# Annual Report 2017

Leadership in Filtration

MANN+HUMMEL

Worldwide, we work on separating the useful from the harmful in order to make life better – or at least cleaner. This is a proud achievement for us. Filtration is and remains a key technology for which there will always be a demand. We therefore remain open to changes and want to participate in shaping the future. MANN+HUMMEL has identified sustainability, mobility and digitalization as the transformation drivers for its business. The better we can master these, the more sustainably we will be able to shape the world of tomorrow.

## Key figures[1]

| in EUR million | 2017 | 2016 |
|---|---|---|
| **Sales** | **3,892** | 3,480 |
| **Operating profit or loss (EBIT)** | **185** | 116 |
| As % of sales | 4.8 % | 3.3 % |
| **Net profit or loss before income tax (EBITDA)** | **386** | 335 |
| As % of sales | 9.9 % | 9.6 % |
| **Net profit or loss before income tax and before the change to the capital economically attributable to the shareholders** | **128** | 73 |
| As % of sales | 3.3 % | 2.1 % |
| **Result from associates** | **17** | 7 |
| As % of sales | 0.4 % | 0.2 % |
| **Free-Cashflow** | **164** | – 376 |
| As % of sales | 4.2 % | – 10.8 % |
| **Investments in tangible assets** | **3,921** | 4,049 |
| **Sachanlageinvestitionen** | **164** | 151 |
| **Depreciation of tangible assets** | **114** | 104 |
| **Value added per employee in EUR thousand** | **92** | 81 |
| **Average number of employees** | **20,535** | 20,646 |

1 All figures are rounded. This may lead to minor discrepancies when totaling sums and when determining percentages.

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# MANN+HUMMEL
## At a glance

**Key Facts 2017**

# 3,892

**million euros**
Sales

# +11.8

**Percent**
Sales growth
compared to 2016

# +122

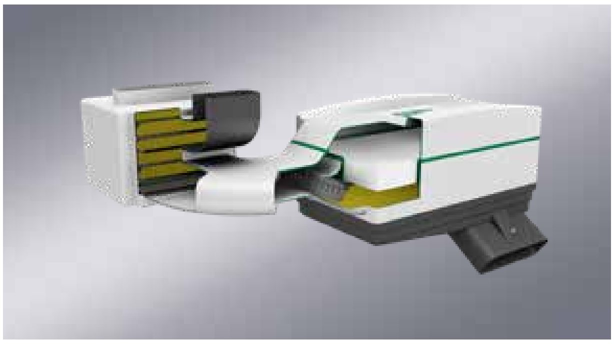
**Percent**
Sales growth
compared to 2007

# 20,535

**Employees**
worldwide

# MANN+HUMMEL
# Product highlights 2017

## FreciousSmart



**>60 kilometers** longer range

The intelligent cabin air filter system provides the best possible occupant protection with reduced energy consumption and increased lifetime of the filter elements, depending on the traffic situation and air quality.

## StarBox$^2$


**>600 kWh** energy savings over lifetime

The StarBox$^2$ features both significant flow optimization in the connection area as well as an innovative sealing concept. Through that, compared with a conventional spin-on separator, it achieves huge energy savings over its lifetime.

## Air filter system

**>60,000 kilometers** service life

The new air filter concept with an oval filter element has been specifically designed to make optimal use of the reduced installation space in light commercial vehicles, while also enabling best-in-class air filtration.

## Brake dust particle filter

**>80 percent** brake dust particles

The MANN+HUMMEL brake dust particle filter prevents particles from escaping into the air, directly at their source. The filter captures 80 percent of the brake dust according to the measurements made by the filtration experts in the lab. During the test drives for the "Fine dust eater" in the Stuttgart region, they are now testing the performance of the filter in road traffic.

# MANN+HUMMEL
# Highlights 2017

**Cooperation**

## First emissions neutral vehicle

The Deutsche Post DHL Group, StreetScooter and MANN+HUMMEL present the world's first emission neutral vehicle. Five StreetScooter test vehicles used particulate filters during pilot tests in German city centers. The particulate filter absorbs as many dust particles as those produced by tires, brakes and road abrasion during driving. Following successful testing, use of the particulate filter will be possible in series production.

**Inauguration**

## Asia-Pacific headquarters inaugurated

The Asia-Pacific headquarters for intelligent air solutions was inaugurated in Singapore in December. The headquarters will drive forward growth of the OurAir Solutions business unit for indoor air quality. Together with the Global IoT Lab, the market for clean air solutions will be tapped in the Asia-Pacific region.

**Green SSD**

400

## Green financing

In October, MANN+HUMMEL is the first automotive supplier worldwide to issue a green promissory note (Green SSD = Schuldscheindarlehen, i.e. promissory note loan) and collects 400 million euros. The original target volume of 250 million euros was heavily oversubscribed. The promissory note is divided into tranches with maturities of between six and ten years, which carry either fixed or variable interest rates.

**Extensive product range**

## Largest range for off-highway applications

In November, MANN-FILTER presents a significantly expanded filter range for mobile hydraulics for off-highway applications at the Agritechnica in Hanover. With some 2,000 products, MANN-FILTER thus offers one of the widest ranges for this segment in premium quality.

**Award**

## Top-class suppliers

In April, General Motors named MANN+HUMMEL "Supplier of the Year" for the 22nd time, honoring the contributions that MANN+HUMMEL has made as a supplier towards its business success.

**Growth opportunities**

## Representation in Iran

In June, following the lifting of sanctions against Iran in 2016, MANN+HUMMEL opens an office in Teheran. The Iranian market has huge potential and offers growth opportunities in the areas of automotive original equipment as well as air and water filtration.

**RobustPlus**

## Unique polymer

In September, MANN+HUMMEL introduced a new fully fluorated polymer, RobustPlus, for pressure control valves, which has maximum chemical resistance and stability against aggressive chemicals.

## Expansion

### New subsidiaries in Eastern Europe

In July, MANN+HUMMEL acquires Jack Filter Lufttechnik and Jack Filter Hungaria. Founded in 1947, the family-led company further expands the extensive MANN+HUMMEL offerings in the areas of heating, ventilation, air conditioning (HVAC) and HEPA filters.

## Inauguration


### New production location in Indonesia

In October, the new production location was inaugurated in Bekasi/Jakarta, West-Java/Indonesia. With this strategic investment in the site, MANN + HUMMEL brings its technology expertise onto the Indonesian market.

## Network

120

### Cluster Electric Mobility South-West meets at MANN+HUMMEL

In November, the complete team meeting of the Cluster Electric Mobility South-West was held at MANN+HUMMEL. With more than 120 players from industry, universities and research institutes, this network is one of the most significant regional alliances working in the area of electric mobility. The network partners discuss current challenges in electric mobility and seek synergies in the development of vehicles.

## Award

### Start-up award

In July, MANN+HUMMEL was bestowed the Corporate Innovations Award by the digital startup accelerator Plug and Play. The prize honors the intensive cooperation of MANN+HUMMEL with numerous startups in the area of the Internet of Things (IoT).

## Medical research

### MANN+HUMMEL research in Vienna

In November, MANN+HUMMEL equips the OP Innovation Center (OPIC), which houses the first research operating theater for research and instruction at the University of Applied Sciences campus in Vienna, with filtration technology. The main focus of the research are medical, ventilation, cooling and IT systems, as well as workflows and the development of simulation models. Technology and healthcare students also benefit from this unique surgical center of competence by receiving practical surgical training and by developing, operating and using the available technical infrastructure.

## Award

### Human Resources Excellence Award

With the "BOARDING HEALTH" concept aimed at employees from the 55+ target Group, MANN+HUMMEL is lowering the number of work incapacity days and, jointly with the mhplus health insurance company, received the Human Resources Excellence Award 2017 for the successful health program. With this concept, MANN+HUMMEL is implementing the most creative and efficient idea for corporate healthcare work at Group level in Germany, Austria and Switzerland.

## World premiere

### World innovation: Senzit

At the Agritechnica in Hanover, MANN+HUMMEL introduces the world's first intelligent air filter monitoring system, Senzit. With this system, vehicle fleet managers no longer have to physically inspect an air filter to determine its condition. Senzit monitors the air filter state virtually in real time for each individual device, tracks the engine operating hours, updates the service life of the filter and its GPS position via the Cloud – which is also of benefit in the event of theft.

# Foreword by the Management Board

**Ladies and gentlemen,**
**dear business partners,**

We often speak of profound changes which affect society and ourselves as a company: the increasing networking through the Internet of Things, new drive technologies in the area of mobility and demand for sustainable products and solutions will fundamentally transform and reorganize markets and the competitive landscape. For this reason, we at MANN+HUMMEL have identified the three factors of sustainability, mobility and digitalization as the innovation drivers for our business. The better we can master these innovation drivers, the more professionally we will be able to shape the world of tomorrow.

This does not mean that we are shifting away from our core competence in filtration. Filtration is and remains a key technology for which there will always be a demand. Nonetheless, it is necessary to remain curious and open to change in order to contribute towards shaping the future. In 2017, we have also demonstrated that we can do so with numerous new developments.

In the context of the "Fine dust eater" research project, vehicles filter the finest impurities from the ambient air with the aid of particulate-matter and brake-dust-particle filters. The integrated cabin air filter additionally protects the occupants from harmful particles and hazardous gases such as NOx. Jointly with StreetScooter – Germany's largest producer of electric commercial vehicles – we are now using the first emissions neutral delivery vehicle.

The condition of the air filters of agricultural and construction machines is measured by our new "Senzit" digital monitoring solution. In addition to the load status and remaining service life of the filter, this digital application also records the machine hours completed. This saves users time and maintenance costs as well as preventing unscheduled machine downtimes.

For alternative drives, in addition to products for high-volt battery systems and fuel cells, we have also developed a transmission oil filter for electric axles. This ensures clean fluid for lubricating and cooling the gears, ensuring a long service life of the transmission.

These projects are only a few examples, which nevertheless all illustrate a new, agile type of cooperation with a startup character. But that is not all. They also stand for the creative networking of our business units and the further development of the products from our wide-ranging portfolio.

To render this cooperation even more efficient and to even better adapt to the changed boundary conditions, we have defined a new business model in 2017. We will consequently be focusing our activities on two market segments from fiscal year 2018: The Transportation business unit will comprise automobility and industrial solutions in future. The Life Sciences & Environment division will include intelligent solutions for clean air, clean water and corporate ventures.

Ultimately, the implementation of this transformation lies in the hands - and the heads - of the more than 20,000 employees worldwide, who are committed to driving the MANN+HUMMEL Group forward. At MANN+HUMMEL, people from more than 100 nations work together at more than 80 locations on five continents. Although they are distributed throughout the entire world, they work together every day on separating the useful from the harmful in order to make life simpler, cleaner and more environmentally friendly.

We have cause to be proud of this. We would also like to thank the employee representatives for their constructive support of the forthcoming transformation, the shareholders and Supervisory Board for their support and our business partners for their trustful cooperation. We look forward to treading this path together with you all.

Your

Emese Weissenbacher

**Emese Weissenbacher**

Hansjörg Herrmann

**Hansjörg Herrmann**

Kai Knickmann

**Kai Knickmann**

Josef Parzhuber

**Josef Parzhuber**

**Emese Weissenbacher**

Chief Financial Officer

Emese Weissenbacher has been Chief Financial Officer (CFO) of MANN+HUMMEL since July 2015. The business graduate has worked with the company since 1994, has held a variety of positions in numerous departments and was most recently responsible for a total of seven plants and around 3,000 employees in Europe as Group Vice President Europe.

**Hansjörg Herrmann**

Chief Operations Officer

Following vocational training as a tooling technician, the graduate engineer studied mechanical engineering at Weingarten University of Applied Sciences. In 2011, he joined MANN+HUMMEL as Manager of the German locations. In spring 2015, he also took over the locations in the European region before being appointed to the Management Board in January 2016 as Chief Operations Officer (COO).

**Kai Knickmann**

President & General Manager Original Equipment

Kai Knickmann has a degree in mechanical engineering from Braunschweig University of Technology. He began his professional career with MANN+HUMMEL in 1999. In May 2010, he was appointed to the expanded Management Board and until March 2016 served as Group Vice President and General Manager of the Automotive OEM business unit. Today, he is General Manager of the Automotive OEM & Industrial Filtration business unit.

**Josef Parzhuber**

President & General Manager Automotive Aftermarket

Business graduate, Josef Parzhuber has been a member of the Management Board of MANN+HUMMEL since March 2016. In 2011, he took over as Group Vice President of the Water Filtration business unit. From 2012 to 2016, he worked in Singapore as Group Vice President and CEO for MANN+HUMMEL Asia Pacific. Since March 2016, he has been responsible for the Automotive Aftermarket business unit.

# Report of the Supervisory Board

Thomas Fischer
Chairman of the Supervisory Board

The Supervisory Board of MANN+HUMMEL Verwaltungs GmbH met twice in the year under review. In addition to the current business performance, the possible effects of global economic trends on the company were also discussed during the meetings. The Supervisory Board also considered in depth the capital investment and human resources policy of the Group as well as questions of quality assurance. The Management Board informed the Supervisory Board about the current developments verbally and in writing on a regular basis in addition to the meetings.

The annual financial statements of MANN+HUMMEL International GmbH & Co. KG and MANN+HUMMEL Verwaltungs GmbH were audited by PKF Wulf & Partner Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Löffelstraße 44, 70597 Stuttgart. The consolidated annual financial statements as well as the Group status report of the MANN+HUMMEL Group were audited by Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Flughafenstraße 61, 70629 Stuttgart. All documents were issued with an unqualified audit opinion. The Supervisory Board examined these documents in detail and was provided with a comprehensive report by the auditors regarding the results of their audits. The Supervisory Board approves these audit results.

The integration of the filtration business of the Affinia Group also contributed to the encouraging development of the company, as did the positive mood in the Aftermarket in general.

In order to expand the product portfolio in the area of heating, ventilation, air conditioning, the company Jack Filter, with locations in Austria and Hungary was taken over in the middle of the year.

The Management Board informed the Supervisory Board of the further realignment of the company. In addition to the automotive and industrial business, the newly created Life Sciences & Environment business unit has provided promising impetus for the future development of MANN+HUMMEL. The topic of cost leadership also remains a focus, which is being supported by the implementation of an integrated supply chain management as well as globally operating Business and Technical Service Units.

Investments in research and development are seen as additional drivers for the innovative strength and future viability of the company. The creativity of MANN+HUMMEL was evidenced through field studies relating to the “Fine dust eater”, a research project aimed at reducing particulate pollution, and the concept was presented to the general public.

The Supervisory Board agreed to commit itself without modification to the following targets in order to comply with current German legislation on the equal involvement of women and men in private and public sector management positions valid up to June 30, 2017 until June 30 2022: The required proportion of women on the Supervisory Board is accordingly to be eight percent and 25 percent on the Management Board.

Supervisory Board member Dr. Gerhard Turner resigned from his office of shareholder’s representative on the Supervisory Board, effective from January 31, 2017. The Supervisory Board honored the commendable achievements of Dr. Turner, who also contributed to the successful further development of the Group in his role as representative of Dr. Erich Hummel’s shareholder Group. His successor as the shareholder’s representative on the Supervisory Board was appointed in the person of Manfred Wolf, effective from February 1, 2017.

By way of a written resolution, the members of the Supervisory Board unanimously elected Mr. Manfred Wolf as shareholder’s representative in the mediation and human resources committee in February 2017.

The Management Board members Filiz Albrecht and Steffen Schneider resigned from their executive roles, effective from March 31, 2017. The Supervisory Board thanked Ms. Albrecht and Mr. Schneider for their commitment and their constructive work to the benefit of the company and its employees.

President and CEO Alfred Weber was unanimously elected as Chief Human Resources Officer by the Supervisory Board, effective from April 1, 2017.

In its December meeting, the Supervisory Board voted for the reappointment of Emese Weissenbacher as Chief Financial Officer for the period from July 1, 2018 to June 30, 2021.

The Supervisory Board thanks all employees of the MANN+HUMMEL Group, the Management Board and the employee representatives for their successful efforts in the past fiscal year.

Ludwigsburg, April 2018

**Thomas Fischer**
Chairman of the Supervisory Board

# Group status report of MANN+HUMMEL International GmbH & Co. KG 2017[1]

## Group business model

›› A leading expert in filtration
›› Presence at over 80 locations on five continents

MANN+HUMMEL is a leading global expert in filtration. The Group, which is based Ludwigsburg, Germany, develops solutions for automotive and industrial applications, clean cabin air and sustainable water use.

During the 2017 fiscal year, the Group was made up of the following business units: Automotive Original Equipment, Automotive Aftermarket, Industrial Filtration, and Water Filtration, as well as Wix-Filtron.

The company is represented at more than 80 locations on five continents and is active in all of the world's markets.

## Aims and strategies

The MANN+HUMMEL Group is on a solid financial footing and is making targeted investments for the future to ensure sustainable growth. MANN+HUMMEL is consistently pursuing the vision of "market leadership in filtration." The company's filtration expertise, built up over 75 years, and the fact that it continues to hold a significant number of patents, patent applications and utility models, represents a competitive advantage. This benefits its customers and has a positive impact on all Group brands.

We consider the development of new transport solutions (from alternative drive systems to self-driving vehicles), digitalization, and the increasing importance of sustainability to be the key drivers of our business. This is also something that is reflected in our products. We are constantly working to improve our classic products, including air and liquid filter systems, intake manifold systems, technical plastic parts, as well as filter media, cabin, industrial, and membrane filters. In addition, networking via the internet (IoT), cloud connectivity, algorithms and user-friendly apps are included in increasing numbers of offerings.

1 All figures are rounded. This may lead to minor discrepancies when totaling sums and when determining percentages.

# Research and development

›› 3.4 percent of our sales goes into research and development
›› Debut of the globally unique Senzit intelligent filter monitoring product
›› Establishing a corporate venture Group in California to act as a start-up incubator
›› Launch of the innovative “fine dust eater” project in the field of “clean mobility”

Over 1,000 employees worldwide work in research and development (R+D) for the MANN+HUMMEL Group to provide innovative filtration solutions and filtration products for automotive and industrial applications. In 2017, the company was one of the top companies in the industry, submitting more than 3,000 patent applications and cementing its position as a leader in filtration technology. As a result of this, MANN+HUMMEL is yet again one of the most active patent applicants in Germany. During the year under review, MANN+HUMMEL spent EUR 133.0 million (3.4 percent of sales) on research and development.

The MANN+HUMMEL Group’s research and development locations are linked via a development network and are divided into Center of Competence locations, which have the authority to issue guidelines, as well as regional clusters (Engineering Centers) and local research and development locations (Application Centers).

Activities in the area of digital products and services have increased greatly since October 2016, when the Internet of Things Lab (IoT Lab) was set up in Singapore. Senzit, the IoT lab’s first digital product, marked a significant milestone in its work. The product was presented for the first time in November, at the AAPEX in Las Vegas and the Agritechnika in Hanover. Senzit is the world’s first intelligent filter monitoring product. It provides a whole new level of networking across all different types of vehicles and brands. Senzit allows vehicle owners to monitor the state of their air filter and their vehicle’s location on their smartphone or computer. This saves users time and money.

Collaboration with start-ups was formalized by establishing a corporate venture Group. Working together with the Plug and Play Tech Center, a start-up incubator in Sunnyvale, California, MANN+HUMMEL was able to arrange partnerships and strategic investments with more than ten companies. Our areas of strategic interest include mobility, IoT, supply chains, logistics and materials science.

## Automotive

In 2017, the automotive development department consistently increased its expertise and abilities in relation to the worldwide development network, and continues to focus on giving all processes and functions an international orientation. As well as cutting down on the emissions produced by internal combustion engines, emphasis was put on strengthening the range of e-mobility products and developing new filter solutions with the aim of improving air quality.

Many of the innovative products that went into serial production in 2017 reflect the development areas we have been focusing on over the past years. This was how we were able to put the first intake manifold with a fully integrated charge air cooler into serial production. We are also working on other serial production orders and a new generation of integrated charge air coolers.

Our crankcase ventilation systems also demonstrate the fact that our development work is headed in the right direction. Last year we won the first large serial production contract for our innovative pressure regulation valve membrane, which has virtually universal chemical resistance. We also developed a long-life fiber demister which can separate even the smallest droplets with high efficiency, allowing it to be used in situations where passive inertia separators are incapable of collecting all the droplets. In addition, the fact that the separation takes place through a medium allows for flexibility in terms of design, as the elements are versatile and can easily be adapted to installation spaces that present challenges.

Systematic use is made of the expertise and abilities of the global development network, especially with regard to air filter systems. As a result, 2017 again saw many new air filter systems being put into worldwide as well as local serial production. In this regard, we are putting increased emphasis on developing our expertise and are able to offer systems with reduced pressure loss, high dust holding capacity, improved acoustics, and innovative element technology.

We are continuously working on enhancing the competitiveness of our products in liquid management too. As a result, a range of oil modules that save installation space using intelligent system integration, while also withstanding ever increasing temperature and pressure requirements were put into production. In the case of fuel filters, we have strengthened our leading position in diesel fuel filtration and water separation by developing new concepts. To ensure our continued success in the area of liquid management, we are also putting increased emphasis on building up our global development network.

To allow us to achieve our targets for growth in the Chinese market, we are investing in coaching and support for the local development team. This has enabled us to win important projects, including those relating to oil and fuel filters for the commercial vehicle sector.

Leading OEMs have driven the evolution of combustion engines through water injection systems for petrol engines. We have developed an innovative filtration application to ensure the water that is sprayed into the cylinders is sufficiently pure.

In addition to these topics, we are also working hard to meet the challenges of the future. For this purpose, we are putting our core expertise in filtration, system competence and precise plastic processing to use so we can further expand our product portfolio of e-mobility products. Our new applications are continuously building on this expertise. These include transmission oil filters for e-axles, liquid filters such as coolant particle filters, air filters such as cathode air cleaner systems for fuel cells, as well as dryers and ventilation systems for batteries.

Our new “fine dust eater” project is also based on these core areas of expertise. It is on this basis that MANN+HUMMEL has consolidated its innovation activity in the area of clean mobility. By 2030, 60 percent of the world’s population will live in towns and cities with the number of vehicles there also increasing further. Many people are still not aware of the fact that electric vehicles only emit slightly less fine dust than those with combustion engines. The PM10 emissions (particulate matter with an aerodynamic diameter of less than 10 µm) produced by vehicles mainly consist of brake dust, as well as tire and road abrasion. Exhaust systems are only the fourth biggest cause of particle emissions.

As a leader in filtration technology, we believe it is our responsibility to find sustainable solutions that offset or significantly reduce the effects of vehicle-traffic, which is why we offer both mobile and stationary particulate filters. The mobile filters are mounted on the vehicle and can function both passively, as well as actively (with a fan). These were subjected to extensive field testing within the greater Ludwigsburg/Stuttgart region. Pressure loss in the filter and filter medium are decisive for the cleaning performance. Here, we were able to implement new filter concepts that make it possible to maximize air flow rate and, in turn, to maximize the amount of fine dust removed from the ambient air, while expending only a minimal amount of electrical energy.

December 19, 2017 saw the first example of the mobile particulate filter when, together with StreetScooter and the Deutsche Post DHL Group, we were able to present the world's first completely emission neutral vehicle to the public. Deutsche Post's electric vehicle reabsorbs all of the particulate emissions it produces using an active particulate filter mounted in the underbody area.

Market response to the brake dust particle filter concept has also been very positive. The brake dust particle filter is compatible with all types of vehicles and reduces emissions of brake dust particles by up to 80 percent. It therefore helps to reduce fine dust pollution, especially in urban traffic where a lot of braking occurs.

With regard to cabin air filters, we are taking a step forward by introducing an active cabin air filter system to optimize the quality of vehicle cabin air, while also saving energy. In addition to making use of our core expertise, our skills in IoT come into play here too. It makes intelligent system control possible, ensuring that any available energy is used effectively. We have achieved our key aim for the development of cabin air filter systems – namely, significantly improved separation of particles and harmful gases. The new FreciousSmart cabin air filter systems are able to separate out 99.95 percent of all 0.1 micrometer ultra-fine particles. Multiple special activated carbon layers have made it possible to achieve significant increases in the adsorption of nitrogen oxides, ammonia, and harmful organic gases compared to the current state of the art. In addition, filter media with anti-allergy and anti-microbial properties provide effective protection against pollen and microbes.

There was success in the commercial vehicle sector, thanks to consistent implementation of the new Exalife air filter concept. The concept has been specifically designed to make optimal use of the reduced installation space in light commercial vehicles, while also enabling best-in-class air filtration. We were thus able to win important contracts for the American and European markets, and also to meet the customer demand for a copy-protected element. We have also already been able to put our standard air filters, designed to meet the needs of the Indian market, into serial production.

Having previously made wide-scale use of three-stage water separation in passenger cars, we were able to put the first three-stage water separation fuel filter for commercial vehicles into serial production. Another important development project entailed replacing aluminum housings with a hybrid plastic/aluminum solution. This also has been very well received by customers and made it possible to reduce weight and costs.

## Non-Automotive

MICRODYN-NADIR, in Wiesbaden, is a global manufacturer of membranes and modules for water filtration and a member of the MANN+HUMMEL Group. It coordinates worldwide development activities in the area of water filtration, focusing on processes and special applications for water and waste water filtration.

In the 2017 fiscal year, MANN+HUMMEL acquired Jack Filter Lufttechnik and Jack Filter Hungaria. Both of these companies are allocated to the part of the Group dealing with non-automotive applications. As a result of the acquisition, we have been able to increase our product portfolio in the areas of heating, ventilation, and air conditioning (HVAC) as well as HEPA filters. In the area of cleanroom technology, Jack Filter focuses on the development of products for the pharmaceutical, semiconductor, and food industries as well as for medical technology.

# Overall economic and industry-specific conditions

›› Global production has increased by 3.8 percent
›› At 6.8 percent, China's growth rate is exceeding expectations
›› Global machine sales have risen by 6.0 percent
›› There has been further growth in the van and commercial vehicle sector

## Global economic development 2017

The December 2017 VDA (German Association of the Automotive Industry) Economic Barometer showed a significant increase in the rate of development of the 2017 global economy (note: all other statements made below regarding economic development are also based on this report). There was growth in almost all major economies. Global production increased by 3.8 percent over the year as a whole.

The economic situation in the US improved throughout 2017. This made it possible to achieve a growth rate of 2.3 percent. The growth rate of the Chinese economy significantly exceeded expectations for 2017, with an increase of 6.8 percent on the previous year. From the beginning of 2017, Brazil began a slow process of recovery following the end of the longest and deepest recession ever faced by the country. However, recovery of the labor market as well as investments are taking some time and will only improve slowly. As a result, the rate of growth was only 1.2 percent.

Despite low oil prices and sanctions imposed by the USA and Europe, Russia's economy grew by 1.6 percent. The German economy grew by 2.3 percent. Economic research institutes calculated growth within the Eurozone as a whole to be at 2.3 percent.

## Automotive sector

Strong demand from other countries had a particularly high impact on performance in Germany. It was almost able to maintain the high levels of car exports it had achieved during the previous year (– 0.7 percent). In total, the volume of exports by German car manufacturers has increased by about 6 percent over the last five years, resulting in an export ratio of 77.5 percent in 2017.

US sales of light commercial vehicles remained at the same level in 2017 as in the previous year. The Chinese passenger car market grew by 2.0 percent and the European passenger car market grew by 3.0 percent in 2017. Positive economic trends in India were strengthened by political efforts, such as standardization of the tax system. This fact has also been reflected in sales of passenger cars, which increased by 9.0 percent in 2017. The Brazilian passenger car market grew by 5.0 percent. The passenger car market in Germany was able to grow by 3.0 percent compared to the previous year.

The German commercial vehicle industry performed very well in 2017. As a result, the market reached a new record level again this year.

All market segments, from vans and commercial vehicles over six tons to buses, recorded growth.

## Industrial construction and mechanical engineering sector

2017 saw global machine sales increase by approximately 6.0 percent. There were upward revisions in many countries, especially in China, which is the most important manufacturing location for the global mechanical engineering industry. In many places, pre-existing structural problems prevented stronger economic growth, with uncertainties regarding future political and economic development posing particular problems.

# Business trends

›› Sales have increased by 11.8 percent, reaching EUR 3,892.1 million
›› The Wix-Filtron Group contributed EUR 754.6 million in sales
›› EBIT is EUR 185.1 million

In the 2017 fiscal year, the sales of the MANN+HUMMEL Group increased by a total of EUR 412.3 million (11.8 percent), reaching EUR 3,892.1 million (previous year: EUR 3,479.8 million). This increase is partly due to 12 months of sales from the Wix-Filtron Group, amounting to EUR 754.6 million, being included for the first time. The fact that the acquisition took place on May 1, 2016 means that only 8 months, or EUR 493.7 million, were included in the previous year's consolidated financial statements. Furthermore, the increase in sales can also be traced back to positive business trends in the aftermarket business. Exchange rates had a negative effect on sales. Had Group sales been adjusted for exchange rate effects, it would have been EUR 54.4 million more. Group sales also includes the pro-rata sales of the newly consolidated Jack Filter companies, which amount to EUR 4.5 million. Overall, Group sales slightly exceeded expectations for the 2017 fiscal year.

At EUR 185.1 million, EBIT (Earnings Before Interest and Tax) was lower than expected, as it had also been the case in the previous year (EUR 115.7 million). However, this was influenced by the one-off effects of extraordinary impairment losses on intangible and tangible assets, which amounted to EUR 14.2 million.

In addition to EBIT, ROCE (Return on Capital Employed) also serves as a key performance indicator for the Group. ROCE is defined as the return on capital employed to generate the reported EBIT. In the year under review, the calculated return on capital employed amounted to 8.2 percent (previous year: 6.7 percent) and was also lower as a result of the aforementioned one-off effects resulting from extraordinary impairments amounting to EUR 14.2 million.

## Automotive original equipment

›› Sales in North America have increased
›› Sales in Germany are on a par with that of the previous year
›› Sales in Asia have fallen short of expectations

In 2017, the Automotive Original Equipment Department was able to maintain the sales levels of the previous year and, in so doing, to exceed its original target figures. This was achieved despite a drop in sales in other German plants and Asia. The performance of our European subsidiaries outside of Germany, as well as in North America, was particularly positive.

The volume of sales in Germany was down slightly compared to the previous year. As expected, there was decline in sales in the passenger car business, due to the phasing out of intake manifold production and the expiration of oil filter orders. It was not possible to offset this with higher volumes of sales in other product areas. The launch of serial production for new projects has not yet had a significant impact on sales. Conversely, sales in the commercial vehicle business remained stable and it was possible to achieve an increase on the previous year. Pre-series sales were slightly below forecast levels.

In European countries outside Germany, especially in the United Kingdom and Turkey, series sales increased significantly compared to the previous year.

North America saw a further increase in sales. This was mainly due to increased sales of air filter systems. There was also a slight increase in sales in South America, despite the ongoing unstable market situation in Brazil.

In Asia, sales could not be maintained at the same level as the previous year, although significant sales increases were recorded in India, Thailand, and at two Chinese plants. However, in Korea, sales were slightly down from the very high level achieved in the previous year. The level of sales in Japan was also lower than the previous year. The international rollout of innovative air and fluid management products contributed to the ongoing positive performance. Air filter systems with integrated acoustic features and innovative intake manifolds were put into serial production worldwide. These projects require high levels of global development and production expertise, organizational skill, and international coordination.

There was significant growth in the OEM business with first-tier manufacturers over the course of the fiscal year. MANN+HUMMEL benefited from positive market performance here, especially in the commercial vehicle business. In addition, some new projects entered serial production or their start-up phase during the fiscal year.

## Automotive aftermarket

›› Further increase in market share
›› Expansion of automotive aftermarket in Africa

The automotive aftermarket is an important part of the Automotive Business Unit. After the sales of the Wix-Filtron Group, which belongs to the MANN+HUMMEL Group, are taken into account, sales in the automotive aftermarket make up approximately 50 percent of total sales. We were able to continue the successful expansion of the automotive aftermarket business during 2017. The increasing internationalization and continuing concentration in retail put increased pressure on the conditions.

Despite these challenges, we have managed to further increase our market share, not only in overseas growth markets, but also in many established European markets. Here, the MANN-FILTER brand has played a key role in helping us increase our market share. In 2017, we secured market coverage of a high proportion of the European vehicle fleet (97 percent) by increasing our range of products, which include 181 types of filters for the passenger car, commercial vehicle and off-highway market segments. In 2017, we were also able to further expand the MANN-FILTER brand's mobile hydraulics program. Russia remains a key growth market, which saw very positive development in 2017. During the year under review, there was a particular focus on expanding the aftermarket business in Africa. For this purpose, we have further consolidated our market position by setting up a sales company in South Africa with a distribution warehouse.

Business performance in South America remained slow due to the difficult economic and political situation in Brazil. In Columbia, we established a new sales company to strengthen our market presence. In Mexico, Wix-Filtron ended the year very strongly with a strong growth in sales, despite currency devaluations. In North America, we were able to further expand the business, especially with the WIX Filters and Purolator brands. However, the MANN-FILTER brand did not perform as well as expected in North America.

Our activities in Asia were focused on growth in the Chinese and Indian markets where we supply the independent spare parts market with the MANN-FILTER and WIX Filters brands. However, in India, the MANN-FILTER brand did not perform as well as expected. The WIX Filters brand was able to increase its growth in Asia.

The aftermarket business with automotive manufacturers performed very well during the fiscal year. In total, this accounts for around a third of MANN+HUMMEL's sales in this business area. This demonstrated that MANN+HUMMEL is in a very good position to benefit from generally positive economic performance, thanks to its strong position in the original equipment business. The third-party brand business performed even better in 2017. MANN+HUMMEL benefited from the fact that an important customer was able to improve its market position by gaining new customers.

Years of strong growth in the cabin air filter business also continued during the fiscal year. We were therefore also able to win several major contracts in 2017.

## Industrial filtration

» Significant growth in sales
» Forecast significantly exceeded
» Strategic and organizational restructuring of the Intelligent Air Solutions Department

The Industrial Filtration Department can look back on a very successful 2017. Despite difficulties over the last few years, it has been able to achieve significant increases in sales, clearly exceeding both the target figures and the previous year's sales, contrary to the forecast.

In the large engines sector, there was a double-digit increase in sales, in spite of the market trend. This was due to both a general increase in sales, and, in particular, strong growth impulses in Asia. There were also positive developments in relation to sales of products for compressors and generators, which exceeded the level of the previous year.

In the industrial applications sector, we were able to maintain the previous year's level of sales in the machine tool, custom machine, and railway applications segments. Sales in marine applications remained similar to the previous years.

All departments were able to win important projects and market share, which will generate growth over the next few years.

We were able to increase sales in the aftermarket business, particularly the independent aftermarket business, with some figures significantly exceeding those of the previous year. The highest increases in sales were achieved in Germany and in a few key European markets.

In 2017, the Intelligent Air Solutions Department carried out strategic and organizational restructuring. The business is to be consolidated and expanded, with a clear focus on the HVAC market and filter elements. New approaches, such as "filtration as a service" and digital solutions for clean cabin air have created new potential for growth and unique selling points. In August 2017, MANN+HUMMEL took over Jack Filter Lufttechnik and Jack Filter Hungaria, along with two state-of-the-art production facilities in Austria and Hungary, and around 100 employees. This has allowed MANN+HUMMEL to increase its range of products, especially in HEPA-filters, and to gain even better access to other parts of the HVAC market.

## Water

» Strategic restructuring of the Water Business Unit
» Acquisition of Oltremare in Italy

During 2017, there was intensive work to strategically restructure the Water Business Unit, which had been strengthened through the acquisition of TRISEP. The business unit is now managed by a six-person "core" team. We are focusing on water and waste water on one hand, as well as process and specialty applications on the other. Some aspects of this strategy have already been put into effect. This has been received well by the market.

The second production line for BIO-CEL MBR modules was completed in 2017 and accepted at the supplier's factory. The system is being built in Austin, Texas.

In addition, MICRODYN-NADIR completed the acquisition of Oltremare, a leading European manufacturer of spiral wound modules based in Fano, Italy.

# Finances

The previous year's figures only included an 8-month contribution from the companies in the Wix-Filtron Business Unit, due to the date of the acquisition. The figures for the 2017 fiscal year included a 12-month contribution from this business unit.

In addition, the two companies making up the Jack Filter Group were consolidated for the first time on July 1, 2017, making this the first year they have been included in the consolidated financial statements, with a contribution covering a period of 6 months.

## Results of operation of the MANN+HUMMEL Group

The sales of the MANN+HUMMEL Group increased by 11.8 percent compared to the previous year, to EUR 3,892.1 million, and by 13.4 percent to EUR 3,946.5 million after adjusting the previous year's rates for exchange rate effects. This increase can be attributed, in part, to an entire year's contribution from the Wix-Filtron Business Unit being included for the first time. In addition, positive trends in the aftermarket business in particular contributed to the increase in sales.

The total cost of sales was EUR 2,960.0 million. Sales costs as a proportion of sales decreased by 0.8 percentage points, dropping to 76.1 percent. This includes extraordinary impairments on acquired intangible assets, as well as on tangible assets, totaling EUR 5.2 million (previous year: EUR 32.2 million). Gross margin on sales increased by EUR 126.6 million (15.7 percent) on the previous year, to EUR 932.1 million.

The backlog of outstanding orders amounts to approximately EUR 1,499.2 million (previous year: EUR 1,262.7 million). Unlike the previous year, the backlog of orders also includes the figures of the new Wix-Filtron Business Unit.

As one of the world's leading filtration specialists, MANN+HUMMEL is continuously working to enhance its existing product portfolio and to develop new technologies and products to provide filtration solutions. For this reason, a large part of sales is used to fund research and development. MANN+HUMMEL spends around 3.4 percent of its sales on research and development. This expenditure increased to EUR 133.0 million (previous year: EUR 126.0 million).

Other operating income increased by EUR 3.6 million to EUR 35.4 million. This increase can partly be attributed to income from foreign currency valuation and the disposal of assets.

The other operating costs increased by EUR 15.0 million from the previous year to EUR 85.6 million. They include EUR 9.0 million of impairments on goodwill (previous year: EUR 28.9). This increase is mainly due to foreign exchange rate effects, which increased from EUR 12.1 million to EUR 26.6 million, as well as the effect of EUR 7.7 million worth of restructuring costs in China.

EBIT increased by EUR 69.4 million from the previous year to EUR 185.1 million. As a result, return on sales before tax was 4.8 percent. Once adjusted for the aforementioned one-off effects of EUR 14.2 million worth of extraordinary impairments, operating profit amounted to EUR 199.3 million with a 5.1 percent return on sales: the same as the previous year.

The net financial result worsened, decreasing by EUR 14.4 million to EUR -57.4 million. This is mainly due to reduced interest dividends. In addition, the net financial result of the previous year included earnings from foreign currency conversion, which did not arise during the past fiscal year.

Income tax expenses decreased by a total of EUR 68.1 million to EUR 25.5 million, resulting in a Group tax rate of 20.0 percent (previous year: 93.7 percent). In the previous year, the Group tax rate rose significantly due to tax effects from previous years and non-tax deductible extraordinary depreciation. In addition, changes in tax rates, especially in the USA, as well as the reversal of a tax provision in Brazil as the result of a tax amnesty, had an impact on tax expenditure, as did other factors.

## Financial position of the MANN+HUMMEL Group

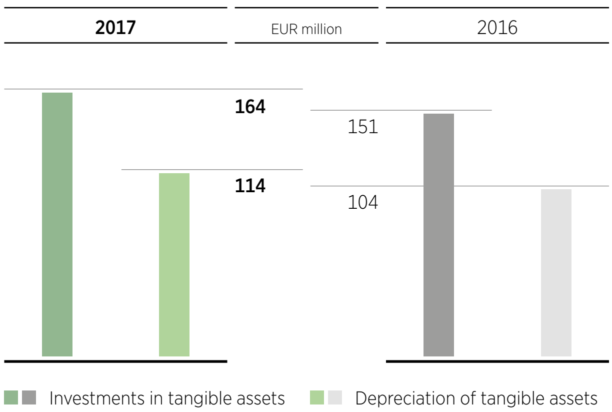
### Cash flow

The MANN+HUMMEL Group generated an operational cash flow (inflow of funds after financing the operative business) amounting to EUR 328.6 million over the past fiscal year, an increase of EUR 62.8 million or 23.6 percent on the previous year. Operational cash flow was sufficient to finance all investments made during the period, which also included the acquisition of the Jack Filter companies for EUR 17.6 million.

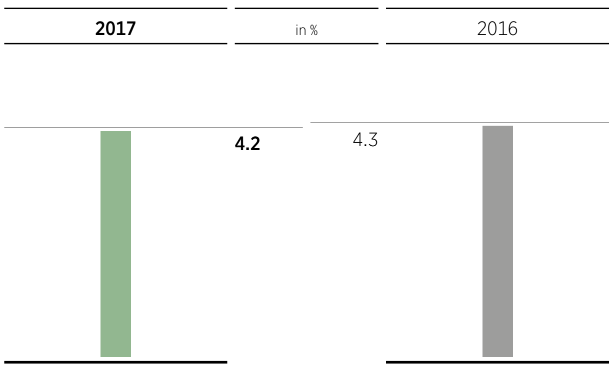
The Free Cashflow during the fiscal year amounted to EUR 163.9 million, and was therefore significantly higher than the previous year's Free Cashflow. However, in 2016 this was significantly affected by the acquisition of the new Wix-Filtron Business Unit. In the current year, due to the repayment of loan liabilities, there was a negative balance of EUR 220.3 million from financial activities. As a result, financial resources were also down by EUR 66.4 million compared to the previous year at EUR 327.9 million.

## Investments

### Investments in tangible assets




### Investments in tangible assets in % of sales




In the 2017 fiscal year, the MANN+HUMMEL Group made investments in tangible assets amounting to EUR 163.5 million (previous year: EUR 150.6 million). This corresponds to an investment turnover ratio of 4.2 percent (previous year: 4.3 percent).

Overall, the greatest volume of investment in 2017 took place in Germany, the USA, and France. Investments were offset by Group-wide depreciation and amortization of tangible assets amounting to EUR 113.8 million (previous year: EUR 104.3 million). At 12.2 percent, the depreciation ratio was slightly higher than the previous year.

In the past fiscal year, 41.8 percent of investments in tangible assets have been made in the Automotive Original Equipment Business Unit. The investment in tangible assets made in the Automotive Aftermarket Business Unit was 29.6 percent and 14.3 percent in the Wix-Filtron Business Unit. The percentage of total investments in tangible assets that went to the new Water Solutions and Intelligent Air Solutions business units was 5.7 percent.

In addition to investments in information technology for the locations of the new Wix-Filtron business unit, investments were made in production facilities, machines and tools for the implementation of customer projects and for the implementation of new production technologies (approx. EUR 103.3 million). The largest projects were implemented at the production locations in Santa Barbara, California, Portage, Michigan, Querétaro, Mexico, and in Germany.

## Consolidated balance sheet structure

The total assets decreased by 3.2 percent to EUR 3,921.4 million during the 2017 fiscal year.

Intangible assets and tangible assets decreased overall compared to the previous year by EUR 83.9 million to EUR 1,974.5 million. A significant portion of this reduction is due to currency effects. The tangible assets rose only slightly to EUR 934.9 million.

However, the absolute increase in inventories of EUR 17.8 million is offset by a decline in the inventory ratio (the ratio of inventories to sales) from 13.9 percent in 2016 to 12.9 percent in 2017. This is due to the 12-month inclusion of the companies from the Wix-Filtron business segment. The same applies to short and long-term trade receivables. These increased from EUR 586.0 million to EUR 596.7 million, but decreased in relation to sales from 16.8 percent in the previous year to 15.3 percent in 2017.

The long and short-term financial assets increased by EUR 67.6 million to EUR 333.4 million. This is due to the increase in short-term securities. Cash and cash equivalents decreased overall by EUR 66.4 million to EUR 327.9 million, mainly due to the repayment of external loan obligations, the purchase price payment for the acquisition of Jack Filter, tax payments made and investments in tangible assets.

As of January 1, 2016, MANN+HUMMEL International GmbH & Co. KG became the ultimate parent company of the MANN+HUMMEL Group. Here, in accordance with German commercial law, there exist non-excludable termination rights for shareholders who do not fulfill the prerequisites for disclosure as shareholders' equity under the International Financial Reporting Standards (IFRS). Consequently, this item, as already in the previous year, is now shown in borrowed capital under "Capital economically attributable to the shareholders." The equity reported in the balance sheet includes the shares of other shareholders of MANN + HUMMEL International GmbH & Co. KG during the year under review, who have a direct participation of 16.67 percent in MANN+HUMMEL Holding GmbH, but without voting rights. This includes the non-controlling interests of the companies MANN+HUMMEL BA J.S.C., Tesanj, Bosnia-Herzegovina, CHANGCHUN MANN+HUMMEL FAWER FILTER CO. LTD., Changchun/PR of China, and the US shareholder totaling EUR 176.2 million (previous year: EUR 165.9 million). The sum of disclosed balance sheet equity and the capital economically attributable to the shareholders increased by only 6.7 percent to EUR 938.9 million in the 2017 fiscal year, among other things due to changed exchange rate relations.

The pension provisions amounted to EUR 452.2 million and increased by EUR 0.2 million compared to the previous year. Other short and long-term provisions and income tax liabilities decreased by EUR 43.3 million to EUR 160.6 million. The reduction is mainly due to the decline in income tax liabilities, which included special items in the previous year.

Trade payables increased on the previous year's figure increased by EUR 67.3 million to EUR 552.1 million. Among other things, this is due to the increase in business volume.

Long-term and short-term financial liabilities fell by 7.5 percent to EUR 1,574.7 million based on the repayment of liabilities to banks. At EUR 239.6 million, other liabilities were EUR 80.6 million lower than in the previous. This mainly resulted from a decrease in the deferred tax liabilities due to changes in tax rates and from changes in the previous balance sheet structure.

## Overall statement on the business trends

The business trends of the MANN+HUMMEL Group were overall in line with expectations. Especially in the aftermarket business, the expectations of the Group's executive board were exceeded due to the positive trend in global demand.

# Employees

›› 20,535 employees worldwide
›› Staff turnover rate worldwide is 5.0 percent
›› Corporate culture of MANN+HUMMEL receives HR Excellence Award
›› Feedback Module Talent Review "One Conversation" established for all employees

With the further expansion of a modern process and system landscape, we made the structures more agile and the organization more transparent in 2017. In addition, we strengthened our expertise and capacities in the Corporate Center so that our own service centers will enable better global management despite further internal outsourcing at MANN+HUMMEL. Furthermore, a new HR strategy has been developed with a clear roadmap for the next three years.

MANN+HUMMEL is convinced that companies that rely on a partnership corporate culture meet the needs of their employees better. This refers to both the experience of a meaningful activity and the awareness of contributing to something greater together, as well as the maintenance of physical health. We also received the HR Excellence Award in 2017, a prestigious award for investing in healthy work. This is not just a matter of social responsibility – it is an economic necessity. We sustainably strengthen the health and well-being of our employees, for example, through the integration of sports scientists as "health contact persons," the health promotion of trainees with the title YOLO@ MANN+HUMMEL, the annual health day and health-related seminars.

Our Compass executive training program also took place this year with a focus on high-performance teams that drive change in the business. In combination with in-depth content around the topic of emotions, we re-evaluated the drivers for growth and our key behavioral traits and compared them with the previous year, discussed measures, and learned together from successful models. These behavioral standards, so-called tactics and enablers, have since been discussed with a large number of employees. Our top executives were able to work on their own "leadership story." As a further management topic, we focused on the systematic development of our employees – this year, for the first time ever, a talent review will be conducted worldwide for all employees with "One Conversation," where employees will receive systematic feedback and make their own career aspirations transparent in "About Me." To better harmonize their development with the business strategy, we strengthen their technical expertise in functional academies as well as through an expert career path for our top filter developers. The fundamental principles have been established for long-term improvement projects in human resource development and recruiting, which in the years 2018–2019 will lead to significant improvements in addressing and retaining employees in the future.

In addition, our employees were able to apply for the InCube program, which is designed to develop alternative business ideas. The program was introduced in 2017 for the first time and offers selected employees the opportunity to develop new ideas separate from their everyday work. For six months, employees work in an office in Silicon Valley, USA as an independent start-up company. The program will continue in 2018.

The worldwide staff turnover rate is five percent. In 2017, MANN+HUMMEL employed a total of 20,535 staff on average at all our locations.

MANN+HUMMEL has set its own target values and deadlines for the Supervisory Board, Management Board and other management levels. The current proportion of women on the Management Board is 20 percent, while at the end of the fiscal year there were no women represented on the Supervisory Board. For the two management levels below this, the proportion of women is 17 percent and 9 percent respectively.

MANN+HUMMEL has defined equal opportunities for men and women, as well as the equal treatment of both genders, in its social charter. Employees of both genders are selected and promoted on the basis of their abilities and function-specific qualifications. We expressly support the targeted, ongoing and requirements-oriented further training of female and male employees.

# Occupational health and safety and environmental protection

›› Six factories complete one million working hours without an accident at work
›› The “HSE Big Rules,” which were drafted in 2016, have been successfully implemented
›› Increase energy efficiency and improve ergonomics in the workplace

As a leading filtration expert, we take our social responsibilities seriously.

This is why occupational health and safety as well as environmental protection are firmly anchored in our corporate policy and our values, and represent a central pillar of our corporate strategy.

We take occupational health and safety as well as environmental protection into consideration in all relevant business processes linked with our management system.

In 2017, we were able to celebrate the fact that six factories completed one million working hours without an accident at work.

The 2016 Health, Safety and Environment (HSE) Big Rules are practiced at the locations and are part of team discussions and actions. The HSE Big Rules provide all employees with information about proper conduct with respect to occupational health and safety and environmental protection. They also raise awareness in this area with regard to the responsibility borne by each individual. The HSE Big Rules apply to all employees worldwide. We have successfully created a common understanding and greater awareness for HSE at MANN+HUMMEL worldwide.

Energy efficiency continued to develop positively in 2017.

For existing injection molding machines, Changchun and Jiading (both China) started to replace the hydraulic drives with highly efficient converter-driven electric drives. The replacement of existing conventional lighting systems with LED spotlights continued this year. In addition to an additional energy saving, the workplace lighting is being improved. These measures make a further contribution to improving ergonomics in the workplace.

In the Asia Pacific region, a checklist for the region was drawn up based on an energetic assessment of a location in order to set up an energy reduction program in a targeted manner.

In 2017, as a Group of companies, we took part in the Carbon Disclosure Project (CDP) for the second time and disclosed our energy and $CO_2$ emissions data to our customers. This time, we also reported on our water and waste water data and additionally recorded the costs of consumption as an improvement potential.

The recycling rate in the Group has been developing positively for many years. The targets for this year have been met again and the use of reusable packaging continues to develop positively.

# Purchasing

›› Increase in global purchasing volume by 12.1 percent to EUR 2,509 million
›› "Purchasing and Supply Chain Management" area starting work
›› 5. Global Supplier Event is taking place under the motto "Intelligently connected – ready. set. go."

The global purchasing volume of the MANN+HUMMEL Group increased by 12.1 percent in 2017 to a total of EUR 2,509 million. The reasons for this are the growth in sales and the complete consolidation of the Wix-Filtron Group. The purchase volume is 61.0 percent production material and 39.0 percent trading goods, non-production material and services.

The development of material prices showed a differentiated picture in the 2017 fiscal year. While savings were achieved in many product Groups, prices for steel and some plastic granulates increased, driven by strong global demand. The supply of our plants, however, was always ensured, even with partially limited material availability.

However, as a result of the systematic continuation of cost-cutting projects based on lean methods and material changes, for example, the purchasing department was again able to make a significantly positive contribution to earnings, which is part of our monthly monitored key performance indicator system.

The organizational project for the strict separation of strategic, tactical and operative tasks in purchasing, which started in 2016, was successfully completed and already had a positive impact in terms of an even more consistent coordination of our global activities in the respective product Group teams. Furthermore, the integration and availability of purchasing for customer and development projects was improved by the organizational change.

Global responsibility for purchasing and logistics was brought under one management as part of the gradual reorientation toward new business areas and improved internal corporate management.

The newly formed "Purchasing and Supply Chain Management" division forms the basis for uniform and efficient processes in the supply chain, coordinated with the objectives of purchasing and production. A key objective here is the constantly available and strictly customer-oriented offer with, at the same time, the lowest possible capital commitment.

The rapidly increasing digitalization and technologies around the topic of IoT/Industry 4.0 will lead to an increase in transparency, speed and risk minimization in the supply chain. In this context, MANN + HUMMEL has formulated corresponding projects and activities, which are now being implemented.

The 5th MANN+HUMMEL Global Supplier Event was also held last year in the context of digitalization of the supply chain. Under the motto "**Intelligently connected – ready. set. go**.," 61 suppliers from 16 countries were invited to our technology center at the head office in Ludwigsburg. Seven select suppliers were given awards for their special services and cooperation. In addition, MANN+HUMMEL again presented the "Supplier Innovation Award" for the strong innovative power of a supplier.

In the future, the digital integration of internal and external processes across the different stages of the value added chain through to all partners in the ecosystem will be a key factor for success, to which all parties involved must contribute.

# Information technology

›› Successful introduction of the IT-supported project portfolio
›› Lean administration approach allows for process improvement
›› Digitalization offers new opportunities and possibilities for process optimization

In information technology, the focus remains on sustainable business IT alignment (i.e. ongoing mutual business unit and IT coordination at the strategic, tactical, and operational levels). The basis for this is effective business relationship management. To prioritize and manage our IT projects and planned changes, we have successfully introduced an IT-supported project portfolio. This tool is used to record and evaluate all project ideas and to manage current projects. A lean administration approach was selected and introduced to improve operational project management in process support.

The trend toward cloud-based applications and services is continuing. This is evident in the growing number of systems being requested and introduced. For example, the communication and collaboration between locations has gradually begun to convert to a cloud-based solution.

The SAP product portfolio serves as the company-wide basis for MANN+HUMMEL processes. The definition of an SAP template for production locations was completed to further standardize processes within the company. The SAP template for trading companies that was already created was rolled out further. Several ERP and module roll-outs were also implemented worldwide in the year under review. The content of the SAP strategy was reworked and updated with specific implementation scenarios for SAP ERP on HANA and SAP S/4HANA.

Continuing digitalization is also opening up new opportunities and possibilities for MANN+HUMMEL. The areas of activity are digital business models and products, Industry 4.0, 3D printing, and process digitalization. Various projects were carried out in these areas to validate the application possibilities of the respective technologies. For example, the sensor technology of the fine dust eater was provided with cloud technology and an analysis interface was provided in the cloud.

Information security is also an important focal point and will remain so. A number of internal and external checks and audits were carried out during the fiscal year to continuously improve our processes and to ensure that the expectations of our customers are exceeded with regard to information security. In this context, an increasing amount of effort is being spent on checking cloud-based solutions.

# Opportunities and risk report

›› Global economic situation characterized by unsteady markets and structural risks
›› Introduction of treasury reporting to minimize risk
›› Opportunities with respect to synergy effects and new market access through the various acquisitions
›› Issue of a green note to finance ecological projects
›› Continuous, iterative process for the early minimization of risks and the identification of opportunities
›› The worldwide digital networking of the MANN+HUMMEL Group as the basis of global presence

## General boundary conditions

The global economic situation is characterized by unsteady markets and structural risks. As a globally operating company, we counter these risks through diversification and also by continuously improving our processes and products.

Improving our competitive edge also yields opportunities. MANN+HUMMEL achieves this through the continuous development of its products, the expansion of its development expertise and the establishment and expansion of new locations. In addition, new and future-looking products are being developed, such as within the context of the "Fine dust eater" project.

We also see additional opportunities with respect to synergy effects and new market access through the various acquisitions that we have made in recent years.

In the course of political discussions about the so-called e-mobility, various opportunities as well as risks have resulted for MANN+HUMMEL. The Group must prepare for these developments through various scenarios and precautions.

In addition, we are exposed to considerable uncertainty with developments in the US associated with the possible introduction of punitive tariffs on products from the European Economic Area. However, this can currently only be assessed to a very limited extent for us due to the ongoing negotiations.

## Risk management

MANN+HUMMEL's business policy thus aims to recognize the potential, but also the negative effects, of current and future developments at an early stage, to evaluate these, and to assess their consequences. There is a permanent monitoring for this purpose and quickly implementable action plans that are derived from this. We report to the company owner and the Supervisory Board regularly in this regard. All risk management measures are supported by a company-wide planning, reporting and controlling system. Risks are classified according to two criteria: the probability of occurrence and the extent of the risk. Overall, the risk structure has not changed significantly compared to the previous year.

In terms of probability of occurrence, five categories were identified: very unlikely (<30 percent probability), unlikely (>30–50 percent probability), possible (>50–70 percent probability), probable (>70–90 percent probability) and very likely (<90 percent probability).

The extent of the risk was divided into three categories and classified on the basis of possible effects on the operating result within three years: significant (threatening the existence of the company, possible costs in excess of EUR 100 million), high (discernible effect on business activity, possible costs between EUR 50 and 99 million), and low risk (possible costs between EUR 20 and 49 million).

## Financial risks

For the MANN+HUMMEL Group, exchange rate and interest rate risks are of significance. Exchange rate risks are continuously monitored and evaluated and, if necessary, hedged using derivative financial instruments. Derivative financial instruments are used exclusively to cover underlying transactions resulting from the operating activity of the Group. As high a proportion as possible of financial liabilities with long-term fixed interest rates account for the interest rate risk.

The MANN+HUMMEL Group Treasury department assumes responsibility for limiting financing and liquidity risks. There is a risk of higher interest expenses for future loans due to the existing dependence on external financing. In the short to medium term, we do not currently expect any interest rate adjustment risk on the market side, even if there are initial signs of the market suggesting an end to the low interest rate policy by the European Central Bank.

In 2017, we introduced a new treasury reporting with the aim of reducing the risk of default by our financial partners. Ratings and also key financial indicators are regularly monitored and audited in this context.

MANN+HUMMEL has also issued a green note, thereby taking on a pioneering role in Germany. The financing of environmental projects plays an important role for us.

As part of a project already started in 2016, the Treasury department was substantially realigned with growth targets as well as the global environment in accordance with the strategic direction of the company. The areas of cash management, risk management, corporate finance, asset management, and bank selection were revised on the basis of the basic principles of liquidity protection, financial independence, and uniform processes and systems. As a linking element, all parameters were validated with respect to their effect on risk limits, key financial indicators, and ratings, which resulted in an integrated system. The company is constantly working on the continued optimization in this area.

Our risks in this area are low thanks to solid financing, a stable liquidity position, and sufficient reserve liquidity. The consistent monitoring of liquid funds is an effective risk minimization tool. Receivables, liabilities and inventories are continuously monitored and necessary measures for risk avoidance are implemented at short notice.

Cash flow as well as sales and earnings are being optimized further and the tied-up current assets continuously monitored and adapted.

## Operating opportunities and risks

### Market environment

MANN+HUMMEL is countering a weakening/decline in economic development in relevant markets with predefined scenarios. The company is using these scenarios to draw up measures for compensation. The cost level can thus, for the most part, be adapted to falling sales to prevent even greater negative erosion of profits. This reduces the significant risks to an acceptable level. The continuing high dependence on the automotive segment that has evolved over the years also entails risks. The company is experiencing particularly intense cost pressure in production as a Tier 1 supplier. This is partly due to the advance of alternative drives and concerns with regard to the end of the combustion engine. MANN+HUMMEL is also applying its core competencies to new sectors through diversification measures.

In the digital age, change and transformation are faster and more far-reaching than ever before. This is equally challenging for individuals, for MANN+HUMMEL as a company, and for our employees.

Alternative transport solutions, digital transformation, and growing requirements for sustainable business are presenting us with new challenges while at the same time opening up enormous opportunities. Filtration separates harmful from useful substances. It is a key technology for the basic requirements of clean air and clean water. Filtration has been our core competency for over 75 years and will remain a decisive competitive advantage into the future.

With one of our latest product Groups – Our Air – for example, we are developing new markets that give us opportunities in the promising segment of indoor air filtration.

## Purchasing

In the procurement markets, the particular risks are those associated with the prices of raw materials and other materials. Through long-term contracts, a selection of strategic, globally positioned suppliers, and the monitoring of exchange rates, we are attempting to compensate for these cost increases to the maximum possible extent. This significantly reduces risks and minimizes them through global purchasing activities and meaningful purchasing controlling.

## Quality

Product quality and customer satisfaction are key corporate goals for the MANN+HUMMEL Group.

Consequently, occurring quality problems and the potential ensuing warranty claims would represent a significant risk with impacts on the reputation and financial situation of the company.

To counter this, high quality standards are generally applied throughout production at all of the plants. We utilize the greatest opportunity to minimize errors through balanced and conscientious planning.

Moreover, a warranty team works closely with the customers and production plants to ensure the quality of the products and a swift response in the event of warranty claims.

Appropriate financial provisions are set aside to cover warranty risks. Furthermore, relevant insurance cover is available for possible damages owing to call-backs and for product liability claims.

Nonetheless, we regard the quality of our products as an opportunity because it can provide a decisive competitive edge with respect to other manufacturers.

## Information technology

The worldwide digital networking of the organization forms the basis of the MANN+HUMMEL Group's global presence. Fast and secure data provides opportunities for the ongoing optimization of processes and improvements in our cooperation with customers and suppliers. The permanent availability of secure data places high demands on information technology. To rule out the high risks posed by interruptions to the data supply, there is a further data center in Ludwigsburg, in addition to the primary one. With the annual "Data Center" emergency drill, MANN+HUMMEL ensures that the emergency measures are effective in the event of an incident and that the existing risks are minimized as much as possible.

## Other risks

### Fraud and breach of code of conduct

Increasingly, investigations by the antitrust authorities are underway in many countries. This can result in penalties due to competition law infringements or other unlawful conduct. In our company guidelines and the Code of Conduct, we regulate the correct procedure with respect to antitrust issues, export control, corruption, and other violations of the law. Through ongoing training, all employees worldwide are made aware of these topics and the risk is reduced.

### Economic performance risks

Damage due to operational interruptions – damage to and loss of tangible assets, natural disasters, terrorist activities or other disruptions in the production facilities or within the supply chain of MANN+HUMMEL – whether at customers or suppliers – can cause significant damage and losses. To limit these risks, MANN+HUMMEL has taken out insurance cover at a level appropriate from a commercial perspective.

### Taxes

As an international Group, MANN+HUMMEL operates in a large number of different country-specific tax systems. This represents a high level of complexity within the MANN+HUMMEL Group. We ensure compliance with local tax regulations through the additional appointment of local tax consultants at the individual subsidiaries. In addition, the Group is optimizing its Group-wide internal tax control systems, for example in the area of indirect taxation and cross-border relations. The optimization of tax processes and the adjustment of ongoing controls form a key element in the early detection and reduction of potential tax risks. Group-wide established guidelines, for example on the transfer pricing system, are constantly updated and the employees worldwide are informed. In addition, in the area of transfer pricing documentation, the Group is pursuing a Group-wide approach in order to meet the increased requirements of the tax authorities worldwide.

### Inadequate filtration performance

We are constantly working on high-quality solutions for our customers. Reliability is an important aspect in this context. In our air filtration and water filtration segments, for example, there is a rare risk of contamination of the end product in medical clean air rooms, such as operating rooms, or water or whey filtration due to inadequate filtration performance. However, thanks to continuous improvement and control mechanisms as well as insurance, we view the risk for people and the environment as well as any financial compensation claims for MANN+HUMMEL as low.

### Default by key customers

As a Tier 1 Supplier and in the aftermarket business, MANN+HUMMEL has always focused on long-term cooperation with its customers.

If one of our major customers were to default, this would in all likelihood hamper the development of MANN+HUMMEL, but would not jeopardize the company's future. Even though we may not have any cause for concern at present, a small risk remains entirely possible. We can reduce such dependencies by means of our diversification strategies and the broad range of products on many filtration markets.

## Overall statement regarding the opportunity and risk situation

MANN+HUMMEL continuously monitors and assesses opportunities and risks in an iterative process to minimize risks and identify opportunities at an early stage. No risks that could jeopardize the future of the Group can be identified at present.

# Forecast report

›› Realignment of the business units in order to better respond to specific customer requirements
›› Moderate growth expected

For the German automotive industry, the German Association of the Automotive Industry is forecasting growth of around 4 percent for 2018.

Similar growth is expected in the USA and in Europe as in 2017, while a slight recovery is forecast for Brazil and Russia. Following a successful fourth quarter of 2017 in China, growth of 6.4 percent is expected for full-year 2018.

Mechanical engineering will continue to grow in 2018. But unlike in previous ups and downs, 2018 is unlikely to surpass last year's growth.

In the Automotive Aftermarket business unit, we are expecting a slight increase in sales compared to the previous year. In the Automotive Original Equipment and Industrial Filtration business unit, we anticipate a slight decline in sales compared with the previous year.

The liquidity situation at MANN+HUMMEL remains solid. There are contingency plans in place for the event of short-term market changes or the effects of a returning financial crisis.

For the fiscal year 2018, we are expecting a slight increase in the number of employees for MANN+HUMMEL Group compared to the previous year. From today's perspective, we are expecting operating EBIT to improve compared to 2017. Overall, we expect mid-single-digit sales growth in the 2018 fiscal year and also an associated positive margin development. The operating margin will thus also be in the mid-single-digit percentage range. With the positive earnings development and, in addition, an improvement in capital structures, we are also expecting ROCE to increase in the mid-single-digit range in 2018.

A realignment of the business units was developed over 2017, which will come into force in the 2018 fiscal year to better meet specific customer requirements in the various market segments in the future and to simplify decision-making and control processes. The existing business units and their activities will be divided into Transportation and Life Sciences & Environment in the future. As a result, the former Automotive and Industry business sectors and the aftermarket business will be merged in the Transportation division. The Life Sciences & Environment division includes the fields of Intelligent Air Solutions, Water Solutions and Corporate Ventures.

Despite the global economic and political challenges, MANN+HUMMEL is optimistic about the future – sustainable growth and a focus on filtration know-how have created a solid foundation for the company to continue its success story, also in new markets.

Ludwigsburg, April 12, 2018

MANN+HUMMEL International GmbH & Co. KG
The Management Board

**Emese Weissenbacher** **Hansjörg Herrmann**

**Kai Knickmann** **Josef Parzhuber**

# MANN+HUMMEL
# Consolidated financial statements IFRS[1]



1 All figures are rounded. This may lead to minor discrepancies when totaling sums and when determining percentages.

# Consolidated profit and loss statement January 1 to December 31, 2017

| in million EUR | Note | 2017 | 2016 |
|---|---|---|---|
| Sales | (10) | 3,892.1 | 3,479.8 |
| Cost of sales | (11) | 2,960.0 | 2,674.3 |
| **Gross margin on sales** | | **932.1** | **805.5** |
| Research and development costs | (11) | 133.0 | 126.0 |
| Selling expenses | (11) | 399.7 | 374.4 |
| General administrative expenses | (11) | 164.1 | 150.6 |
| Other operating income | (12) | 35.4 | 31.8 |
| Other operating expenses | (13) | 85.6 | 70.6 |
| **Operating profit or loss (EBIT)** | | **185.1** | **115.7** |
| Share of result of associated companies | | 0.4 | 0.5 |
| Financial expenses | (14) | 91.4 | 142.5 |
| Financial income | (14) | 33.6 | 99.0 |
| **Net financial result** | | **– 57.4** | **– 43.0** |
| **Net profit or loss before income tax and changes in capital economically attributable to the shareholders** | | **127.7** | **72.7** |
| Income taxes | (15) | 25.5 | 68.1 |
| Changes in capital economically attributable to the shareholders | | 85.3 | – 2.4 |
| **Consolidated net income** | | **16.9** | **7.0** |
| Result attributable to non-controlling interests | | 16.9 | 7.0 |

# Consolidated statement of comprehensive income January 1 to December 31, 2017

| in million EUR | 2017 | 2016 |
|---|---|---|
| **Consolidated net income** | **16.9** | **7.0** |
| thereof attributable to non-controlling interests | 16.9 | 7.0 |
| **Items that may be reclassified to profit/loss** | | |
| Exchange rate differences from the conversion of foreign business operations | | |
| Exchange rate differences occurring during the fiscal year | – 45.9 | – 31.2 |
| Financial assets held for sale | | |
| Changes in fair value of financial assets held for sale | 4.7 | – 1.9 |
| Reclassifcations to profit and loss | 0.0 | 1.6 |
| Cashflow hedge (Currency hedging) | | |
| Gains/losses recorded during the fiscal year | – 0.1 | – 23.2 |
| Income taxes attributable to these components | – 2.0 | 8.6 |
| | | |
| **Items that will not be reclassified to profit/loss** | | |
| Revaluation of defined benefit obligations and similar commitments | 3.8 | – 35.0 |
| Income taxes attributable to these components | – 1.5 | 9.6 |
| | | |
| Change of the other income attributable to shareholders | 35.9 | 58.0 |
| **Other comprehensive income** | **– 5.1** | **– 13.5** |
| | | |
| **Total consolidated comprehensive income** | **11.8** | **– 6.5** |
| thereof attributable to non-controlling interests | 11.8 | – 6.5 |

# Consolidated balance sheet as at December 31, 2017

## Assets

| in million EUR | Note | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | (17) | 1.039.6 | 1.129.4 |
| Tangible assets | (19) | 934.9 | 929.1 |
| Investments in associates | (20) | 3.0 | 3.0 |
| Trade receivables | (24) | 0.7 | 1.0 |
| Financial assets | (21) | 33.2 | 27.4 |
| Income tax receivables | | 0.4 | 0.3 |
| Other assets | (22) | 6.1 | 5.0 |
| Deferred tax assets | (15) | 87.6 | 170.6 |
| | | **2,105.5** | **2,265.8** |
| **Current assets** | | | |
| Inventories | (23) | 500.9 | 483.1 |
| Trade receivables | (24) | 596.0 | 585.0 |
| Financial assets | (25) | 300.2 | 238.4 |
| Income tax receivables | | 21.1 | 17.3 |
| Other assets | (22) | 69.8 | 65.4 |
| Cash | | 327.9 | 394.3 |
| | | **1,815.9** | **1,783.5** |
| | | **3,921.4** | **4,049.3** |

## Liabilities

| in million EUR | Note | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| **Shareholder's equity** | | | |
| Non-controlling interests | (26) | 176.2 | 165.9 |
| | | **176.2** | **165.9** |
| **Non-current liabilities** | | | |
| Capital economically attributable to the shareholders | (26) | 762.7 | 714.0 |
| Other non-current liabilities | | | |
| Financial liabilities | (28) | 1.365.6 | 1.536.3 |
| Provisions for pensions | (31) | 452.2 | 452.0 |
| Other provisions | (30) | 33.7 | 36.4 |
| Trade payables | | 0.1 | 0.1 |
| Other liabilities | (29) | 3.3 | 6.0 |
| Income tax liabilities | | 3.1 | 1.0 |
| Deferred tax liabilities | (15) | 59.7 | 156.0 |
| | | **2,680.4** | **2,901.8** |
| **Current liabilities** | | | |
| Financial liabilities | (28) | 209.1 | 166.2 |
| Trade payables | | 552.0 | 484.7 |
| Other liabilities | (29) | 179.9 | 164.2 |
| Other provisions | (30) | 94.3 | 86.5 |
| Income tax liabilities | | 29.5 | 80.0 |
| | | **1,064.8** | **981.6** |
| | | **3,921.4** | **4,049.3** |

# Consolidated cash flow statement
## January 1 to December 31, 2017

| in million EUR | Note | 2017 | 2016 |
|---|---|---|---|
| **1. Cash flow from operating activities** | | | |
| **Consolidated net income** | | 16.9 | 7.0 |
| **Changes in capital economically attributable to the shareholders** | | 85.3 | – 2.4 |
| Income taxes | | 25.5 | 68.1 |
| Net profit or loss before income tax and changes in capital economically attributable to the shareholders | | **127.7** | **72.7** |
| Paid (-)/refunded (+) taxes on income | | – 122.5 | – 56.8 |
| Depreciation (+) of fixed assets | | 200.8 | 219.1 |
| Increase (+)/reduction (–) in long-term provisions | | 4.4 | – 6.3 |
| Other expenditure (+)/income (–) not affecting payments | | 50.9 | 9.4 |
| Increase (+)/reduction (–) in short-term provisions | | 10.8 | – 1.1 |
| Profit (–)/loss (+) from disposal of assets | | 4.6 | 4.8 |
| Increase (–)/reduction (+) in inventories, trade debtors and other assets | | – 119.9 | 4.6 |
| Increase (+)/reduction (–) in trade creditors and other liabilities | | 171.8 | 19.4 |
| Cash flow from operating activities | (32) | **328.6** | **265.8** |
| **2. Cash flow from investment activities** | | | |
| Receipts (+) from the disposal of tangible assets | | 9.5 | 8.4 |
| Payments (–) for investment in tangible assets | | – 160.6 | – 145.8 |
| Receipts (+) from the disposal of intangible assets | | 0.1 | 0.1 |
| Payments (–) for investment in intangible assets | | – 6.1 | – 4.3 |
| Receipts (+) from the disposal of non-current financial assets | | 0.2 | 0.0 |
| Payments (–) for investment in non-current financial assets | | – 3.8 | – 2.1 |
| Payments (-) for the acquisition of consolidated companies, less cash and cash equivalents acquired | | – 16.9 | – 507.8 |
| Receipts (+) from loans granted | | 0.0 | 0.0 |
| Payments (-) for loans granted | | – 0.5 | – 1.5 |
| Interest received (+) | | 13.4 | 10.8 |
| Cash flow from investment activities | (32) | **– 164.7** | **– 642.2** |
| **Free cash flow** | | **163.9** | **– 376.4** |

| in million EUR | Note | 2017 | 2016 |
|---|---|---|---|
| **3. Cash flow from financial activities** | | | |
| Receipts (+) from equity increases | | 0.0 | 0.1 |
| Payments (–) to company shareholders | | – 6.2 | – 6.2 |
| Receipts (+) from acceptance of (financial) credits and sale of monetary financial assets | | 411.9 | 26.6 |
| Repayment (–) of (financial) credits and payments to acquire monetary financial assets | | – 569.1 | – 802.6 |
| Interest paid (-) | | – 56.9 | – 68.3 |
| Cash flow from financial activities | (32) | **– 220.3** | **– 850.4** |
| | | | |
| **4. Cash funds at end of period** | | | |
| Payment-effective change to cash funds (subtotal 1-3) | | – 56.4 | – 1.226.8 |
| Changes in cash funds from currency translations, related to valuation and to the consolidated Group | | – 10.0 | 3.4 |
| Cash funds at the beginning of period | | 394.3 | 1.617.7 |
| Cash funds at end of period | | **327.9** | **394.3** |
| | | | |
| **5. Composition of cash funds** | | | |
| Cash | (32) | 327.9 | 394.3 |
| Cash funds at end of period | | **327.9** | **394.3** |

# Consolidated changes in equity
## January 1 to December 31, 2017

| | Parent Company | | | |
|---|---|---|---|---|
| | Capital stock/ subscribed capital | Capital reserves | Revenue reserves | Total other shareholders' equity |
| | | | | Available for sale financial assets |
| in million EUR | | | | |
| **As at 1/1/2016** | **92.7** | **83.5** | **781.4** | **1.7** |
| Reclassification to borrowed capital due to the reorganization of the Group structure | −92.7 | −83.5 | −781.4 | −1.7 |
| Change to the capital economically attributable to the shareholders | | | −2.4 | 0.0 |
| Reclassification to borrowed capital | | | 2.4 | 0.0 |
| Other income | | | | |
| Consolidated net income | | | | 0.0 |
| Consolidated net income | 0.0 | 0.0 | 0.0 | 0.0 |
| Paid dividends | | | | |
| Changes to the consolidated Group | | | | |
| **As at 12/31/2016** | **0.0** | **0.0** | **0.0** | **0.0** |
| | | | | |
| Change to the capital economically attributable to the shareholders | | | 83.6 | 2.2 |
| Reclassification to borrowed capital | | | −83.6 | −2.2 |
| Other income | | | | |
| Consolidated net income | | | | |
| Consolidated net income | | | | |
| Dividends paid | | | | |
| Changes to the consolidated Group | | | | |
| **As at 12/31/2017** | | | | |

| | | | Parent Company | Non-controlling interests | Total Equity |
|---|---|---|---|---|---|
| Total other shareholders' equity | | | Total equity of the Partners of M+H International GmbH & Co. KG | | Total |
| Fair value measurement of cash flow hedges | Acturial gains and losses | Difference from foreign currency translation | | | |
| **19.8** | **–45.1** | **–2.1** | **931.8** | **16.6** | **948.4** |
| –19.8 | 45.1 | 2.1 | –931.8 | 157.0 | –774.8 |
| –12.1 | –21.5 | –24.4 | –60.4 | 0.0 | –60.4 |
| 12.1 | 21.5 | 24.4 | 60.4 | 0.0 | 60.4 |
| | | | | –13.5 | –13.5 |
| 0.0 | 0.0 | 0.0 | 0.0 | 7.0 | 7.0 |
| 0.0 | 0.0 | 0.0 | 0.0 | –6.5 | –6.5 |
| | | | | –1.1 | –1.1 |
| | | | | –0.1 | –0.1 |
| **0.0** | **0.0** | **0.0** | **0.0** | **165.9** | **165.9** |
| | | | | | |
| | 2.0 | –40.0 | 47.8 | | 47.8 |
| | –2.0 | 40.0 | –47.8 | | –47.8 |
| | | | | –5.1 | –5.1 |
| | | | | 16.9 | 16.9 |
| | | | | 11.8 | 11.8 |
| | | | | –1.1 | –1.1 |
| | | | | –0.4 | –0.4 |
| | | | | **176.2** | **176.2** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS of MANN+HUMMEL International GmbH & Co. KG 2017

## Fundamental Principles

### 1. Corporate structure

MANN+HUMMEL International GmbH & Co. KG (hereinafter also referred to as “company”, “parent” or “MH International Holding”) has the legal form of a partnership. The company is based in 71636 Ludwigsburg, Germany, Schwieberdinger Straße 126 and is registered under commercial register number HRA 730217 in the commercial register of the Stuttgart district court. The company has been the highest-level parent of the MANN+HUMMEL Group (hereinafter also “Group” or “MANN+HUMMEL Group”) since January 1, 2016.

The MANN+HUMMEL Group is a leading global expert for filtration solutions and development partner and original equipment supplier to the international automotive and mechanical engineering industries. The MANN+HUMMEL Group is divided into five Business Units: Automotive Original Equipment, Automotive Aftermarket, Industrial Filtration, Water Filtration, and Wix-Filtron. It mainly develops and distributes air, oil, fuel, and cabin air filters as well as filter systems for the automotive original equipment and aftermarket business. Applications for ambient and process air filtration for industry as well as membrane filters for water filtration round off the portfolio.

The MANN+HUMMEL Group is represented at more than 80 locations on five continents. The MANN+HUMMEL Group is active worldwide in all markets in the automotive and industrial sector and is mainly active in Asia, Europe, and South America in the water filtration area.

### 2. General Information

The items in the consolidated profit and loss statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement and the consolidated statement of changes in equity are listed or explained in the notes to the consolidated financial statements.

The Group currency is the euro. Unless noted otherwise, all amounts are stated in millions of euros (EUR million).

The Management Board of the company approved the consolidated financial statements for referral to the Supervisory Board on April 12, 2018.

The consolidated financial statements prepared as at December 31, 2017 and the Group status report are announced in the Federal Gazette.

The consolidated balance sheet is structured in accordance with terms. Balance sheet items are broken down into current assets or liabilities if they have a remaining term of more than one or up to one year.

Assets and debts belonging to a disposal Group that is classified as held for sale or assets held for sale are reported separately from the other assets and debts in the balance sheet.

The assets and debts are recognized in accordance with the historical cost convention. Excluded from this are derivative financial instruments, securities and holdings in companies that were recognized at fair value, if it can be reliably determined.

### 3. Application of IFRS

As a non-publicly listed company, the business uses the option under Section 315e(3) HGB (German Commercial Code) to prepare the consolidated financial statements in accordance with the IFRS.

The consolidated financial statements are consistent with the standards and interpretations of the International Accounting Standards Board (IASB), London, valid at the end of the reporting and as applicable in the European Union (IFRS) and additionally in accordance with the commercial law regulations applicable under Section 315e(1) HGB.

## 4. New IFRS standards

The following accounting standards published by IASB are not yet to be applied as mandatory and will also not be applied prematurely:

- **IFRS 9 Financial instruments** will replace the accounting and measurement of financial instruments in accordance with IAS 39. IFRS 9 includes new regulations on the classification and measurement of financial assets and financial liabilities, and replaces the previous IAS 39. According to the new IFRS 9 regulations, there are only three classification categories for financial assets. According to these, the financial assets are either accounted for as financial liabilities at cost or as fair value through other comprehensive income (FVOCI) or through profit or loss (FVTPL), under consideration of the business model and the properties of their cash flow. In contrast to the currently valid regulations, all shareholders equity instruments must fundamentally be accounted for as fair value through profit or loss, or through other comprehensive income. Where value changes are recognized as fair value through other comprehensive income, these will no longer be reclassified in the consolidated profit and loss statement. Possible effects can therefore result from more strongly fluctuating balance sheet values as well as fluctuations in the consolidated profit and loss statement. In terms of the classification and measurement of financial liabilities, the previous IAS 39 regulations have largely been adopted. IFRS 9 also contains new regulations on the impairment of financial instruments. Effects primarily arise from the fact that the new regulations for the recognition of impairments also include expected future losses, while IAS 39 only makes provisions for the recognition of impairments which have already occurred. In the MANN+HUMMEL Group, trade receivables in particular are affected by these provisions. According to IFRS 9, it must also be ensured that the balance-sheet representation of hedging relationships is consistent with the credit risk management objectives and strategies. All types of hedging relationship accounting used by the MANN+HUMMEL Group satisfy the requirements of IFRS 9. The MANN+HUMMEL Group will introduce and implement the modified retrospective method for the first time in the fiscal year beginning on January 1, 2018, according to which the possible cumulative effect from the initial implementation will be recognized in the revenue reserves. Earlier years will not be adapted in this context. Based on the analyses conducted to date regarding the effects of implementation of IFRS on the consolidated financial statements, no significant effects in the area of classification and measurement of the impairments or of the representation of hedging effects on the income, financial and net asset position are to be expected as a result of the transition to IFRS 9.

- **IFRS 15 "IFRS 15 Revenue from contracts with customers"** replaces the previously applicable IAS 11 "Construction contracts" and IAS 18 "Sales" from January 1, 2018. According to IFRS 15, the sales of goods or services transferred to the customer are realized with the amount that corresponds to the return service that the company will probably receive for the goods delivered or services provided. According to IFRS 15, sales are realized when the customer receives the power to dispose of the goods or services. Moreover, IFRS 15 contains requirements for recognizing the service surpluses and liabilities, i.e. for assets and debts, originating under agreements with customers that result in the service provided by companies or the payment of the customer. IFRS 15 requires additional information in the notes on the type, amount, time and uncertainties of sales and cash flows.

  In the 2017 fiscal year, MANN+HUMMEL conducted an impact analysis on the effects of IFRS 15 on the individual business units of the MANN+HUMMEL Group. For this purpose, the most significant business models were analyzed for each business unit. Based on the results of the impact analysis, the most significant influence of IFRS 15 is expected in the area of series production. Depending on the contractual arrangements, a separation of benefit obligations and, as a result, an allocation of the transaction price in the context of the activities upstream of series production may ensue. This leads to a bringing forward of sales and to a shift from series sales to sales from development orders and tools. Moreover, a shift to a periodic sales realization may result for certain goods and services.

  Above and beyond the aspects described above, MANN+HUMMEL expects changes in the balance sheet disclosure, particularly with the separate items for contractual assets and contractual liabilities required by IFRS 15. Furthermore, additional quantitative and qualitative notes will be required.

  Based on the results of the impact analysis, no significant effect results overall from implementation of IFRS 15 for the MANN+HUMMEL Group in relation to the total Group sales; no change to the recognized total sales amount for a customer contract is expected, in isolated cases, however, a time shift with regard to sales may occur. The implementation of IFRS 15 will take place from January 1, 2018. As a transitional method, the effects of the initial implementation of IFRS 15 from January 1, 2018 onwards will be represented as a cumulative effect in the opening balance sheet with regard to contracts not concluded at the time. Recourse will be made to the practical actions for facilitating the transition to IFRS 15 according to the modified retrospective method.

- **IFRS 16 Leases** will include regulations on the balance sheet recognition of lease agreements and replace IAS 17 and the associated interpretations of IFRIC 4, SIC 15 and SIC 27. As regards the lessee, IFRS 16 specifies a single accounting method. For the lessee, this results in all assets for the usage rights obtained and liabilities, which originate from leasing agreements, having to be recognized in the balance sheet. An exception only applies for short-term leasing agreements with a term of maximum 12 months and for minor assets. For the lessor, however, finance and operate leases are distinguished, as in the past. IFRS 16 also contains new regulations on the disclosure and information in the notes and on sale and lease-back transactions. The time of the first application of IFRS 16 is January 1, 2019. Advance application is permissible, provided the regulations for revenue realization according to IFRS 15 are taken into account. The mandatory recognition of usage rights to the leased property and a corresponding lease liability for most leases will impact on the total assets. We are currently verifying what effects IFRS 16 will have on the consolidated financial statements.

The other amended standards published and not yet adopted by the EU will probably not have any major impact on the net assets, financial position or results of operations of the MANN+HUMMEL Group. If these standards are accepted by the EU, which will only become mandatory in later fiscal years, no early application of these standards is planned.

## 5. Consolidated Group

Within the framework of the rearrangement of the corporate structure, MANN+HUMMEL International GmbH & Co. KG was established on January 1, 2016 as the managing holding company. It holds 83.3% of the shares in MANN+HUMMEL HOLDING GMBH and, as the highest level parent company, will prepare the consolidated financial statements for the MANN+HUMMEL Group as of fiscal year 2016.

Included in the consolidated financial statements were, in addition to the parent, 21 domestic and 74 foreign subsidiaries. The consolidated Group includes, in addition to the parent, all domestic and foreign companies that the parent company controls directly or indirectly or on which it has a major influence. Subsidiaries are companies where the parent company controls the business and financial policies thanks to the actual or constructive majority of votes in order to benefit from its activities, and meaning that it has the possibility to control. In addition, the parent company is exposed to fluctuating returns from its investments in holdings and has the ability to influence the returns. Associated companies are businesses where the parent company has a major influence on the business and financial policies, but which are neither subsidiaries nor joint ventures.

| | 1/1/2017 | First-time consolidations | Legal changes | Deconsoli-dations | 12/31/2017 |
|---|---|---|---|---|---|
| Subsidiaries | 92 | 6 | −2 | −1 | 95 |
| of which in Germany | 21 | 0 | 0 | 0 | 21 |
| of which abroad | 71 | 6 | −2 | −1 | 74 |
| Associates | 1 | 0 | 0 | 0 | 1 |

| | 1/1/2016 | First-time consolidations | Legal changes | Deconsoli-dations | 12/31/2016 |
|---|---|---|---|---|---|
| Subsidiaries | 64 | 34 | −4 | −2 | 92 |
| of which in Germany | 14 | 6 | 1 | 0 | 21 |
| of which abroad | 50 | 28 | −5 | −2 | 71 |
| Associates | 1 | 0 | 0 | 0 | 1 |

## Changes to the consolidated Group

In the current fiscal year, MANN+HUMMEL Filtration Technology Russia LLC, Moscow/Russian Federation, was deconsolidated. The deconsolidation losses amounted to EUR 0.2 million.

Furthermore, the following companies dropped out of the consolidated Group through merger:

| in % | Equity interest |
|---|---|
| MANN + HUMMEL Vokes Air S.r.L, Pioltello / Italy | 83.3 |
| MANN + HUMMEL, Vokes Air SL, Premià de Dalt Barcelona / Spain | 83.3 |

## Company acquisitions

With effect from June 30, 2017, 100% of the Jack Filter Group, Steindorf, Austria (Jack Filter) was acquired.

With the takeover of Jack Filter, MANN+HUMMEL has expanded its product range, primarily in the area of HEPA filters (HEPA = High Efficiency Particulate Air filter). The acquired companies specialize in the manufacture and sale of air filters for ventilation, air conditioning and cleanroom technology. The competencies and client relationships of Jack Filter and the MANN+HUMMEL Group are complementary. In the area of cleanroom technology, Jack Filter focuses on the development of new products for the pharmaceutical, semiconductor, and food industries, as well as for the medical technology sector. The main areas of application for the ventilation and air conditioning technology are the automotive industry, office buildings and hotels, schools and shopping malls. With the takeover, the MANN+HUMMEL Group now enjoys better access to the additional HVAC market segments (HVAC = Heating, Ventilation and Air Conditioning) and has at its disposal two state-of-the art production facilities in Austria and Hungary.

In addition to the acquired goodwill amounting to EUR 10.4 million, net assets of EUR 7.2 million were acquired. This includes the disclosure of hidden reserves of EUR 6.2 million, which essentially include the takeover of the existing customer base.

In fiscal year 2017, the following companies were included in the consolidated financial statements for the first time due to the acquisition of Jack Filter.

| in % | Equity interest |
|---|---|
| Jack Filter Lufttechnik GmbH / Steindorf, Austria | 83.3 |
| Jack Filter Hungaria Kft. / Polgárdi, Hungary | 83.3 |
| JFI Service Kft. / Polgárdi, Hungary | 83.3 |

In the 2017 fiscal year, the following companies were included in the consolidated financial statements for the first time; they had previously been, individually and in total, irrelevant for the presentation of the net assets, financial position and results of operations of the MANN+HUMMEL Group:

| in % | Equity interest |
|---|---|
| MANN+HUMMEL COLOMBIA S.A.S., Bogotá, D.C. /Columbia | 83.3 |
| MANN AND HUMMEL INDONESIA, PT., Bekasi/Indonesia | 83.3 |
| MANN AND HUMMEL Filters South Africa (Pty) Ltd., Boksburg/South Africa | 83.3 |

## 6. Principles of consolidation

The capital consolidation is carried out in accordance with the purchase method. The subsidiaries are fully consolidated from the time of purchase, i.e. from the time of the parent company obtaining a controlling influence. The inclusion in the consolidated financial statements ends as soon as the parent loses its controlling influence. At the time of obtaining control, the newly measured assets and liabilities of the subsidiary as well as contingent liabilities, unless dependent on a future event, are offset against the fair value of the return service provided for the shares. Contingent considerations are carried as a liability at fair value.

Subsequent adjustments to contingent considerations are recognized in income. The ancillary costs incurred during the purchase are recognized as an expense at the time of being incurred.

Any debt difference remaining after capital consolidation is capitalized as good will and recognized under the intangible assets. The good will is verified for its value on the balance sheet date within the framework of an impairment test. A verification is carried out during the year if there are indications of an impairment. Negative debt differences arising during capital consolidation are recognized under other income in the consolidated profit and loss statement, unless the new audit of the valuations yields a different result.

If not all shares are purchased during a company acquisition, non-controlling interests can be applied in the amount of the pro rata newly measured net assets or at their total pro rata company value, including the business or company value made up by them. The option can be newly exercised for every company acquisition. Thus far, all non-controlling interests have, in principle, been recognized with the pro rata net assets (partial goodwill approach). In 2016, the non-controlling interests associated with the acquisition of Affinia were nevertheless recognized at the fair value of the interests (full goodwill approach).

In the event of a gradual purchase of shares, the already existing shares in the company to be consolidated are newly measured at the fair value at the time of obtaining control. The difference to the equity holding's carrying amount is recognized in income.

The purchase of additional shares of already pre-consolidated subsidiaries is accounted for as an equity capital transaction. In this process, the difference between the acquisition costs of the shares and the carrying amount of the non-controlling stake is offset against the revenue reserves. The effects of share sales, which do not result in the loss of control of a subsidiary, are recognized directly in equity by offsetting the capital gains or losses against revenue reserves and increasing the non-controlling interests in the amount of the pro rata net assets.

The deconsolidation of subsidiaries takes place at the time of losing control or the time of liquidation. The result of the deconsolidation is recognized in the net financial result. Remaining shares are capitalized at fair value under the shares in investees.

Receivables, liabilities, provisions, sales revenues as well as other income and expenses between the companies included in the consolidated financial statements are consolidated. Interim profits from internal transactions that were not realized from the sale to external third parties are excluded from the calculation. Internal sureties and guarantees are eliminated.

## 7. Foreign currency translation

The conversion of the annual financial statements prepared in foreign currency of the Group companies included is carried out on the basis of the concept of the functional currency using the modified spot rate on reporting date method in EUR. As the subsidiaries conduct their business independently from a financial, economic and organizational perspective, the functional currency is identical to that of the company's relevant national currency as a rule. For that reason, the expenses and income from financial statements of subsidiaries, which are prepared in a foreign currency, are converted in the consolidated financial statements at the annual average rate of exchange, assets and liabilities at spot rate on the reporting date. The currency difference resulting from the conversion of equity at historic rates and the conversion differences resulting from the conversion of the consolidated profit and loss statement at the annual average rate of exchange are recognized in the accumulated other equity without affecting income.

In the individual financial statements, foreign currency receivables and payables are measured on first-time recognition at the rate valid on the transaction date. The balance sheet date rate is used for the subsequent measurement. Currency gains and losses from the due date valuation of the trade receivables and trade payables are recognized in other earnings and expenditure. Currency gains and losses, which are made up of financial assets and liabilities, are recognized in other financial income and financial expenses. The underlying exchange rates for the currency conversion with a major impact on the consolidated financial statements have changed in relation to the euro as follows:

| | Spot rate on reporting date | | Annual average rate of exchange | |
|---|---|---|---|---|
| | 12/31/2017 | 12/31/2016 | 2017 | 2016 |
| Argentine peso [ARS] | 22,44970 | 16,77030 | 19,12617 | 16,54808 |
| Brazilian real [BRL] | 3,96820 | 3,43790 | 3,64937 | 3,80361 |
| Renminbi yuan [CNY] | 7,80340 | 7,30680 | 7,65574 | 7,33724 |
| Czech koruna [CZK] | 25,54000 | 27,02000 | 26,28917 | 27,04250 |
| Pound sterling [GBP] | 0,88713 | 0,85761 | 0,87628 | 0,82270 |
| Indian rupee [INR] | 76,62500 | 71,65500 | 73,80608 | 74,24875 |
| Yen [JPY] | 134,90300 | 123,43650 | 127,29942 | 120,46042 |
| South Korean won [KRW] | 1.279,21000 | 1.269,51000 | 1.275,56000 | 1.279,97000 |
| Mexican peso [MXN] | 23,55620 | 21,60420 | 21,40203 | 20,65788 |
| Russian ruble [RUB] | 68,86680 | 63,81110 | 66,03271 | 73,53854 |
| Singapore dollar [SGD] | 1,60180 | 1,52573 | 1,56127 | 1,52466 |
| Baht [THB] | 39,02725 | 37,56935 | 38,35134 | 38,86700 |
| US dollar [USD] | 1,19914 | 1,05562 | 1,13716 | 1,10387 |

## 8. Accounting policies

The financial statements of the companies included in the consolidated financial statements are prepared as at December 31 of each fiscal year in accordance with accounting policies that are standard across the Group in line with IFRS.

### Realization of expense and income

**Revenues** from sales of products are recognized at the time of the transfer of title and risk to the customer if a price is agreed or determinable and the benefit flow can be assumed. The revenues are recognized less discounts, deductions, customer bonuses and reductions. Earnings from services are recognized in accordance with the degree of completion if the amount of the earnings can be determined and the inflow of the economic benefit from the business can be calculated. The recognition of license agreements is carried out in line with the period in accordance with the provisions of the underlying agreement.

The **cost of sales** includes the cost of making the products and the initial costs of the merchandise sold. In addition to the directly attributable costs for materials and production, they also include the indirect, production-related overheads, including the depreciations on the tangible assets used and amortizations on intangible assets. The costs of the allocated service also contain expenses from the depreciation of inventories on the lower net revenue.

**The research and development costs** that cannot be capitalized are recognized immediately in income.

**Borrowing expenses** that can be attributed directly to the purchase or production of an asset, for which a considerable amount of time is required to put it into the intended usable or sellable status, are capitalized as part of the costs of procurement or production. All other borrowing expenses are immediately recognized as expenditure.

**Interest income** is recognized in income at the time of generation.

**Dividend income** is recognized on the occurrence of the legal entitlement.

## Income taxes

The **actual income tax receivables and income tax liabilities** for the current and previous periods are measured with the sum in whose amount a refund from or a payment to the tax authorities is expected. The calculation of the amount is based on the tax rates and tax laws valid at the time of the balance sheet date.

**Deferred tax assets and liabilities** are formed on temporary differences between the recognition of tax rates and the IFRS carrying amounts. The deferred tax assets also include tax reduction entitlements that result from the expected use of existing loss carryforwards and tax credits in the subsequent years. The deferred taxes are determined on the basis of tax rates that apply according to the current legal situation in the individual countries at the time of realization or are expected with sufficient likelihood.

Deferred tax assets on temporary differences and on tax loss carryforwards are only recognized if there is sufficient likelihood that the resulting tax reductions will actually occur in the future.

The carrying amount of the deferred tax assets is audited on every balance sheet date and reduced to the extent to which it is no longer likely that a sufficient result to be reported for tax purposes will be available against which the deferred tax asset can be utilized at least partially. Non-recognized deferred tax assets are audited on every balance sheet date and recognized to a degree to which it has become likely that a future result to be reported for tax purposes will enable the realization of the deferred tax asset.

Furthermore, no deferred tax assets and liabilities are recognized if they result from the initial recognition of goodwill, an asset or a liability within the framework of a business case, which is a company merger and if this initial recognition influences neither the balance sheet net profit or loss before income tax nor the result to be reported for tax purposes.

Deferred taxes that relate to items that are recognized in equity capital directly are also recognized in equity capital and not in the consolidated profit and loss statement.

Deferred tax assets and deferred tax liabilities are offset against one another if the MANN+HUMMEL Group has a claimable entitlement to offsetting the actual tax rebate claims against actual tax liabilities and these refer to income taxes of the same taxpayer, which are levied by the same tax authority.

## Intangible assets

Acquired and internally generated intangible assets are capitalized if it is likely that a future economic benefit is associated with the use of the asset and the costs of the asset can be determined reliably.

As regards the accounting and measurement of the **goodwill**, reference is made to the explanations of the principles of consolidation and the impairment tests.

The intangible assets, that were identified within the framework of the material company acquisitions, comprise primarily customer relationships and brand names. The fair values of the customer lists/relationships were determined using the residual value method based on corporate planning with a usage period of 6 to 15 years.

**Tooling cost contributions** made to suppliers are recognized if they constitute a right granted by the supplier or a remuneration to be provided for the service of the supplier. Tooling cost contributions received are written off over a period of one to six years.

**Development costs** are capitalized at cost given the requirements of IAS 38 if, in addition to other criteria, the technical feasibility and marketing are ensured. Furthermore, the development activities must generate a future economic benefit with sufficient likelihood. The capitalized development costs include all costs directly attributable to the development process. Capitalized development costs are written off as planned over an expected product lifecycle of five years from the start of production.

**Other intangible assets** are recognized at cost and written off in linear fashion as planned, in application of the following usage periods:

| | **in years** |
|---|---|
| Independently developed software | 4 |
| Software – general (individual licenses) | 4 |
| Software – version change, e.g. product data management (PDM) and CAD (CATIA, ProEngineer, NX, etc.) | 8 |
| Patents | 10 |

Intangible assets with an uncertain usage period are only available as at the balance sheet date in the form of goodwill.

## Tangible assets

All **tangible assets** are subject to operational use and is measured at cost or manufacturing cost, less planned usage-related depreciation. The depreciations on the tangible assets are made using the linear method. The planned depreciations are based on the following usage periods throughout the Group:

| | **in years** |
|---|---|
| Buildings | 20 to 40 |
| Components | 20 to 25 |
| Building parts | 15 to 33 |
| Outdoor facilities | 20 to 33 |
| Machines | 8 to 20 |
| Operating equipment | 12 to 20 |
| Vehicles | 6 to 10 |
| Tools | 5 |
| Machines/devices general | 8 to 15 |
| Tools and equipment | 6 to 10 |

For machines used in multiple shifts, the depreciations are increased by shift additions accordingly.

The residual values, depreciation methods and usage periods of the assets are verified annually and adjusted as applicable.

According to the regulations on accounting for leasing agreements, the economic property is attributed to the lessee if it largely bears all opportunities and risks associated with the ownership. Lease agreements that fulfill these requirements are classified as **financial lease**. The leased properties are capitalized at the time of concluding the agreement at fair value or the lower cash value of the minimum lease payments. The amortizations are made as planned in a linear method over the planned usage period or over the shorter agreement term. The discount payment obligations resulting from the future lease rates are recognized as a liability under financial liabilities. The lease payments are broken down into a repayment and an interest portion in the following periods. The interest portion is recognized in income in the net financial result. The repayment portion reduces the financial liabilities.

Lease rates or rents that result from **operating lease** agreements are recognized in a linear fashion over the term of the lease as expense in the consolidated income statement as a rule. The future encumbrance from operating leases is presented under other financial liabilities.

## Government grants

Government grants are only recognized if there is sufficient security that the associated terms will be met and the grants extended. Investment subsidies are deducted from the assets in the period they occurred. Cost subsidies are recognized as earnings over the same period in which the expenses, for whose compensation they were granted, are incurred.

Standard market interest rates are used for the measurement of non-interest-bearing and low-interest-bearing loans from the state. The difference between the deducted amount and repayment amount is deferred and recognized under other liabilities. The deferred amount is dissolved over the term of the loan agreement, which largely corresponds to the usage period of the asset, and recognized in the interest expense.

## Investments in associates and joint ventures

Investments in associates and joint ventures are generally accounted for using the equity method with the pro rata equity capital and initially with the acquisition costs, including transaction costs. If there are objective indications of an impairment of the shares on the balance sheet date, an impairment test is carried out. The share of the Group in the net profit or loss for the period of the associates or joint ventures is recognized separately as part of the net financial result in the consolidated profit and loss statement. Earnings and expenses recognized directly in the equity capital of the associates or joint ventures are also recognized in equity at the MANN+HUMMEL Group and presented separately in the statement of comprehensive income. The accumulated changes after the time of purchase increase or reduce the equity holding's carrying amount of the associate/joint venture accordingly. Profits and losses from transactions between the MANN+HUMMEL Group and associates/joint ventures are eliminated in accordance with the holding share.

## Impairment tests

For **shares in equity holdings**, for already used **intangible assets** and for assets of the **property, plant and equipment**, it is verified as at the balance sheet due date whether there are any indications of a possible impairment. In the event of such indications, the value is verified (impairment test). Intangible assets not yet ready for use and intangible assets with undefined usage periods are subjected to an impairment test every year.

To carry out the impairment test, the recoverable amount is determined. This is the higher amount from the fair value of the asset or the smallest cash-generating unit less costs to sell and its value in use. The recoverable amount is determined for the individual asset or, if no cash flows can be attributed to the individual asset, for a cash-generating unit. The smallest units whose cash flows are forecasted within the framework of the corporate planning are defined as cash-generating units.

The recoverable amount corresponds to the fair value less disposal costs (level 3) and was determined as the cash value of future cash flows. The future cash flows were derived from the planning of the Group. The calculation of the cash value of the estimated future cash flows is based largely on the assumptions on future sales prices or quantities and costs taking into account changed economic framework conditions, if applicable. Net cash flows beyond the detailed planning phase are determined in application of individual growth rates derived from the relevant market information on the basis of long-term business expectations. The planning is based on a detailed planning period for the 2018 to 2020 fiscal years.

The estimate of the fair value after deduction of the disposal costs for tangible assets is carried out on the basis of discounted cash flows as well as a cost-based approach for comparable assets, which are normally not based on parameters observable in the market (level 3). An impairment is recognized if the recoverable amount falls below the carrying amount of the asset or the cash-generating unit.

If the grounds for an impairment carried out earlier no longer apply, an addition takes place, but as a maximum at the amortized acquisition or manufacturing costs. Impairments and reversals of impairments of intangible assets and tangible assets are allocated to the functional areas of the consolidated profit and loss statement.

**Goodwill** from company mergers is allocated to those Groups of cash-generating units that benefit from the mergers. An audit of the value of good will is carried out annually on the basis of impairment tests using the above methods. Impairments on good will are recognized if the recoverable amount of the corresponding cash-generating unit is below its carrying amount. Impairments on good will are reported in other income. An addition to goodwill is not carried out.

## Financial assets

Short- and long-term financial assets are broken down into the following categories:

- Loans and receivables
- Financial assets available for sale
- Financial assets held for trading

The **Loans and receivables** category includes cash, financial receivables and trade receivables. Lending and loans as well as bank balances and overnight cash are recognized under financial assets. They are recognized at cost less depreciation using the effective interest rate. Trade receivables are recognized at the invoice amount

In the event of objective indications that point toward an impairment on the loans and receivables, the impairment loss is determined as the difference between the cash value of the expected future cash flow and the carrying amount and recognized in income on a later allowance account. If there is a risk of uncollectibility, a direct valuation allowance takes place.

The **Financial assets available for sale** category includes, as a rule, all securities for which entry in this category is permissible as well as holdings. After the recognition, financial assets available for sale are measured at their fair value as a rule. Holdings for which no active market exists and whose fair values are to be determined in lack of planning data are recognized at cost. A sale of these shares is currently not planned; there is no information about impairments.

Profits and losses from changes to the fair value of the financial assets available for sale are recognized in the revenue reserves in the equity capital without any impact on result. A transfer into the consolidated profit and loss statement is carried out as soon as an impairment is detected, at the latest on disposal of the financial assets.

In the event of objective indications of a sustainable impairment, such as a permanent fall in the fair value of the financial asset or a major worsening of the issuer's credit rating, the accumulated net loss is removed from the equity capital and recognized in the net financial result. The accumulated net loss is the difference from the cost and the current fair value, if applicable less any impairment loss of the financial asset recognized previously in income. Later reversals of impairment losses for equity capital instruments are recognized in equity. For borrowing instruments, reversals in income are made in the amount of the impairments previously recognized. If there are indications of an impairment for holdings measured at cost, this is recognized in income. A reversal of these shares is not carried out.

**Financial assets held for trading and liabilities** relate to derivative financial instruments for which the option of hedge accounting is not exercised or the criteria of which are not fulfilled.

The capitalization of financial assets is carried out on the date of fulfillment as a rule.

A financial asset is derecognized on the date of fulfillment if the contractual rights to cash flows from the assets have expired or all risks and opportunities have been largely assigned. Derecognition before the date of fulfillment is carried out as soon as the uncollectibility of trade receivables as well as financial assets is confirmed.

Financial assets and liabilities are offset and the net amount is recognized in the consolidated balance sheet if there is a legal claim at the current moment in time to offset the amounts recognized against one another and if it is intended to bring about the offsetting on a net basis or to replace the associated liability at the same time as the realization of the relevant asset.

## Hedge accounting

Derivative financial instruments are used at the MANN+HUMMEL Group for hedging purposes in order to reduce currency and interest risks as well as risks from equities. According to IAS 39, all derivative financial instruments are accounted for at market value.

Inasmuch as the MANN+HUMMEL Group opts for the balance-sheet representation of hedging relationships in accordance with the regulations of hedge accounting on a case-by-case basis, the accounting is carried out as a cash flow hedge or fair value hedge. If no hedge accounting is applied, the derivative financial instruments are measured at fair value and the changes in fair value recognized in income.

Cash flow hedges are used to hedge against risks of changes in the value of future cash flows. In the event of changes to the market value of financial instruments used within the framework of cash flow hedges, the unrealized profits and losses in the amount of the actual part are initially recognized in the revenue reserves without an impact on income. A transfer to the consolidated profit and loss statement takes place at the same time as the impact on results from the hedged item. The non-effective portion of the changes in market value is recognized directly in the consolidated profit and loss statement.

Fair value hedges are used to hedge against risks of changes in the value of balance sheet items. In the event the criteria are fulfilled, the results from the fair value measurement of derivative financial instruments are recognized in income at the same time as the associated underlying transactions.

Effects with an impact on result from hedging transactions concluded to hedge against risks from commodity price changes, are recognized in the cost of sale. The profits and losses from currency hedging transactions are recognized in other income and expenses or as part of the acquisition costs. Profits and losses from derivative financial instruments that serve to hedge against interest-change risks and price risks from securities are recognized in the other net financial result.

## Inventories

Materials and supplies as well as trading goods are measured at their average cost in observance of lower net sales values as at the balance sheet date as a rule. Work in progress and finished goods are recognized at cost of production in observance of lower net sales values and taking into account consumption as at the balance sheet date. Cost of production includes all costs directly attributable to the production process as well as appropriate portions of the production-related overheads. They include production-related depreciations, pro rata administration costs and pro rata expenses of the social area.

## Cash

Cash in hand and bank balances currently available and short-term overnight cash are recognized under cash.

## Assets held for sale and disposal Groups

Assets and liabilities are recognized as disposal Groups if they are to be sold as a Group in a transaction that is highly likely. Individual assets are recognized in the balance sheet as assets held for sale. The relevant assets and liabilities are reported in the balance sheet within short-term assets and liabilities as assets of asset Groups held for sale or liabilities of disposal Groups. The earnings and expenses of the affected assets and liabilities are included in the result from continued activities until sale if they do not fulfill the definition of a discontinued operation.

On initial classification of the disposal Group, the measuring is initially carried out in accordance with the relevant IFRS standards; the resulting carrying amount of the disposal Group is then compared with the fair value less sales costs in order to determine the lower value to the applied.

## Financial and other liabilities

The capital economically attributable to the shareholders is shown within the non-current liabilities. In accordance with German commercial regulations, exclusive termination rights for shareholders do not arise in business partnerships like MANN+HUMMEL International GmbH & Co. KG. According to IAS 32.16, an equity instrument only exists for the respective most subordinate class of shareholders however if and only if a company has neither an unconditional nor a conditional obligation to deliver cash or another financial asset. On the basis of the regulations in the articles of incorporation pertaining to the compensation of shareholders, the shares in MANN+HUMMEL International GmbH & Co. KG do not meet the requirements of IAS 32.16A for the disclosure of puttable shares as equity; they are thus disclosed within non-current liabilities as "Capital economically attributable to the shareholders". Insofar as the IFRS demand a presentation of the facts under other comprehensive income, this also applies to partnerships which do not have equity according to the IFRS. Such facts are therefore not disclosed in the result of the relevant period, even for the MANN+HUMMEL Group.

The valuation of the capital economically attributable to the shareholders is performed based on the fair value of the obligation. In this case, this corresponds to the pro rata carrying amount of the respective shareholder in the IFRS Group equity.

The financial and other liabilities are applied on the initial recognition at cost, which corresponds to the fair value of the return services received. Transaction costs are also taken into account in this process. Subsequently, the liabilities are evaluated with the amortized acquisition costs under application of the effective interest method. If financial liabilities have not yet been claimed, the transaction costs are deferred within other assets. Collection in income takes place within other financial expenses. Derecognition of financial liabilities and other liabilities takes place as soon as the underlying liabilities have been fulfilled, canceled or expired.

For financial guarantees given by the company, the risk of being claimed is assessed as best possible inasmuch as such exist as at the balance sheet date. In so far as the claiming is likely, a liability in the amount of the cash outflow to be expected is recognized under financial liabilities

The application of the fair value option, financial assets and liabilities on their initial recognition in the at fair value through profit or loss category is not utilized at the MANN+HUMMEL Group as a rule.

## Tooling cost contributions received

Tooling cost contributions received constitute the return service for rights granted to the subsidizing party or services to be provided. The subsidies are deferred as tooling cost contributions received under other liabilities. The dissolution is carried out over the project period.

## Other provisions

Other provisions are formed if a liability toward a third party exists from a past event which will likely be claimed and the expected amount of the necessary provision amount can be reliably assessed.

When measuring the provisions from the sale area, in particular for guarantees and expected losses from open transactions, all cost components are integrated that are also capitalized in the inventories as a rule. The measurement is carried out at the amount of the best possible estimate of the expenses required to fulfill the liability on the balance sheet date. The measurement of the guarantee provisions is carried out on the basis of the guarantee expenses actually incurred, taking into account guarantee periods and periods of grace as well as sales performance of the products affected in the period considered.

The staff-related liabilities relate, in particular, to anniversary benefits and partial retirement working hours obligations. Provisions for anniversaries of years of service are determined in accordance with actuarial principles. The provisions for partial retirement working hours obligations include the amounts set aside for the pension insurance under individual or pay-scale agreements as well as the remuneration payments to be made during the release phase. The accumulation takes place pro rata from the start of the obligation.

The partial retirement working hours obligations are hedged against insolvency via a trust model. To this end, shares in a special fund were assigned to a trustee. The shares in the special fund are measured at fair value. The assets used exclusively for the fulfillment of the partial retirement working hours obligations and removed from the access of all other creditors are offset against the provisions (plan assets). If they exceed the provision value, the excess amount is recognized in the long-term other financial assets. The earnings from the plan assets are recognized as offset against the expense from the accrued interest of the provisions in the income statement.

Long-term provisions with a remaining term of more than one year are recognized at their fulfillment amount discounted on the balance sheet due date. Discounting is carried out at an interest rate that corresponds to the risk and the maturity of the fulfillment inasmuch as the interest effect is relevant.

### Pension provisions

The provisions for pensions are formed in accordance with the projected unit credit method. In this method, not only the pensions known as at the balance sheet due date and the unit credits known, but also increases in expected pensions and current withdrawals are considered. The calculation is based on actuarial expert reports taking into account current biometric calculation bases. Actuarial profits and losses are recognized in the period of being generated in the full amount in other comprehensive income. The expenses from accrued interest and the expected earnings from fund assets are offset and recognized in interest expense. All other expenses from the allocation of pension obligations are allocated to the affected functional areas in the consolidated profit and loss statement.

## 9. Judgments and uncertainties in connection with estimates

The preparation of the consolidated financial statements requires that assumptions are made and estimates used that have an effect on the amount and reporting of the recognized assets and liabilities, earnings and expenses as well as the contingent liabilities. Key assumptions and estimates that are used when recognizing and measuring the balance sheet items are explained below.

The capital economically attributable to the shareholders is shown within non-current liabilities. On the basis of the regulations in the articles of incorporation pertaining to the compensation of shareholders, the shares in MANN+HUMMEL International GmbH & Co. KG do not meet the requirements of IAS 32.16A for the disclosure of puttable shares as equity; they are thus disclosed within non-current liabilities as "Capital economically attributable to the shareholders". The valuation of the capital economically attributable to the shareholders is performed based on the fair value of the obligation. In this case, this corresponds to the pro rata carrying amount of the respective shareholder in the IFRS Group equity.

When **capitalizing costs of development** (Item 17 of the Notes to the consolidated financial statements), assessments of the management regarding the technical feasibility and commercial viability of the development projects are included in the recognition decision. The measurement of the capitalized development costs depends on assumptions about the amount and period of the inflow of the expected future cash flow and on the discounting rates to be applied.

When accounting for other **intangible assets** and **tangible assets** (items 17 and 19 of the Notes to the consolidated financial statements), assumptions and estimates largely relate to the definition of usage periods. With respect to intangible assets that are being recognized for the first time within the framework of a company acquisition (item 5 of the Notes to the consolidated financial statements), (e.g. customer base), the fair value of these assets is determined as part of a purchase price allocation according to IFRS 3. If a market price oriented method cannot be applied, the Group shall in principle determine the fair value of the intangible assets using capital value oriented methods. The value of an asset results, in this case, from the sum of the cash values of the cash flows achievable in the future as at the measurement date. The forecast of measurement-relevant cash flows and the derivation of the capital cost rates that reflect the risk of the respective intangible asset have a significant influence on the measurement. As part of the capital value oriented method, the Group has essentially applied the relief-from-royalty method (e.g. for brand names) and the residual value method (inter alia for the customer base).

Intangible assets were identified within the framework of purchase price allocations. With respect to the Jack Filter companies, these essentially include know-how and customer relationships. The fair values of the identified customer lists/relationships were determined using the residual value method and corporate planning with a usage period of 6 to 15 years. The brands were measured using the relief-from-royalty method. The expected brand sales and the expected license rates were key assumptions here. The usage period was set at 10 years.

Within the framework of the **impairment tests** (item 18 of the Notes to the consolidated financial statements), assumptions and estimates are used to determine the expected future cash flow and to define the discounting rates. In particular in the area of intangible assets and liabilities, an influence on the relevant value may occur.

The assessment of the value of **trade receivables** (Item 24 of the Notes to consolidated financial statements) is subject to a judgment about the assessment of the future solvency of the debtors.

The determination of the fair value of the **securities** (Item 36 of the Notes to consolidated financial statements) allocated to level 3 of the fair value hierarchy are based on basic data that cannot be observed in the market. The calculation carried out in accordance with the discounted cash flow method is based on estimates about the expected cash flow and discounting rates used.

When recognizing the **deferred tax assets** (Item 15 of the Notes to the consolidated financial statements), the assumptions and estimates refer to the likelihood of the expected tax reductions actually occurring in the future.

The actuarial measurement of the **provisions for pensions** (Item 31 of the Notes to consolidated financial statements) is carried out, in particular, on the basis of assumptions on the discounting rates, future pension performance, age deferral and the performance of the general living expenses.

The determination of **warranty provisions** (Item 30 of the Notes to the consolidated financial statements) is subject to assumptions and estimates that refer to the period between time of delivery and entry of the warranty event, warranty period and period of grace as well as the future warranty charges.

The determination of long-term **provisions for onerous contracts** (Item 30 of the Notes on the consolidated financial statements is subject to judgments about the interpretation of supply agreements. Significant decision-making criteria are here the binding definition of the period, quantities and prices of delivery.

The amount of the impairment expenses for **financial assets available for sale** (Item 36 of the Notes to the consolidated financial statements) is influenced by the judgments about the assessment whether the price losses are significant or longer-lasting and about the assessment of the issuer's credit rating.

Further material judgments and estimates were not made.

The actual values may differ from the assumptions and estimates made in individual cases. Changes are considered in income at the time of better knowledge.

At the time of preparing the annual financial statements the underlying estimates were not exposed to any significant risks, for which reason no major adjustment to the assets and liabilities recognized in the consolidated financial statements is to be expected.

## Notes to the consolidated profit and loss statement

The consolidated income statement is prepared using the cost of sales method.

### 10. Sales

| EUR million | 2017 | 2016 |
|---|---|---|
| Europe | 1,876.8 | 1,743.4 |
| America | 1,382.3 | 1,125.3 |
| Asia | 598.6 | 575.4 |
| Rest of the world | 34.4 | 35.7 |
| | **3,892.1** | **3,479.8** |

Of the revenues, EUR 3,879.1 million (previous year EUR 3,469.5 million) consists of the sale of goods EUR 13.0 million (previous year EUR 10.3 million) of the provision of services.

### 11. Cost of sales and other costs

| EUR million | 2017 | 2016 |
|---|---|---|
| Material costs | 2,140.7 | 1,923.9 |
| Personnel costs | 531.7 | 480.8 |
| Depreciation and amortization | 160.6 | 152.6 |
| Other operating expenses | 127.0 | 117.0 |
| | **2,960.0** | **2,674.3** |

The **research and development costs** include expenses for the in-house research department and expenses for external research and development services and test activities. The activities in this area serve to develop products to generate revenues.

The **selling expenses** include largely expenses for outgoing logistics, advertising and customer support as well as for commissions and licenses.

The **administration costs** include largely the expenses for information technology, finance and controlling, taxes, legal and for human resources.

## 12. Other operating income

| EUR million | 2017 | 2016 |
|---|---|---|
| Income from foreign currency translation | 14.5 | 12.5 |
| Income from sale of tangible assets | 3.5 | 2.0 |
| Other | 17.4 | 17.3 |
| | **35.4** | **31.8** |

## 13. Other operating expenses

| EUR million | 2017 | 2016 |
|---|---|---|
| Expenditure from restructuring | 8.3 | 0.0 |
| Expenditure from foreign currency translation | 26.6 | 12.1 |
| Expenditure from sale of tangible assets | 2.2 | 3.5 |
| Guarantee expenditure | 5.5 | 7.2 |
| Other | 43.0 | 47.8 |
| | **85.6** | **70.6** |

Other expenses include impairments on goodwill in the amount of EUR 9.0 million (previous year EUR 28.9 million), costs in relation to various consultancy services in the amount of EUR 14.7 million (previous year EUR 7.0 million) and costs in relation to increased provisions for onerous contracts in the amount of EUR 6.2 million (previous year EUR 0 million).

## 14. Net financial result

| EUR million | 2017 | 2016 |
|---|---|---|
| **Share in the result from associates** | 0.4 | 0.5 |
| | | |
| Interest and similar income | 7.2 | 13.1 |
| Currency gains | 10.9 | 68.7 |
| Income from lending, financial assets and securities | 13.6 | 14.8 |
| Income from sale of financial assets, securities and hedging transactions | 1.9 | 2.4 |
| **Financial income** | **33.6** | **99.0** |
| | | |
| Accrued interest of non-current items | 8.2 | 9.9 |
| Distribution from "Capital economically attributable to the shareholders" | 5.1 | 5.1 |
| Interest and similar expenses | 55.1 | 61.6 |
| Currency losses | 12.8 | 42.8 |
| Depreciation on lending, financial assets and securities | 2.2 | 2.1 |
| Losses from sale of financial assets, securities and hedging transactions | 8.0 | 21.0 |
| **Financial expenses** | **91.4** | **142.5** |
| | | |
| **Net financial result** | **– 57.4** | **– 43.0** |

## 15. Income taxes

| EUR million | 2017 | 2016 |
|---|---|---|
| Current tax expenses | 50.2 | 67.6 |
| Tax revenues previous years | – 11.0 | – 0.9 |
| Tax expenses previous years | 3.6 | 1.5 |
| Deferred taxes from temporary differences | – 30.7 | – 26.7 |
| Deferred taxes from loss carryforwards and tax credits | 13.4 | 26.6 |
| | **25.5** | **68.1** |

For the MANN+HUMMEL Group, a weighted Group tax rate was calculated based on the profit contributions and tax rates of the individual Group companies. The Group tax rate is 24.0% (previous year 28.35%). This income tax rate is used as the applicable tax rate for the tax reconciliation account. The tax rates applicable abroad in the fiscal year are unchanged at between 9% and 35% (previous year 2% and 35%).

The inventory of deferred tax assets and liabilities results from the following balance sheet items:

| EUR million | 12/31/2017 | | 12/31/2016 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Intangible assets | 17.3 | 89.2 | 37.3 | 139.4 |
| Tangible assets | 2.9 | 45.2 | 1.1 | 48.3 |
| Financial assets | 0.3 | 2.1 | 2.0 | 0.4 |
| Inventories | 7.1 | 2.0 | 6.4 | 1.7 |
| Trade receivables | 11.2 | 1.2 | 17.0 | 0.4 |
| Other current assets | 2.6 | 0.5 | 2.0 | 1.9 |
| Pension provisions | 57.3 | 0.8 | 58.6 | 0.2 |
| Other provisions | 26.7 | 0.2 | 26.1 | 0.0 |
| Short-term financial liabilities | 0.8 | 0.0 | 1.4 | 0.0 |
| Trade payables | 0.4 | 0.1 | 0.5 | 0.0 |
| Other liabilities | 7.5 | 1.1 | 8.8 | 0.0 |
| Deferred taxes related to shares in subsidiaries | 0.0 | 8.2 | 0.0 | 10.3 |
| Other | 2.1 | 0.1 | 0.1 | 0.0 |
| | **136.2** | **150.7** | **161.3** | **202.6** |
| Tax losses and tax credits carried forward | 42.4 | 0.0 | 55.9 | 0.0 |
| Offsetting | – 91.0 | – 91.0 | – 46.6 | – 46.6 |
| | **87.6** | **59.7** | **170.6** | **156.0** |

From the fair value measurement of securities, as at the balance sheet date deferred tax liabilities of EUR 1.9 million (previous year deferred tax assets of EUR 0.6 million or EUR 6.5 million) are recognized directly in equity. The recognition of the actuarial profits and losses for pension obligations directly in equity results in a deferred tax asset of EUR 27.3 million (previous year EUR 23.9 million). In addition, all other changes, with the exception of changes due to initial consolidations, were recognized in income.

The amount for the deductible temporary differences and the tax losses and tax benefits not yet utilized, for which no deferred tax assets were recognized in the balance sheet, amount to EUR 140.8 million (previous year EUR 94.2 million). Of this figure, EUR 13.0 million (previous year EUR 20.2 million) consists of loss carryforwards, which can be utilized with a time limitation (in the period from 5 to 19 years). As regards the measurement of deferred tax assets, the expected future business performance at the time of preparing the consolidated financial statements is, as a rule, based on the corporate planning for the following three fiscal years. In the fiscal year, the deferred tax expense due to the use of previously non-considered tax losses, tax benefits or as a result of a temporary difference of a previous period previously not utilized was reduced by the amount of EUR 1.2 million (previous year EUR 0.0 million). As at the balance sheet date, deferred tax assets of EUR 3.1 million (previous year EUR 12.7 million) were recognized for Group companies, which had suffered losses in the reporting period or the previous period.

The retained profits at foreign subsidiaries amounting to EUR 2,533.5 million (previous year EUR 2,371.6 million) should remain reinvested based on the current planning. On distribution, profits would be subject to 5% of German taxation; where applicable, foreign withholding tax would be levied. In addition, on distribution of the profits of a foreign subsidiary to a foreign intermediate holding, further income tax consequences would need to be considered. Distributions would therefore result in an additional tax burden as a rule. Determining the deferred tax liabilities attributable to the taxable temporary differences would be associated with a disproportionately high level of effort.

Reconciliation from expected to actual income tax expense recognized:

| EUR million | 2017 | 2016 |
|---|---|---|
| Net profit or loss before income tax and changes in capital economically attributable to the shareholders | 127.7 | 72.7 |
| Expected income tax expense | 30.5 | 20.6 |
| Tax effects due to different national tax rates and Group taxation systems | 0.2 | 16.2 |
| Effects of tax rate changes | – 19.6 | 0.1 |
| Usage of foreign tax credits from the US tax reform | – 17.7 | 0.0 |
| Tax burden resulting from the US tax reform | 17.2 | 0.0 |
| Tax effects due to the non-application and value correction due to deferred taxes or their reversal | 8.7 | 9.4 |
| Tax effects due to permanent differences | 13.3 | 12.9 |
| Tax effects due to facts of past periods | – 5.4 | – 8.3 |
| Tax effects related to shares in subsidiaries | – 2.1 | 10.3 |
| Other tax effects | 0.4 | 6.9 |
| **Recognized income tax expense** | **25.5** | **68.1** |

## 16. Other disclosures to the consolidated profit and loss statement

The consolidated profit and loss statement includes the following material expenses:

| EUR million | 2017 | 2016 |
|---|---|---|
| Expenditure on raw materials, consumables, supplies and trading goods | 2,003.0 | 1,790.2 |
| Expenditure on purchased services | 41.6 | 41.9 |
| | **2,044.6** | **1,832.1** |

The staff costs break down as follows:

| EUR million | 2017 | 2016 |
|---|---|---|
| Direct and indirect remuneration | 769.7 | 688.1 |
| Social duties and expenses for support | 146.6 | 135.2 |
| Expenses for pension provisions | 24.4 | 22.4 |
| | **940.7** | **845.7** |

The staff costs include amounts for contribution-oriented plans in the amount of EUR 33.3 million (previous year EUR 33.0 million). The expenses included in it for state plans in the amount of EUR 32.7 million (previous year EUR 30.6 million) include predominantly the employer contributions to the pension insurance, which are included in the social dues.

The planned and extraordinary amortizations on intangible assets and tangible assets are included in the following items of the consolidated profit and loss statement:

| EUR million | 2017 | 2016 |
|---|---|---|
| Cost of sales | 160.6 | 152.6 |
| Research and development costs | 7.1 | 6.3 |
| Selling expenses | 4.9 | 4.1 |
| Administrative expenses | 19.4 | 26.7 |
| Other operating expenses | 8.8 | 29.4 |
| | **200.8** | **219.1** |

The expenses recognized in the fiscal year for research and development amount to EUR 133.0 million (previous year EUR 126.0 million).

In the fiscal year, payments from operating lease or tenancies in the amount of EUR 31.2 million (previous year EUR 28.5 million) were recognized in income in the consolidated profit and loss statement.

## Notes to the consolidated balance sheet

### 17. Intangible assets

| EUR million | Goodwill | Patents, licenses, software and similar rights and values | Development costs | Down payments made | Total |
|---|---|---|---|---|---|
| **Acquisition and manufacturing costs as at 1/1/2017** | **636.7** | **693.1** | **19.6** | **0.1** | **1,349.4** |
| Exchange rate effects | –17.4 | –32.8 | 0.0 | 0.0 | –50.2 |
| Changes in consolidated Group | 10.4 | 6.3 | 0.0 | 0.0 | 16.7 |
| Additions [1] | 6.6 | 7.2 | 2.4 | 0.0 | 16.2 |
| Transfers | 0.0 | 1.6 | 0.1 | 0.0 | 1.7 |
| Disposals | 0.0 | –2.3 | –10.4 | 0.0 | –12.7 |
| **Acquisition and manufacturing costs as at December 31, 2017** | **636.3** | **673.1** | **11.7** | **0.1** | **1,321.2** |
| | | | | | |
| **Accumulated depreciations as at 1/1/2017** | **28.9** | **177.1** | **14.0** | **0.0** | **220.0** |
| Exchange rate effects | –0.3 | –7.4 | –0.1 | 0.0 | –7.8 |
| Changes in consolidated Group | 0.0 | 0.1 | 0.0 | 0.0 | 0.1 |
| Additions | 0.0 | 71.8 | 1.0 | 0.0 | 72.8 |
| Impairment | 8.7 | 0.3 | 0.0 | 0.0 | 9.0 |
| Transfers | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposals | 0.0 | –2.3 | –10.2 | 0.0 | –12.5 |
| **Accumulated depreciations as at 12/31/2017** | **37.3** | **239.6** | **4.7** | **0.0** | **281.6** |
| | | | | | |
| **Carrying amount as at 12/31/2017** | **599.0** | **433.5** | **7.0** | **0.1** | **1,039.6** |

[1] Of which EUR 10.1 million non-payment-effective additions from an asset deal.

| EUR million | Goodwill | Patents, licenses, software and similar rights and values | Development costs | Down payments made | Total |
|---|---|---|---|---|---|
| **Acquisition and manufacturing costs as at 1/1/2016** | **44.7** | **188.4** | **15.6** | **0.0** | **248.7** |
| Exchange rate effects | 18.3 | 19.3 | 0.1 | 0.0 | 37.7 |
| Changes in consolidated Group | 573.7 | 484.8 | 2.1 | 0.1 | 1,060.6 |
| Additions | 0.0 | 2.5 | 1.8 | 0.0 | 4.3 |
| Transfers | 0.0 | 0.8 | 0.0 | 0.0 | 0.8 |
| Disposals | 0.0 | –2.7 | 0.0 | 0.0 | –2.7 |
| **Acquisition and manufacturing costs as at December 31, 2016** | **636.7** | **693.1** | **19.6** | **0.1** | **1,349.4** |
| | | | | | |
| **Accumulated depreciations as at 1/1/2016** | **0.0** | **82.2** | **12.4** | **0.0** | **94.6** |
| Exchange rate effects | 0.0 | 1.9 | 0.0 | 0.0 | 1.9 |
| Changes in consolidated Group | 0.0 | 12.7 | 0.4 | 0.0 | 13.1 |
| Additions | 0.0 | 52.6 | 1.1 | 0.0 | 53.7 |
| Impairment | 28.9 | 30.3 | 0.0 | 0.0 | 59.2 |
| Transfers | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposals | 0.0 | –2.6 | 0.0 | 0.0 | –2.6 |
| **Accumulated depreciations as at 12/31/2016** | **28.9** | **177.1** | **14.0** | **0.0** | **220.0** |
| | | | | | |
| **Carrying amount as at 12/31/2016** | **607.8** | **516.0** | **5.6** | **0.1** | **1,129.4** |

The intangible assets include customer relationships in the amount of EUR 357.3 million (previous year EUR 432.1 million), which have a remaining usage period of between 5 and 18 years.

In the context of the impairment tests performed, the value of the intangible assets acquired within the framework of company acquisitions, such as customer relationships, brands and existing technology, was also determined. This resulted in a write-down requirement for individual assets. This is distributed as follows to the cash-generating units:

| EUR million | 12/31/2017 | 12/31/2016 |
|---|---|---|
| MANN+HUMMEL Haoye Filter (Bengbu) Co. Ltd. | –0.3 | –11.3 |
| MICRODYN-NADIR Singapore Pte. Ltd. | 0.0 | –1.4 |
| MANN+HUMMEL Vokes Air GmbH & Co. OHG | 0.0 | –13.7 |
| MANN+HUMMEL Vokes-Air Limited | 0.0 | –3.7 |
| | **–0.3** | **–30.1** |

## Goodwill

The goodwill from company acquisitions is reported as follows:

| EUR million | 12/31/2017 | 12/31/2016 |
|---|---|---|
| MANN+HUMMEL Innenraumfilter GmbH & Co. KG | 7.7 | 7.7 |
| MANN+HUMMEL Purolator Filters LLC | 6.0 | 6.8 |
| Fluid Brasil Sistemas e Tecnologia Ltda | 0.0 | 2.1 |
| MANN+HUMMEL KOREA CO. LTD | 9.3 | 9.4 |
| MANN+HUMMEL Filtration Technology (MHFT) | 565.6 | 581.8 |
| Jack Filter Lufttechnik GmbH/Steindorf, Austria | 10.4 | 0.0 |
| | **599.0** | **607.8** |

In the context of the impairment tests performed on the cash-generating units, an impairment requirement was identified for individual types of goodwill due to adjusted expectations of long-term earnings prospects. This was taken into consideration in the profit and loss statement of fiscal year 2017:

| EUR million | 12/31/2017 |
|---|---|
| MICRODYN TECHNOLOGIES INC. | 6.7 |
| Fluid Brasil Sistemas e Tecnologia Ltda | 2.1 |
| | **8.8** |

## 18. Impairment tests

The goodwill included in the consolidated financial statements relates to the differences in the respective purchase prices for the newly measured net assets of the acquired business operations, which arose within the framework of the company mergers.

In each case, the goodwill is to be assigned in full to the smallest cash-generating unit.

The respective achievable amount is determined in all cases by determining the value in use, using the discounted cash flow method.

For this process, cash flows from the three-year plan (2018 to 2020) prepared by the responsible management are used as a basis. For the calculation of the impairment tests, assumptions were made about the sales performance, among other things. The average sales increases assumed over the three-year detailed planning period were between -2.5% and 29.9% (previous year -2.1% and 17.9%). A negative average growth rate results from a significant reduction in sales at the Korea location, which however is compensated for in the subsequent years, at least partially. High growth rates were, as in the previous year, attributed particularly to the development in the water area. However, the absolute sales contribution of this sector relative to all Group sales was of secondary importance. Furthermore, individual locations in the Asian region reported double-digit growth rates.

To measure perpetuals, growth rates of 1.0% to 3.0% (previous year: 1.0% to 3.0%) form the basis. The cash flows determined were discounted at weighted capital cost rates after tax of 8.6% to 12.5% (previous year 7.6% to 12.9%); before tax, the figure was 9.0% to 12.8% (previous year 8.0% to 13.7%). The weighting of the equity capital and borrowing costs was carried out with a capital structure that was derived from a Group of comparable companies. For the determination of the equity and borrowing costs, capital market data and data of comparable companies were applied as the basis.

As a result of the impairment test performed, the goodwill assigned to the various cash-generating units was to be adjusted on the basis of changes to the long-term business performance.

When conducting the impairment tests, the Group performed various sensitivity analyses for changes to the WACC or to the planned sales performance considered to be possible. This variation of the measurement parameters did also not result in any impairment reduction for the capitalized goodwill.

For the key cash-generating unit, MANN+HUMMEL Filtration Technology, an increase in sales of 3.9% was assumed in the three-year detailed planning period. This results from an expectation of average market growth and the implementation of strategic measures in this cash-generating unit.

Moreover, a constant EBIT margin of around 15.0% was assumed in the detailed planning period. To measure perpetuals, a growth rate of 2.0% (previous year: 2.0%) forms the basis. The cash flows determined were discounted at weighted capital cost rate after tax of 9.6% (previous year 9.3%); before tax, the figure was 9.7% (previous year 9.4%). The weighting of the equity capital and borrowing costs was carried out with a capital structure that was derived from a Group of comparable companies. For the determination of the equity and borrowing costs, capital market data and data of comparable companies were applied as the basis.

When conducting the impairment test, the Group performed various sensitivity analyses. In the case of those cash-generating units for which depreciation on goodwill proved necessary, these sensitivity analyses would naturally lead to further depreciation.

For the MHFT cash-generating unit, the value in use exceeds the carrying amount by EUR 223.0 million. If the WACC increases by 1 percentage point or the sustainable growth rate reduces by 1 percentage point, the value in use corresponds to the carrying amount.

| EUR million | 2017 | | 2016 | |
|---|---|---|---|---|
| | Weighted capital costs | Growth rate | Weighted capital costs | Growth rate |
| MANN+HUMMEL Innenraumfilter GmbH & Co. KG | 8.9 | 2.0 | 8.1 | 2.0 |
| MANN+HUMMEL Purolator Filters LLC | 9.6 | 2.0 | 8.8 | 2.0 |
| Fluid Brasil Sistemas e Tecnologia Ltda | 10.6 | 3.0 | 12.9 | 3.0 |
| MICRODYN-NADIR Singapore Pte. Ltd. | 8.7 | 1.0 | 7.8 | 1.0 |
| MN Beteiligungsgesellschaft mbH, Wiesbaden | 8.7 | 1.0 | 7.6 | 1.0 |
| MANN+HUMMEL KOREA CO. LTD | 9.4 | 1.0 | 8.6 | 1.0 |
| MANN+HUMMEL Filtration Technology | 9.6 | 2.0 | 8.8 | 2.0 |

## 19. Tangible assets

| EUR million | Land and buildings | Land and buildings finance leases | Technical equipment, plant and machinery | Other equipment, operational and office equipment | Advance payments and construction in progress | Total |
|---|---|---|---|---|---|---|
| **Acquisition and manufacturing costs as at 1/1/2017** | **511.8** | **19.1** | **1.278.3** | **199.0** | **89.4** | **2,097.6** |
| Exchange rate effects | –12.6 | –1.2 | –48.9 | –4.6 | –5.0 | –72.3 |
| Changes in consolidated Group | 5.4 | 0.0 | 1.9 | 0.9 | 0.3 | 8.5 |
| Additions [1] | 7.2 | 0.0 | 42.7 | 14.4 | 99.2 | 163.5 |
| Transfers | 5.1 | 0.0 | 47.8 | 6.8 | –61.4 | –1.7 |
| Disposals | –4.0 | –0.6 | –35.3 | –14.7 | –2.2 | –56.8 |
| **Acquisition and manufacturing costs as at 12/31/2017** | **512.9** | **17.3** | **1,286.5** | **201.8** | **120.3** | **2,138.8** |
| | | | | | | |
| **Accumulated depreciation as at 1/1/2017** | **193.6** | **5.1** | **841.1** | **128.7** | **0.0** | **1,168.5** |
| Exchange rate effects | –4.8 | –0.2 | –29.2 | –3.1 | 0.0 | –37.3 |
| Changes in consolidated Group | 0.9 | 0.0 | 0.6 | 0.3 | 0.0 | 1.8 |
| Additions | 17.0 | 1.7 | 76.8 | 18.3 | 0.0 | 113.8 |
| Impairments | 3.3 | 0.0 | 1.8 | 0.1 | 0.0 | 5.2 |
| Transfers | –0.7 | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposals | –1.4 | –0.1 | –32.8 | –13.8 | 0.0 | –48.1 |
| **Accumulated depreciation as at 12/31/2017** | **207.9** | **7.2** | **858.3** | **130.5** | **0.0** | **1,203.9** |
| | | | | | | |
| **Carrying amount as at 12/31/2017** | **305.0** | **10.1** | **428.2** | **71.3** | **120.3** | **934.9** |

| EUR million | Land and buildings | Land and buildings finance leases | Technical equipment, plant and machinery | Other equipment, operational and office equipment | Advance payments and construction in progress | Total |
|---|---|---|---|---|---|---|
| **Acquisition and manufacturing costs as at 1/1/2016** | **420.4** | **8.8** | **1,057.7** | **174.1** | **98.6** | **1,759.5** |
| Exchange rate effects | –0.9 | 0.2 | 11.6 | 2.2 | 0.7 | 13.8 |
| Changes in consolidated Group | 50.8 | 7.2 | 153.6 | 8.6 | 13.5 | 233.7 |
| Additions | 21.3 | 3.5 | 46.9 | 16.1 | 62.8 | 150.6 |
| Transfers | 27.6 | –0.5 | 47.7 | 7.7 | –83.3 | –0.8 |
| Disposals | –7.5 | 0.0 | –39.3 | –9.7 | –2.8 | –59.3 |
| **Acquisition and manufacturing costs as at 12/31/2016** | **511.8** | **19.1** | **1,278.3** | **199.0** | **89.4** | **2,097.6** |
| | | | | | | |
| **Accumulated depreciation as at 1/1/2016** | **161.2** | **4.2** | **706.1** | **113.5** | **0.0** | **985.0** |
| Exchange rate effects | 0.5 | 0.0 | 7.7 | 1.4 | 0.0 | 9.6 |
| Changes in consolidated Group | 17.5 | 0.0 | 92.1 | 6.2 | 0.0 | 115.8 |
| Additions | 15.8 | 0.9 | 71.4 | 16.3 | 0.0 | 104.3 |
| Impairments | 1.9 | 0.0 | 0.0 | 0.0 | 0.0 | 1.9 |
| Transfers | 0.0 | 0.0 | –0.1 | 0.1 | 0.0 | 0.0 |
| Disposals | –3.2 | 0.0 | –36.2 | –8.8 | 0.0 | –48.1 |
| **Accumulated depreciation as at 12/31/2016** | **193.6** | **5.1** | **841.1** | **128.7** | **0.0** | **1,168.5** |
| | | | | | | |
| **Carrying amount as at 12/31/2016** | **318.1** | **14.0** | **437.2** | **70.3** | **89.4** | **929.1** |

[1] Of which EUR 2.9 million non-cash additions from an asset deal.

Tangible assets include leased land and buildings in the amount of EUR 10.1 million (previous year EUR 14.0 million) that are to be attributed to the MANN+HUMMEL Group as the commercial owner (finance lease) due to the design of the lease agreements. The lease agreements partly include purchase rights.

Tangible assets include operation and business equipment in the amount of EUR 1.9 million (previous year EUR 1.8 million), which were classified as finance leases.

Also in tangible assets, impairments were performed on land and buildings in the amount of EUR 3.3 million and on technical equipment, plant and machinery in the amount of EUR 1.8 million and on other equipment, operational and office equipment in the amount of EUR 0.1 million. These related to the Group company MANN+HUMMEL Haoye Filter (Bengbu) Co., Ltd. and were determined in the value test performed.

The disclosures for the minimum lease payments of the relevant lease agreements result as follows:

| EUR million | 12/31/2017 | 12/31/2016 |
|---|---|---|
| **Sum of the future minimum lease payments** | | |
| due within one year | 4.4 | 9.3 |
| due between one and five years | 12.2 | 12.4 |
| due after more than five years | 1.7 | 4.2 |
| | **18.3** | **25.9** |
| **Interest share included in the future minimum lease payments** | | |
| due within one year | 1.2 | 1.7 |
| due between one and five years | 1.7 | 3.1 |
| due after more than five years | 0.2 | 0.5 |
| | **3.1** | **5.3** |
| **Cash value of the future minimum lease payments** | | |
| due within one year | 3.2 | 7.6 |
| due between one and five years | 10.5 | 9.3 |
| due after more than five years | 1.5 | 3.7 |
| | **15.2** | **20.6** |

## 20. Investments in associates

The MANN+HUMMEL Group holds a share of 25% in ABC S.A., Cordoba, Argentina. The pro rata annual profit made up by the MANN+HUMMEL Group is EUR 0.2 million (previous year EUR 0.5 million). Furthermore, a dividend pay-out of EUR 0.2 million (previous year EUR 0.0 million) was received on the investment.

## 21. Non-current financial assets

| EUR million | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Securities | 0.0 | 19.7 |
| Other holdings | 6.5 | 4.2 |
| Other financial assets | 4.7 | 3.5 |
| Derivative financial instruments | 22.0 | 0.0 |
| | **33.2** | **27.4** |

The derivative financial instrument is in the form of an interest currency swap, which was concluded in the context of long-term financing.

## 22. Other assets

| EUR million | 12/31/2017 | | | 12/31/2016 | | |
|---|---|---|---|---|---|---|
| | Total | Of which non-current | Of which current | Total | Of which non-current | Of which current |
| Other assets | 63.1 | 4.6 | 58.5 | 55.6 | 3.1 | 52.5 |
| Deferred income | 11.0 | 1.5 | 9.5 | 12.0 | 1.9 | 10.1 |
| Other | 1.8 | 0.0 | 1.8 | 2.8 | 0.0 | 2.8 |
| | **75.9** | **6.1** | **69.8** | **70.4** | **5.0** | **65.4** |

The other assets contain predominantly sales tax refund entitlements and down payments made. The other assets do not contain any overdue amounts that are not impairments.

## 23. Inventories

| EUR million | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Raw materials, consumables and supplies | 158.5 | 147.9 |
| Unfinished products | 82.2 | 73.1 |
| Finished products and goods | 257.1 | 259.2 |
| Down payments made | 3.1 | 2.9 |
| | **500.9** | **483.1** |

In fiscal year 2017, impairments in the inventories in the amount of EUR 0.1 million were reversed and recognized (previous year: addition of EUR 5.2 million).

## 24. Trade receivables

The trade receivables have the following age structure:

| EUR million | Carrying amount | Of which current | neither impaired nor overdue | not impaired or overdue since | | | |
|---|---|---|---|---|---|---|---|
| | | | | 1 to 30 days | 31 to 60 days | 61 to 360 days | more than 360 days |
| 12/31/2017 | 596.7 | 596.0 | 521.9 | 43.0 | 13.4 | 16.9 | 0.8 |
| 12/31/2016 | 586.0 | 585.0 | 549.6 | 26.1 | 4.5 | 3.9 | 1.1 |

For agreed payment plans with customers, these receivables, inasmuch observed, are reported neither as impaired nor as overdue. The impairments on short- and long-term receivables from deliveries and services developed as follows:

| EUR million | 2017 | 2016 |
|---|---|---|
| **Carrying amount as at 1/1/** | **6.4** | **4.8** |
| Exchange rate effects | – 0.6 | 0.4 |
| Additions | 2.9 | 3.7 |
| Consumption | – 2.3 | – 1.8 |
| Reversals | – 0.5 | – 0.7 |
| **Carrying amount as at 12/31/** | **5.9** | **6.4** |

The gross value of the impaired trade receivables is EUR 6.6 million (previous year EUR 7.0 million). As regards the neither impaired nor defaulting inventory of trade receivables, there are no indications that the debtors will fulfill their payment obligations.

Trade receivables with a carrying amount of EUR 61.4 million in total (previous year EUR 55.0 million) were sold on the basis of factoring agreements in fiscal year 2017. The receivables were derecognized in full.

## 25. Current financial assets

| EUR million | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Derivative financial instruments | 4.4 | 2.0 |
| Receivables and loans | 34.2 | 48.3 |
| Securities | 261.6 | 188.1 |
| | **300.2** | **238.4** |

The financial assets do not contain any overdue amounts that are impaired.

## 26. Sharedholders' equity

### Accumulated other equity

The accumulated other equity essentially includes the following components that are described below:

#### *Difference from foreign currency translation*

The item contains the differences from the foreign currency translation directly in equity of financial statements of foreign subsidiaries (non-eurozone) from the time of the first-time adoption of IFRS.

#### *Fair value measurement of securities and cash flow hedges*

This item includes the effects of measuring directly in equity financial instruments after tax.

#### *Actuarial profits and losses*

This item contains the actuarial profits and losses from pension obligations after tax recognized directly in equity.

#### *Deferred taxes on items recognized directly in equity*

| EUR million | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Before income taxes | Income taxes | After taxes | Before income taxes | Income taxes | After taxes |
| Difference from foreign currency translation | –45.9 | 0.0 | –45.9 | –31.2 | 0.0 | –31.2 |
| Fair value measurement of securities | 4.7 | –2.0 | 2.7 | –0.3 | 0.8 | 0.5 |
| Fair value measurement of cash flow hedges | 0.0 | 0.0 | 0.0 | –23.2 | 7.8 | –15.4 |
| Actuarial profits and losses | 3.8 | –1.5 | 2.3 | –35.0 | 9.6 | –25.4 |
| **Other result** | **–37.4** | **–3.5** | **–40.9** | **–89.7** | **18.2** | **–71.5** |

### Non-controlling interests

The non-controlling interests share of equity amounted to EUR 176.2 million (previous year EUR 165.9 million).

### Capital economically attributable to the shareholders

As the shares in MANN+HUMMEL International GmbH & Co. KG do not meet the requirements of IAS 32.16A for the disclosure of puttable shares as equity, they have been disclosed as borrowed capital in "Capital economically attributable to the shareholders" since fiscal year 2016. This item amounted to EUR 762.7 million as at the end of the fiscal year (previous year EUR 714.0 million).

In the annual financial statements, prepared subject to German commercial law, of MANN+HUMMEL International GmbH & Co. KG, the equity, in the amount of EUR 323.9 million (previous year EUR 266.0 million), comprises capital shares of the limited partners and reserves.

## 27. Capital management disclosures

Group management primarily pursues the aim of ensuring stable capital backing to support the continuation of the business activities and maintain the benefit of the shareholders. To determine the ratio of the capital economically attributable to the shareholders and the equity to total assets, the economic equity is used. This encompasses the balance sheet equity and the capital economically attributable to the shareholders disclosed within non-current liabilities.

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Capital economically attributable to the shareholders and equity (previous year equity) in millions of euros | 938.9 | 879.9 |
| Capital economically attributable to the shareholders and equity relative to total assets (previous year equity ratio) in % | 23.9% | 21.7% |

The MANN+HUMMEL Group is not subject to any charter-like capital requirements.

## 28. Financial liabilities

| EUR million | Carrying amount as at 21/31/2017 | | | Carrying amount as at 12/31/2016 | | |
|---|---|---|---|---|---|---|
| | Total | Of which non-current | Of which current | Total | Of which non-current | Of which current |
| Liabilities to banks | 1,345.7 | 1,253.1 | 92.6 | 1,455.6 | 1,398.9 | 56.7 |
| Bonds | 98.2 | 98.2 | 0.0 | 98.1 | 98.1 | 0.0 |
| Payables from finance leasing | 15.2 | 14.3 | 0.9 | 20.6 | 19.6 | 1.0 |
| Derivative financial instruments | 2.9 | 0.0 | 2.9 | 24.5 | 19.7 | 4.8 |
| Other | 112.7 | 0.0 | 112.7 | 103.7 | 0.0 | 103.7 |
| | **1,574.7** | **1,365.6** | **209.1** | **1,702.5** | **1,536.3** | **166.2** |

The other financial liabilities consist largely of customer bonuses and exchange rate liabilities.

The increase in other financial liabilities is due to the increase in liabilities from customer bonuses and exchange rate liabilities.

The repayment rates of the long-term loans are reported in the short-term financial debts. Furthermore, the liabilities that serve short-term financing are recognized in this item. The country-specific interest rate on these short-term loans ranges from 1.36% (previous year 0.48%) to 4.75% (previous year 11.25%).

The country-specific interest rate on the loans recognized in the long-term financial liabilities ranges from 1.00% (previous year 0.33%) to 5.26% (previous year 5.26%). More than 75% of the loans have a fixed interest rate. The loans are predominantly due at the end of the term. Some of the loan agreements include clauses relating to the calculation of key financial indicators. One of these involves the degree of debt that is defined as the ratio of the net financial position to the EBITDA. A change to the degree of debt has an impact on the risk premium to be newly defined annually for some of the loans.
No contractual repayment obligations result based on the calculation of the key financial indicators.

The change to the derivatives compared to the previous year essentially results from long-term currency hedging in USD.

## 29. Other liabilities

| EUR million | Carrying amount as at 12/31/2017 | | | Carrying amount as at 12/31/2016 | | |
|---|---|---|---|---|---|---|
| | Total | Of which non-current | Of which current | Total | Of which non-current | Of which current |
| Staff liabilities | 99.9 | 0.0 | 99.9 | 90.8 | 0.3 | 90.5 |
| Down payments received | 10.2 | 0.0 | 10.2 | 8.1 | 0.0 | 8.1 |
| Taxes | 33.2 | 0.0 | 33.2 | 28.7 | 0.0 | 28.7 |
| Other | 39.9 | 3.3 | 36.6 | 42.6 | 5.7 | 36.9 |
| | **183.2** | **3.3** | **179.9** | **170.2** | **6.0** | **164.2** |

The tax liabilities largely contain sales tax liabilities. Other liabilities contain, among other things, outstanding charges, accrued liabilities for legal and proceedings costs as well as license and commission liabilities.

## 30. Other provisions

| EUR million | Carrying amount as at 12/31/2017 | | | Carrying amount as at 12/31/2016 | | |
|---|---|---|---|---|---|---|
| | Total | Of which non-current | Of which current | Total | Of which non-current | Of which current |
| Liabilities from the operating area | 76.0 | 4.5 | 71.5 | 61.7 | 1.9 | 59.8 |
| Liabilities from the staff area | 39.6 | 28.1 | 11.5 | 43.2 | 33.5 | 9.8 |
| Other liabilities | 12.4 | 1.1 | 11.3 | 17.9 | 1.0 | 16.9 |
| | **128.0** | **33.7** | **94.3** | **122.8** | **36.3** | **86.5** |

| EUR million | 1/1/2017 | Exchange rate effects | Addition | Changes in consolidated Group | Accrued interest | Transfers | Offsetting plan assets | Consumption | Reversal | 12/31/2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| Liabilities from the operating area | 61.7 | –1.6 | 55.5 | 0.0 | 0.0 | 0.1 | 0.0 | –33.7 | –6.0 | 76.0 |
| Liabilities from the staff area | 43.3 | –1.0 | 21.4 | 0.2 | 0.0 | 0.0 | –1.3 | –22.3 | –0.7 | 39.6 |
| Other liabilities | 17.9 | –1.2 | 7.7 | 0.0 | 0.0 | –0.1 | 0.0 | –9.9 | –2.0 | 12.4 |
| | **122.9** | **–3.8** | **84.6** | **0.2** | **0.0** | **0.0** | **–1.3** | **–65.9** | **–8.7** | **128.0** |

| EUR million | 1/1/2016 | Exchange rate effects | Addition | Changes in consolidated Group | Accrued interest | Transfers | Offsetting plan assets | Consumption | Reversal | 12/31/2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Liabilities from the operating area | 61.8 | 0.0 | 35.2 | 2.5 | 0.0 | 0.1 | 0.0 | –33.3 | –4.6 | 61.7 |
| Liabilities from the staff area | 52.4 | 0.4 | 20.9 | 2.0 | 0.4 | –0.1 | –0.7 | –21.1 | –10.9 | 43.3 |
| Other liabilities | 10.2 | 0.0 | 9.8 | 4.3 | 0.0 | 0.0 | 0.0 | –5.4 | –1.0 | 17.9 |
| | **124.4** | **0.4** | **65.8** | **8.9** | **0.4** | **0.0** | **–0.7** | **–59.8** | **–16.5** | **122.9** |

The provisions for obligations from the operating area predominantly include provisions for warranty obligations and for potential losses from delivery obligations as well as to a small degree provisions for proceedings risks.

The liabilities from the staff area largely contain profit sharing, restructuring measures, partial retirement working hours agreements and anniversary expenses. The provisions for restructuring measures contain above all expenses for severance payments, which will be incurred within the framework of site closures and relocations. According to IAS 37.72 et seqq., the requirements for the formation of a provision for restructuring costs (i.e. existence of a corresponding restructuring plan) are given.

The other liabilities include other individual risks and uncertain liabilities.

The short-term liabilities are expected to be consumed over the period of the next 12 months.

Usage of about 70% of the long-term liabilities from the operating area is expected within the coming five years. Furthermore, about 81% of the reserves in long-term liabilities from the staff area and about 98% of the reserves in other long-term liabilities will likely be used over the coming five years.

## 31. Pension provisions

Provisions for pensions are formed for liabilities from entitlements and from current benefits and former employees of the MANN+HUMMEL Group as well as their survivors. According to legal, economic and tax circumstances of the relevant country, there are different systems of old age provisions that are based on the duration of employment and remuneration as a rule. Contribution- and benefit-oriented provision systems must be distinguished for occupational pension provision.

For defined contribution plans, the MANN+HUMMEL Group does not enter into any obligations in addition to the payment of contributions to purpose-bound funds or private pension providers.

For defined benefit plans, the obligation of the MANN+HUMMEL Group is to fulfill the promised benefits to active and former employees, while provision- and fund-financed pension systems are distinguished.

Approx. 98% of the defined benefit obligations of the MANN+HUMMEL Group are based on pension plans for the active and former employees of the German sites. The active employees were and are given indirect pension promises in different pension schemes. Depending on the type of the pension scheme, the promises stipulate old-age, incapacity for work and widow/widower pensions, the payment of a promised lump sum or benefits in the form of a lump sum with an annuity option. The amount of the benefits depends, in particular, on the salary and length of service of the employee.

There are no legal or regulatory minimum endowment obligations in Germany.

The main risks for the company are in the actuarial parameters, in particular the interest rate and the pension trend, the risk of long life expectancy and the development of the general cost of living (inflation).

The changes to the cash value of the defined benefit obligation and the fair value of the fund asset can be based on actuarial profits and losses. Their causes can, among other things, be changes to the calculation parameters, amendments to the articles of association regarding the risk procedure of the pension obligations and deviations between the actual and the expected income from the fund assets.

The amount of the pension obligations (entitlement cash value of the pension promises or defined benefit obligation) was calculated using actuarial methods, for which the estimates are unavoidable. In addition to the assumptions on life expectancy, fluctuation, the following assumptions have a major impact on the amount of the liability:

| in % | 2017 | 2016 |
|---|---|---|
| Discount factor | 1.75 | 1.70 |
| Pensions dynamics | 1.48 | 1.48 |
| Pay rises | 3.00 | 3.00 |

The assumptions on life expectancy are based on the Heubeck mortality tables.

In the fund-financed pension system, the pension obligations resulting from projected benefit obligation method are offset against the fund assets measured at fair value. If the pension obligations exceed the fund assets, a liability item results that is recognized in the provisions for pensions.

The pension promises have the following financing status:

| EUR million | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Cash value of the provision-financed pension entitlements | 439.0 | 450.0 |
| Cash value of the fund-financed pension entitlements | 48.3 | 36.9 |
| **Benefit cash value of the fund-financed pension entitlements** | 487.3 | 486.9 |
| Fund assets | 35.1 | 34.9 |
| **Net liabilities** | 452.2 | 452.0 |

The fund assets consist of the following:

| EUR million | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Cash | 1.4 | 5.9 |
| Securities | 23.9 | 18.8 |
| Shareholders' equity instruments | 3.3 | 3.0 |
| Debt instruments | 9.1 | 5.0 |
| Fund shares | 11.5 | 10.7 |
| Other | 9.8 | 10.2 |
| | **35.1** | **34.9** |

The securities are rated at prices listed in active markets.

The balance sheet performance of the projected benefit obligation of the pension promises and the fair value of the fund assets is as follows:

| EUR million | 2017 | 2016 |
|---|---|---|
| **Initial inventory of defined benefit obligations (DBO)** | **486.9** | **445.2** |
| +/- Exchange rate effects from abroad | -0.5 | -1.8 |
| + Company acquisitions | 0.0 | 3.7 |
| + Current service costs | 14.5 | 12.7 |
| + Past service costs to be calculated | 0.2 | 0.0 |
| + Interest expense | 8.6 | 9.9 |
| - Settlements/curtailments | 0.0 | 0.0 |
| +/- Actuarial gains and losses from the change in demographic assumptions | 0.0 | -0.2 |
| +/- Actuarial gains and losses from the change in financial assumptions | -2.4 | 33.1 |
| +/- Actuarial gains and losses from experience-based adjustments | -1.7 | 2.1 |
| + Contributions from the participants of the plan | | 0.0 |
| - Pension payments made | -17.9 | -19.3 |
| +/- Other changes | -0.4 | 1.5 |
| **End inventory of defined benefit obligations (DBO) as at 12/31/** | **487.3** | **486.9** |
| | | |
| **Initial inventory of fair value of fund assets** | **34.9** | **27.9** |
| +/- Exchange rate effects from abroad | -0.4 | -1.8 |
| - Settlements/curtailments | 0.0 | 0.0 |
| + Expected income from the fund assets | 0.8 | 0.7 |
| +/- Actuarial gains and losses from the change in financial assumptions | -0.2 | 0.0 |
| + Contributions made by the participants of the plan | 0.1 | 10.0 |
| + Contributions made by the employee to the plan | 1.2 | 0.0 |
| - Pension payments made | -1.2 | -1.9 |
| - Effects of the asset ceiling | | |
| +/- Other changes | | |
| **Fair value of fund assets as at 12/31/** | **35.1** | **34.9** |
| | | |
| **Pension provisions at 1/1/** | **452.0** | **417.3** |
| **Pension provisions at 12/31/** | **452.2** | **452.0** |

The pension obligations yield expenses recognized in income from pension obligations in the amount of EUR 22.5 million (previous year EUR 22.6 million), which consist of the following components:

| EUR million | 2017 | 2016 |
|---|---|---|
| Current service costs | 14.5 | 12.7 |
| Past service costs to be calculated | 0.2 | 0.0 |
| Settlements and curtailments | 0.0 | 0.0 |
| Accrued interest of the net liabilities | 7.8 | 9.9 |
| | **22.5** | **22.6** |

With the exception of the interest portions, all components of the pension expenses recognized in income are included in the functional areas.

The actuarial losses (profits) in the amount of EUR (3.9) million (previous year EUR 35.0 million) are recognized directly in the accumulated other equity.

In reality, the fund assets posted a profit of EUR 0.5 million (previous year EUR 0.6 million). The difference between the actual and the expected income of the external pension fund is recognized in equity within the framework of the actuarial profits and losses.

The contributions to external pension funds will be EUR 2.6 million in the following year, according to the best estimates. The estimate in the previous year for the 2017 fiscal year amounted to EUR 1.3 million.

The pension payments of subsequent years are as follows:

| EUR million | 2017 | 2016 |
|---|---|---|
| within the next fiscal year | 18.1 | 17.2 |
| between 2 and 5 fiscal years | 83.4 | 81.0 |
| between 5 and 10 fiscal years | 129.5 | 123.5 |
| due after more than 10 years | 1,278.0 | 1,303.2 |

During calculation, the actual pension payments were presented and not only the pension components earned, i.e. the pension components to be allocated in the future have also already been considered. It was also assumed that the number of active employees remains unchanged. The same parameters were used for the other calculations assumptions as used for determining the defined benefits obligation.

The average term of the defined benefits obligations ranges between 5 and 20 years.

The effect of a change to the key assumptions on the defined benefits obligation is presented below:

| | **Change to pension entitlement cash value** |
|---|---|
| **EUR million** | **2017** |
| Discount factor | |
| – 0,5 % | 38.5 |
| + 0,5 % | – 32.1 |
| Pensions dynamics | |
| – 0,5 % | – 2.2 |
| + 0,5 % | 0.9 |
| Life expectancy | |
| – 1 year | – 12.0 |
| + 1 year | 13.7 |

| | Change to pension entitlement cash value |
|---|---|
| **EUR million** | **2016** |
| Discount factor | |
| – 0,25 % | 37.7 |
| + 0,25 % | – 33.2 |
| Pensions dynamics | |
| – 0,25 % | – 1.7 |
| + 0,25 % | 1.7 |
| Life expectancy | |
| – 1 year | – 13.8 |
| + 1 year | 13.8 |

The pension obligations were newly determined for the sensitivity analysis. In this process, it was assumed that the other factors remain unchanged. When calculating the sensitivity of life expectancy, it was assumed that the average life expectancy of a 65-year-old person is shortened or extended by one year.

## Notes to the consolidated cash flow statement

### 32. General

In the year under review, the MANN+HUMMEL Group has at its disposal credit lines worth EUR 546.3 million (previous year EUR 133.9 million), which were not utilized in the amount of EUR 532.6 million (previous year EUR 117.0 million) as at the end of the fiscal year.

The fund considered in the consolidated cash flow statement includes cash recognized in the consolidated balance sheet, i.e. cash on hand and in bank accounts, inasmuch as the Group can dispose of these freely.

Dividends received and interest are allocated to the cash flow from investment activities. Interest and transaction costs paid to raise financial debt are reported in the cash flow from financial activities.

Within the framework of the indirect determination, the changes to balance sheet items considered are adjusted for effects from foreign currency translation and from changes to the consolidated Group in connection with the current business activities. The changes to the relevant balance sheet item can therefore not be aligned with the corresponding values on the basis of the consolidated balance sheet published.

## Other Disclosures

### 33. Contingent liabilities

For the contingent liabilities applied below at nominal rates, no provisions were formed because it is considered unlikely that they would be used:

| EUR million | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Guarantees | 0.4 | 2.5 |
| Other | 3.0 | 1.7 |
| | **3.4** | **4.2** |

The sureties are due in full within one year on being claimed. Other contingent liabilities relate predominantly to potential liabilities to tax authorities.

### 34. Other long-term liabilities

In addition to liabilities, provisions and contingent liabilities, other financial liabilities exist, in particular from tenancy and lease agreements, from initiated investment plans and acquisition agreements.

| EUR million | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Renting and leasing | 83.8 | 55.5 |
| Purchase obligations | 87.2 | 62.3 |
| | **171.0** | **117.8** |

The purchase obligation is EUR 55.9 million (previous year EUR 39.3 million) for inventories, EUR 31.3 million (previous year EUR 20.4 million) for tangible assets and EUR 0.0 million (previous year EUR 2.6 million) for other services.

The sum of future minimum lease payments from non-cancelable tenancy agreements and operating lease consists of the following by due dates:

| EUR million | 12/31/2017 | 12/31/2016 |
|---|---|---|
| **Nominal sum of the future minimum lease payments** | | |
| due within one year | 17.8 | 15.6 |
| due between one and five years | 46.9 | 29.2 |
| due after more than five years | 19.1 | 10.7 |
| | **83.8** | **55.5** |

The key tenancy agreements relate to production, warehouse and office buildings as well as land plots with terms of up to 30 years. Some agreements contain price adjustment clauses that specify fixed percentage increase annually. Some agreements contain extension options, automatic agreement extensions or purchase options.

Other lease agreements relate to the vehicle fleet, machines, hardware and software as well as other tools and equipment with terms of up to five years. For some of these agreements, extension options or automatic agreement extensions as well as options to purchase the rental properties at the end of the agreement term at market value exist. The lease rates are partly linked to the service used.

## 35. Legal disputes

The MANN+HUMMEL Group is confronted with claims and court proceedings within the framework of its usual business activities, which relate largely to labor law, product liability and warranty law, tax law and to intellectual property. Provisions for such cases are formed in which it is likely that an obligation exists that arose from an event in the past, that can be reliably estimated and whose fulfillment will likely result in the outflow of resources with a commercial benefit. For all legal disputes pending as at December 31, 2017, a provision of EUR 9.0 million (previous year EUR 2.7 million) was formed. The Management Board of the MANN+HUMMEL Group believes that the outcome of all claims and proceedings brought against the MANN+HUMMEL Group, both individually and in aggregate, will not have any major detrimental impact on the business activities, the asset position, results from operations and the cash flow. The results of currently pending or future proceedings are nevertheless not foreseeable, for which reason expenses may be incurred due to court or official rulings or under agreement of settlements that are not or not fully covered by insurance and that may have major impacts on the business of the MANN+HUMMEL Group or its results.

## 36. Disclosures on financial instruments

### Carrying amounts of the financial instruments by categories

The balance sheet items for financial instruments are broken down into classes and categories. Due to the reorganization of the Group structure in 2016, MANN+HUMMEL International GmbH & Co. KG was installed as the new parent company in that year. Insofar as the shares in this business partnership do not meet the requirements of IAS 32.16A, these amounts which had previously been disclosed in equity were reclassified as “Capital economically attributable to the shareholders”. This item was thus included in the notes to the carrying amounts of the financial instruments.

The carrying amounts for each category and class and the fair value for each class are presented in the following table:

| 12/31/2017<br>EUR million | Carrying amount | Carry amount balance sheet in accordance with IAS 39<br>(amortized) acquisition costs | Fair value recognized directly in equity | Fair value recognized in income | Fair value |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Loans and receivables (LaR)** | | | | | |
| Cash and short-term deposits | 327.9 | 327.9 | 0.0 | 0.0 | 327.9 |
| Trade receivables | 596.7 | 596.7 | 0.0 | 0.0 | 596.7 |
| Other financial assets | 39.0 | 39.0 | 0.0 | 0.0 | 39.0 |
| | | | | | |
| **Financial assets available for sale (AfS)** | | | | | |
| Holdings | 6.5 | 6.5 | 0.0 | 0.0 | 6.5 |
| Securities | 261.6 | 0.0 | 261.6 | 0.0 | 261.6 |
| | | | | | |
| **Financial assets held for trading (FAHfT)** | | | | | |
| Derivative financial instruments | 1.1 | 0.0 | 0.0 | 1.1 | 1.1 |
| | | | | | |
| **Derivative financial instruments with a hedge relationship (n.a)** | 25.3 | 0.0 | 25.3 | 0.0 | 25.3 |
| | | | | | |
| **LIABILITIES** | | | | | |
| **Financial liabilities at amortized cost (FLAC)** | | | | | |
| Capital economically attributable to the shareholders | 762.7 | 762.7 | 0.0 | 0.0 | 762.7 |
| Trade payables | 552.1 | 552.1 | 0.0 | 0.0 | 552.1 |
| Liabilities to banks | 1,345.8 | 1,345.8 | 0.0 | 0.0 | 1,570.9 |
| Other financial liabilities | 210.8 | 210.8 | 0.0 | 0.0 | 243.5 |
| | | | | | |
| **Payables from finance leasing (n.a.)** | 15.2 | 15.2 | 0.0 | 0.0 | 15.2 |
| | | | | | |
| **Derivative financial instruments (FLAFVTPL)** | 0.9 | 0.0 | 0.0 | 0.9 | 0.9 |
| | | | | | |
| **Derivative financial instruments with a hedge relationship (n.a)** | 2.0 | 0.0 | 2.0 | 0.0 | 2.0 |

| 12/31/2016<br>EUR million | Carrying amount | Carry amount balance sheet in accordance with IAS 39<br>(amortized) acquisition costs | Fair value recognized directly in equity | Fair value recognized in income | Fair value |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Loans and receivables (LaR)** | | | | | |
| Cash and short-term deposits | 394.3 | 394.3 | 0.0 | 0.0 | 394.3 |
| Trade receivables | 586.0 | 586.0 | 0.0 | 0.0 | 586.0 |
| Other financial assets | 51.8 | 51.8 | 0.0 | 0.0 | 51.8 |
| | | | | | |
| **Financial assets available for sale (AfS)** | | | | | |
| Holdings | 4.3 | 4.3 | 0.0 | 0.0 | 4.3 |
| Securities | 207.8 | 0.0 | 207.8 | 0.0 | 207.8 |
| | | | | | |
| **Financial assets held for trading (FAHfT)** | | | | | |
| Derivative financial instruments | 2.0 | 0.0 | 0.0 | 2.0 | 2.0 |
| | | | | | |
| **Derivative financial instruments with a hedge relationship (n.a)** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | |
| **LIABILITIES** | | | | | |
| **Financial liabilities at amortized cost (FLAC)** | | | | | |
| Capital economically attributable to the shareholders | 762.7 | 762.7 | 0.0 | 0.0 | 762.7 |
| Trade payables | 484.8 | 484.8 | 0.0 | 0.0 | 484.8 |
| Liabilities to banks | 1,455.6 | 1,455.6 | 0.0 | 0.0 | 1,414.5 |
| Other financial liabilities | 201.6 | 201.6 | 0.0 | 0.0 | 240.0 |
| | | | | | |
| **Payables from finance leasing (n.a.)** | 20.6 | 20.6 | 0.0 | 0.0 | 20.6 |
| | | | | | |
| **Derivative financial instruments (FLAFVTPL)** | 4.8 | 0.0 | 0.0 | 4.8 | 4.8 |
| | | | | | |
| **Derivative financial instruments with a hedge relationship (n.a)** | 19.7 | 0.0 | 19.7 | 0.0 | 19.7 |

The fair values of the financial assets and liabilities are assigned to the three levels of the fair value hierarchy depending on the input parameters used for measurement. The rating and requirement to make reclassifications are audited on the balance sheet due date. Level 1 includes the financial instruments for which prices listed on active markets are available for identical assets and liabilities. An assignment to level 2 takes place if input parameters are used for the measurement of the financial instruments that can be observed directly (for instance prices) or indirectly (derived from prices for instance) in the market. Financial instruments whose measurement is based on information that cannot be observed in the market are recognized in level 3.

Due to the short-term maturities of cash and cash equivalents, trade receivables and other short-term financial assets, their carrying amount generally corresponds to nearly the fair value at the end of the reporting period.

The market values of the long-term financial assets, trade receivables, liabilities to banks and other financial liabilities were calculated using the present value techniques. The future payments were discounted with the current maturity-congruent risk-free interest rates, plus a standard market credit risk surcharge. The allocation is made to level 2.

Financial liabilities from financial lease agreements are applied in observance of the contractual agreed interest rate. The fair value was determined in observance of the standard market interest rate (level 2).

The fair values of the financial instruments measured at fair value are allocated to the three levels of the fair value hierarchy as follows:

| EUR million | 12/31/2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Securities | | | | |
| Shares | 27.2 | 0.0 | 0.0 | 27.2 |
| Bonds | 193.4 | 10.5 | 11.1 | 215.0 |
| Fund shares | 19.4 | 0.0 | 0.0 | 19.4 |
| Derivative financial instruments | 1.1 | 25.3 | 0.0 | 26.4 |
| | | | | |
| **Liabilities** | | | | |
| Derivative financial instruments | 0.7 | 2.2 | 0.0 | 2.9 |

| EUR million | 12/31/2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Securities | | | | |
| Shares | 20.4 | 0.1 | 0.0 | 20.5 |
| Bonds | 130.2 | 37.5 | 0.0 | 167.7 |
| Fund shares | 19.6 | 0.0 | 0.0 | 19.6 |
| Derivative financial instruments | 1.1 | 0.9 | 0.0 | 2.0 |
| | | | | |
| **Liabilities** | | | | |
| Derivative financial instruments | 0.5 | 24.0 | 0.0 | 24.5 |

The fair values of the financial instruments measured at amortized cost are allocated to the three levels of the fair value hierarchy as follows:

| EUR million | 12/31/2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Holdings | 0.0 | 0.0 | 6.5 | 6.5 |
| | | | | |
| **Liabilities** | | | | |
| Liabilities to banks | 0.0 | 1.570.9 | 0.0 | 1.570.9 |
| Other financial liabilities | 0.0 | 243.5 | 0.0 | 243.5 |
| Payables from finance leasing | 0.0 | 15.2 | 0.0 | 15.2 |

| EUR million | 12/31/2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Holdings | 0.0 | 0.0 | 4.2 | 4.2 |
| | | | | |
| **Liabilities** | | | | |
| Liabilities to banks | 0.0 | 1.415.5 | 0.0 | 1.415.5 |
| Other financial liabilities | 0.0 | 240.0 | 0.0 | 240.0 |
| Payables from finance leasing | 0.0 | 20.6 | 0.0 | 20.6 |

For level 1 securities, the fair value of the directly listed price on a market active at all times is applied. An active market is either the stock exchange of the relevant country or a comparable trading platform, where the liquidity and transparency of the underlying assets are given. An active market is characterized by the fact that largely homogenous assets are traded at publicly accessible prices and buyers and sellers willing to conclude an agreement can be found at all times as a rule, for instance securities and commodities exchanges.

Financial instruments whose prices can be derived or modeled using parameters observable in the market are rated as level 2. Observable interest rates, exchange rates or comparable instruments are stated here as examples. Interest-bearing securities with moderately time-delayed direct price listing are also included in level 2.

In the previous year, level 3 securities were variable-interest-bearing fixed-income bonds and derivatives whose liquidity was not given on the due date in the public market and were for that reason allocated to level 3. The market values of level 3 securities were determined on the basis of currently available information from fund managers. A significant change to the interest rate and the associated change to market prices would influence the fair value of these securities.

A sale of holdings assigned to level 3 is not planned in the short term.

The performance of the securities and derivatives allocated to level 3 of the fair value hierarchy is presented in the following table:

| EUR million | 2017 | 2016 |
|---|---|---|
| **Last revised 1/1/** | 0.0 | 28.5 |
| Fair value changes recognized directly in equity | 0.1 | 0.0 |
| Price gains / losses | –0.1 | 0.0 |
| Purchases | 0.0 | 0.0 |
| Sales | 0.0 | –28.5 |
| Changes to the consolidated Group | 0.0 | 0.0 |
| Restructuring in level 3 | 11.1 | 0.0 |
| **Last revised 12/31/** | 11.1 | 0.0 |

Other profits and losses are recognized in other financial income and financial expenses.

Derivative financial instruments in level 1 are tradable derivatives, such as futures. Their fair value corresponds to the value on the traded futures exchange.

The level 2 derivative financial instruments are non-tradable derivatives. The determination of the fair values is carried out on the basis of prices of permitted stock exchanges discounted on the remaining maturity (exchange rates, interest rates and commodities price indices).

## Net profits and losses by measurement categories

| EUR million | Total net profits and losses |
|---|---|
| **2017** | |
| Loans and receivables | – 8.2 |
| Financial assets available for sale | |
| valued at fair value | 3.7 |
| valued at amortized costs | – 0.9 |
| Financial instruments valued at fair value directly in equity | 7.9 |
| Financial assets held for trading | 0.0 |
| Financial liabilities at cost | – 33.9 |
| **2016** | |
| Loans and receivables | – 0.8 |
| Financial assets available for sale | |
| valued at fair value | – 0.3 |
| valued at amortized costs | 0.0 |
| Financial instruments valued at fair value directly in equity | 3.8 |
| Financial assets held for trading | 0.0 |
| Financial liabilities at cost | – 48.5 |

Other net profits and losses of loans and receivables largely include currency gains and losses from foreign currency receivables and costs resulting from impairments on trade receivables.

Other net profits and losses in the financial assets available for sale measurement category are the offsetting of the realized profits and losses from the disposal of such assets, reduced by the unrealized changes already recognized for this in the equity, and the unrealized profits or losses of the existing assets recognized in equity in the current fiscal year. This also includes the currency profits and losses.

Other net profits and losses in the financial assets available for sale (measured at cost) measurement category include predominantly book profits and losses from the disposal of investees and dividend income from investees.

Other net profits and losses of the financial assets recognized at fair value with the corresponding impact on income measurement category include, in particular, the unrealized price profits and losses from securities of this category and the currency profits and losses.

Other net profits and losses of financial assets held for trading contain above all currency profits and losses as well as unrealized income and expenses from the measurement of derivative instruments.

Other net profits and losses from the "Financial liabilities at cost" evaluation category contain above all currency profits and losses from foreign currency liabilities, income from the derecognition of liabilities and interest expenses.

The value changes of the categorized financial assets available for sale, which were recognized directly in equity, amount to EUR 4.7 million before taxes in 2017 (previous year: EUR 0.3 million).

In the current fiscal year, no reclassifications were made in the consolidated profit and loss statement (previous year EUR 1.6 million).

The interest result for financial assets and financial liabilities not valued at fair value directly in equity amounted to EUR –0.1 million in 2017 (previous year EUR 0.1 million).

### Offsetting of financial assets and liabilities

Below are the financial assets and liabilities, the settlement agreements, claimable global settlement agreements and similar agreements:

| EUR million | 12/31/2017 | | |
|---|---|---|---|
| | Gross amount | Offsetting | Net amount |
| Trade receivables (current) | 605.3 | 9.3 | 596.0 |
| Trade payables | 561.4 | 9.3 | 552.1 |

| EUR million | 12/31/2016 | | |
|---|---|---|---|
| | Gross amount | Offsetting | Net amount |
| Trade receivables (current) | 593.6 | 8.6 | 585.0 |
| Trade payables | 493.4 | 8.6 | 484.8 |

## 37. Risks from financial instruments

### Management of financial risks

The risk management of the MANN+HUMMEL Group covers, among other things, the contractor and default risks with customers, banks and suppliers, liquidity and interest rate change risks and currency risks.

The measurement of the price risk from securities and the currency risk is carried out on the basis of a value-at-risk analysis. The value at risk specifies exclusively the potential risk of loss that is not exceeded with a set likelihood within a defined period (holding period). However, the method does not provide any information on the time of occurrence or the expected amount of loss in the event that the value at risk is exceeded. As a result, the actual performance may differ from the result of the value-at-risk analysis.

The companies of the MANN+HUMMEL Group assure their interest rate change and currency risks at market-compliant terms either via the cash management of the MANN+HUMMEL Group or directly with banks. Original transactions, such as loans with long-term fixed interest rate, but also - in particular in the currency area - derivative financial instruments with plain vanilla character. They conclude exclusively to hedge existing underlying transactions or planned transactions.

The risk positions of the cash management are hedged externally at banks with impeccable credit ratings, taking into account set risk limits. Hedging transactions are concluded in accordance with policies applicable across the Group and in accordance with the regulations applicable for banks to conduct trading.

### Default and contractor risk

The default risk is the risk that contracting parties fail to fulfill their payment obligations in the area of cash investments, financial assets and the trade receivables.

To reduce the contractor risk for cash investments, all financial transactions are only conducted with top-rate credit rating within the framework of defined limits.

In the event of the contractor defaulting, the financial assets of the Group result in a maximum default risk in the amount of the carrying amount of the corresponding balance sheet item without taking into account collaterals received (plus the maximum utilization for any financial guarantees and credit promises for third parties).

To reduce the default risk, the credit rating of the customers with whom the transactions were concluded on a loan basis and our receivables are subjected to an ongoing audit. Default risks are selectively reduced with corresponding hedging instruments, such as trade credit insurances. The carrying amount of the trade receivables covered by the trade credit insurances is EUR 10.8 million (previous year EUR 4.0 million).

## Liquidity risk

The liquidity risk describes the risk that a company cannot fulfill its financial liabilities on maturity. At MANN+HUMMEL, major liquidity matters and developments are regularly discussed in a 12-month liquidity planning. The subsidiaries are included in a central financing of the Group. For all potential fluctuations, the company holds reserve liquidity and credit lines of several hundred million euros, which is also available to cover M&A activities.

The maturity structure of the repayments and interest payments for the financial liabilities and liabilities from deliveries and services is presented in the following table:

| EUR million | Carrying amount as at 12/31/2017 | | | Cash outflows |
|---|---|---|---|---|
| | Total | 2018 | 2019 to 2023 | 2024 et seqq. |
| Liabilities to banks | 1,345.8 | 114.9 | 797.2 | 574.3 |
| Payables from finance leasing | 15.2 | 4.4 | 12.3 | 1.7 |
| Derivative financial instruments | 2.9 | 1.5 | 6.3 | -2.6 |
| Other financial liabilities | 210.8 | 113.2 | 13.0 | 139.0 |
| Trade payables | 552.1 | 553.7 | 3.0 | 0.0 |
| | **2,126.8** | **787.7** | **831.8** | **712.4** |

| EUR million | Carrying amount as at 13/31/2016 | | | Cash outflows |
|---|---|---|---|---|
| | Total | 2017 | 2018 to 2022 | 2023 et seqq. |
| Liabilities to banks | 1,455.6 | 58.7 | 1,057.0 | 490.0 |
| Payables from finance leasing | 20.6 | 9.3 | 12.4 | 4.2 |
| Derivative financial instruments | 24.5 | 4.9 | 10.2 | 11.4 |
| Other financial liabilities | 201.6 | 107.0 | 13.1 | 142.3 |
| Trade payables | 484.8 | 485.4 | 0.1 | 0.0 |
| | **2,187.1** | **665.3** | **1,092.8** | **647.9** |

## Price risk from securities

The price risk means the risk that the fair value of the securities drops.

Investments in securities are largely investments in interest-bearing securities, equities and fund units. A risk reduction follows from this risk reduction that is a requirement for a value increase that has as little fluctuation and is as continuous as possible.

The ultimate decision on the strategic asset allocation and the oversight of all investment results and risk budgets are taken with the special funds by an especially established committee (investment committee). The basis for the investment decisions of the external portfolio managers are the investment policies defined by the investor. When defining these policies, a solid issuer credit rating (minimum rating requirement), strong marketability of the securities and a broad industry diversification, among other things, are observed in order to achieve a further risk reduction.

The company receives a monthly report on the performance of the current market prices and of the individual asset classes. The performance is measured using, among other things, comparable values, key risk indicators and attribution and allocation analyses of the portfolio managers.

In addition to the qualitative diversification tools to reduce risk, such as diversification of investments in various asset classes, risk-driven design of the investment policies, analysis of the investment results and assessment of the changes in capital markets, quantitative control methods and investment styles are applied as a preference.

On the basis of a value-at-risk calculation, it can be assumed that with a likelihood of 99% and a holding period of 10 days, the market value reduction in the master fund, which bundles the funds of the various fund providers, is not higher than EUR 2.7 million (previous year not higher than 1.56% or EUR 4.5 million for the various fund providers). The calculations were made on the basis of the assumption that asset allocation does not change and no additions are made during the year that would then need to be reallocated. The historical correlations of the relevant funds and securities were taken into account.

## Currency risk

The MANN + HUMMEL Group makes transactions in different currencies due to its international setup. The currency risk means the risk that the fair values or future cash flows of monetary items are affected by exchange rate changes.

In the MANN+HUMMEL Group, hedging measures are conducted for planned foreign currency cash flows within defined maximum limits. To hedge prices, the net principle applies, i.e. the hedging is carried out for net items from reverse cash flows. Prices are mainly hedged via foreign exchange futures. Of the hedging volume, more than 50% was made up by the currencies USD, CNY, RUB, SGD and EUR in the fiscal year.

To finance the Affinia acquisition, an interest currency swap for USD 400 million was concluded in 2015 with a nominal amount of EUR 340 million and is designated as a fair value hedge as at December 31, 2017 of EUR 22.0 million (previous year EUR -19.7 million). To hedge against interest-change risks, further forward exchange contracts were also concluded, which have a market value of EUR 1.3 million (previous year EUR 0.0 million) as at December 31, 2017, and are also designated as fair value hedges.

The hedging of fair value hedges gives rise to value changes from hedging transactions in the amount of EUR -23.7 million (previous year EUR -19.7 million) and value changes from underlying transactions in the amount of EUR 23.7 million (previous year EUR 19.7 million).

In the MANN + HUMMEL Group, the value at risk is determined without change on the previous year on the basis of the variance-covariance method on the assumption of a confidence level of 95% with a holding period of 12 months.

As at the balance sheet date, a potential risk of loss of EUR 17.6 million (previous year EUR 27.1 million), with reference to the next 12 months, is not exceeded with a unilateral confidence level of 95%. The determination was based on an average price volatility of 6.6% (previous year 8.6%).

The maximum risk of loss is calculated from the average price volatility of the past twelve months with reference to the outstanding foreign currency item from the operating business. This results from the inventories of cash and loans in foreign currency on the due date, which are managed via cash flow management, and the net incoming and outgoing payments expected over the coming twelve months on the basis of the current corporate planning, taking into account the hedged inventories.

## Raw materials price risk

At the MANN+HUMMEL Group, no derivative financial instruments are used to hedge against raw materials price risks. With long-term contracts, a selection of strategic, globally positioned suppliers and the monitoring of exchange rates, MANN + HUMMEL minimizes the existing risks.

## Interest rate change risk

The interest rate change risk is the risk that the fair value or future cash flows of financial instruments fluctuate due to market interest rate changes.

MANN+HUMMEL monitors the interest rate change risk at monthly intervals and measures it against a defined loss limit as the basis for any necessary hedging measures.

An increase/reduction in the average interest rate on variable-interest-bearing financial liabilities by 50 basis points would have an effect on the net profit or loss before income tax of +/- EUR 0.4 million (previous year +/- EUR 2.2 million).

In the event of an increase in the average interest rate on variable-interest-bearing financial assets by 50 basis points, the net profit or loss before income tax would rise by EUR 0.13 million (previous year EUR 0.15 million). A fall by 50 basis points would have an effect on the net profit or loss before income tax by EUR 0.0 million (previous year EUR 0.0 million).

The sensitivity analysis was prepared on the assumption that the amount of the loans from banks and cash investments as well as the ratio of fixed to variable interest remain unchanged.

## 38. Government grants

EUR 0.4 million (previous year EUR 0.4 million) in government grants was received in the fiscal year. This is broken down as follows:

| EUR million | 2017 | 2016 |
|---|---|---|
| Grants for investments | 0.2 | 0.0 |
| Cost subsidies | 0.2 | 0.4 |

Expense subsidies comprise largely state subsidies for job creation and the purchase of recycled materials.

The conditions required for the granting of cost subsidies are fulfilled.

## 39. Related party disclosures

Under IAS 24, persons or companies that control the MANN+HUMMEL Group or are controlled by it must be disclosed, unless they are already included in the consolidated financial statements as a consolidated company. Control exists if a shareholder holds more than half the voting rights or if it is possible, under the articles of association or contractual agreement, to control the financial and business policy of the management. In addition, the reporting obligation extends under IAS 24 to transactions with associates and holdings, in which the MANN+HUMMEL Group holds at least 20% and to transactions with persons who have a considerable influence on the financial and business policies, including close family members or intermediate companies. A major influence on the financial and business policy can hereby be based on a stake in the parent of 20% or more, sitting on the Management Board or on the supervisory board of the parent or holding another key role in the management. Accordingly, only the members of the Supervisory Board and the Management Board are close persons. There are no other close persons.

The Mann Familien-Beteiligungsgesellschaft mbH&Co.KG and the Hummel Familien-Beteiligungsgesellschaft mbH&Co. KG, which together hold 83.3% of MANN+HUMMEL International GmbH & Co KG, exercise a significant influence as related parties. Transactions with these shareholders are limited to the distribution of dividends for 2017 in the amount of EUR 5.1 million (previous year: EUR 5.1 million). Furthermore, the other shareholders, which have a 16.7% holding in MANN+HUMMEL International GmbH & Co KG, received dividends for the current fiscal year in the amount of EUR 1.1 million (previous year EUR 1.1 million).

The transactions with related companies and the receivables and payables existing as at the balance sheet date essentially result from the usual business activities and are the following:

| EUR million | Associates | Other investees |
|---|---|---|
| **2017** | | |
| Deliveries made and services provided | | |
| Sale of goods | 7.4 | 1.8 |
| Services | 0.0 | 0.1 |
| Other services | 0.0 | 0.0 |
| | | |
| Deliveries received and services procured | | |
| Sale of goods | 0.0 | 0.0 |
| Services | 0.0 | 2.6 |
| Other services | 0.0 | 2.2 |
| | | |
| Receivables | 0.4 | 1.6 |
| | | |
| Liabilities | 0.0 | 1.7 |
| | | |
| **2016** | | |
| Deliveries made and services provided | | |
| Sale of goods | 0.0 | 0.8 |
| Services | 0.0 | 0.5 |
| Other services | 0.0 | 0.0 |
| | | |
| Deliveries received and services procured | | |
| Sale of goods | 0.0 | 0.0 |
| Services | 0.0 | 1.7 |
| Other services | 0.0 | 1.6 |
| | | |
| Receivables | 0.0 | 0.4 |
| | | |
| Liabilities | 0.0 | 0.4 |

## 40. Remuneration of the Management and Supervisory Boards

### Management Board

Alfred Weber, Stuttgart
Chairman (up to March 5, 2018)

Filiz Albrecht, Stuttgart (up to March 31, 2017)

Hansjörg Herrmann, Ruschweiler

Kai Knickmann, Ludwigsburg

Josef Parzhuber, Ilsfeld/Auenstein

Steffen Schneider, Benningen (up to March 31, 2017)

Emese Weissenbacher, Bietigheim-Bissingen

### Supervisory Board of MANN+HUMMEL Verwaltungs GmbH

Thomas Fischer, Schalksmühle
Chairman

Johann Huber, Marklkofen
Vice-Chairman
Works Council Member Marklkofen

Prof. Dr. Michael Bargende, Stuttgart
College Lecturer

Josef Bechtel, Ludwigsburg
Trade Union Secretary IG Metall,
Baden-Württemberg District Management

Walter Gehl, Frankfurt/Main

Joachim Grüdl, Bietigheim-Bissingen
Deputy Chairman of the Works Council, Ludwigsburg

Jens Michael Hummel, Stuttgart

Konrad Ott, Ludwigsburg
1. Authorized representative of IG Metall, Ludwigsburg

Dr. Gerhard Turner, Pliezhausen (up to January 31, 2017)

Nico Wetterich, Neuhaus-Schierschnitz
Works Council Member Sonneberg

Bernhard Wimmer, Rimbach
Plant Head Marklkofen

Johannes Winklhofer, Stockdorf
Managing Partner
iwis Group

Manfred Wolf, Ludwigsburg (since February 1, 2017)

Since January 1, 2016, the Group management functions are performed by MANN+HUMMEL International GmbH & Co. KG, for which reason no supervisory board need to be formed at MANN+HUMMEL HOLDING GmbH. Accordingly, the Supervisory Board of MANN +HUMMEL HOLDING GmbH was disbanded on February 21, 2016.

The current short-term salaries of the active members of the Management Board for the 2017 fiscal year are EUR 4.9 million (previous year EUR 5.0 million). The expenses for the pension entitlements of the active members of the Management Board earned in the current fiscal year amount to EUR 0.7 million (previous year EUR 1.0 million).

The provisions for pensions for former members of the Management Board and their survivors is EUR 10.6 million (previous year EUR 10.7 million).

The salaries of the Supervisory Board for the 2017 fiscal year amount to EUR 0.2 million (previous year EUR 0.1 million).

In addition, companies of the MANN+HUMMEL Group have not conducted any transactions subject to contributions with members of the management or the Supervisory Board of the MANN+HUMMEL Group as well as other members of the management in key roles or with companies on whose management or supervisory committees these persons sit. This also applies to close family members of this Group of persons.

## 41. Staff

The workforce at the MANN+HUMMEL Group was an annual average of 20,535 (previous year 20,646), of whom 7,140 (previous year 6,948) are employees and 13,395 (previous year 13,698) wage earners.

## 42. Fees of the auditor

The fee of the auditor of the consolidated financial statements, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, reported in the consolidated financial statements is EUR 1.7 million (previous year EUR 0.6 million) and consists of auditing services in the amount of EUR 0.3 million (previous year EUR 0.3 million), tax advisory services of EUR 1.0 million (previous year EUR 0.2 million) and other services of EUR 0.4 million (previous year EUR 0.1 million).

## 43. Indication of Section 264b(3) HGB

The companies, MANN+HUMMEL East European GmbH & Co. KG, Ludwigsburg, MANN+HUMMEL Vokes Air GmbH & Co. OHG, Sprockhövel and MANN+HUMMEL Innenraumfilter GmbH & Co. KG Himmelkron/Germany are exempt from disclosure under Section 264b(3) German Commercial Code (HGB).

## 44. Events after the balance sheet date

There were no significant events after the balance sheet date.

## 45. Share property list

| Company name and domicile | Consolidation status[1)] | Equity interest in % |
|---|---|---|
| **1. Subsidiaries** | | |
| **Germany** | | |
| MANN+HUMMEL Holding GmbH, Ludwigsburg | V | 83.3 |
| MANN+HUMMEL Verwaltungs GmbH, Ludwigsburg | V | 83.3 |
| MANN+HUMMEL Beteiligungs- und Verwaltungsgesellschaft mbH, Ludwigsburg | V | 83.3 |
| MANN+HUMMEL Auslandsbeteiligungsgesellschaft mbH, Ludwigsburg | V | 83.3 |
| MANN+HUMMEL GmbH, Ludwigsburg | V | 83.3 |
| MANN+HUMMEL AUTOMOTIVE GmbH, Bad Harzburg | V | 83.3 |
| MANN+HUMMEL Innenraumfilter GmbH & Co. KG, Himmelkron | V | 83.3 |
| MANN+HUMMEL Innenraumfilter Verwaltungs GmbH, Himmelkron | V | 83.3 |
| MANN+HUMMEL Komplementär GmbH, Ludwigsburg | V | 83.3 |
| MANN+HUMMEL East European Holding GmbH, Ludwigsburg | V | 83.3 |
| MANN+HUMMEL East European GmbH & Co. KG, Ludwigsburg | V | 83.3 |
| MANN+HUMMEL East European Verwaltungs GmbH, Ludwigsburg | V | 83.3 |
| MANN+HUMMEL Vokes Air GmbH & Co. OHG, Sprockhövel | V | 83.3 |
| MANN+HUMMEL MRH Filter Beteiligungsgesellschaft mbH, Sprockhövel | V | 83.3 |
| MANN+HUMMEL Atex Filter Verwaltungsgesellschaft mbH, Sprockhövel | V | 83.3 |
| MN Beteiligungsgesellschaft mbH, Wiesbaden | V | 83.3 |
| MICRODYN-NADIR GmbH, Wiesbaden | V | 83.3 |
| | | |
| **Europe** | | |
| MANN+HUMMEL (UK) LTD., Wolverhampton/UK | V | 83.3 |
| MANN+HUMMEL FINANCE UK LTD., Wolverhampton/UK | V | 83.3 |
| INDUSTRIAL FILTERS LTD., Wolverhampton/UK | V | 83.3 |
| MANN+HUMMEL HYDROMATION N.V., Hasselt / Belgium | V | 83.3 |
| MANN+HUMMEL (CZ) v.o.s., Nová Ves/Czech Republic | V | 83.3 |
| MANN+HUMMEL Service s.r.o., Nová Ves/Czech Republic | V | 83.3 |
| MANN+HUMMEL Innenraumfilter s.r.o., Uherský Brod/Czech Republic | V | 83.3 |
| MANN+HUMMEL IBERICA S.A.U., Saragossa/Spain | V | 83.3 |
| MANN+HUMMEL FRANCE SAS, Laval/France | V | 83.3 |
| MANN+HUMMEL ITALIA S.r.l., Turin/Italy | V | 83.3 |
| MANN+HUMMEL OOO, Moscow/Russian Federation | V | 83.3 |
| MANN+HUMMEL Filtration Technology Russia LLC, Moscow/Russian Federation | V | 83.3 |
| MANN+HUMMEL Filtration Technology Ukraine Ltd., Krasiliv/Ukraine | V | 83.3 |
| MANN+HUMMEL BA J.S.C., Tesanj/Bosnia-Herzegovina | V | 78.2 |
| MANN VE HUMMEL FİLTRE SANAYİ VE TİCARET LİMİTED ŞİRKETİ, Istanbul/Turkey | V | 83.3 |
| MANN + HUMMEL Vokes Air Treatment Holdings Ltd., Burnley/UK | V | 83.3 |
| MANN + HUMMEL Vokes-Air Limited, Burnley/UK | V | 83.3 |
| MANN+HUMMEL Filtration Technology UK Ltd., Riverside/UK | V | 83.3 |
| MANN+HUMMEL Vokes Air Filtration Ltd, Burnley/UK | V | 83.3 |
| MANN+HUMMEL Wheway Plc, Burnley/UK | V | 83.3 |
| MANN+HUMMEL Vokes Air BV, Ijsselstein/Netherlands | V | 83.3 |
| MANN+HUMMEL Filtration Technology Netherlands Holdings BV, Ijsselstein/Netherlands | V | 83.3 |
| MANN + HUMMEL Vokes Air AS, Hvidovre/Denmark | V | 83.3 |
| MANN+HUMMEL Vokes Air AG, Uster/Switzerland | V | 83.3 |

| Company name and domicile | Consolidation status[1] | Equity interest in % |
|---|---|---|
| MANN + HUMMEL Vokes Air GmbH, Vösendorf/Austria | V | 83.3 |
| MANN+HUMMEL Vokes Air Holding AB, Svenljunga/Sweden | V | 83.3 |
| MANN+HUMMEL Vokes Air AB, Svenljunga/Sweden | V | 83.3 |
| MANN+HUMMEL FT Poland Spolka z Ograniczona Odpowiedzialnoscia sp.k., Gostyn/Poland | V | 83.3 |
| MANN+HUMMEL FT Poland Spolka z Ograniczona Odpowiedzialnoscia, Gostyn/Poland | V | 83.3 |
| Jack Filter Lufttechnik GmbH, Steindorf/Austria | V | 83.3 |
| Jack Filter Hungaria Kft., Polgárdi/Hungary | V | 83.3 |
| JFI Service Kft., Polgárdi/Hungary | V | 83.3 |

| **America** | | |
|---|---|---|
| MANN+HUMMEL INC., Wilmington, DE/USA | V | 83.3 |
| MANN+HUMMEL USA, INC., Portage, MI/USA | V | 83.3 |
| MANN+HUMMEL Purolator Filters LLC, Fayetteville/USA | V | 83.3 |
| I2M LLC, Raleigh, NC/USA | N | 83.3 |
| MICRODYN TECHNOLOGIES INC., Raleigh, NC/USA | V | 83.3 |
| MANN+HUMMEL Filtration Technology Group Inc., Gastonia, NC/USA | V | 83.3 |
| MANN+HUMMEL Filtration Technology US LLC, Gastonia, NC/USA | V | 83.3 |
| MANN+HUMMEL Filtration Technology Products Corp LLC, Gastonia, NC/USA | V | 83.3 |
| MANN+HUMMEL Filtration Technology Southern Holdings LLC, Gastonia, NC/USA | V | 83.3 |
| MANN+HUMMEL Filtration Technology International Inc., Gastonia, NC/USA | V | 83.3 |
| MANN+HUMMEL Filtration Technology Canada ULC, Ayr, Ontario/Canada | V | 83.3 |
| MANN+HUMMEL Filtration Technology Canada GP Corp., Calgary, Alberta/Canada | V | 83.3 |
| MANN+HUMMEL Filtration Technology Canada L.P., Calgary, Alberta/Canada | V | 83.3 |
| MANN+HUMMEL MEXICO S.A. d. C. V., Santiago de Querétaro/Mexico | V | 83.3 |
| MANN+HUMMEL MEXICO SERVICIOS S.A. d. C.V., Santiago de Querétaro/Mexico | V | 83.3 |
| MANN+HUMMEL Filtration Technology Mexico S. de R.L.de C.V. , Ramos Arizpe/Mexico | V | 83.3 |
| MANN+HUMMEL Filtration Technology Distribution Mexico S.A. de C.V., Ramos Arizpe/Mexico | V | 83.3 |
| MANN+HUMMEL BRASIL LTDA., Indaiatuba/Brazil | V | 83.3 |
| Fluid Brasil Sistemas e Tecnologia Ltda., Jundiai/Brazil | V | 83.3 |
| MANN+HUMMEL ARGENTINA S.A., Buenos Aires/Argentina | V | 83.3 |
| MANN+HUMMEL Filtration Technology Venezuela C.A., Maracay/Venezuela | N | 83.3 |
| MANN+HUMMEL Filtration Technology Distribution Venezuela C.A., Maracay/Venezuela | N | 83.3 |
| MANN+HUMMEL Filtration Technology Commercial Distribution C.A., Maracay/Venezuela | N | 83.3 |
| MANN+HUMMEL COLOMBIA S.A.S., Bogotá, D.C./Columbia | V | 83.3 |

| Company name and domicile | Consolidation status[1)] | Equity interest in % |
|---|---|---|
| **Asia** | | |
| MANN+HUMMEL WATER SOLUTIONS HOLDING PTE. LTD., Singapore/Singapore | V | 83.3 |
| MANN+HUMMEL FILTER TECHNOLOGY (S.E.A.) PTE. LTD., Singapore/Singapore | V | 83.3 |
| MICRODYN-NADIR Singapore Pte. Ltd., Singapore/Singapore | V | 83.3 |
| MANN+HUMMEL Middle East FZE, Dubai/United Arab Emirates | V | 83.3 |
| MANN and HUMMEL Thailand Ltd., Bangkok/Thailand | V | 83.3 |
| MANN+HUMMEL KOREA CO. LTD., Wonju/South Korea | V | 83.3 |
| MANN+HUMMEL JAPAN LTD., Shin-Yokohama/Japan | V | 83.3 |
| MANN AND HUMMEL FILTER PRIVATE LTD., Bangalore/India | V | 83.3 |
| CHANGCHUN MANN+HUMMEL FAWER FILTER CO. LTD., Changchun/PR China | V | 50.0 |
| MANN+HUMMEL Filter (CHONGQING) CO., LTD., Chongqing/PR China | V | 83.3 |
| MANN+HUMMEL FILTER (SHANGHAI) CO. LTD., Shanghai/PR China | V | 83.3 |
| MANN+HUMMEL FILTER TRADING (SHANGHAI) CO. LTD., Shanghai/PR China | V | 83.3 |
| MANN+HUMMEL (CHINA) CO. LTD., Shanghai/PR China | V | 83.3 |
| MANN+HUMMEL FILTER (JINAN) CO. LTD., Jinan/PR China | V | 83.3 |
| MANN+HUMMEL Haoye Filter (Bengbu) Co., Ltd., Bengbu/PR China | V | 83.3 |
| MICRODYN-NADIR (Xiamen) Co., Ltd., Xiamen/PR China | V | 83.3 |
| MANN+HUMMEL Filtration (Longkou) Co., Ltd., Longkou City/PR China | V | 83.3 |
| MANN+HUMMEL Trading (Shanghai) Co., Ltd., Shanghai/PR China | V | 83.3 |
| MANN and HUMMEL Filtration (Hong Kong) Ltd., Hong Kong/PR China | V | 83.3 |
| MANN AND HUMMEL INDONESIA, PT., Bekasi/Indonesia | V | 83.3 |
| | | |
| **Australia** | | |
| MANN AND HUMMEL AUSTRALIA (PTY) LTD., Arndell Park NSW/Australia | V | 83.3 |
| MANN+HUMMEL Filtration Technology Australia Ltd., Brighton/Australia | N | 83.3 |
| | | |
| **Africa** | | |
| MANN AND HUMMEL Filters South Africa (Pty) Ltd., Boksburg/South Africa | V | 83.3 |
| | | |
| **2. Associates** | | |
| ABC S.A., Cordoba/Argentina | E | 25.0 |

1) V: Consolidated Group; E: Retention at equity;
N: no inclusion due to irrelevance in accordance with Section 296(2) HGB or Section 311(2) HGB

Ludwigsburg, April 12, 2018

MANN+HUMMEL International GmbH & Co KG

**The Management Board**

# Independent Auditor's Report

To MANN+HUMMEL International GmbH & Co. KG

## Audit opinions

We audited the consolidated financial statements of MANN+HUMMEL International GmbH & Co. KG, Ludwigsburg and its subsidiaries (the Group) – comprising the consolidated profit and loss statement and the consolidated net income statement for the fiscal year from January 1 to December 31, 2017, the consolidated balance sheet on December 31, 2017, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year from January 1 to December 31, 2017, as well as the Notes to the consolidated financial statements, including a summary of the significant accounting methods. Furthermore, we audited the Group status report of MANN+HUMMEL International GmbH & Co. KG for the fiscal year from January 1 to December 31, 2017.

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

- the attached consolidated financial statements comply in all material respects with IFRS as adopted by the EU, and the German statutory supplementary commercial regulations applicable under Section 315e (1) of the German Commercial Code (HGB), and give a true and fair view of the net assets and financial position of the Group on December 31, 2017 and its results of operation for the fiscal year from January 1 to December 31, 2017 and

- the attached Group status report as a whole provides an appropriate view of the Group's position. In all material respects, this Group status report is consistent with the consolidated financial statements and complies with the German statutory regulations and appropriately represents the opportunities and risks of future development.

In accordance with Section 322 (3) clause 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations regarding the regularity of the consolidated financial statements or the Group status report.

## Basis for our audit opinions

We conducted our audit of the consolidated financial statements and the Group status report in accordance with Section 317 of the German Commercial Code (HGB) and generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) (Institute of Public Auditors in Germany). Our responsibility in accordance with these regulations, principles and standards is described in the section "Auditor's responsibility for auditing the consolidated financial statements and the Group status report" of our auditor's report. We are independent of the Group companies in accordance with the statutory commercial and professional regulations and have satisfied our other professional duties applicable in Germany in accordance with these requirements. We believe that the evidence provided by our audit work is sufficient and suitable to serve as a basis for our audit opinions regarding the consolidated financial statements and Group status report.

## Other information

The legal representatives are responsible for the other information. The other information comprises the remaining parts of the annual report likely to be made available to us after this date, with the exception of the audited consolidated financial statements and Group status report as well as our independent auditor's report.

Our audit opinions regarding the consolidated financial statements and Group status report do not extend to the other information and, accordingly, we provide neither an audit opinion, nor any form of audit conclusions with regard to it.

In the context of our audit, it is our responsibility to read the other information and assess whether the other information

- displays significant discrepancies with the consolidated financial statements or with the knowledge we have gained during the audit, or
- seems significantly incorrect in its representations.

### Responsibility of the legal representatives and the Supervisory Board for the consolidated financial statements and the Group status report

The legal representatives are responsible for the preparation of the consolidated financial statements in compliance with the IFRS as adopted by the EU, and the supplementary statutory German commercial regulations applicable under Section 315e (1) of the German Commercial Code (HGB) in all significant aspects, and that the consolidated financial statements communicate a true and fair view of the net assets, financial position, and results of operations of the Group. Moreover, the legal representatives are responsible for the internal audits which they have deemed necessary in order to enable the preparation of consolidated financial statements which are free of - intentional or unintentional - material misstatement.

During preparation of the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue its corporate activities. Furthermore, they are responsible for providing facts in relation to the continuation of the corporate activities where appropriate. Moreover, they are responsible for accounting for the continuation of the corporate activities based on the accounting policy, unless the intention is to liquidate the Group or to discontinue the business operations or there is no realistic alternative to this.

The legal representatives are also responsible for the preparation of the Group status report, which communicates a generally appropriate image of the status of the group and conforms to the consolidated financial statements in all significant regards, complies with the statutory German regulations and appropriately represents the opportunities and risks of the future development. Moreover, the legal representatives are responsible for the precautions and measures (systems) which they have deemed necessary for the preparation of a Group status report in compliance with the applicable statutory German regulations and to provide sufficient suitable evidence for the statements made in the Group status report.

The Supervisory Board is responsible for monitoring the Group's accounting process for preparing the consolidated financial statements and Group status report.

### Responsibility of the auditor for auditing the consolidated financial statements and the Group status report

Our objective is to obtain reasonable assurance that the consolidated financial statements as a whole are free of - intentional or unintentional - material misstatement and that the Group status report as a whole provides an appropriate view of the Group's position and conforms to the consolidated financial statements and with the findings obtained during the audit in all significant regards, complies with the statutory German regulations and appropriately represents the opportunities and risks of the future development, as well as to provide an auditor's report containing our audit opinions regarding the consolidated financial statements and the Group status report.

Reasonable assurance is a high level of assurance but no guarantee that an audit conducted in compliance with Section 317 of the German Commercial Code (HGB) taking account of the German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) (Institute of Public Auditors in Germany) will always detect a material misstatement. Misstatements can result from fraud or error and are regarded as significant if it could be reasonably assumed that they individually or as a whole have an influence on the economic decisions of users of these consolidated financial statements and Group status report.

During the audit, we exercise professional judgment and maintain a critical attitude. In addition:

- we identify and assess the risks of – intentional or unintentional – material misstatement in the consolidated financial statements and in the Group status report, plan and carry out audit procedures as a response to these risks and obtain audit evidence which is sufficient and suitable to serve as a basis for our audit opinions. The risk that material misstatements are not detected is higher in the case of fraud than error because fraud can involve deceitful collaboration, forgeries, deliberate omissions, misleading representations and the circumvention of internal controls;

- We gain an understanding of the internal control system relevant for auditing the consolidated financial statements and of the relevant precautions and measures relevant for the Group status report in order to plan the audit procedures which are appropriate in the given circumstances, but not with the objective of expressing an audit opinion on the effectiveness of these systems;

- We assess the appropriateness of the accounting methods used by the legal representatives as well as the acceptability of the estimates and associated information presented by the legal representatives;

- We draw conclusions regarding the appropriateness of the accounting standards applied by the legal representatives for continuation of the corporate activities and, on the basis of the audit evidence obtained, whether there is significant uncertainty in connection with events or circumstances that may raise significant doubts as to the ability of Group to continue the corporate activities. Should we reach the conclusion that there is significant uncertainty, we are obligated to draw attention in the Auditor's report to the associated information contained in the consolidated financial statements and in the Group status report, or if this information is inappropriate, to modify our audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our auditor's report. Future events or circumstances may nonetheless lead to the Group no longer being able to continue its activities;

- We evaluate the overall presentation, the structure and content of the consolidated financial statements, including the information provided therein and assess whether these present the underlying business transactions and events in such manner as to convey a true and fair view of the net assets, financial position and results of operations of the Group in compliance with IFRS as adopted by the EU, and the German statutory supplementary commercial regulations applicable under Section 315e (1) of the German Commercial Code (HGB);

- We obtain sufficient and suitable evidence for the accounting information relating to the companies or business activities within the Group in order to provide audit opinions regarding the consolidated financial statements and Group status report. We are responsible for guiding, monitoring and conducting the audit of the consolidated financial statements. We bear the sole responsibility for our audit opinions;

- We evaluate the conformity of the Group status report with the consolidated financial statements and the view that they present of the Group's position;

- We carry out audit procedures with regard to the forward-looking statements presented by the legal representatives in the Group status report. Based on sufficient suitable audit evidence, we assess in particular the significant assumptions upon which the legal representatives have based their forward-looking statements and evaluate the appropriateness of the derivation of the forward-looking statements from these assumptions. We do not provide an independent audit opinion on the forward-looking statements or of the assumptions upon which these are made. There is a significant, inevitable risk that future events will deviate significantly from the forward-looking statements.

Among other aspects, we discuss the planned scope and scheduling of the audit as well as the significant audit findings, including any shortcomings in the internal control system which we encounter during our audit with the persons responsible for monitoring

Stuttgart, April 12, 2018

Ernst & Young GmbH
Auditors

| | |
|---|---|
| **Meyer** | **Heubach** |
| Auditor | Auditor |

# Imprint

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