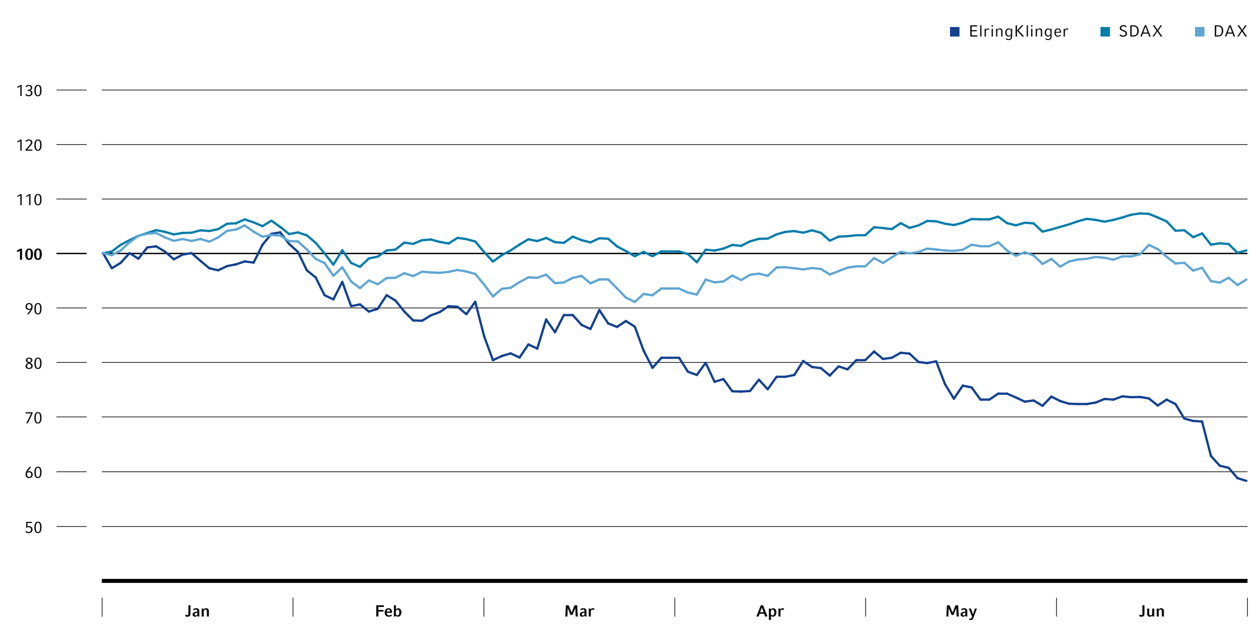
Elring share price impacted by revised earnings guidance

Having completed the first quarter of 2018 at a level of EUR 15.14, ElringKlinger's share price trended sideways for much of April. The company's financial results for the first quarter, which were presented at the beginning of May, fell short of capital market expectations. This prompted a correction in the share price of five percent. The adjustment to ElringKlinger's earnings guidance for 2018 produced pressure on the share price; this persisted in the days subsequent to the announcement. Against this backdrop, ElringKlinger's stock concluded the first half of 2018 at EUR 10.99, its lowest price in the year to date.

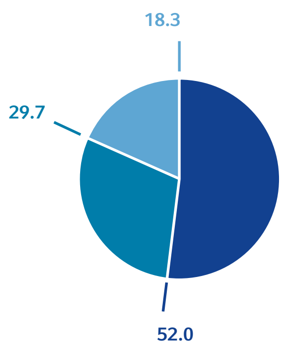
Trading volume down year on year after first six months

The trading volume of ElringKlinger stock fell short of the prior-year levels in the first six months of 2018. At 155,600 (179,200) units, the average volume of shares traded per day was down slightly on last year's figure but still remains at a high level. The average daily value of shares traded on German stock exchanges was EUR 2,423,600 (3,073,500) in the period under review. Despite the lower trading volume compared to the previous year, ElringKlinger's stock again offered sufficiently high levels of liquidity for institutional investors to conduct larger share transactions.

ElringKlinger's share price performance (XETRA) since January 1, 2018 (indexed, Dec. 29, 2017 = 100%)
compared with DAX and SDAX



Shareholder structure[1]
in %



[1] As of June 30, 2018

Dialogue with the capital markets

ElringKlinger maintained a close dialogue with capital market representatives over the course of the first half of 2018. By the end of the first six months, the company had completed four road shows and taken part in eight capital market conferences. In the second quarter alone ElringKlinger presented its business model at conferences in New York, London, Berlin, and Baden-Baden; its road shows included venues in Paris and Chicago, among others. The company also targeted new circles of investors by hosting road shows in Australia and Singapore.

AGM approves dividend of EUR 0.50 per share

In his speech at the Annual General Meeting of ElringKlinger AG, which was held on May 16, 2018, at the Liederhalle Cultural and Congress Center in Stuttgart, CEO Dr. Stefan Wolf reviewed the 2017 financial year, highlighting important strategic milestones with regard to future business development. These included the investment transaction in the hofer Group, the placement of a Schuldscheindarlehen (loan granted to the company against a form of promissory note) – covering a total volume of EUR 200 million – for the first time in its corporate history, the signing of a cooperation agreement with Chinese battery manufacturer CITC, and an agreement on the sale of the Hug Group.

The shareholders of ElringKlinger AG approved by a large majority the proposal put forward by the Management Board and Supervisory Board for a dividend of EUR 0.50 (0.50) per share for fiscal 2017, unchanged on the previous financial year. The total distribution to the shareholders of ElringKlinger AG thus remained stable year on year at EUR 31.7 million. The dividend ratio was up at 45.3% (40.3%), i.e., slightly in excess of the company's long-term dividend policy, as part of which between 30 and 40% of Group net income after non-controlling interests shall be distributed.

ElringKlinger stock (ISIN DE 0007856023)

	1st Half 2018	1st Half 2017
Number of shares outstanding	63,359,990	63,359,990
Share price (daily closing price in EUR)[1]		
High	19.37	20.14
Low	10.99	15.60
Closing price[2]	10.99	16.78
Average daily trading volume (German stock exchanges; no. of shares traded)	155,600	179,200
Average daily trading value (German stock exchanges; in EUR)	2,423,600	3,073,500
Market capitalization (EUR millions)[1,2]	696.3	1,063.2

[1] Xetra trading
[2] As of June 30

Group income statement

of ElringKlinger AG, January 1 to June 30, 2018

EUR k	2nd Quarter 2018	2nd Quarter 2017	1st Half 2018	1st Half 2017
Sales revenue	**430,772**	**407,789**	**861,455**	**841,134**
Cost of sales	-331,088	-299,063	-666,425	-622,948
Gross profit	**99,684**	**108,726**	**195,030**	**218,186**
Selling expenses	-35,035	-36,142	-71,541	-69,103
General and administrative expenses	-20,626	-20,731	-42,610	-41,351
Research and development costs	-19,517	-18,010	-41,060	-37,498
Other operating income	3,215	4,740	30,724	9,072
Other operating expenses	-2,421	-2,743	-7,806	-5,576
Operating result/EBIT	**25,300**	**35,840**	**62,737**	**73,730**
Finance income	8,727	4,534	15,697	9,943
Finance costs	-12,202	-12,028	-23,429	-20,655
Share of result of associates	-1,529	-338	-2,610	-492
Net finance costs	**-5,004**	**-7,832**	**-10,342**	**-11,204**
Earnings before taxes	**20,296**	**28,008**	**52,395**	**62,526**
Income tax expense	-10,917	-8,658	-16,662	-17,171
Net income	**9,379**	**19,350**	**35,733**	**45,355**
of which: attributable to non-controlling interests	912	960	1,536	1,829
of which: attributable to shareholders of ElringKlinger AG	**8,467**	**18,390**	**34,197**	**43,526**
Basic and diluted earnings per share in EUR	0.13	0.29	0.54	0.69

Group statement of comprehensive income

of ElringKlinger AG, January 1 to June 30, 2018

EUR k	2st Quarter 2018	2st Quarter 2017	1st Half 2018	1st Half 2017
Net income	**9,379**	**19,350**	**35,733**	**45,355**
Currency translation difference	-2,773	-24,062	-3,689	-19,505
Share of other comprehensive income of associates	1	0	1	0
Gains and losses that can be reclassified to the income statement in future periods	**-2,772**	**-24,062**	**-3,688**	**-19,505**
Remeasurement of defined benefit plans, net	0	1,058	0	1,058
Gains and losses that cannot be reclassified to the income statement in future periods	**0**	**1,058**	**0**	**1,058**
Other comprehensive income after taxes	**-2,772**	**-23,004**	**-3,688**	**-18,447**
Total comprehensive income	**6,607**	**-3,654**	**32,045**	**26,908**
of which: attributable to non-controlling interests	766	104	1,555	999
of which: attributable to shareholders of ElringKlinger AG	**5,841**	**-3,758**	**30,490**	**25,909**

Group statement of financial position

of ElringKlinger AG, as at June 30, 2018

EUR k	June 30, 2018	Dec. 31, 2017	June 30, 2017
ASSETS			
Intangible assets	183,937	190,540	207,778
Property, plant and equipment	952,079	929,570	928,784
Investment property	16,427	17,030	15,815
Financial assets	1,038	1,036	1,029
Shares in associates	25,954	28,563	28,448
Non-current income tax assets	73	99	101
Other non-current assets	3,635	3,984	4,204
Deferred tax assets	20,186	16,986	18,189
Contract performance costs	1,475	0	0
Non-current contract assets	789	0	0
Non-current assets	**1,205,593**	**1,187,808**	**1,204,348**
Inventories	390,220	369,547	354,938
Current contract assets	6,350	0	0
Trade receivables	339,204	302,621	329,598
Current income tax assets	6,383	7,041	5,052
Other current assets	48,283	48,093	41,148
Cash and cash equivalents	50,699	45,498	53,185
Current assets	**841,139**	**772,800**	**783,921**
Assets held for sale	**0**	**61,772**	**0**
	2,046,732	**2,022,380**	**1,988,269**

EUR k	June 30, 2018	Dec. 31, 2017	June 30, 2017
LIABILITIES AND EQUITY			
Share capital	63,360	63,360	63,360
Capital reserves	118,238	118,238	118,238
Revenue reserves	709,423	710,885	684,481
Other reserves	-50,339	-40,184	-20,446
Equity attributable to shareholders of ElringKlinger AG	**840,682**	**852,299**	**845,633**
Non-controlling interest in equity	36,167	37,368	37,940
Equity	**876,849**	**889,667**	**883,573**
Provisions for pensions	127,450	125,999	135,669
Non-current provisions	12,388	12,319	13,612
Non-current financial liabilities	478,927	478,811	342,933
Deferred tax liabilities	13,131	14,075	15,388
Other non-current liabilities	3,461	3,551	3,416
Non-current liabilities	**635,357**	**634,755**	**511,018**
Current provisions	27,660	23,005	17,694
Trade payables	123,533	118,846	113,907
Current financial liabilities	254,375	221,944	324,889
Tax payable	21,266	14,881	27,059
Other current liabilities	107,692	95,535	110,129
Current liabilities	**534,526**	**474,211**	**593,678**
Liabilities relating to assets held for sale	**0**	**23,747**	**0**
	2,046,732	**2,022,380**	**1,988,269**

Group statement of changes in equity

of ElringKlinger AG, January 1 to June 30, 2018

EUR k	Share capital	Capital reserves	Revenue reserves
Balance as of Dec. 31, 2016/Balance as of Jan. 01, 2017	**63,360**	**118,238**	**672,635**
Dividend distribution			−31,680
Change in scope of consolidated financial statements			
Total comprehensive income			43,526
Net income			43,526
Other comprehensive income			
Balance as of June 30, 2017	**63,360**	**118,238**	**684,481**
Balance as of Dec. 31, 2017	**63,360**	**118,238**	**710,885**
Application of new standards[1]			**-4,062**
Balance as of Jan. 01, 2018	**63,360**	**118,238**	**706,823**
Dividend distribution			−31,680
Change in scope of consolidated financial statements			83
Total comprehensive income			34,197
Net income			34,197
Other comprehensive income			
Balance as of June 30, 2018	**63,360**	**118,238**	**709,423**

[1] See comments concerning IFRS 15 in the notes to the interim consolidated financial statements

Other reserves					
Remeasurement of defined benefit plans	Equity impact of controlling interests	Currency translation differences	Equity attributable to shareholders of ElringKlinger AG	Non-controlling interests in equity	Group equity
-43,616	**-212**	**40,999**	**851,404**	**34,963**	**886,367**
			-31,680	-258	-31,938
				2,236	2,236
1,058		-18,675	25,909	999	26,908
			43,526	1,829	45,355
1,058		-18,675	-17,617	-830	-18,447
-42,558	**-212**	**22,324**	**845,633**	**37,940**	**883,573**
-39,512	**-212**	**-460**	**852,299**	**37,368**	**889,667**
			-4,062	**19**	**-4,043**
-39,512	**-212**	**-460**	**848,237**	**37,387**	**885,624**
			-31,680	-20	-31,700
-83		-6,365	-6,365	-2,755	-9,120
		-3,707	30,490	1,555	32,045
			34,197	1,536	35,733
		-3,707	-3,707	19	-3,688
-39,595	**-212**	**-10,532**	**840,682**	**36,167**	**876,849**

Group statement of cash flows

of ElringKlinger AG, January 1 to June 30, 2018

EUR k	2nd Quarter 2018	2nd Quarter 2017	1st Half 2018	1st Half 2017
Earnings before taxes	20,296	28,008	52,395	62,526
Depreciation/amortization (less write-ups) of non-current assets	24,045	24,684	47,674	49,386
Net interest	2,965	3,219	6,364	6,231
Change in provisions	4,140	-3,310	5,218	247
Gains/losses on disposal of non-current assets	55	137	19	333
Share of result of associates	1,529	338	2,610	492
Dividends from associates	0	0	0	0
Change in inventories, trade receivables and other assets not resulting from financing and investing activities	-20,823	-20,775	-70,155	-77,350
Change in trade payables and other liabilities not resulting from financing and investing activities	1,161	3,987	24,445	27,502
Income taxes paid	-8,926	-10,902	-16,694	-21,434
Interest paid	-2,793	-2,799	-4,592	-5,318
Interest received	108	49	318	96
Other non-cash expenses and income	-1,008	8,224	-19,816	7,906
Net cash from operating activities	**20,749**	**30,860**	**27,786**	**50,617**
Proceeds from disposals of property, plant and equipment, intangible assets and investment property	173	121	463	324
Proceeds from disposals of financial assets	0	2,940	0	2,940
Payments received for the disposal of subsidiaries	0	0	52,455	0
Payments for investments in intangible assets	-1,551	-1,718	-2,763	-3,730
Payments for investments in property, plant and equipment and investment property	-38,360	-42,395	-67,730	-71,981
Payments for investments in financial assets	-221	64	-308	-3,134
Payments for the acquisition of associates	0	0	0	-28,940
Payments made/received for the acquisition of subsidiaries and other entities, less cash	0	-1	0	1,321
Net cash from investing activities	**-39,959**	**-40,989**	**-17,883**	**-103,200**
Dividends paid to shareholders and to non-controlling interests	-31,699	-31,938	-31,699	-31,938
Proceeds from the addition of non-current financial liabilities	3,430	18,470	4,708	32,437
Payments for the repayment of non-current financial liabilities	-7,677	-15,593	-9,258	-22,208
Change in current loans	58,206	51,180	32,280	90,000
Net cash from financing activities	**22,260**	**22,119**	**-3,969**	**68,291**
Changes in cash	3,050	11,990	5,934	15,708
Effects of currency exchange rates on cash	-461	-1,934	-733	-1,930
Cash at beginning of period	48,110	43,129	45,498	39,407
Cash at end of period	50,699	53,185	50,699	53,185
Less cash relating to assets held for sale	0	0	0	0
Cash at end of period as per statement of financial position	**50,699**	**53,185**	**50,699**	**53,185**

Group sales by region

of ElringKlinger AG, January 1 to June 30, 2018

EUR k	2nd Quarter 2018	2nd Quarter 2017	1st Half 2018	1st Half 2017
Germany	108,180	100,136	217,144	210,974
Rest of Europe	135,442	130,593	277,936	269,434
NAFTA	89,218	81,458	169,527	166,553
Asia-Pacific	78,195	77,645	156,215	156,891
South America and rest of the world	19,737	17,957	40,633	37,282
Group	**430,772**	**407,789**	**861,455**	**841,134**

Segment reporting

of ElringKlinger AG, April 1 to June 30, 2018

Segment	Original Equipment		Aftermarket		Engineered Plastics	
EUR k	2nd Quarter 2018	2nd Quarter 2017	2nd Quarter 2018	2nd Quarter 2017	2nd Quarter 2018	2nd Quarter 2017
External revenue	**354,903**	**337,851**	**42,329**	**40,177**	**30,042**	**26,319**
Intersegment revenue	4,716	5,589	0	0	20	3
Segment revenue	**359,619**	**343,440**	**42,329**	**40,177**	**30,062**	**26,322**
EBIT[1]/Operating result	**12,675**	**23,166**	**7,376**	**8,824**	**5,146**	**3,755**
Depreciation and amortization	-21,018	-21,835	-746	-590	-1,537	-1,536
Capital expenditures[2]	37,118	42,639	941	431	759	658

January 1 to June 30, 2018

Segment	Original Equipment		Aftermarket		Engineered Plastics	
EUR k	1st Half 2018	1st Half 2017	1st Half 2018	1st Half 2017	1st Half 2018	1st Half 2017
External revenue	**708,621**	**697,785**	**85,225**	**80,327**	**60,597**	**55,825**
Intersegment revenue	9,832	11,131	0	0	25	7
Segment revenue	**718,453**	**708,916**	**85,225**	**80,327**	**60,622**	**55,832**
EBIT[1]/Operating result	**38,170**	**48,313**	**14,870**	**16,566**	**9,258**	**8,097**
Depreciation and amortization	-41,662	-43,800	-1,454	-1,133	-3,073	-2,990
Capital expenditures[2]	65,639	73,136	1,578	703	1,452	1,316

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

Industrial Parks		Services		Consolidation		Group	
2nd Quarter 2018	2nd Quarter 2017	2nd Quarter 2018	2nd Quarter 2017	2nd Quarter 2018	2nd Quarter 2017	2nd Quarter 2018	2nd Quarter 2017
1,033	**1,073**	**2,465**	**2,369**	**0**	**0**	**430,772**	**407,789**
27	27	1,775	1,591	-6,538	-7,210	0	0
1,060	**1,100**	**4,240**	**3,960**	**-6,538**	**-7,210**	**430,772**	**407,789**
22	**-52**	**81**	**147**	**0**	**0**	**25,300**	**35,840**
-265	-256	-479	-467	0	0	-24,045	-24,684
4	159	1,089	226	0	0	39,911	44,113

Industrial Parks		Services		Consolidation		Group	
1st Half 2018	1st Half 2017	1st Half 2018	1st Half 2017	1st Half 2018	1st Half 2017	1st Half 2018	1st Half 2017
2,138	**2,114**	**4,874**	**5,083**	**0**	**0**	**861,455**	**841,134**
54	54	3,580	3,184	-13,491	-14,376	0	0
2,192	**2,168**	**8,454**	**8,267**	**-13,491**	**-14,376**	**861,455**	**841,134**
-22	**-125**	**461**	**879**	**0**	**0**	**62,737**	**73,730**
-530	-512	-955	-951	0	0	-47,674	-49,386
489	236	1,335	320	0	0	70,493	75,711

Notes to the first Half of 2018

ElringKlinger AG is an exchange-listed stock corporation headquartered in Dettingen/Erms, Germany.

The accompanying condensed consolidated interim financial statements of ElringKlinger AG and its subsidiaries as of June 30, 2018, have been prepared on the basis of IAS 34 (Interim Financial Reporting). The interim financial statements conform with the International Financial Reporting Standards (IFRS), including the Interpretations issued by the IFRS Interpretations Committee, as adopted by the European Union.

As the consolidated interim financial statements are presented in a condensed format, the financial statements as of June 30, 2018, do not include all information and disclosures required under IFRS for annual consolidated financial statements.

The consolidated interim financial statements as of June 30, 2018, have been neither audited nor reviewed in any way by an independent auditor.

They were authorized for issue based on a resolution passed by the Management Board on August 7, 2018.

Basis of reporting

Reporting

IFRS 9 Financial Instruments

The Group has applied the new Standard since January 1, 2018.

IFRS 15 Revenue from Contracts with Customers

The Group has applied the new Standard IFRS 15 since January 1, 2018. It has chosen the modified retrospective approach, as part of which the comparative period is not restated and the cumulative effect of transition is recognized in revenue reserves. IFRS 15 defines when revenues should be recognized and in what amount. The core principle of the Standard is that entities shall recognize revenue to depict 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. Revenue is recognized when a customer obtains control of the goods or services.

The changes to items in the statement of financial position and the income statement, as of June 30, 2018, as a result of applying IFRS 15 in contrast to previous accounting on the basis of IAS 11 Construction Contracts and IAS 18 Revenue are presented below.

In the first half of 2018, the positive effect on earnings from the application of IFRS 15 is EUR 2,308k.

The effects on the statement of financial position are an increase in costs to fulfill contracts and an increase in contract assets as well as a decrease in inventories, intangible assets, and property, plant, and equipment.

In the case of tools that are used in the production of components and whose legal and economic ownership passes to customers, the preconditions under IFRS 15 for revenue recognition at the point of transfer of control are met, irrespective of whether amortization occurs through the component price or through a direct purchase price payment. Correspondingly, revenue recognition regularly occurs at the point of ownership transfer, at which time profit or loss is accounted for in its entirety. By applying IFRS 15 as a basis of accounting, non-current assets are presented in an amount that is EUR 4,114k lower, inventories in an amount that is EUR 4,111k lower, and contract assets in an amount that is EUR 2,207k higher.

As regards the delivery of components, ElringKlinger is of the opinion in respect of certain customers and certain business models that revenue from these contracts is to be recognized on a periodic basis, as the units sold cannot be utilized by the Group for alternative purposes and the Group has a right to payment for performance completed to date. As regards components that are held as consignment stock until the minimum inventory volume has been reached, Elring-Klinger is also of the opinion that the Group already has a right to payment in this respect. Compared to previous accounting, the amount in respect of contract assets is EUR 4,956k higher and the amount in respect of inventories is EUR 3,606k lower when applying IFRS 15.

The recognition as assets of costs incurred in fulfilling a contract with customers, as prescribed by IFRS 15 under certain circumstances, resulted in an increase in non-current assets by EUR 1,474k.

Scope of consolidated financial statements

Alongside the financial statements of ElringKlinger AG, the interim financial statements as of June 30, 2018, include the financial statements of eight domestic and 31 foreign entities in which ElringKlinger AG holds more than 50% of the interests, either directly or indirectly, or over which, for other reasons, it has the power to govern the financial and operating policies ("Control"). Inclusion in the consolidated group commences on the date on which control is obtained; it ceases as soon as control no longer exists.

The interests held in hofer AG, Nürtingen, totaling 28.89% have been accounted for as an associate in non-current Group assets, as ElringKlinger has significant influence over the entity's operating and financial policies. A significant influence over an associate is presumed to exist if an entity holds 20% to 50% of the voting power of the investee.

Compared to the consolidated financial statements as of December 31, 2017, there were no other changes in the scope of consolidation, with the exception of the sale of the Hug Group, based in Elsau, Switzerland, the establishment of ElringKlinger Manufacturing Indiana, Inc., USA, and the merger of Taiyo Jushi Kakoh Co., Ltd., based in Tokyo, Japan, into ElringKlinger Marusan Corporation.

The Hug Group includes the entities Hug Engineering AG, Switzerland, Hug Engineering GmbH, Germany, Hug Engineering Inc., USA, Hug Engineering Italia S.r.l., Italy, and Hug Engineering B.V., Netherlands.

Newly established company

ElringKlinger Manufacturing Indiana, Inc., based in Fort Wayne, USA, was established effective from February 28, 2018. ElringKlinger AG holds 100% of the ownership interests.

Merger

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

Divestments

The Group's strategic focus is mainly centered on the promising fields of lightweighting and e-mobility as well as electric drive systems. Against this background, in December 2017 the Group reached an agreement with a French automotive supplier for the sale of the Hug Group, based in Elsau, Switzerland. The 93.67% interest held by ElringKlinger in Hug Engineering AG prior to the sale will thus pass entirely to the contracting party. The purchase agreement was signed on December 21, 2017. The transaction was closed on February 28, 2018, with effect of March 1, 2018. The preliminary sale price is EUR 52,455k.

The result on disposal of EUR 21,186k is accounted for in other operating income. As part of the sale of the Hug Group, ancillary costs of EUR 825k were incurred. They are accounted for as general and administrative expenses.

Exchange rates

Exchange rates developed as follows:

		Closing rate		Average rate	
Currency	Abbr.	June 30, 2018	Dec. 31, 2017	Jan. – Jun. 2018	Jan. – Dec. 2017
US dollar (USA)	USD	1.16580	1.19930	1.20713	1.13703
Pound (United Kingdom)	GBP	0.88605	0.88723	0.88010	0.87572
Swiss franc (Switzerland)	CHF	1.15690	1.17020	1.16655	1.11628
Canadian dollar (Canada)	CAD	1.54420	1.50390	1.54692	1.47253
Real (Brazil)	BRL	4.48760	3.97290	4.17258	3.64344
Mexican peso (Mexico)	MXN	22.88170	23.66120	22.90338	21.42845
RMB (China)	CNY	7.71700	7.80440	7.69647	7.65567
WON (South Korea)	KRW	1,296.72000	1,279.61000	1,301.36333	1,275.34917
Rand (South Africa)	ZAR	16.04840	14.80540	14.92238	15.06342
Yen (Japan)	JPY	129.04000	135.01000	130.99333	127.30417
Forint (Hungary)	HUF	329.77000	310.33000	316.48667	309.31000
Turkish lira (Turkey)	TRY	5.33850	4.54640	4.95113	4.14289
Leu (Romania)	RON	4.66310	4.65850	4.65822	4.57379
Indian rupee (India)	INR	79.81300	76.60550	79.64708	73.78786
Indonesian rupiah (Indonesia)	IDR	16,654.04000	16,239.12000	16,684.91333	15,233.45750
Bath (Thailand)	THB	38.56500	39.12100	38.34200	38.35650

Disclosures relating to financial instruments

This section provides a comprehensive overview of the significance of financial instruments and offers additional information on line items of the statement of financial position containing fi-nancial instruments. There was no offsetting of financial instruments recognized by the company.

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

	Cash	Trade receivables	Other current assets	Derivatives	Non-current securities		Other financial investments		Total
EUR k	CA	CA	CA	CA	CA	FV	CA	FV	CA
as of Jun. 30, 2018									
Financial assets measured at amortized cost	50,699	339,204	12,588	0	829	827	8	8	403,328
Financial assets at fair value through profit or loss	0	0	0	153	0	0	0	0	153
Financial assets measured at fair value through other comprehensive income	0	0	0	0	194	194	8	8	202
Total	**50,699**	**339,204**	**12,588**	**153**	**1,023**	**1,021**	**16**	**16**	**403,683**
as of Dec. 31, 2017									
Loans and receivables	45,498	302,621	7,465	0	0	0	8	8	355,592
held to maturity	0	0	0	0	829	840	0	0	829
held for trading	0	0	0	176	0	0	0	0	176
available for sale	0	0	0	0	192	192	7	7	199
Total	**45,498**	**302,621**	**7,465**	**176**	**1,021**	**1,032**	**15**	**15**	**356,796**

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

	Other current liabilities	Current financial liabilities	Finance leases		Trade payables
EUR k	CA	CA	CA	FV	CA
as of June 30, 2018					
Financial liabilities measured at acquisition cost	49,489	254,109	0	0	123,533
Financial liabilities measured at fair value through profit or loss	0	0	0	0	0
No measurement category under IFRS 9	0	0	266	275	0
as of Dec. 31, 2017					
Financial liabilities measured at acquisition cost	47,467	221,666	0	0	118,846
Financial liabilities measured at fair value through profit or loss	0	0	0	0	0
No measurement category under IAS 39	0	0	278	295	0

	Derivatives		Non-current financial liabilities		Finance leases		Total
EUR k	CA	FV	CA	FV	CA	FV	CA
as of June 30, 2018							
Financial liabilities measured at acquisition cost	0	0	478,763	521,357	0	0	905,894
Financial liabilities measured at fair value through profit or loss	0	0	0	0	0	0	0
No measurement category under IFRS 9	0	0	0	0	164	166	430
as of Dec. 31, 2017							
Financial liabilities measured at acquisition cost	0	0	478,593	468,251	0	0	866,572
Financial liabilities measured at fair value through profit or loss	11	11	0	0	0	0	11
No measurement category under IAS 39	0	0	0	0	218	226	496

The other current liabilities include a purchase price liability of EUR 34,782k (2017: EUR 34,782k) in respect of a written put option, which has been measured at amortized cost.

The Group's management has ascertained that the carrying amounts of cash, trade receivables, other receivables, trade payables, other current financial liabilities, and other current liabilities largely correspond to their fair values, primarily as a result of the short maturities of these instruments.

The fair values of non-current securities measured at amortized cost are based on prices in an active market as of the end of the reporting period.

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

The fair value of the put option, included in other current liabilities, of non-controlling interests in ElringKlinger Marusan Corporation, Tokyo, Japan, in respect of their interests is based on internal projections of the enterprise value. As regards the valuation of this put option of non-controlling interests, estimates are made with regard to the forecast of business performance as well as with regard to the choice of the interest rate to be applied in respect of the liability to be recognized. A change in the enterprise value by 10% would result in an increase/decrease in the put option by approx. EUR 3,478k.

Financial assets and liabilities measured at fair value are classified into the following three-level fair value hierarchy as of the end of the reporting period of June 30, 2018:

EUR k	Level 1	Level 2	Level 3
June 30, 2018			
Financial assets			
Non-current securities	194	0	0
Other financial investments	8	0	0
Derivatives*	0	153	0
Total	**202**	**153**	**0**
Financial liabilities			
Derivatives*	0	0	0
Total	**0**	**0**	**0**
Dec. 31, 2017			
Financial assets			
Non-current securities	192	0	0
Other financial investments	7	0	0
Derivatives*	0	176	0
Total	**199**	**176**	**0**
Financial liabilities			
Derivatives*	0	11	0
Total	**0**	**11**	**0**

*These are derivatives that do not qualify for hedge accounting

The following table provides details of the classification of financial assets and liabilities that are not measured at fair value but for which a fair value has been presented, according to the three-level fair value hierarchy as of the end of the reporting period of June 30, 2018:

EUR k	Level 1	Level 2	Level 3
June 30, 2018			
Financial assets			
Non-current securities	827	0	0
Other financial investments	0	0	8
Total	**827**	**0**	**8**
Financial liabilities			
Non-current liabilities from finance leases	0	0	166
Non-current financial liabilities	0	521,357	0
Purchase price liability from written put option	0	0	34,782
Total	**0**	**521,357**	**39,948**
Dec. 31, 2017			
Financial assets			
Non-current securities	829	0	0
Other financial investments	0	0	8
Total	**829**	**0**	**8**
Financial liabilities			
Non-current liabilities from finance leases	0	0	266
Non-current financial liabilities	0	468,251	0
Purchase price liability from written put option	0	0	34,782
Total	**0**	**468,251**	**35,008**

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

Level 1: Measurement based on quoted prices

Level 2: Measurement based on inputs for the asset or liability that are observable in active markets either directly or indirectly

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

The assessment as to whether a transfer has occurred between the levels of the fair-value hierarchy with regard to the assets and liabilities carried at fair value is conducted in each case at the end of the reporting period. No transfers occurred in the reporting period under review.

Contingencies and related-party disclosures

The contingencies and related-party relationships disclosed in the consolidated financial statements for 2017 were not subject to significant changes in the first half of 2018.

Government grants

As a result of government grants received, other operating income rose by EUR 2,511k in the first half of 2018. These grants were attributable primarily to development projects.

Dividend payment

In the second quarter of 2018, ElringKlinger AG distributed a total dividend of EUR 31,680 thousand (EUR 0.50 per entitled share) to shareholders from its unappropriated retained earnings of 2017. The dividend payout took place on May 22, 2018.

Events after the reporting period

There were no further significant events after the end of the interim reporting period that would necessitate additional explanatory disclosure.

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim 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 oppor-tunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Dettingen/Erms, August 7, 2018

The Management Board

Dr. Stefan Wolf Chairman/CEO	Theo Becker	Thomas Jessulat	Reiner Drews

Imprint

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Disclaimer – Forward-looking Statements and Forecasts
This report contains forward-looking statements. These statements are based on expectations, market evaluations and forecasts by the Management Board and on information currently available to them. In particular, the forward-looking statements shall not be interpreted as a guarantee that the future events and results to which they refer will actually materialize. Whilst the Management Board is confident that the statements as well as the opinions and expectations on which they are based are realistic, the aforementioned statements rely on assumptions that may conceivably prove to be incorrect. Future results and circumstances depend on a multitude of factors, risks and imponderables that can alter the expectations and judgments that have been expressed. These factors include, for example, changes to the general economic and business situation, variations of exchange rates and interest rates, poor acceptance of new products and services, and changes to business strategy.

Supplementary Notes
Due to rounding, some of the numbers and percentage figures specified in this document may differ from the actual values, particularly in the case of summation and percentage calculations.

This report was published on August 7, 2018, and is available in German and English. Only the German version shall be legally binding.

Financial calendar 2018

NOVEMBER

06 Interim Report on the 3rd Quarter and First Nine Months of 2018

MAY 2019

16 114th Annual General Shareholders' Meeting, Stuttgart, Cultural and Congress Center Liederhalle, 10:00 a.m. CEST

Changes to the above dates cannot be ruled out.
We therefore recommend visiting our website to check specific financial dates at **www.elringklinger.de/en/investor-relations/financial-calendar.**

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