# Annual Report 2016
## Fast Forward

Leadership in Filtration

MANN+HUMMEL

We always like to be an idea ahead. And we succeed in doing so time and again, because we know the market so well and understand its dynamics. Everything is constantly in motion. And that's the way we like it. Because we love to make things happen – and make them happen fast. Nothing has changed our "fast forward" attitude over the last 75 years. Without it, "Leadership in Filtration" would be impossible.

## Key figures[1]

| EUR million | 2016 | 2015 |
|---|---|---|
| **Sales** | **3,480** | 3,042 |
| **Operating profit or loss (EBIT)** | **116** | 135 |
| As % of sales | 3.3% | 4.5% |
| **Earnings before interest, taxes, depreciation and amortization (EBITDA)** | **335** | 240 |
| As % of sales | 9.6% | 7.9% |
| **Net profit or loss before income tax and changes in capital economically attributable to the shareholders** | **73** | 82 |
| As % of sales | 2.1% | 2.7% |
| **Consolidated net income** | **7** | 33 |
| As % of sales | 0.2% | 1.1% |
| **Free cash flow** | **–376** | 82 |
| As % of sales | –10.8% | 2.7% |
| **Total assets** | **4,049** | 3,768 |
| **Investments in tangible assets** | **151** | 140 |
| **Depreciation of tangible assets** | **104** | 91 |
| **Value added per employee** | **81 kEUR** | 84 kEUR |
| **Average number of employees** | **20,646** | 16,607 |

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

At MANN+HUMMEL everything is constantly in motion – we are set to "fast forward". MANN+HUMMEL is however far more than the sum of its parts. This is because the combination of experience, innovation, and teamwork creates a unique dynamic that makes MANN+HUMMEL both recognized and outstanding in its field internationally.

**Key Facts 2016**

**3,480** **Millions of euros** Sales

**+14.4** **Percent** Sales growth compared to 2015

**+118** **Percent** Sales growth since 2006

**20,646** **Employees** Worldwide

# MANN+HUMMEL
# Our new business areas

### Automotive Solutions

## MANN+HUMMEL as a strong partner with strong brands

MANN+HUMMEL develops, coordinates and delivers overall solutions in the area of air and liquid filtration. Moreover, with our strong brands, our comprehensive product portfolio also boasts a wealth of applications for the automotive aftermarket. We offer excellent customer service, broad geographical coverage, quick processing times and the best completion rates.

### Industrial Solutions

## Tailor-made solutions for different framework conditions

We offer our customers robust and high-performance filter systems, tailored to a wide range of applications and requirements. Using modular product kits and customer-specific developments, we resolve the most varied of filtration tasks: air filters, oil filters, fuel filters, air deoiling elements, EDM filters and crankcase ventilation systems. Our range of applications is just as diverse.

### Intelligent Air Solutions

## Intelligent Air Solutions – Clean air for interiors

The public interest in outdoor air pollution is huge; in the process it is easy to forget that air pollution in the indoor spaces where we spend 90 percent of our time can be many times higher. Under the brand OurAir Intelligent Air Solutions, MANN+HUMMEL offers solutions that make these places clean and healthy spaces to be in – with air meters, air cleaners for interiors and automobiles, as well as digital services.

### Water Solutions

## Water Solutions – Sustainable use of water

Water is a precious and exhaustible resource. Handling water responsibly to ensure that in the future everyone on this earth has access to clean water means: saving water, recycling water, treating water and thus closing the water cycle again. Membrane experts, simulation experts and plastics technicians at MANN+HUMMEL are continuously researching how to improve performance and provide more clean water.

# MANN+HUMMEL
# Product highlights

### Diesel fuel filter PU 9005 z

**>95** **Percent**
Water separation rate

The new PU 9005 z and PU 10 011 z diesel fuel filters from MANN-FILTER separate out very small and finely distributed water droplets from diesel fuel. The innovative filters with three-stage water separation achieve constantly high rates of separation across the entire service interval.

### Diesel fuel filter

**>99.7** **Percent**
Particle separation rate

Highly efficient particle filtration, excellent water separation and an impressive heating power: the latest high performance fuel filter module from MANN+HUMMEL meets the highest requirements for the protection of modern diesel injection systems.

### Urea module

**>3,000** **hours**
Service life

For construction and agricultural machinery: the innovative urea module can withstand the toughest of operating conditions thanks to its patented ventilation and efficient thermal management.

### Fuel filter WF10255NP NanoPro®

**<2** **micrometers**
Practically impermeable

The new WF10255NP fuel filter from the WIX Filters brand excels thanks to its new multi-layer nanofiber filter medium. This enables a high standard of filtration efficiency that meets even the most demanding requirements.

# MANN+HUMMEL Highlights 2016

## Q1

### 75 years of PURE INNOVATION

**January** officially heralds the start of MANN+HUMMEL's 75th year in business. Anniversary celebrations take place throughout the entire year in all our locations worldwide.

### MANN+HUMMEL is "Innovator of the Year 2016"

**In March,** Brand eins Wissen und Statista named MANN+HUMMEL one of the most innovative companies in Germany in the sector "Automotive & Commercial Vehicles Supplier“.

## Q2

### Takeover of the Affinia Group completed

**May** sees MANN+HUMMEL acquire the US-based Affinia Group Inc., thereby completing a further milestone on the road towards the "Leadership in Filtration" vision.

### "Red Dot Award" for ENTARON HD 4 air filter

**In June** the ENTARON HD 4 air filter from MANN+HUMMEL was bestowed the Red Dot award. Only products with an outstanding design are considered by the panel of judges.

## Q3


### Technology center in Ludwigsburg opens

**In July,** MANN+HUMMEL opens the new technology center in Ludwigsburg. The 24,000 square meter site is home to around 450 workplaces, research and laboratory facilities and a new company museum “Filterwerk”.

### MANN-FILTER First place for the second time

**In September** the readers of the commercial vehicle magazine “PROFI Werkstatt” voted MANN-FILTER as their PROFI Werkstatt Brand of the Year 2016 in the Filter category, and this for the second time. In total, 180 brands in 20 different categories were up for selection.

## Q4

### MANN+HUMMEL opens its Internet of Things Lab

**In October** MANN+HUMMEL opens its global Internet of Things Lab in Singapore. This is an integral component of the global research and development network. The focus is on the development and provision of “Smart Filtration Solutions”.

### Supplier of the Year Award from Fiat Chrysler Automobiles

**December** sees MANN+HUMMEL being honored by Fiat Chrysler Automobiles at its Supplier Quality Convention with the Supplier of the Year Award in the category Chassis and Engine Systems for the Europe region. The management of Fiat Chrysler Automobiles chose MANN+HUMMEL from amongst more than 1,000 suppliers.

# Foreword by the Management Board

## Alfred Weber
## President & Chief Executive Officer

Alfred Weber studied Economics and Business Organization at the University of Munich. Before joining MANN+HUMMEL in January 2010, the business graduate worked in the US for the automotive component supplier BorgWarner as president of various business units.

**Dear Partners,**
**dear employees and friends of MANN+HUMMEL,**

Numerous studies on digitization raise the question as to whether digital transformation has reached the boardrooms of German companies. Only around one third of the major corporations surveyed have digital transformation as one of the top three items on their agenda. I personally found this result surprising, given that technology experts expect around 50 billion devices to be networked worldwide by 2020. Over the next five to ten years, billions of sensors will be connected to the Internet of Things, while 3D printing processes and Industry 4.0 technologies will become an integral part of production. According to a survey conducted by the World Economic Forum, we can expect to see the first computer with artificial intelligence become a member of the Supervisory Board of a company in 2026. Whether this proves to be the case remains to be seen. Nevertheless, these findings illustrate the need to be prepared for the profound changes that we face. At MANN+HUMMEL, we see digital transformation as one of the biggest drivers of competitiveness and an opportunity for growth, and we have been laying the necessary groundwork over the past year.

As a result of our acquisition of the global filtration business of the Affinia Group with its strong WIX Filters and FILTRON brands in May 2016, we expanded our portfolio and improved our access to markets and we can now offer a wider range of solutions to even more customers. The Technology Center in Ludwigsburg, which was inaugurated in July 2016 and has around 100 state-of-the-art test benches and 500 workspaces, is a key element of our global innovation strategy. To coordinate our activities in the area of digitization, we opened the IoT (Internet of Things) Lab in Singapore in October 2016, which is globally networked and works with startups and partners in the development of intelligent filtration solutions and new business models. We now have more than 20,000 employees at over 80 locations implementing our Leadership in Filtration vision.

We know that the world is moving faster than ever before and that the speed of change will never again be as slow as it is now. MANN+HUMMEL sees these challenges as an opportunity. Filtration is and will remain our core competency. It separates harmful from useful substances and is a key technology of the 21st century. We are therefore finding answers to vital questions and working together to come up with new filtration solutions and business ideas, even beyond our traditional areas of activity.

Alfred Weber

**Alfred Weber**
President & Chief Executive Officer

## 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 Automotive OEM & Industrial Filtration

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. Now, 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 MANN+HUMMEL's 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.

## 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.

# Report by the Supervisory Board

Thomas Fischer
Chairman of the Supervisory Board

A new Supervisory Board was appointed at MANN+HUMMEL Verwaltungs GmbH in 2016 on account of the new holding structure of the MANN+HUMMEL Group, thus replacing the existing Supervisory Board of MANN+HUMMEL Holding GmbH. The members of the Supervisory Board were appointed by the competent court in accordance with relevant procedure.

At its inaugural meeting on April 7, 2016, the newly formed Supervisory Board elected Thomas Fischer as its Chairman. A mediation committee and a human resources committee were also formed in accordance with Section 27 (3) of the Codetermination Act at this meeting.

The Supervisory Board of MANN+HUMMEL Verwaltungs GmbH met three times in the year under review. In addition to the current business performance, discussions about possible effects of global economic trends on the company were also the focus 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 also informed the Supervisory Board about the current developments verbally and in writing on a regular basis in addition to the meetings.

The Supervisory Board was thus informed by the Management Board about the conclusion of the contract for the acquisition of the global filtration business of the Affinia Group, which took place on May 4, 2016, following approval by the antitrust authorities. In the course of the fiscal year, the Management Board reported on the current status following the acquisition of the Group at the Supervisory Board meetings.

The Management Board also informed the Supervisory Board about the adapted overall strategy due to the acquisition of the Affinia Group at these meetings. It is now possible to achieve growth targets earlier. Strategic projects for achieving growth targets and for securing company results were also discussed and explained by the Management Board at the Supervisory Board meetings.

The newly constructed MANN+HUMMEL Technology Center in Ludwigsburg was inaugurated on July 1, 2016. On the same day, the company kicked off the official 75th anniversary celebrations, which were attended by the members of the Supervisory Board.

The annual financial statements of 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.

In February 2016, the Supervisory Board unanimously appointed Messrs Kai Knickmann, Josef Parzhuber and Steffen Schneider as further Managing Directors, with effect from March 1, 2016.

The long-serving Chairman of the Supervisory Board, Christine Wagner, retired from the company and from the Supervisory Board on April 30, 2016. At the April 2016 meeting, the Supervisory Board paid tribute to Ms Wagner for her commendable work on the Supervisory Board and as a member of the mediation and human resources committee, and thanked her for her commitment to the interests of the company and its employees.

Johann Huber succeeded Christine Wagner as employee representative to the Supervisory Board with effect from May 1, 2016. At the meeting on June 26, 2016, Mr Huber was unanimously elected as Vice-Chairman of the Supervisory Board. Mr Huber is thus automatically an ex officio member of the mediation and human resources committee.

Manfred Wolf retired from his position on the Management board with effect from June 30, 2016. The Supervisory Board paid tribute to Manfred Wolf's successful work over many years and thanked him for his commitment to the benefit of the company.

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, May 2017

**Thomas Fischer**
Chairman of the Supervisory Board

# Group status report of MANN+HUMMEL International GmbH & Co. KG 2016[1]

## Group business model

›› More than 3,000 patents and 75 years of filtration know-how
›› Presence at more than 80 locations on five continents
›› Sustainable growth through targeted investment in the future

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 Group is divided into four Business Units: Automotive Original Equipment, Automotive Aftermarket, Industrial Filtration, and Water Filtration, as well as Wix-Filtron. MANN+HUMMEL develops and distributes air, oil, fuel, and cabin air filters, as well as filter systems for the automotive original equipment and aftermarket business. Furthermore, applications for ambient and process air filtration, as well as membrane filters for water and food filtration round off the portfolio.

On January 1, 2016, as part of the realignment of the internal corporate structures within the MANN+HUMMEL Group, MANN+HUMMEL International GmbH & Co KG became the management company, replacing MANN+HUMMEL Holding GmbH in that function. As previous partner companies of MANN+HUMMEL Holding GmbH, Mann Familien-Beteiligungsgesellschaft mbH & Co. KG and Hummel Familien-Beteiligungsgesellschaft mbH& Co. KG transferred their business operations and consequently their business interests to MANN+HUMMEL International GmbH & Co. KG. As at December 31, 2016, MANN+HUMMEL International GmbH & Co. KG as the ultimate parent company, therefore held 83.33% of the capital stock of MANN+HUMMEL Holding GmbH. Further partner companies of MANN+HUMMEL International GmbH & Co. KG have a direct participation of 16.67% in MANN+HUMMEL Holding GmbH, but without voting rights. Accordingly, these are reported as non-controlling interests in the consolidated financial statements of MANN+HUMMEL International GmbH & Co. as at December 31, 2016.

To ensure that the reporting unit existing prior to and following January 1, 2016, is presented consistently in the consolidated financial statements, the previous year‘s figures from the consolidated financial statements as at December 31, 2015 with the then ultimate parent company MANN+HUMMEL Holding GmbH are presented in the consolidated financial statements as at December 31, 2016.

The company is represented at more than 80 locations on five continents and is active on all markets worldwide.

With the acquisition of the Affinia Group by the MANN+HUMMEL Group, both companies‘ competencies in the filtration business were consolidated in the MANN+HUMMEL Filtration Technology companies, allowing global synergy effects to be exploited.

Moreover, the WIX Filters and FILTRON brands enable access to new markets such as hydraulic filtration and the heavy duty sector. The headquarters of the new company is in Gastonia in the USA. With the takeover, 4,000 employees at more than ten locations in North and South America, Europe and the Asia-Pacific region have joined MANN+HUMMEL.

The MANN+HUMMEL Group is on a solid financial footing and secures its sustainable growth through targeted investments in the future. MANN+HUMMEL consistently pursues the vision of „market leadership in filtration“. The company‘s filtration know-how, built up over 75 years, and more than 3,000 patents and utility models, represents a competitive advantage that benefits our customers and reflects positively on all the Group brands.

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

# Research and development

›› Use of 3.6 percent of sales revenue in research and development
›› MANN+HUMMEL is an innovator and active patent applicant
›› Networked cooperation of all R&D locations
›› Continuation of digitization of all business processes within the Group

Over 1,000 employees work for the MANN+HUMMEL Group worldwide in Research and Development (R&D) and in the provision of innovative filtration solutions and filtration products for automotive and industrial applications. With patent applications submitted for more than 179 inventions in 2016, the company was an industry leader and consolidated its position as technological leader in filtration. MANN+HUMMEL was therefore once again one of the most active patent applicants in Germany. In the year under review, MANN+HUMMEL spent 126 million euros (3.6 percent of sales revenue) on research and development.

MANN+HUMMEL's R&D locations are linked through a development network and are divided into Center of Competence locations with executive authority as well as regional clusters (Engineering Centers) and local R&D locations (Application Centers).

In 2015, the start-up i2m (Innovation to market) was founded with an aim to commercializing validated ideas that cannot be attributed to the existing business models or segments. In 2016, the focus was on marketing the module with ceramic hollow fibers for the treatment of highly aggressive industrial wastewater. Furthermore, our Ion-Protect ion exchange filter for stationary and mobile fuel cells was further developed as a bypass filter under the product name Omniflow, which is marketed by i2m.

In the context of our digitization initiative, two approaches are being pursued: on the one hand, the digitization of our products (Internet of Things) and, on the other, the digitization of all our business processes, particularly in production (Industry 4.0). In order to strengthen its commitment to the area of digitization, MANN+HUMMEL opened an Internet of Things Lab in Singapore in October. Here, software and hardware specialists, as well as data analysts, are working on putting digital ideas into practice. Initial projects have already been started.

## Automotive

In 2016, the automotive development area focused on the reduction of combustion engine emissions in all product areas and has significantly increased its associated competencies. By relocating all the Ludwigsburg-based development departments in the newly built technology center, the competence center with worldwide responsibility based there not only benefits from short administrative paths, but also from new spatial concepts and state-of-the-art technologies. Best-in-class testing and validation facilities create the ideal conditions for optimizing testing processes, resulting in increased output and maximum efficiency.

Increased investment in new testing technologies for material characterization and development make it possible to enhance knowledge of materials in order to achieve further weight reductions and increase product performance. MANN+HUMMEL is also demonstrating its expertise in the development of products for the thermal management of modern combustion engines. Expansion of the established MANN+HUMMEL thermal management product family is directly linked to successful bids for a variety of serial production projects.

With regard to crankcase ventilation systems, we have developed an innovative membrane with virtually universal chemical resistance, which withstands severe chemical attack through combustion residues. This means that the system can be designed as a full lifecycle component and reliably prevents vehicle malfunctions.

In the intake manifold area, integrated charge air cooling technology is increasingly becoming established on the market. With our innovative concept of charge air cooler integration, MANN+HUMMEL has won major contracts for the future.

In liquid management, MANN+HUMMEL is also working continuously on enhancing the competitiveness of the products. As a result, we have strengthened our leadership position in diesel fuel filtration and water separation through the elaboration of new concepts and in receiving numerous serial-production contracts.

In terms of oil filter modules, we are consistently working on the further development of the products in order to meet the ever increasing requirements with regard to temperature and pressure load in modern engines.

Our fully synthetic, multilayer fleece filters have found a place in further serial production projects. This cellulose-fiber-free technology is increasingly being used for high-performance gasoline engines and the high demands with regard to engine component downsizing and is now also finding application in diesel engine platforms.

After commercial vehicles have for many years been equipped with SCR (Selective Catalytic Reduction) catalytic converters for emissions control, the share of passenger vehicles using this technology is now increasing rapidly. In the early 2000s, MANN+HUMMEL supplied the first filter elements for cleaning the AdBlue solution employed. This new automotive filter segment is currently enjoying excellent growth rates with innovative filter media and element technology. A testing area especially dedicated to AdBlue filtration has been set up in the new Technology Center.

With regard to air filter systems, we are focusing on the development and enhancement of weight reduction technologies in addition to the development objectives of low pressure losses, high dust holding capacities and improved acoustics. Here as well, numerous new air filter systems entered into serial production worldwide in 2016.

With its FLEXLINE and EXALIFE element concepts in conjunction with further developed filter media, MANN+HUMMEL developed innovative solutions for modern air filter systems and obtained initial serial production contracts.

In the area of cabin air filters, new particulate matter filter layers have been developed and produced highly efficiently. These will be used in combination filters with activated carbon in future. In the case of pure particulate filters, an important project for meeting the PM2.5 particulate matter filtration requirements was completed with impressive results, securing a technologically leading position for us, particularly on the Chinese market. Thanks to successful completion of the two innovations, numerous OE customer projects were awarded to MANN+HUMMEL in 2016.

Our testing competency in the cabin air filter area has been extended through practical road testing. The results from these road tests are increasingly important for the protection of occupants from contamination and for new, predictive servicing concepts.

In the commercial vehicle sector, work on the development of standard components for the Asian market is ongoing. The air filters introduced last year are specially adapted to the market requirements and thus enable the expansion of our business. In the liquid filter area, we have also won several serial production projects with the development of market-specific products.

## Non-automotive

In the non-automotive business, a technology has been developed in the field of air deoiling elements, which improves energy efficiency as well as permitting higher operating pressures and temperatures. A new high-performance cyclone cell has been optimized, particularly for installation in the railway applications segment. The PreLine series fuel prefilter has been available with a new filter head since 2016. This is characterized by a manual pump on the clean side, meaning that the filter system also operates in the event of poor fuel quality and can be filled faster following servicing of the element. A newly developed urea filter module for industrial applications, which features a patented de-airing membrane, enables reliable intake-side operation. Furthermore, special compensation elements as well as flexible and efficient thermal management also ensure optimal starting behavior, even under cold conditions.

The entry of MANN+HUMMEL CAF technology into new market segments is continuing. Here, for example, an important contract was obtained for biofunctional combination filters and particulate filter elements in the residential ventilation segment. Moreover, this technology was extended to the completely new market segment of motorcycle helmet filtration in India.

MICRODYN-NADIR in Wiesbaden, a worldwide manufacturer of membranes and modules for water filtration and a member of the MANN+HUMMEL Group, coordinates the global development activities in the area of water filtration. The focus here is on the BIO-CEL®, AQUADYN®, and SPIRA-CEL® products, including all development activities.

# Overall economic and industry-specific conditions

›› Slower growth due to geopolitical tensions
›› Good economic situation in the USA
›› Economic growth in the Eurozone, but increasing divergences between the countries
›› Stable economic situation in China, but risk of a Chinese financial sector crisis

## Global economic development 2016

Structural obstacles and political uncertainties are slowing down growth potential and putting the brakes on economic activity. One example of this is the referendum to leave the EU in the United Kingdom (Brexit). In China, prospects have brightened owing to a strengthened economy and the stabilization of raw materials prices. Nevertheless, the general sluggishness of the markets in many countries as well as existing structural problems are damping the economic upturn.[1]

The economic situation in the US improved steadily throughout 2016. Even if the upturn slowed slightly towards the end of the year, gross domestic product grew by 1.6 percent compared to the previous year. The good economic situation prompted the Federal Reserve to raise the base interest rate toward the end of the year. The Chinese economy proved very stable in 2016. With a growth rate exceeding six percent and a large business volume, China met the forecasts.[2] The continuous growth, however, could only be achieved through wide-reaching monetary and fiscal policy measures. This increases the risk of a Chinese financial sector crisis.[3]

The economic research institutes put Eurozone growth at 1.8 percent, with growing divergences between the individual Euro countries. Moreover, cohesion of the Eurozone is being put to the test, primarily owing to political factors. The British decision to leave the European Union has created new realities, while the refugee crisis and the Ukraine conflict also present Europe with challenges.[4]

In Germany, gross domestic product rose by 1.9 percent. Investments in construction and consumer spending made the greatest contribution to this growth, favored by low interest rates and oil prices.[5]

1 https://www.ifw-kiel.de/pub/kieler-konjunkturberichte/2016/kkb_21_2016-q3_welt_de.pdf
Global economy in fall 2016, Institute for the World Economy (Kiel), December 2016
2 VDA Konjunkturbarometer [VDA Economic Barometer], VDA (Berlin), February 2017
3 VDA Konjunkturbarometer [VDA Economic Barometer], VDA (Berlin), December 2016
4 IHS Automotive Around the world Global Sales and Production Forecast, IHS Automotive, January 2017
5 VDA Konjunkturbarometer [VDA Economic Barometer], VDA (Berlin), February 2017

## Automotive sector

In 2016, the global passenger car market grew in accordance with the growth rates of over two percent expected at the start of the year to approx. 92 million units worldwide.[1] Following a weak start, the US light vehicle sales trend improved consistently to reach the previous year's level in 2016. The Chinese passenger car market grew by 18 percent in 2016. On the European market, passenger car sales grew by more than five percent. The new EU countries in particular contributed to this growth.[2]

The positive economic trend in India continues to be boosted by political developments and standardization of the tax system. This is also reflected in an increase in passenger car sales figures by eight percent in 2016. The German passenger car market grew by five percent compared to the previous year, which is primarily attributable to the continuing low fuel prices.

The effects of the exhaust emissions scandal are above-all apparent in a diminished confidence in the automotive industry. This development is promoting the focus on electric mobility and driving forward change.

## Industrial construction and mechanical engineering sector

Economists from the German Engineering Association (VDMA) put the growth figures for the year 2016 as a whole at zero percent compared the previous year. The weak economic situation is reflected in these figures. On average, Germany therefore conforms to the general European trend. Compared to the previous year, the EU countries showed a decline of one percent on average.[3]

The People's Republic of China experienced growth of three percent (price adjusted) for 2016, which also corresponds to one of the lowest growth rates of recent decades.

With the stabilization of raw materials prices as well as the Chinese government's economic stimulus measures, the prospects have improved for many emerging and developing nations Signs of economic recovery are still anticipated for Russia. In 2016, India showed strong sales growth in machine manufacturing. For the year as a whole, sales increases of 11 percent were achieved here. On balance, Uruguay, Columbia and Mexico were able to offset the negative growth in the other Latin American countries.[4]

1 Around the World Global Sales and Production Forecast, IHS Automotive, February 2017
2 VDA Konjunkturbarometer [VDA Economic Barometer], VDA (Berlin), February 2017
3 VDMA Konjunktur International November 2016 [VDMA Global Economy November 2016], VDMA (Frankfurt), November 2016
4 VDMA Prognosespiegel international March 2017 [VDMA Forecast Mirror International March 2017], VDMA (Frankfurt), March 2017

# Business trends

›› Increase in sales by 14.4 percent to 3,480 million euros
›› Development of Africa into a growth region in the automotive aftermarket
›› Securing of future sales through innovative products in the area of air and fluid management
›› Expansion of global market share in the independent aftermarket
›› Difficult economic situation in industrial filtration

In the 2016 fiscal year, sales of the MANN+HUMMEL Group increased by a total of 14.4 percent to 3,480 million euros (previous year: 3,042 million euros). At 494 million euros, this increase is attributable to the successful acquisition of the Affinia Group. which has belonged to the Group since May 2016 and now trades under the name MANN+HUMMEL Filtration Technology Group Inc. Without taking the acquisition into account and adjusted for currency effects, sales amounted to 3,077 million euros, which corresponds to the previous year's level. It therefore meets the expectations for 2016.

At 116 million euros, the EBIT (Earnings Before Interest and Tax) was below the expected result owing to extraordinary impairments in the amount of 61 million euros.

In addition to EBIT, ROCE (Return on Capital Employed) serves as a further key Group performance indicator. ROCE is defined as the return on the capital employed to generate the reported EBIT. In the year under review, the profitability of the capital employed amounted to 6.7 percent and was significantly lower than the previous year's figure as a result of the special effects from the extraordinary impairments in the amount of 61 million euros and the acquisition of the Affinia Group.

## Automotive Original Equipment

In 2016, the Automotive Original Equipment Business Unit was able to maintain the high sales levels of the previous year when adjusted for currency effects. The continuing positive sales trend among the European subsidiaries was a particular contributing factor here. Owing to the unfavorable exchange rate trend, a decline in sales could not be prevented compared to the previous year in real terms.

In North America, the significant sales increases of recent years were sustained thanks to high capacity utilization, particularly in the area of air filter systems. In South America, sales rose slightly, despite the extremely unstable market situation in Brazil.

In Asia, sales could not be maintained at the previous year's level, although increases were recorded in India, Thailand, and Korea. Sales in China fell due to the replacement of high-revenue intake manifold projects through follow-on business with a modified system scope. This development could not be compensated by means of new intake manifolds, air filter and oil filter systems. Sales in Japan also dropped compared to the previous year's level.

In European countries, primarily in France and the Czech Republic, series sales increased significantly compared to the previous year.

In Germany, the sales volume reached the budgeted figure and was consequently below the previous year's level in accordance with expectations. The expected decline in sales in the passenger car business could not be compensated as foreseen. The reasons for this were the discontinuation of intake manifold production at the Ludwigsburg plant as well as further expiring intake manifold and oil filter contracts, the follow-up projects for which are only slowly gaining momentum. In the commercial vehicle business, projects have been assigned to other locations as a result of a reorganization of the air filter segment. Sales have been stable at the forecast level.

In order to secure future sales, innovative products in the area of air and fluid management have successfully gone into series production worldwide. For this purpose, investments were made, for example, in the expansion of clean room production for fuel filters. Air filter systems and acoustic products, intake manifolds and technical plastic parts, as well as oil and fuel filters thus contribute to the anticipated positive sales trend in the coming years.

## Automotive Aftermarket

### Business in the independent aftermarket

With its Automotive Aftermarket Business Unit, MANN+HUMMEL succeeded in further increasing its market share in the independent aftermarket. The increasing internationalization and concentration of the IAM customers, however, is leading to increased pressure on the conditions. Very pleasingly, many European markets achieved significant double-digit growth rates. Despite the difficult framework conditions, Russia remains a key growth market. In South America, results remained stable in spite of the continuing difficult economic situation in Brazil. With the newly founded sales company in Columbia, significant groundwork for further growth has been laid in this region. Africa is developing into a growth region, which MANN+HUMMEL is responding to with a new sales company in South Africa. Once again, Asia remains significantly below expectations.

Sales under the local brands UNICO (former Yugoslavia) and HAOYE (China) were discontinued at the end of the year.

### Aftermarket business with automotive manufacturers

The aftermarket business with automotive manufacturers was generally rather subdued in the fiscal year. In Europe, the business trend in the first half of the year was characterized by inventory reductions on the part of nearly all the major customers. In the second six months as well, manufacturers tended to be cautious with their orders owing to the perception of a difficult business environment. In Brazil, the effects of the economic crisis could also clearly be felt in this area. The growth of recent years slowed significantly in China. Here, the influence of political efforts to strengthen the independent aftermarket were clearly evident.

### OEM business with first-tier manufacturers

In the OEM business with first-tier manufacturers as well, growth slowed significantly during the fiscal year. Nevertheless, MANN+HUMMEL succeeded in winning some important new orders. The total value of these orders reached a record level and has secured a good market position, also for the coming years.

The third-party brand business with other filter manufacturers saw a stable trend in 2016. The usual business losses resulting from transfer to in-house production were compensated through new orders.

## Wix-Filtron

The Wix-Filtron Business Unit, which was established during the acquisition of the Affinia Group in May 2016, succeeded in increasing its sales by almost five percent under MANN+HUMMEL. This growth was largely driven by activities in Europe and increased by around seven percent there in the last eight months of the year. The markets in eastern, central and western Europe contributed to the outstanding growth results in the region.

In North America, the market trend remained relatively flat. Nonetheless, Wix-Filtron was able to increase its sales by four percent. The above-average growth was primarily based on sales of the company's own brands within the region. In Mexico, Wix-Filtron ended the year very strongly despite currency devaluations, with sales growth in high double-digit figures.

Sales growth in China also reached double digits, while only high single-digit growth was achieved in the independent aftermarket. Despite its recent establishment, Wix-Filtron succeeded in garnering a price advantage and extensive product coverage on the market.

## Non-automotive

### Industrial Filtration

The Industrial Filtration Business Unit again had to contend with a difficult economic situation in 2016. Following significant declines in the previous year, the growth rates of some customers in important key industries remained at a low level in 2016. In spite of difficult market conditions, sales and earnings were slightly above the previous year's figures, but still below budget in the Industrial Filtration Business Unit.

Sales of original equipment for agricultural machinery fell slightly. The area of heavy construction machines for mining applications was also down in 2016. We did record positive growth in the road construction machinery business. Despite the currently very challenging construction and agricultural machinery segment, our technological innovation strength, a sophisticated product range and the focus on internationalization were the key to sustained success.

In the large engines segment, sales were up, counter to the market trend. Current project ramp-ups, a strong OES business and positive trends in the generator segment were decisive drivers. Thanks to improved market penetration and the expansion of business activities to associated applications, a positive sales trend was achieved in the area of machine tools. The railway, energy generation and special vehicles segments also experienced positive trends. Following the sharp fall in the previous year, global sales in compressed air and vacuum technology stabilized.

The Industrial Air Business Unit only achieved growth below the market level. The Power Generation sub-segment reported double-digit growth compared with the previous year. The Operating Theater division also achieved the targets set. The HVAC (Heating Ventilation and Air Conditioning) market stagnated. However, we were able to win some important OE customers in the residential ventilation business. With the introduction of the new ISO16890 standard, a significant change in the market with a focus on IAQ (Indoor Air Quality) performance is expected.

The aftermarket business, in particular the independent aftermarket has seen a positive trend and is significantly above the previous year's level. The highest sales growth was achieved in the European core markets as well as in some parts of Asia. Sales growth was also recorded in further regions.

### Water

In the spring of 2016, MICRODYN-NADIR Singapore focused on the manufacture of hollow-fiber membranes and modules. In order to consolidate all the activities in Singapore under one roof, the company building was extended by 54,000 square feet (5,000 m²). The move is set to be completed in the spring of 2017.

A new module for use in so-called membrane bioreactors (MBR) was presented jointly with the company HUBER SE at the IFAT in Munich. With a membrane area of 99,200 square feet (9,216 m²), it is the largest MBR module based on flat membranes worldwide.

In September 2016, MANN+HUMMEL acquired the TriSep Corporation, based in Santa Barbara, California, which it integrated into MICRODYN TECHNOLOGIES INC., in Raleigh, North Carolina. This company is also the headquarters for all the water activities in the US.

Thanks to this acquisition, MANN+HUMMEL was able to expand its delivery range significantly. While MICRODYN-NADIR traditionally produces micro, ultra and nanofiltration membranes and modules, TriSep specializes in nanofiltration and reverse osmosis. Together, we can now offer the entire spectrum of membrane technology.

# Finances

›› Increase in sales by 14.4 percent to EUR 3,480 million
›› EBIT amounts to EUR 116 million
›› Total assets of EUR 4,049 million.

As part of the realignment of the internal corporate structures within the MANN+HUMMEL Group, MANN+HUMMEL International GmbH & Co KG became the highest-level company of the Group as at January 1, 2016 and thus replaces MANN+HUMMEL Holding GmbH as the parent company of the MANN+HUMMEL Group. In order to ensure that the consolidated financial statements as at December 31, 2016 are presented consistently, the previous year's figures from the consolidated financial statements as at December 31, 2015 with the then ultimate parent company MANN+HUMMEL Holding GmbH are presented.

With effect from May 4, 2016, the former Affinia Group Intermediate Holdings Inc. (hereinafter referred to as Affinia Group) was acquired by the MANN+HUMMEL Group. The companies will in future operate under the name MANN+HUMMEL Filtration Technology. The Affinia Group will be included in the consolidated financial statements for the first time, for eight months of fiscal year 2016. This means, however, that fiscal years 2016 and 2015 are only comparable to a limited extent.

Moreover, four other companies of the Microdyn Nadir Group were consolidated for the first time in the last fiscal year and thus included entirely in the consolidated financial statements for the first time this year.

## Results of operation

The sales of the MANN+HUMMEL Group grew by 14.4 percent to EUR 3,480 million compared to the previous year, with that figure rising to 17.8 percent (EUR 3,583 million) when adjusted for currency effects to the previous year's rates. EUR 494 million of this increase is attributable to the inclusion, for the first time, of the Affinia Group. The cost of sales was EUR 2,674 million overall. The share of sales costs as a proportion of sales improved by 0.1 percentage points to 76.9 percent. This includes extraordinary impairments on acquired intangible assets such as customer relationships and brands as well as on tangible assets totaling EUR 32 million. The increase in the gross margin on sales of 14.0 percent on the previous year to EUR 806 million was thus disproportionately low compared to the increase in sales. The Affinia Group contributed a gross margin on sales of EUR 150 million.

The outstanding order backlog amounts to approximately EUR 1,262 million (previous year: EUR 1,249 million). However, the outstanding order backlog of the Affinia Group is not considered.

As one of the world's leading filtration specialists, MANN+HUMMEL works continuously on the further development of its existing product portfolio and on developing new technologies and products for filtration solutions. For this reason, a large part of revenue from sales is spent on research and development costs. These increased by EUR 5 million on the previous year's figure to EUR 126 million. The share of sales is 3.6 percent (previous year: 4.0 percent), which, however, is essentially due to the inclusion for the first time of the Affinia Group.

The inclusion for the first time of the Affinia Group also increased selling expenses by EUR 109 million to EUR 374 million. The general administrative expenses increased by EUR 7 million on the previous year's figure to EUR 151 million. This is mainly due to those companies that were consolidated for the first time. The proportion in terms of sales reached 4.3 percent, an improvement of 0.4 percentage points. Other operating income fell by EUR 10 million to EUR 32 million. This was due to the fact that a special effect in the amount of around EUR 10 million from the sale of a property was included in the previous year. Other operating expenses include EUR 29 million in impairments on goodwill, but are nonetheless down on the previous year's figure by EUR 12 million to EUR 71 million. This decline is largely due to the fact that the 2015 figure included additions to provisions for restructuring and consultancy services within the framework of the acquisition of Affinia.

EBIT (Earnings Before Interest and Tax) fell by EUR 20 million to EUR 116 million in comparison to the previous year. Return on sales before tax was 3.3 percent. Adjusted for the aforementioned special effects from the extraordinary impairments, the operating results amounted to EUR 177 million and the return on sales was 5.1 percent.

The net financial result improved overall by EUR 11 million to EUR −43 million. This is primarily because the increased interest expenses resulting from the financing of the Affinia acquisition were overcompensated by profits realized from foreign currency translation.

Income tax expenses increased by a total of EUR 19 million to EUR 68 million and resulted in a group tax rate of 93.7 percent (previous year: 59.3 percent). The increase in the tax rate results from tax losses, for which no deferred tax assets were recognized in the balance sheet, as well as tax effects for previous years.

## Results of operation of the MANN+HUMMEL Group

| | 2016 | | 2015 | | Difference |
|---|---|---|---|---|---|
| | EUR million | in % | EUR million | in % | EUR million |
| Sales | 3,480 | 100.0 | 3,042 | 100.0 | 438 |
| Cost of sales | 2,674 | 76.9 | 2,335 | 76.8 | 339 |
| **Gross margin on sales** | **806** | 23.1 | **707** | 23.2 | **99** |
| Research and development costs | 126 | 3.6 | 121 | 4.0 | 5 |
| Selling expenses | 374 | 10.7 | 265 | 8.7 | 109 |
| General administrative expenses | 151 | 4.3 | 144 | 4.7 | 7 |
| Other operating income | 32 | 0.9 | 42 | 1.4 | −10 |
| Other operating expenses | 71 | 2.0 | 83 | 2.7 | −12 |
| **Earnings Before Interest and Tax (EBIT)** | **116** | 3.3 | **135** | 4.5 | **−20** |
| Result from associates | 1 | 0.0 | 0 | 0.0 | 1 |
| Financial expenses | 143 | 4.1 | 120 | 3.9 | 23 |
| Financial income | 99 | 2.8 | 66 | 2.2 | 33 |
| **Net financial result** | **−43** | −1.2 | **−53** | −1.7 | **11** |
| **Net profit or loss before income tax and changes in capital economically attributable to the shareholders** | **73** | 2.1 | **82** | 2.7 | **−9** |
| Income taxes | 68 | 2.0 | 49 | 1.6 | 19 |
| Changes in capital economically attributable to the shareholders | −2 | −0.1 | 0 | 0.0 | −2 |
| **Consolidated net income** | **7** | **0.2** | **33** | 1.1 | **−26** |
| Result attributable to non-controlling interests | 7 | 0.2 | 1 | 0.0 | 6 |

## Financial position

### Cash flow

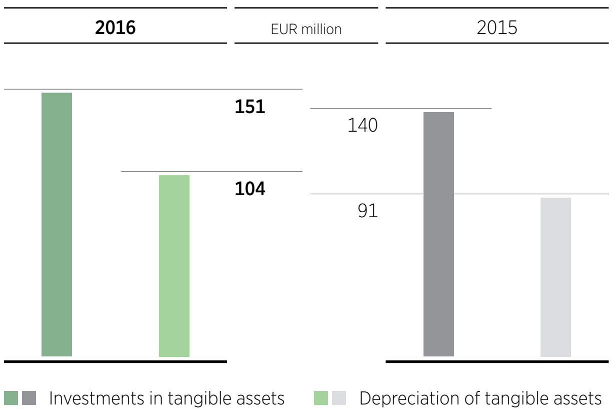
| EUR million | 2016 | 2015 |
|---|---|---|
| | | |
| Cash flow from operating activities | 266 | 218 |
| Cash flow from investment activities | –642 | –136 |
| Free cash flow | **–376** | **82** |
| Cash flow from financial activities | –851 | 1,142 |
| Payment-effective change to cash funds | –851 | 1,142 |
| Changes in cash funds from exchange rate movements and changes in Group structure | 3 | 32 |
| Cash funds at the beginning of period | 1,618 | 362 |
| Cash funds at the end of period | 394 | 1,618 |

The MANN+HUMMEL Group generated an operational cash flow (inflow of funds after financing the operative business) in the amount of EUR 266 million in the past fiscal year, an increase of EUR 48 million or 22 percent on the previous year. The increase is largely attributable to the contribution made to cash flow for eight months by the Affinia Group, which was included for the first time. Operational cash flow was able to cover the financing for 41 percent of investments in the period, which also included the acquisition and the first-time consolidation of the Affinia Group. This led to investments that were EUR 506 million or 372 percent above those of the previous year.

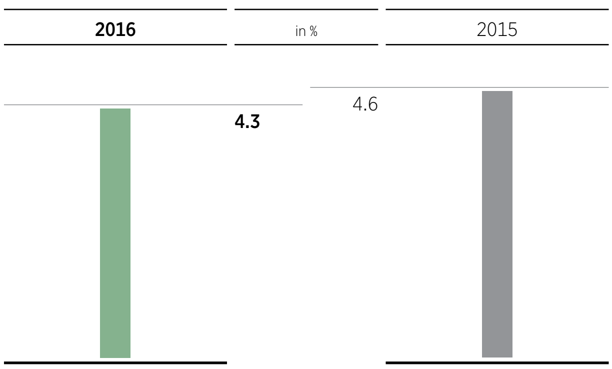
At EUR -376 million, the free cash flow was negative due to the Affinia acquisition. The funds borrowed in the previous year through a promissory note loan were used to finance the new acquisition. For this reason, there was a higher negative balance in the current year from financial activities of EUR -851 million, which brought the elevated financial resources of the previous year back to a normal level of EUR 394 million.

## Investments

### Investments in tangible assets




### Investments in tangible assets as % of sales




In fiscal year 2016, the MANN+HUMMEL Group made investments in tangible assets amounting to EUR 151 million (previous year: EUR 140 million). With that, the proportion of tangible asset additions in relation to the corresponding sales fell by 0.3 percentage points to 4.3 percent. But this too is largely due to the increased sales volume from the purchase of the former Affinia Group.

Overall, the greatest volume of investment in 2016 was in Germany, the USA, China and the Czech Republic. Investments are offset by Group-wide depreciation and amortization for tangible assets of EUR 104 million (previous year: EUR 91 million). At 11 percent, the depreciation ratio was on a par with the previous year's level.

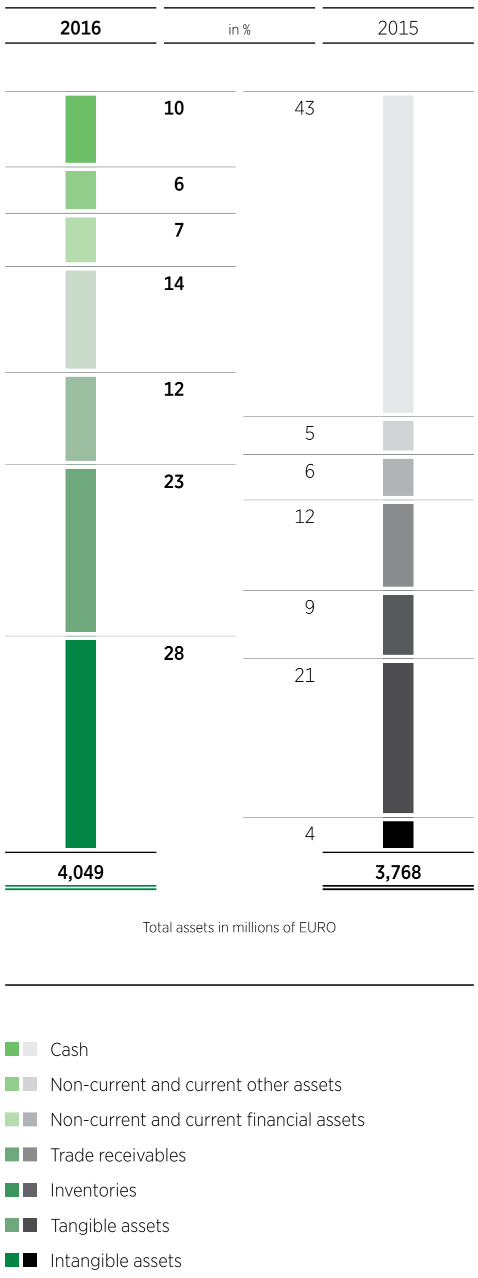
In the past fiscal year, 33 percent of investments in tangible assets were made in the Automotive Original Equipment Business Unit. 26 percent of investments in tangible assets were made in the Automotive Aftermarket Business Unit and 13 percent in the new Filtration Technology Business Unit.

Investments were mainly made in machines and tools to realize customer projects and implement new technologies (around EUR 100 million). At the Marklkofen location, investments were made in production capacities for the manufacturing of flat air filters with complex geometries. Furthermore, the largest investments in the year under review were made in production technologies at the Portage, Michigan and Himmelkron, Germany locations.

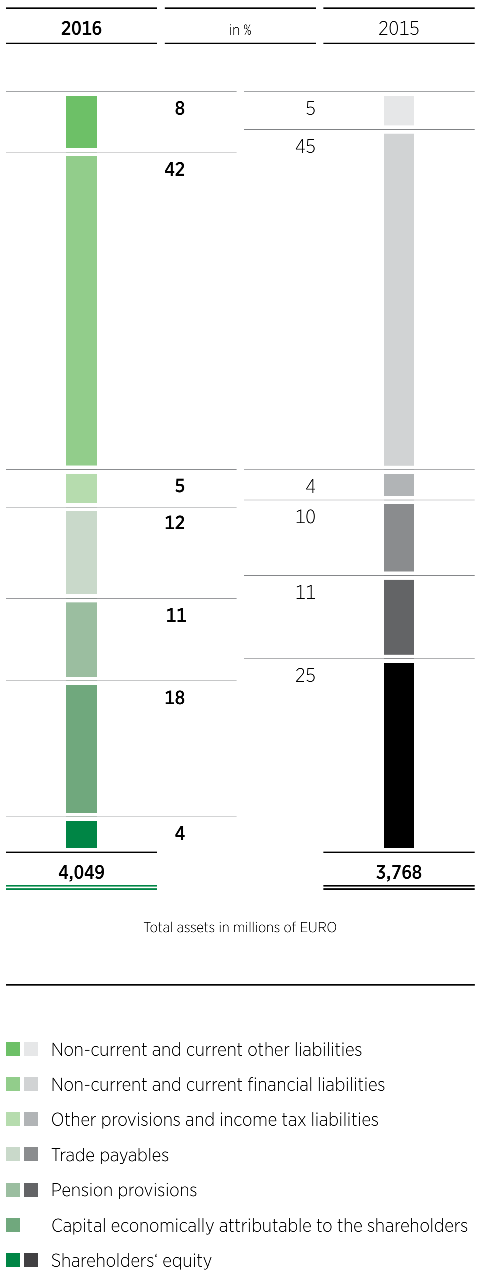
The MANN+HUMMEL Group also invested some EUR 35 million in building measures to expand and improve infrastructure worldwide in the past fiscal year. The largest individual projects were the construction of the Technology Center in Ludwigsburg, Germany, which was officially inaugurated in 2016, and the construction of a new building in Singapore.

## Consolidated balance sheet structure

### Assets




### Liabilities



The total assets increased by 7.5 percent to EUR 4,049 million during the 2016 fiscal year. This corresponds to an increase of EUR 281 million. This increase is largely the result of the first-time consolidation of the Affinia Group.

Intangible assets and tangible assets increased overall compared to the previous year by EUR 1,130 million to EUR 2,059 million. Here, the intangible assets increased by around EUR 975 million, largely due to the goodwill of the Affinia Group amounting to EUR 582 million as well as the capitalized customer relationships and brands included in that figure. The tangible assets rose by EUR 154 million to EUR 929 million.

The inventories rose by EUR 136 million to EUR 483 million. Without taking into consideration the companies being consolidated for the first time, inventories rose by 1.2 percent.

Trade receivables rose by EUR 147 million to EUR 586 million. When adjusted for the increase due to the companies included for the first time, the increase is 5.7 percent compared to the previous year.

The non-current and current financial assets increased by EUR 24 million to EUR 266 million. This is due primarily to the increase in short-term securities. The other assets increased overall by EUR 67 million to EUR 259 million due to the increase in the deferred tax assets. Cash fell by a total of EUR 1,224 million to EUR 394 million as a result of the payment of the purchase price for the acquisition of the Affinia Group.

As already described above, MANN+HUMMEL International GmbH & Co. KG became the ultimate parent company of the MANN+HUMMEL Group as at January 1, 2016. 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 is now shown in borrowed capital under "Capital economically attributable to the shareholders". In the year under review, the disclosed balance sheet equity includes the interests of further partner companies of MANN+HUMMEL International GmbH & Co. KG, which have a direct participation of 16.7 percent in MANN+HUMMEL Holding GmbH, but without voting rights, and furthermore, the non-controlling interests of the companies MANN+HUMMEL BA J.S.C., Tesanj / Bosnia-Herzegovina, and CHANGCHUN MANN+HUMMEL FAWER FILTER CO. LTD., Changchun / PR China, amounting to EUR 166 million overall. The sum of disclosed balance sheet equity and the capital economically attributable to the shareholders fell by 7.2 percent to EUR 880 million in the 2016 fiscal year.

Pension provisions increased from EUR 417 million to EUR 452 million. This is primarily due to the low interest rate levels still prevailing in the capital markets and the associated change in financial assumptions when measuring the provisions for the German companies. Other provisions and income tax liabilities rose overall from EUR 163 million to EUR 204 million. Income tax liabilities rose due to the newly acquired companies in fiscal year 2016 by EUR 43 million to EUR 80 million.

Trade payables increased on the previous year's figure by EUR 108 million to EUR 485 million. This increase is primarily the result of the first-time consolidation of the Affinia Group. The non-current and current financial liabilities rose by 2.2 percent to EUR 1,703 million. The rise in other liabilities is largely attributable to the deferred tax liabilities that are to be formed within the framework of the purchase price allocation of the Affinia companies.

The business performance of the MANN+HUMMEL Group was in line with expectations despite relatively weak economic growth. The successful acquisition of the Affinia Group and strong sales and earnings in the fourth quarter led to a satisfactory development of the operative business overall.

# Employees

›› Around 20,646 employees at all locations worldwide
›› Staff turnover rate worldwide is 5 percent
›› Modern process and system environment in personnel management enables new working time models and forms of employment
›› Worldwide bonus structure for executive management

In 2016, we launched the Accelerate Growth initiative with which we intend to grow faster and more profitably. The initiative is based on numerous projects aimed at enhancing our competitiveness by exploiting new sales potential and through cost reductions.

Our ‚Compass' training program is also aligned with our corporate strategy. Together with our senior management, we have identified the drivers for growth and our fundamental behavioral characteristics. These have been made operational during numerous workshops with management staff.

With the further development of a modern process and system environment in personnel management, we created more agile and transparent structures in order to promote productive cooperation among our employees in 2016. This expansion allows for new working time models; the restrictions of time and space lose in significance and create room for new forms of employment.

We elaborated and rolled out a new bonus structure that applies to our executive management staff worldwide in 2016. In addition to the stronger weighting awarded to the financial objectives of the MANN+HUMMEL Group, the individual targets will be used to support and drive forward the initiatives and objectives of our Strategy 2020.

The new bonus system is based on our strategic targets. From 2017, this system will be extended to further employee groups in close consultation between management and labor representatives. We are thereby strengthening „Pay for performance" as part of our personnel strategy. We are ensuring that our employees worldwide participate in the success of our company.

Investing in health at work is not only a matter of social responsibility, it is an economic necessity. MANN+HUMMEL is confident that companies which rely on a corporate culture based on partnership take their employee's needs seriously, are interested in the health of all of their employees, have a competitive edge, both today and for the future. For this reason, we sustainably promote the health and wellbeing of our employees. Examples of this include the integration of sports scientists as „contact partners for health", a health initiative for our trainees entitled YOLO@ MANN+HUMMEL, the annual Health Day, as well as health promotion seminars.

The worldwide staff turnover rate is 5 percent. In the past year, MANN+HUMMEL employed a total of 20,646 staff on average at all our locations.

# Independent statement of company management with respect to the gender quota

›› Proportion of women 29 percent on the Management Board
›› Codification of equal opportunities for men and women through social charter

A German federal law from 2015 has obligated certain companies to stipulate target values and deadlines for achieving the appropriate proportion of women on the Supervisory Board, the Management Board and on the two management levels beneath that. MANN+HUMMEL was one of these companies.

MANN+HUMMEL has set its own target values and deadlines for the Supervisory Board, Management Board and further management levels. The proportion of women on the Management Board was 29 percent at the end of the fiscal year; there were no women represented on the Supervisory Board at this time. For the two management levels beneath this, the proportion of women was 21 percent and 17 percent respectively.

MANN+HUMMEL has codified 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

›› Occupational health and safety as well as environmental protection considered in all relevant business processes
›› “HSE Big Rules” for a common understanding and greater awareness

Occupational health and safety as well as environmental protection are firmly anchored in the corporate values of MANN+HUMMEL and represent a central pillar of the corporate strategy.

Occupational health and safety as well as environmental protection are considered in all relevant business processes linked with our MANN+HUMMEL Management System.

The Queretaro plant in Mexico and the Dillon plant in the USA have reached five million and two million working hours respectively without a workplace accident. The Allen, Dunlap, Portage and Changchun plants and the Master Distribution Center in Gastonia reached the milestone of one million working hours without a workplace accident in 2016.

A self-assessment questionnaire was drafted over the past three years within the framework of an analysis of the frequency and severity of accidents. This is used by the plants to prevent errors.

An international team of experts from MANN+HUMMEL has drafted the Health, Safety and Environment (HSE) Big Rules and rolled them out worldwide. The Big Rules aim to ensure a common understanding and greater awareness of HSE at MANN+HUMMEL worldwide. They provide all employees with information about proper conduct with respect to occupational health and safety and environmental protection. The HSE Big Rules also raise awareness with regard to the responsibility borne by every individual.

Energy efficiency developed positively in 2016. The replacement of existing conventional lighting systems with LED spotlights continued this year. In addition to energy savings of around 40 percent, the workplace lighting is being improved, representing a further contribution to improved ergonomics in the workplace.

The environmental protection program was centralized in a common database in order to improve transparency during implementation and facilitate a worldwide exchange of ideas.

The MANN+HUMMEL Group participated in the Carbon Disclosure Project (CDP) for the first time in 2016 and disclosed its energy and $CO_2$ emissions data. Once a year, the CDP collects data and information on $CO_2$ emissions, climate risks as well as reduction targets and strategies from companies on behalf of investors and customers on a voluntary basis using standardized questionnaires. The CDP is not-for-profit organization founded in London in the year 2000, through which companies and communities disclose their environmental data relating to greenhouse gas emissions and water consumption, for example.

The recycling rate in the Group has been developing positively for many years. The targets for the year under review were achieved once again. The use of reusable packaging continued to develop positively.

# Purchasing

›› Increase in global purchasing volume by 10 percent to 2,238 million euros
›› Successful start of process integration of the Affinia Group Inc.

The global purchasing volume of the MANN+HUMMEL Group increased by 10 percent to 2,238 million euros in 2016, mainly as a result of the acquisition of the global filtration business of the US-based Affinia Group Inc. Sixty-two percent of this amount is attributable to production materials and 38 percent to trading goods, non-production materials and services.

In the context of the acquisition, our activities were focused on the integration of Purchasing in North America and Poland. Under the control of our worldwide Category Management, supplier strategies were aligned, adapted and communicated during jointly organized supplier days. We were thus able to expand our business relations with selected suppliers, which will enable them to continue to grow with us and open up new markets in the future.

By consistently focusing on the appropriate supplier strategy, synergies were exploited in key categories and, despite a slight rise in raw material prices, selective material price improvements achieved.

To continue ensuring a positive contribution to earnings despite difficult competitive conditions, MANN+HUMMEL is focusing on the effectiveness and efficiency of structures and processes.

An organizational project was launched last year with the aim of achieving a consistent separation of strategic, tactical and operational tasks, as well as further cross-location consolidation. This means, for example, that global Category Management is better able to coordinate and implement strategies with the worldwide team from lead and commodity purchasers with a focus on verticalization.

In this context, further progress was made on the realignment of Purchasing for non-production materials. Category Managers can now formulate category-specific strategies and focus on key supplier negotiations. This was made possible through the relocation of transactional activities to an external Shared Service Center, which performs operational purchasing of non-production materials for the European locations.

The adaptation and development of our system environment supported the organizational change. Process integration of the Affinia Group Inc., for example for procurement decisions or establishing new suppliers, was successfully started, but will be continued in the coming year.

The integration and further qualification of our employees was supported by the Purchasing Academy. This includes training courses and tutorials, which are implemented in the form of e-learning as well as on-site events.

# Information technology

›› Successful introduction of an IT-supported project portfolio
›› Reorganization of the IT infrastructure
›› Content revision of the SAP strategy

In Information Technology, the focus remained very much on establishing a sustainable business-IT alignment. 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 product portfolio. This tool is used to record and evaluate all project ideas and to manage current projects. A Lean Admin approach was selected and introduced to improve operational project management in process support.

The IT infrastructure activities were reorganized during the fiscal year to ensure a holistic service approach. The trend toward cloud-based applications and services is continuing. This is evident in the growing number of systems being requested and introduced.

SAP software serves as the company-wide basis for MANN+HUMMEL processes. The definition of an SAP template for production locations was completed in order to further standardize processes within the company. The created SAP template for trading companies was introduced for the first time in the UAE. Multiple ERP and module rollouts were implemented in the year under review. The SAP strategy content was revised (SAP HANA, S4H, Mergers&Acquisitions) and adapted to current requirements and developments.

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 in order to validate the application possibilities of the respective technologies. Standard parts, for example, were printed in 3D on a trial basis and their characteristics examined. These parts are now fully suitable for series production.

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 in order to continuously improve our processes and to ensure that the expectations of our customers with regard to information security are exceeded. 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
›› Company-wide planning, reporting and controlling system for risk management
›› Opportunities from the acquisition of the global filtration business of the Affinia Group in 2016 through synergy effects and access to new markets
›› Continuous, iterative process for the early minimization of risks and the identification of opportunities

## Current situation

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 new products and the enhancement of existing ones, the expansion of its development expertise and the establishment and extension of new locations.

The economic consequences of the decision by the United Kingdom to leave the EU have so far not been as dramatic as originally anticipated. There has been no discernible effect on demand.

The ever increasing political will to advance electric mobility presents both opportunities and risks for MANN+HUMMEL. The Group must prepare for these developments through various scenarios and precautions. The acquisition of the global filtration business of the Affinia Group in 2016 also brings about opportunities through synergy effects and access to new markets.

## 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. Action plans which can be quickly implemented are in place for this purpose. 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.

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

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 100 million euros), high (discernible effect on business activity, possible costs between 50 and 99 million euros) and low risk (possible costs between 20 and 49 million euros).

## 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 assumes responsibility for limiting financing and liquidity risks.

Due to the reliance on loans as a result of the Affinia acquisition, there is low risk of higher interest expenses for future loans, whereby the current interest rate does not suggest a short- or long-term risk on the market side.

The promissory note granted in 2015 to finance the Affinia acquisition contains an interest adjustment clause which comes into effect when the defined key financial indicator is exceeded.MANN+HUMMEL is assuming that this interest adjustment clause will remain untriggered.

Ratings and key financial indicators are reviewed regularly to reduce the risk of failure of financial partners. Regular treasury reporting is being introduced in 2017.

As part of a project started in 2016, the treasury is being 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 are being fundamentally revised on the basis of the basic principles of liquidity protection, financial independence and uniform processes and systems. As a linking element, all parameters are being validated with respect to their effect on risk limits, key financial indicators and ratings, resulting in an integrated system.

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 management tool: MANN+HUMMEL continuously monitors and analyzes trade receivables, liabilities and inventories. Cash flow as well as sales and earnings are being further optimized and the tied-up current assets monitored and adapted.

## Operating opportunities and risks

### Market

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 in order to prevent even greater 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. MANN+HUMMEL 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 pure 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 – OurAir – for example, we are developing new markets that give us opportunities in the promising segment of indoor air quality and filtration.

## Purchasing

On the procurement markets, the particularly high risks are those associated with the prices of raw 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. Action plans are in place for medium-term price increases.

## Quality

In the view of MANN+HUMMEL, the quality of its products constitutes a decisive competitive edge in comparison with other manufacturers and, together with customer satisfaction, represents one of the central corporate goals. For this reason, the MANN+HUMMEL Group strives to eliminate quality problems right from the product creation process by means of wide-ranging standards. We know that potential warranty claims represent a high risk for the reputation and financial situation of the company. High quality standards are always applied during production at all of the plants.

The process of minimizing errors begins with conscientious planning. This is how we work at MANN+HUMMEL and we benefit from this approach. Should errors occur despite control mechanisms, a warranty team works closely with the customers and production plants in order to assure the quality of the products and a swift response in the event of warranty claims. Warranty risks can occur repeatedly and must be covered by appropriate financial provisions. Furthermore, relevant insurance cover is available for possible damages resulting from call-backs and product liability claims.

## 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. In order to rule out the high risks posed by interruptions to the data supply, there is 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 already risks are minimized.

### Acquisitions

The effective integration of acquired companies into the existing organization fundamentally entails risks. MANN+HUMMEL is facing these challenges with proven and clearly defined integration processes. The acquisition of the filtration business of Affinia in particular entails high risks with respect to the anticipated profitability and possible impairments on the acquired assets and on the goodwill as well as the increased indebtedness of the MANN+HUMMEL Group. In addition, risks can arise from payment flows between the euro area and the US dollar area. We are minimizing these risks through detailed planning processes and by structuring the financing. The acquisition of and preparation for the integration was also supported by renowned consultants. However, the acquisition also offers opportunities in the form of synergy effects and improved access to markets.

## Other risks

### Fraud, 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 its company guidelines and the Code of Conduct, MANN+HUMMEL regulates 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 low risk is further reduced.

### Damage due to operational interruptions – Damage to and loss of tangible assets

Natural disasters, terrorist activities or other disruptions in the production facilities and 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

The many country-specific tax systems represent a high level of complexity for the MANN+HUMMEL Group. Increasing checks by tax authorities and frequent changes to tax systems involve significant effort and demand great diligence. In this regard, MANN+HUMMEL minimizes the high tax risks through the additional appointment of local tax consultants at the individual subsidiaries. Guidelines, for example on transfer pricing practices, are continuously updated and the employees informed around the world.

### 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, this small risk remains an entirely possible scenario. 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, in order to minimize risks and identify opportunities at an early stage. Beyond the above-mentioned significant risks, no risks that could jeopardize the future of the Group can be identified at present.

# Forecast report

›› Global positioning and greater flexibility as important success factors
›› Sustainable growth and concentration on filtration know-how as the basis for successful continuation of the businesses

For the German automotive industry, the German Association of the Automotive Industry (VDA) is forecasting zero percent growth for 2017. The situation in the German automotive industry is mixed and strongly influenced by OEM customers and by the relevant engine and vehicle acceptance. Continued positive development is expected in light vehicle sales. In the commercial vehicle segment, however, a slight drop in sales figures in markets such as the USA or the Eurozone can be expected. Generally speaking, most economists are having difficulty producing forecasts for the coming year given the fact that the policies of the new US government and the resulting effects on the US economy are not easy to predict or calculate.[1]

Taking into account the sales of the Filtration Technology Group for the comparable twelve-month period in the year under review, sales expectations for 2017 are slightly above the previous year. With further growth initiatives and additional measures for increasing efficiency, MANN+HUMMEL currently expects a mid-single-digit increase in EBIT adjusted for special effects and in the associated margin quality in 2017. From the current perspective, ROCE (Return on Capital Employed) will also increase.

With the integration of the Affinia Group into the MANN+HUMMEL Group, both companies' competencies in the filtration business are being consolidated, allowing global synergy effects to be exploited. Moreover, the WIX Filters and FILTRON brands enable access to new markets such as hydraulic filtration and the heavy duty sector.

For the Automotive Original Equipment Business Unit, MANN+HUMMEL expects sales in the year 2017 to be just below last year's level. Declining sales in Europe and Asia are unlikely to be fully compensated for by increases in America.

With the consistent implementation of growth initiatives, the Group is expecting slight sales growth compared to the previous year in the Automotive Aftermarket business.

In the Industrial Filtration Business Unit, which comprises mechanical engineering and industrial air filtration, low single-digit sales growth is expected compared to the previous year due to the ongoing weak market situation.
In Water Filtration, a significant increase in sales is expected due to new projects and an additional location in the USA.

For the new Wix-Filtron Business Unit, MANN+HUMMEL expects a high single-digit sales increase compared to the same 12-month period in 2016 on account of new projects and the improved market position.

1 VDA Konjunkturbarometer, VDA (Berlin), February 2017

For Asia and America, MANN+HUMMEL expects only slightly increased sales, while in Europe a similar sales level to 2016 is being forecast.

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, particularly in new markets.

Ludwigsburg, April 6, 2017

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

**Alfred Weber**

**Hansjörg Herrmann** **Kai Knickmann**

**Josef Parzhuber** **Emese Weissenbacher**

# MANN+HUMMEL
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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, 2016

| in million EUR | Notes | 2016 | 2015 |
|---|---|---|---|
| Sales | (10) | 3,479.8 | 3,041.9 |
| Cost of sales | (11) | 2,674.3 | 2,334.7 |
| **Gross margin on sales** | | **805.5** | **707.2** |
| Research and development costs | (11) | 126.0 | 120.6 |
| Selling expenses | (11) | 374.4 | 265.5 |
| General administrative expenses | (11) | 150.6 | 144.5 |
| Other operating income | (12) | 31.8 | 42.3 |
| Other operating expenses | (13) | 70.6 | 83.4 |
| **Operating profit or loss (EBIT)** | | **115.7** | **135.4** |
| Share of result of associated companies | | 0.5 | 0.5 |
| Financial expenses | (14) | 142.5 | 119.8 |
| Financial income | (14) | 99.0 | 66.2 |
| **Net financial result** | | **−43.0** | **−53.1** |
| **Net profit or loss before income tax and changes in capital economically attributable to the shareholders** | | **72.7** | **82.3** |
| Income taxes | (15) | 68.1 | 48.8 |
| Changes in capital economically attributable to the shareholders | | −2.4 | 0.0 |
| **Consolidated net income** | | **7.0** | **33.5** |
| Result attributable to non-controlling interests | | 7.0 | 0.9 |

# Consolidated statement of comprehensive income
## January 1 to December 31, 2016

| in million EUR | 2016 | 2015 |
|---|---|---|
| **Consolidated net income** | **7.0** | **33.5** |
| thereof attributable to non-controlling interests | 7.0 | 0.9 |
| **Items that may be reclassified to profit/loss** | | |
| Exchange rate difference from translation of foreign operations | | |
| Exchange rate differences arising during the fiscal year | −31.2 | 14.3 |
| Financial assets held for sale | | |
| Changes in fair value of financial assets held for sale | −1.9 | −0.3 |
| Reclassifcations to profit and loss | 1.6 | 1.4 |
| Cashflow hedge (Currency hedging) | | |
| Gains/losses recorded during the fiscal year | −23.2 | 27.8 |
| Income taxes attributable to these components | 8.6 | −8.2 |
| | | |
| **Items that will not be reclassified to profit/loss** | | |
| Revaluation of defined benefit obligations and similar commitments | −35.0 | 8.7 |
| Income taxes attributable to these components | 9.6 | −2.5 |
| | | |
| Changes in other comprehensive income attributable to shareholders | 58.0 | 0.0 |
| **Other comprehensive income** | **−13.5** | **41.2** |
| | | |
| **Total consolidated comprehensive income** | **−6.5** | **74.7** |
| thereof attributable to non-controlling interests | −6.5 | 1.6 |

# Consolidated balance sheet as at December 31, 2016

## Assets

| in million EUR | Notes | 12/31/2016 | 12/31/2015 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | (17) | 1,129.4 | 154.1 |
| Tangible assets | (19) | 929.1 | 774.5 |
| Investments in associates | (20) | 3.0 | 2.7 |
| Trade receivables | (24) | 1.0 | 0.7 |
| Financial assets | (21) | 27.4 | 29.3 |
| Income tax receivables | | 0.3 | 0.8 |
| Other assets | (22) | 5.0 | 7.4 |
| Deferred tax assets | (15) | 170.6 | 103.6 |
| | | **2,265.8** | **1,073.1** |
| **Current assets** | | | |
| Inventories | (23) | 483.1 | 346.7 |
| Trade receivables | (24) | 585.0 | 438.2 |
| Financial assets | (25) | 238.4 | 212.2 |
| Income tax receivables | | 17.3 | 28.9 |
| Other assets | (22) | 65.4 | 50.8 |
| Cash | | 394.3 | 1,617.7 |
| | | **1,783.5** | **2,694.5** |
| | | **4,049.3** | **3,767.6** |

## Liabilities

| in million EUR | Notes | 12/31/2016 | 12/31/2015 |
|---|---|---|---|
| **Shareholders' equity** | | | |
| Capital stock / Subscribed capital | (26) | 0.0 | 92.7 |
| Capital reserves | (26) | 0.0 | 83.5 |
| Revenue reserves | (26) | 0.0 | 781.4 |
| Total other shareholders' equity | (26) | 0.0 | −25.8 |
| Non-controlling interests | (26) | 165.9 | 16.6 |
| | | **165.9** | **948.4** |
| **Non-current liabilities** | | | |
| Capital economically attributable to the shareholders | (26) | 714.0 | 0.0 |
| Other non-current liabilities | | | |
| Financial liabilities | (28) | 1,536.3 | 1,525.6 |
| Pension provisions | (31) | 452.0 | 417.3 |
| Other provisions | (30) | 36.4 | 45.3 |
| Trade payables | | 0.1 | 0.0 |
| Other liabilities | (29) | 6.0 | 1.6 |
| Income tax liabilities | | 1.0 | 1.4 |
| Deferred tax liabilities | (15) | 156.0 | 64.5 |
| | | **2,901.8** | **2,055.7** |
| **Current liabilities** | | | |
| Financial liabilities | (28) | 166.2 | 140.3 |
| Trade payables | | 484.7 | 376.7 |
| Other liabilities | (29) | 164.2 | 130.4 |
| Other provisions | (30) | 86.5 | 79.0 |
| Income tax liabilities | | 80.0 | 37.0 |
| | | **981.6** | **763.5** |
| | | **4,049.3** | **3,767.6** |

# Consolidated cash flow statement
## January 1 to December 31, 2016

| in million EUR | Notes | 2016 | 2015 |
|---|---|---|---|
| **1. Cash flow from operating activities** | | | |
| Consolidated net income | | 7.0 | 33.5 |
| Changes in capital economically attributable to the shareholders | | −2.4 | 0.0 |
| Income taxes | | 68.1 | 48.8 |
| Net profit or loss before income tax and changes in capital economically attributable to the shareholders | | **72.7** | **82.3** |
| Paid (−)/refunded (+) taxes on income | | −56.8 | −59.5 |
| Depreciation (+) of fixed assets | | 219.1 | 104.1 |
| Increase (+) / reduction (−) in long-term provisions | | −6.3 | 31.4 |
| Other expenditure (+)/income (−) not affecting payments | | 9.4 | 3.8 |
| Increase (+)/reduction (−) in short-term provisions | | −1.1 | 1.7 |
| Profit (−)/loss (+) from disposal of assets | | 4.8 | 1.5 |
| Increase (−)/reduction (+) in inventories, trade debtors and other assets | | 4.6 | −20.3 |
| Increase (+)/reduction (−) in trade creditors and other liabilities | | 19.4 | 73.0 |
| **Cash flow from operating activities** | (32) | **265.8** | **218.0** |
| **2. Cash flow from investment activities** | | | |
| Receipts (+) from disposal of tangible assets | | 8.4 | 19.6 |
| Payments (−) for investment in tangible assets | | −145.8 | −135.8 |
| Receipts (+) from disposal of intangible assets | | 0.1 | 0.2 |
| Payments (−) for investment in intangible assets | | −4.3 | −6.5 |
| Receipts (+) from disposal of non-current financial assets | | 0.0 | 0.6 |
| Payments (−) for investment in non-current financial assets | | −2.1 | −1.7 |
| Payments (−) for the acquisition of consolidated companies, less cash and cash equivalents acquired | | −507.8 | 0.0 |
| Receipts (+) from loans granted | | **0.0** | 16.2 |
| Payments (−) for loans granted | | −1.5 | −36.0 |
| Interest received (+) | | 10.8 | 7.5 |
| **Cash flow from investment activities** | (32) | **−642.2** | **−135.9** |
| **Free cash flow** | | **−376.4** | **82.2** |

| in million EUR | Notes | 2016 | 2015 |
|---|---|---|---|
| **3. Cash flow from financial activities** | | | |
| Receipts (+) from equity increases | | 0.1 | 0.0 |
| Payments (–) to company shareholders | | –6.2 | –6.3 |
| Receipts (+) from acceptance of (financial) credits and sale of monetary financial assets | | 26.6 | 1,728.8 |
| Repayment (–) of (financial) credits and payments to acquire monetary financial assets | | –802.6 | –545.2 |
| Interest paid (–) | | –68.3 | –35.1 |
| **Cash flow from financial activities** | (32) | **–850.4** | **1,142.2** |
| | | | |
| **4. Cash funds at end of period** | | | |
| Payment-effective change to cash funds (sub-total 1-3) | | –1,226.8 | 1,224.3 |
| Changes in cash funds from currency translations, related to valuation and to the consolidated Group | | 3.4 | 31.6 |
| Cash funds at the beginning of period | | 1,617.7 | 361.8 |
| **Cash funds at end of period** | | **394.3** | **1,617.7** |
| | | | |
| **5. Composition of cash funds** | | | |
| Cash | (32) | 394.3 | 1,617.7 |
| **Cash funds at end of period** | | **394.3** | **1,617.7** |

# Consolidated changes in equity
## as at December 31, 2016

| | | | | Parent Company |
|---|---|---|---|---|
| | Capital Stock / Subscribed Capital | Capital reserves | Revenue reserves | Total other shareholders' equity |
| in million EUR | | | | Available for sale financial assets |
| **As at 1/1/2015** | **92.7** | **83.5** | **753.7** | **0.8** |
| Accumulated other comprehensive income | 0.0 | 0.0 | 0.0 | 0.9 |
| Consolidated net income | 0.0 | 0.0 | 32.6 | 0.0 |
| Total comprehensive income | 0.0 | 0.0 | 32.6 | 0.9 |
| Dividends paid | 0.0 | 0.0 | −6.2 | 0.0 |
| Changes to the consolidated Group | 0.0 | 0.0 | 1.3 | 0.0 |
| **As at 12/31/2015** | **92.7** | **83.5** | **781.4** | **1.7** |
| Reclassification to borrowed capital due to reorganization of the Group structure | −92.7 | −83.5 | −781.4 | −1.7 |
| Changes in capital economically attributable to the shareholders | 0.0 | 0.0 | −2.4 | 0.0 |
| Reclassification to borrowed capital | 0.0 | 0.0 | 2.4 | 0.0 |
| Other comprehensive income | 0.0 | 0.0 | 0.0 | 0.0 |
| Consolidated net income | 0.0 | 0.0 | 0.0 | 0.0 |
| Total consolidated comprehensive income | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends paid | 0.0 | 0.0 | 0.0 | 0.0 |
| Changes to the consolidated Group | 0.0 | 0.0 | 0.0 | 0.0 |
| **As at 12/31/2016** | **0.0** | **0.0** | **0.0** | **0.0** |

| | | | Parent Company | Non-controlling interests | Total Equity |
|---|---|---|---|---|---|
| | | Total other shareholders' equity | Total equity attributable to shareholders of M+H International GmbH&Co.KG | | |
| Fair value measurement of cash flow hedges | Acturial gains and losses | Difference from currency translation | | | |
| **0.0** | **−51.3** | **−15.8** | **863.6** | **17.5** | **881.1** |
| 19.8 | 6.2 | 13.6 | 40.5 | 0.7 | 41.2 |
| 0.0 | 0.0 | 0.0 | 32.6 | 0.9 | 33.5 |
| 19.8 | 6.2 | 13.6 | 73.1 | 1.6 | 74.7 |
| 0.0 | 0.0 | 0.0 | −6.2 | −0.2 | −6.3 |
| 0.0 | 0.0 | 0.0 | 1.3 | −2.4 | −1.1 |
| **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 |
| | | | | | |
| 0.0 | 0.0 | 0.0 | 0.0 | −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 |
| 0.0 | 0.0 | 0.0 | 0.0 | −1.1 | −1.1 |
| 0.0 | 0.0 | 0.0 | 0.0 | −0.1 | −0.1 |
| **0.0** | **0.0** | **0.0** | **0.0** | **165.9** | **165.9** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
# of MANN+HUMMEL International GmbH & Co KG 2016

## 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 at Hindenburgstraße 45, 71638 Ludwigsburg, Germany. Since January 1, 2016, the company is the ultimate parent company of the MANN+HUMMEL Group (hereinafter also "Group" or "MANN+HUMMEL Group").

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 four Business Units: Automotive Original Equipment, Automotive Aftermarket, Industrial Filtration, and Water Filtration. 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 primarily in Asia, Europe, and South America in the water filtration sector.

### 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 m).

The Management Board of the company approved the consolidated financial statements for referral to the Supervisory Board on April 6, 2017.

The consolidated financial statements prepared as at December 31, 2016 and the 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 non-current and current assets or debts if they have a remaining term of more than one or up to one year respectively.

Assets and liabilities 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 liabilities in the balance sheet.

The assets and liabilities 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 their 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 315a(3) HGB (German Commercial Code) to prepare the consolidated financial statements in accordance with 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 315a(1) HGB.

## 4. New IFRS standards

The following accounting standards published by IASB are not yet mandatory, neither will they be applied early:

- **IFRS 9 Financial instruments** will replace the accounting and measurement of financial instruments in accordance with IAS 39. IFRS 9 introduces a standard approach to classifying and measuring financial assets and a new impairment model based on the expected credit defaults. IFRS 9 also contains new regulations for the application of hedge accounting. The provisions on recognizing impairments, which are now based on an anticipated loss model, are fundamentally new. The representation of balance-sheet hedging transactions has also been newly regulated under IFRS 9 and aligned towards more strongly representing operational risk management. IFRS 9 is applicable to fiscal years that start on or after January 1, 2018; an early application is permissible. We are currently verifying what effects the first-time application of IFRS 9 has on the consolidated financial statements.

- **IFRS 15 Revenue from contracts with customers** will govern the recognition of revenues and replace IAS 11 Construction contracts and IAS 18 Revenue. According to IFRS 15, the realization of sales will present the transfer of the agreed goods or services with the amount that corresponds to the return service that the company expects to receive for the goods delivered or services provided. Under IFRS 15, sales are regularly realized when the customer receives the power to dispose of the goods/services. IFRS 15 contains requirements for recognizing the service surpluses and liabilities, i.e. for assets and liabilities, originating under agreements with customers that result in the service provided by the company 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. IFRS 15 is applicable to fiscal years that start on or after January 1, 2018; an early application is permissible. The new definition of the transaction price according to IFRS 15 can lead to altered timing in the realization of sales, e.g. when recognizing development orders and tools. Additional effects arise from the recognition of contractual assets and contractual liabilities as well as the information in the notes. We are currently verifying what effects IFRS 15 will have on the consolidated financial statements.

- **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, needing to be recognized in the balance sheet. An exception only applies for short-term leasing agreements with a term of at least 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 as well as on sale and lease-back transactions. The time of the first application of IFRS 16 is January 1, 2019. Early application is permissible if the regulations on revenue realization in accordance with IFRS 15 are considered at the same time. 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 likely not have any major impact on the net assets, financial position and results of operation of the MANN+HUMMEL Group. When these standards are accepted by the EU, their application will only become mandatory in subsequent fiscal years; no early application of these standards is planned.

## 5. Consolidated Group

Within the framework of the rearrangement of the Group 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 71 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, 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. Associates are businesses where the parent company has a major influence on the business and financial policies, but which are neither subsidiaries nor joint ventures.

| | 01/01/2016 | First-time consolidations | Legal changes | Deconsolidations | 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 |
| Joint ventures | 0 | 0 | 0 | 0 | 0 |
| Associates | 1 | 0 | 0 | 0 | 1 |

| | 01/01/2015 | First-time consolidations | Legal changes | Deconsolidations | 12/31/2015 |
|---|---|---|---|---|---|
| Subsidiaries | 52 | 17 | 3 | 2 | 64 |
| of which in Germany | 14 | 3 | 2 | 1 | 14 |
| of which abroad | 37 | 14 | 1 | 0 | 50 |
| Joint ventures | 0 | 0 | 0 | 0 | 0 |
| Associates | 2 | 0 | 0 | 1 | 1 |

### Changes to the consolidated Group

In addition to the changes arising from the rearrangement of the Group structure and the associated adoption of MANN+HUMMEL International GmbH & Co KG as the managing holding company, the following companies were adopted into the consolidated Group in the current fiscal year:

| in % | Equity interest |
|---|---|
| MANN+HUMMEL Verwaltungs GmbH, Ludwigsburg | |
| MANN+HUMMEL East European Holding GmbH, Ludwigsburg | 83.3 |
| MANN+HUMMEL East European GmbH & Co. KG, Ludwigsburg | 83.3 |
| MANN+HUMMEL East European Verwaltungs GmbH, Ludwigsburg | 83.3 |

### Company acquisitions

With effect from May 4, 2016, 100% of the Affinia Group Intermediate Holdings Inc., Gastonia, North Carolina (“Affinia”) with its subsidiaries, was acquired. To simplify matters, the first-time consolidation took place on May 1, 2016. The filtration business of Affinia, known under the brands WIX Filters and FILTRON, specializes in the aftermarket business in oil, fuel, hydraulic and coolant filters. The competencies and client relationships of MANN+HUMMEL and the filter business of Affinia are complementary: with the two companies, the best filter solutions for on- and off-road as well as industrial applications are combined. Thanks to the takeover, MANN+HUMMEL now has access to new market segments such as the heavy duty sector in the USA and hydraulic filtration.

The acquisition price was paid in cash and in full in 2016. The final purchase price allocation will be made by May 2017 at the latest. The following overview presents the fair values of the preliminary purchase price allocation prior to consolidation:

| EUR million | Previous carrying amount | Preliminary fair value |
|---|---|---|
| Intangible assets | 2.1 | 462.9 |
| Tangible assets | 108.2 | 112.9 |
| Financial assets | 284.0 | 284.0 |
| Other assets | 23.9 | 23.9 |
| Deferred tax assets | 96.1 | 96.1 |
| Inventories | 134.8 | 134.8 |
| Trade receivables | 1,789.9 | 1,789.9 |
| Cash | 39.8 | 39.8 |
| Financial liabilities | 1,026.3 | 1,026.3 |
| Pension provisions | 1.0 | 1.0 |
| Other provisions | 7.4 | 7.4 |
| Other liabilities | 43.9 | 43.9 |
| Deferred tax liabilities | 3.5 | 137.2 |
| Trade payables | 1,744.6 | 1,744.6 |
| **Net assets acquired** | | **-16.2** |
| Goodwill (not deductible for tax purposes) | | 563.9 |
| **Purchase price** | | **547.7** |

MANN+HUMMEL expects that the goodwill actually acquired consists of the expected synergy potentials and the know-how of the employees. The following pro forma key financial indicators represent the consolidated sales and consolidated result of the MANN+HUMMEL Group in such a way as if Affinia had been acquired already at the start of the 2016 fiscal year.

| EUR million | 2016 |
|---|---|
| Pro forma sales (Group) | 3,734.0 |
| Pro forma consolidated net income | 18.0 |

In actual fact, the acquired Affinia Group contributed to the Group sales and consolidated net income 2016 as follows:

| EUR million | 2016 |
|---|---|
| Sales (Group) since acquisition date | 493.7 |
| Contribution to consolidated net income since acquisition date | 5.0 |

In fiscal year 2016, the following companies were included in the consolidated financial statements for the first time due to the acquisition of Affinia.

| in % | Equity interest |
|---|---|
| MANN+HUMMEL Filtration Technology Russia LLC, Moscow / Russian Federation | 83.3 |
| MANN+HUMMEL Filtration Technology Ukraine Ltd., Krasiliv / Ukraine | 83.3 |
| MANN+HUMMEL Filtration Technology UK Ltd., Riverside / UK | 83.3 |
| MANN+HUMMEL Filtration Technology Netherlands Holdings BV, Ijsselstein / Netherlands | 83.3 |
| MANN+HUMMEL Filtration Technology Luxembourg Finance S.a.r.l. , Luxembourg / Luxembourg | 83.3 |
| MANN+HUMMEL Filtration Technology Luxembourg S.a.r.l., Luxembourg / Luxembourg | 83.3 |
| MANN+HUMMEL Filtration Technology Poland Sp.z.o.o. Gostyn / Poland | 83.3 |
| Filtron Poland sp. z o.o., Gostyn / Poland | 83.3 |
| MANN+HUMMEL Filtration Technology Group Inc., Gastonia, NC / USA | 83.3 |
| MANN+HUMMEL Filtration Technology US LLC, Gastonia, NC / USA | 83.3 |
| MANN+HUMMEL Filtration Technology Products Corp LLC, Gastonia, NC / USA | 83.3 |
| MANN+HUMMEL Filtration Technology Intermediate Holdings Inc., Gastonia, NC / USA | 83.3 |
| MANN+HUMMEL Filtration Technology International Holdings Corp., Gastonia, NC / USA | 83.3 |
| MANN+HUMMEL Filtration Technology Automotive Inc., Gastonia, NC / USA | 83.3 |
| MANN+HUMMEL Filtration Technology Holdings Inc., Gastonia, NC / USA | 83.3 |
| MANN+HUMMEL Filtration Technology Southern Holdings LLC, Gastonia, NC / USA | 83.3 |
| MANN+HUMMEL Filtration Technology International Inc., Gastonia, NC / USA | 83.3 |
| MANN+HUMMEL Filtration Technology Canada ULC, Ayr, Ontario / Canada | 83.3 |
| MANN+HUMMEL Filtration Technology Canada GP Corp., Calgary, Alberta / Canada | 83.3 |
| MANN+HUMMEL Filtration Technology Canada L.P., Calgary, Alberta / Canada | 83.3 |
| MANN+HUMMEL Filtration Technology Mexico S. de R.L.de C.V. , Ramos Arizpe / Mexico | 83.3 |
| MANN+HUMMEL Filtration Technology Distribution Mexico S.A. de C.V., Ramos Arizpe / Mexico | 83.3 |
| MANN+HUMMEL Filtration (Longkou) Co., Ltd., Longkou City / PR China | 83.3 |
| MANN+HUMMEL Trading (Shanghai) Co., Ltd., Shanghai / PR China | 83.3 |
| MANN and HUMMEL Filtration (Hong Kong) Ltd., Hong Kong / PR China | 83.3 |
| MANN+HUMMEL Filtration Technology Australia Ltd., Brighton / Australia | 83.3 |

In the 2016 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 operation of the MANN+HUMMEL Group:

| in % | Equity interest |
|---|---|
| MN Beteiligungsgesellschaft mbH, Wiesbaden | 83.3 |
| MICRODYN-NADIR GmbH, Wiesbaden | 83.3 |
| MICRODYN TECHNOLOGIES INC., Raleigh, NC / USA | 83.3 |
| MICRODYN-NADIR (Xiamen) Co., Ltd., Xiamen / PR China | 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 company 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 goodwill and recognized under the intangible assets. Goodwill 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 freshly 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 Group Intermediate Holdings Inc., Gastonia, North Carolina were nevertheless recognized at the pro rata company acquisition (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 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 a 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, while assets and liabilities are converted at the 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 spot rate on the balance sheet reporting date is used for the subsequent measurement. Currency gains and losses from the reporting date valuation of the trade receivables and trade payables are recognized in other earnings and expenditure. Currency gains and losses, which are made up by financial assets and liabilities, are recognized in other financial income and financial expenses. The underlying exchange rates for the foreign currency translation 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 | |
|---|---|---|---|---|
| | 12/31/2016 | 12/31/2015 | 2016 | 2015 |
| Argentine peso [ARS] | 16.77030 | 14.20970 | 16.54808 | 10.47447 |
| Brazilian real [BRL] | 3.43790 | 4.24930 | 3.80361 | 3.73508 |
| Renminbi yuan [CNY] | 7.30680 | 7.09520 | 7.33724 | 6.91351 |
| Czech koruna [CZK] | 27.02000 | 27.02500 | 27.04250 | 27.26875 |
| Pound sterling [GBP] | 85.76050 | 73.46050 | 82.26950 | 72.38183 |
| Indian rupee [INR] | 71.65500 | 72.07000 | 74.24875 | 70.98933 |
| Yen [JPY] | 123.43650 | 131.17500 | 120.46042 | 133.57800 |
| South Korean won [KRW] | 1.26951 | 1.28172 | 1.27997 | 1.25373 |
| Mexican peso [MXN] | 21.60420 | 18.94030 | 20.65788 | 17.67128 |
| Russian ruble [RUB] | 63.81110 | 79.69720 | 73.53854 | 68.41748 |
| Singapore dollar [SGD] | 1.52573 | 1.54004 | 1.52466 | 1.52162 |
| Baht [THB] | 37.56935 | 39.43875 | 38.86700 | 37.99837 |
| US dollar [USD] | 1.05562 | 1.08925 | 1.10387 | 1.10373 |

## 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 economic benefit from the business can be expected. 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 trading goods 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 acquisition or manufacturing costs. 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 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 not 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 directly are also recognized in equity 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 10 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 not available as at the balance sheet date.

## Tangible assets

All **tangible assets** are subject to operational use and measured at cost or production cost, less planned usage-related depreciation. The depreciations on 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 ownership. Lease agreements that fulfill these requirements are classified as **financial leases**. 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.

As a rule, lease payments or rents that result from **operating lease** agreements are recognized in a linear fashion over the term of the lease as an expense in the consolidated income statement. 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 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 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 **tangible assets**, it is verified as at the balance sheet 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 of the fair value of the asset or of 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 forecast 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 assumptions relating to 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 using 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 2017 to 2019 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, a reversal 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 goodwill is carried out annually on the basis of impairment tests using the above methods. Impairments on goodwill are recognized if the recoverable amount of the corresponding cash-generating unit is below its carrying amount. Impairments on goodwill are reported in other expenses. An addition to goodwill is not carried out.

## Financial assets

Current and non-current 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 assets 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 of 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 separate 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 initial 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 cannot be reliably determined for want 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 equity within the revenue reserves 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 sustained 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 and recognized in the net financial result. The accumulated net loss is the difference between the acquisition 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 instruments are recognized directly 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 for this 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 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 derivative financial instruments used within the framework of cash flow hedges, the unrealized profits and losses in the amount of the effective 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 underlying transaction. 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 results from hedging transactions concluded to hedge against risks from commodity price changes, are recognized in the cost of sales. 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 generally measured at their average acquisition cost taking into consideration lower net sales values as at the balance sheet date. 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 in 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 current 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 business unit.

On initial classification of the disposal group, the measurement 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 be 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. Inasmuch as the claim 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, to assign 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 obligations. Provisions for anniversaries of years of service are determined in accordance with actuarial principles. The provisions for partial retirement 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 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 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 non-current 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 profit and loss statement.

Long-term provisions with a remaining term of more than one year are recognized at their fulfillment amount discounted on the balance sheet 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 pension provisions are formed in accordance with the projected unit credit method. In this method, not only the pensions and the unit credits known as at the balance sheet date, 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 in which they are 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 expenses. 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.

As at January 1, 2016, MANN+HUMMEL International GmbH & Co. KG, replaced MANN+HUMMEL Holding GmbH as the highest-level parent company of the MANN+HUMMEL Group, i.e. MANN+HUMMEL Holding GmbH has been acting as an intermediate holding since January 1, 2016. This reorganization of the Group structure represents a "transaction under common control", which is not explicitly regulated in the IFRS. In order to ensure that the reporting unit existing prior to and following January 1, 2016, is reflected consistently in the consolidated financial statements, the previous year's figures from the consolidated financial statements as at December 31, 2015 with the then ultimate parent company MANN+HUMMEL Holding GmbH are reported in the consolidated financial statements as at December 31, 2016 (termed predecessor accounting).

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 Affinia Group, these essentially include customer relationships in North America and Europe as well as brand names. The fair values of the identified customer lists/relationships were determined using the residual value method and corporate planning with a usage period of 10 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 15 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 the 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 the 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.

The amount of the fair value of the derivative instruments for hedging the currency risk from the purchase price payment for the acquisition of the Affinia Group is explained in detail in Item 36 of the Notes to the consolidated financial statements.

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 **pension provisions** (Item 31 of the Notes to the consolidated financial statements) is carried out, in particular, on the basis of assumptions on the discounting rates, future pension performance, age deferral and the development 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 of the consolidated financial statements) is subject to judgments about the interpretation of supply agreements. Significant decision-making criteria here are the binding definition of the period, quantities and prices of delivery.

The amount of the impairment expenses for **financial assets available for sale** 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 when better information becomes available.

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 in the following fiscal year.

## Notes to the consolidated profit and loss statement

The consolidated profit and loss statement is prepared using the cost of sales method.

### 10. Sales

| EUR million | 2016 | 2015 |
|---|---|---|
| Europe | 1,743.4 | 1,617.8 |
| America | 1,125.3 | 793.1 |
| Asia | 575.4 | 608.3 |
| Rest of the world | 35.7 | 22.7 |
| | **3,479.8** | **3,041.9** |

Of sales, EUR 3,469.5 million (previous year EUR 3,030.4 million) consists of the sale of goods and EUR 10.3 million (previous year EUR 11.6 million) of the provision of services.

### 11. Cost of sales and other costs

| EUR million | 2016 | 2015 |
|---|---|---|
| Material costs | 1,923.9 | 1,703.0 |
| Personnel costs | 480.8 | 456.6 |
| Depreciation and amortization | 152.6 | 80.1 |
| Other operating expenses | 117.0 | 95.0 |
| | **2,674.3** | **2,334.7** |

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 increase in the current fiscal year is largely attributable to the newly acquired Affinia Group companies.

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 | 2016 | 2015 |
|---|---|---|
| Income from foreign currency translation | 12.5 | 12.2 |
| Income from sale of tangible assets | 2.0 | 10.5 |
| Other | 17.3 | 19.6 |
| | **31.8** | **42.3** |

## 13. Other operating expenses

| EUR million | 2016 | 2015 |
|---|---|---|
| Expenditure from restructuring | 0.0 | 17.9 |
| Expenditure from foreign currency translation | 12.1 | 10.9 |
| Expenditure from sale of tangible assets | 3.5 | 5.0 |
| Guarantee expenditure | 7.2 | 6.2 |
| Other | 47.8 | 43.4 |
| | **70.6** | **83.4** |

Other expenses include impairments on goodwill in the amount of EUR 28.9 million (previous year EUR 0.0 million), costs in relation to the acquisition of Affinia in the amount of EUR 3.0 million (previous year EUR 18.2 million) and costs in relation to the Group reorganization in the amount of EUR 2.3 million.

## 14. Net financial result

| EUR million | 2016 | 2015 |
|---|---|---|
| **Share in the result from associates** | 0.5 | 0.5 |
| | | |
| Interest and similar income | 13.1 | 8.6 |
| Currency gains | 68.7 | 38.8 |
| Income from lending, financial assets and securities | 14.8 | 1.7 |
| Income from sale of financial assets, securities and hedging transactions | 2.4 | 17.1 |
| **Financial income** | **99.0** | **66.2** |
| | | |
| Accrued interest of non-current items | 9.9 | 9.7 |
| Distribution from "Capital economically attributable to the shareholders" | 5.1 | 0 |
| Interest and similar expenses | 61.6 | 44.3 |
| Currency losses | 42.8 | 41.3 |
| Depreciations on lending, financial assets and securities | 2.1 | 0.3 |
| Losses from sale of financial assets, securities and hedging transactions | 21.0 | 24.2 |
| **Financial expenses** | **142.5** | **119.8** |
| | | |
| **Net financial result** | **– 43.0** | **– 53.1** |

## 15. Income taxes

| EUR million | 2016 | 2015 |
|---|---|---|
| Current tax expenses | 67.6 | 42.7 |
| Tax revenues previous years | – 0.9 | – 4.7 |
| Tax expenses previous years | 1.5 | 23.0 |
| Deferred taxes from temporary differences | –26.7 | – 11.5 |
| Deferred taxes from loss carryforwards and tax credits | 26.6 | – 0.7 |
| | **68.1** | **48.8** |

A corporation tax rate of 15% (previous year 15%) applies in Germany. Taking into account an average trade tax rate of 12.5% (previous year 12.5%) and solidarity surcharge of 5.5% (previous year 5.5%), the income tax rate for domestic companies is 28.35% (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 2% and 35% (previous year 2% and 36.05%).

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

| EUR million | 12/31/2016 | | 12/31/2015 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Intangible assets | 37.3 | 139.4 | 11.3 | 14.6 |
| Tangible assets | 1.1 | 48.3 | 0.5 | 39.8 |
| Financial assets | 2.0 | 0.4 | 1.0 | 1.4 |
| Inventories | 6.4 | 1.7 | 3.4 | 0.4 |
| Trade receivables | 17.0 | 0.4 | 1.9 | 0.3 |
| Other current assets | 2.0 | 1.9 | 1.7 | 8.9 |
| Pension provisions | 58.6 | 0.2 | 48.3 | 0.2 |
| Other provisions | 26.1 | 0.0 | 21.7 | 0.0 |
| Short-term financial liabilities | 1.4 | 0.0 | 1.6 | 0.1 |
| Trade payables | 0.5 | 0.0 | 0.3 | 0.0 |
| Other liabilities | 8.8 | 0.0 | 6.4 | 1.1 |
| Deferred taxes related to shares in subsidiaries | 0.0 | 10.3 | 0.0 | 0.0 |
| Other | 0.1 | 0.0 | 0.3 | 0.1 |
| | **161.3** | **202.6** | **98.4** | **66.9** |
| Tax losses and tax credits carried forward | 55.9 | 0.0 | 7.6 | 0.0 |
| Offsetting | – 46.6 | – 46.6 | – 2.4 | – 2.4 |
| | **170.6** | **156.0** | **103.6** | **64.5** |

From the fair value measurement of securities, as at the balance sheet date, deferred tax assets of EUR 0.6 million or EUR 6.5 million (previous year deferred tax liabilities of EUR 0.7 million or EUR 7.8 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 23.9 million (previous year EUR 17.3 million). In addition, all other changes, with the exception of changes due to first-time consolidations, were recognized in income.

The amount for the deductible temporary differences and the tax losses and tax credits not yet utilized, for which no deferred tax assets were recognized in the balance sheet, amount to EUR 94.2 million (previous year EUR 72.5 million) and related exclusively to non-utilized tax losses. Of this figure, EUR 20.2 million (previous year EUR 4.3 million) consists of loss carryforwards, which can be utilized with a time limitation (in the period from 2 to 10 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. As in the previous year, there were no reductions of the actual or deferred tax expense due to the use of previously non-considered tax losses, tax credits or as a result of a temporary difference of a previous period that has not been utilized. As at the balance sheet date, deferred tax assets of EUR 12.7 million (previous year EUR 5.7 million) were recognized for Group companies, which had reported losses in the reporting period or the previous period.

The retained profits at foreign subsidiaries should largely remain reinvested from today's perspective. Deferred tax liabilities of EUR 10.3 million (previous year EUR 0.0 million) were calculated on retained profits at foreign subsidiaries in the amount of EUR 2,371.6 million (previous year EUR 544.5 million). On distribution, profits would be subject to 5% 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 | 2016 | 2015 |
|---|---|---|
| Net profit or loss before income tax and changes in capital economically attributable to the shareholders | 72.7 | 82.3 |
| Expected income tax expense | 20.6 | 23.3 |
| Tax effects due to different national tax rates and group taxation systems | 16.2 | − 8.9 |
| Effects of tax rate changes | 0.1 | 0.1 |
| Tax effects due to the non-application and value correction due to deferred taxes or their reversal | 9.4 | 8.9 |
| Tax effects due to permanent differences | 12.9 | 8.1 |
| Tax effects due to facts of past periods | − 8.3 | 18.4 |
| Tax effects related to shares in subsidiaries | 10.3 | 0.0 |
| Other tax effects | 6.9 | − 1.1 |
| **Recognized income tax expense** | **68.1** | **48.8** |

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

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

| EUR million | 2016 | 2015 |
|---|---|---|
| Expenditure on raw materials, consumables, supplies and trading goods | 1,790.2 | 1,630.8 |
| Expenditure on purchased services | 41.9 | 28.6 |
| | **1,832.1** | **1,659.4** |

The staff costs break down as follows:

| EUR million | 2016 | 2015 |
|---|---|---|
| Direct and indirect remuneration | 688.1 | 625.6 |
| Social duties and expenses for support | 135.2 | 127.0 |
| Expenses for pension provisions | 22.4 | 21.1 |
| | **845.7** | **773.7** |

The staff costs include amounts for defined contribution plans in the amount of EUR 33.0 million (previous year EUR 28.2 million). The expenses included in it for state plans in the amount of EUR 30.6 million (previous year EUR 27.3 million) include predominantly the employer contributions to the pension insurance, which are included in the social duties.

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** | **2016** | **2015** |
|---|---|---|
| Cost of sales | 152.6 | 80.1 |
| Research and development costs | 6.3 | 5.9 |
| Selling expenses | 4.1 | 2.0 |
| Administrative expenses | 26.7 | 15.5 |
| Other operating expenses | 29.4 | 0.5 |
| | **219.1** | **104.0** |

The expenses recognized in the fiscal year for research and development amount to EUR 126.0 million (previous year EUR 120.6 million).

In the fiscal year, payments from operating leases or tenancies in the amount of EUR 28.5 million (previous year EUR 28.6 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 of 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 of 12/31/2016** | **636.7** | **693.1** | **19.6** | **0.1** | **1,349.4** |
| | | | | | |
| **Accumulated depreciations of 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 |
| Reversals of write-downs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposals | 0.0 | – 2.6 | 0.0 | 0.0 | – 2.6 |
| **Accumulated depreciations of 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** |

| EUR million | Goodwill | Patents, licenses, software and similar rights and values | Development costs | Total |
|---|---|---|---|---|
| **Acquisition and manufacturing costs of 1/1/2015** | **43.7** | **137.7** | **14.5** | **195.9** |
| Exchange rate effects | 1.0 | 6.8 | 0.1 | 7.9 |
| Changes in consolidated Group | 0.0 | 37.7 | 0.0 | 37.7 |
| Additions | 0.0 | 5.5 | 1.0 | 6.5 |
| Transfers | 0.0 | 1.5 | 0.0 | 1.5 |
| Disposals | 0.0 | – 0.8 | 0.0 | – 0.8 |
| **Acquisition and manufacturing costs of 12/31/2015** | **44.7** | **188.4** | **15.6** | **248.7** |
| | | | | |
| **Accumulated depreciations of 1/1/2015** | **0.0** | **68.2** | **11.5** | **79.7** |
| Exchange rate effects | 0.0 | 0.8 | 0.0 | 0.8 |
| Changes in consolidated Group | 0.0 | 1.6 | 0.0 | 1.6 |
| Additions | 0.0 | 12.2 | 0.9 | 13.1 |
| Transfers | 0.0 | 0.0 | 0.0 | 0.0 |
| Reversals of write-downs | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposals | 0.0 | – 0.6 | 0.0 | – 0.6 |
| **Accumulated depreciations of 12/31/2015** | **0.0** | **82.2** | **12.4** | **94.6** |
| | | | | |
| **Carrying amount as at 12/31/2015** | **44.7** | **106.2** | **3.2** | **154.1** |

The intangible assets include customer relationships in the amount of EUR 432.1 million (previous year EUR 69.9 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 | 12/31/2016 |
|---|---|
| MANN+HUMMEL Haoye Filter (Bengbu) Co., Ltd. | – 11.3 |
| MICRODYN-NADIR Singapore Pte. Ltd. | – 1.4 |
| MANN+HUMMEL Vokes Air GmbH & Co. OHG | – 13.7 |
| MANN+HUMMEL Vokes-Air Limited | – 3.7 |
| | **– 30.3** |

## Goodwill

The goodwill from company acquisitions is reported as follows:

| EUR million | 12/31/2016 | 12/31/2015 |
|---|---|---|
| MANN+HUMMEL Innenraumfilter GmbH & Co. KG | 7.7 | 7.7 |
| MANN+HUMMEL Purolator Filters LLC | 6.8 | 6.6 |
| Fluid Brasil Sistemas e Tecnologia Ltda | 2.1 | 15.0 |
| MICRODYN-NADIR Singapore Pte. Ltd. | 0.0 | 6.2 |
| MANN+HUMMEL KOREA CO. LTD | 9.4 | 9.3 |
| MANN+HUMMEL Filtration Technology | 581.8 | 0.0 |
| | **607.8** | **44.7** |

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 2016:

| EUR million | 12/31/2016 |
|---|---|
| Fluid Brasil Sistemas e Tecnologia Ltda | – 12.9 |
| MICRODYN-NADIR Singapore Pte. Ltd. | – 6.2 |
| MN Beteiligungsgesellschaft mbH, Wiesbaden | – 9.8 |
| | **– 28.9** |

## 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 (2017 to 2019) 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 – 2.1% and 17.9% (previous year 2.6% to 26.5%). 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: 0.5% to 2.0%) form the basis. The cash flows determined were discounted at weighted capital cost rates after tax of 7.6% to 12.9% (previous year 6.0% to 10.4%); before tax, the figure was 8.0% to 13.7% (previous year 8.3% to 15.8%). The weighting of the equity 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. This affected the goodwill of Fluid Brasil Sistemas e Tecnologia Ltda, MICRODYN-NADIR Singapore Pte. Ltd. and MN Beteiligungsgesellschaft mbH, Wiesbaden and amounted in total to EUR 28.9 million.

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 not result in any impairment reduction for the capitalized goodwill either.

For the key cash-generating unit, MANN+HUMMEL Filtration Technology (MHFT), an increase in sales of 3.6% 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. Furthermore, an increase in profitability resulting from the implementation of cost-reducing measures and synergies from the merger of production locations was assumed in the detailed planning period, which is to yield an average increase in the EBIT margin of around 3.0%. To measure perpetuals, growth rates of 1.0% to 3.0% (previous year: 0.5% to 2.0%) form the basis. The cash flows determined were discounted at weighted capital cost rates after tax of 7.8% to 11.4% (previous year 6.0% to 10.4%); before tax, the figure was 9.6% to 17.3% (previous year 8.3% to 15.8%). The weighting of the equity 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 7.9 million. If the WACC increases by 0.05 percentage points or the sustainable EBIT margin reduces by 0.1 percentage points, the value in use corresponds to the carrying amount. If the WACC increases by 0.5 percentage points or the sustainable EBIT margin reduces by 1.0 percentage points, there would be an additional write-down requirement of EUR 59.9 million and EUR 52.6 million respectively.

| **EUR million** | **2016** | | **2015** | |
|---|---|---|---|---|
| | Weighted capital costs | Growth rate | Weighted capital costs | Growth rate |
| MANN+HUMMEL Innenraumfilter GmbH & Co. KG | 8.1 | 2.0 | 6.0 | 0.5 |
| MANN+HUMMEL Purolator Filters LLC | 8.8 | 2.0 | 6.0 | 0.5 |
| Fluid Brasil Sistemas e Tecnologia Ltda | 12.9 | 3.0 | 10.4 | 2.0 |
| MICRODYN-NADIR Singapore Pte. Ltd. | 7.8 | 1.0 | 8.3 | 1.0 |
| MN Beteiligungsgesellschaft mbH, Wiesbaden | 7.6 | 1.0 | 0.0 | 0.0 |
| MANN+HUMMEL KOREA CO. LTD | 8.6 | 1.0 | 6.8 | 0.5 |
| MANN+HUMMEL Filtration Technology | 8.8 | 2.0 | 0.0 | 0.0 |

## 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 of 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 of 12/31/2016** | **511.8** | **19.1** | **1,278.3** | **199.0** | **89.4** | **2,097.6** |
| | | | | | | |
| **Accumulated depreciations of 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 |
| Reversals of write-downs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposals | – 3.2 | 0.0 | – 36.2 | – 8.8 | 0.0 | – 48.1 |
| **Accumulated depreciations of 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** |

| 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 of 1/1/2015** | **397.1** | **8.4** | **984.2** | **160.2** | **75.1** | **1,625.0** |
| Exchange rate effects | 7.1 | 0.3 | 10.4 | – 1.6 | 0.5 | 16.7 |
| Changes in consolidated Group | 11.8 | 0.0 | 10.9 | 5.4 | 0.3 | 28.5 |
| Additions | 7.3 | 0.0 | 35.4 | 12.2 | 84.7 | 139.6 |
| Transfers | 6.5 | 0.0 | 43.6 | 7.8 | – 59.4 | – 1.5 |
| Disposals | – 9.5 | 0.0 | – 26.9 | – 9.9 | – 2.5 | – 48.7 |
| **Acquisition and manufacturing costs of 12/31/2015** | **420.4** | **8.8** | **1,057.7** | **174.1** | **98.6** | **1,759.5** |
| | | | | | | |
| **Accumulated depreciations of 1/1/2015** | **144.7** | **3.8** | **650.7** | **103.0** | **0.0** | **902.2** |
| Exchange rate effects | 1.1 | 0.0 | 4.2 | – 1.0 | 0.0 | 4.3 |
| Changes in consolidated Group | 4.9 | 0.0 | 10.1 | 5.1 | 0.0 | 20.1 |
| Additions | 14.5 | 0.3 | 61.0 | 15.2 | 0.0 | 91.0 |
| Transfers | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reversals of write-downs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposals | – 4.0 | 0.0 | – 19.9 | – 8.7 | 0.0 | – 32.6 |
| **Accumulated depreciations of 12/31/2015** | **161.2** | **4.2** | **706.1** | **113.5** | **0.0** | **985.0** |
| | | | | | | |
| **Carrying amount as at 12/31/2015** | **259.2** | **4.6** | **351.6** | **60.6** | **98.6** | **774.5** |

Tangible assets includes leased land and buildings in the amount of EUR 14.0 million (previous year EUR 4.6 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 includes operation and business equipment in the amount of EUR 1.8 million (previous year EUR 1.8 million), which were classified as finance leases. These are industrial trucks that were capitalized in fiscal year 2016.

Also in tangible assets, impairments were performed on land and buildings in the amount of EUR 1.9 million. These resulted from an impairment requirement on a MICRODYN-NADIR Singapore Pte. Ltd. building 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 | 12/31/2016 | 12/31/2015 |
|---|---|---|
| **Sum of the future minimum lease payments** | | |
| due within one year | 9.3 | 0.3 |
| due between one and five years | 12.4 | 6.4 |
| due after more than five years | 4.2 | 0.5 |
| | **25.9** | **7.2** |
| **Interest share included in the future minimum lease payments** | | |
| due within one year | 1.7 | 0.1 |
| due between one and five years | 3.1 | 0.9 |
| due after more than five years | 0.5 | 0.0 |
| | **5.3** | **1.0** |
| **Cash value of the future minimum lease payments** | | |
| due within one year | 7.6 | 0.2 |
| due between one and five years | 9.3 | 5.5 |
| due after more than five years | 3.7 | 0.5 |
| | **20.6** | **6.2** |

## 20. Investments in associates

The MANN+HUMMEL Group holds a share of 25% in ABC S.A., Cordoba, Argentina. The pro rata annual profit attributable to the MANN+HUMMEL Group is EUR 0.5 million (previous year EUR 0.5 million).

## 21. Non-current financial assets

| EUR million | 12/31/2016 | 12/31/2015 |
|---|---|---|
| Securities | 19.7 | 26.6 |
| Other holdings | 4.2 | 2.7 |
| Other financial assets | 3.5 | 0.0 |
| | **27.4** | **29.3** |

As in the previous year the assets of the special fund are largely recognized in the non-current financial assets.

## 22. Other assets

| EUR million | 12/31/2016 | | | 12/31/2015 | | |
|---|---|---|---|---|---|---|
| | Total | Of which non-current | Of which current | Total | Of which non-current | Of which current |
| Other assets | 55.6 | 3.1 | 52.5 | 49.7 | 7.3 | 42.4 |
| Deferred income | 12.0 | 1.9 | 10.1 | 6.7 | 0.1 | 6.7 |
| Other | 2.8 | 0.0 | 2.8 | 1.7 | 0.0 | 1.7 |
| | **70.4** | **5.0** | **65.4** | **58.2** | **7.4** | **50.8** |

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 | 12/31/2016 | 12/31/2015 |
|---|---|---|
| Raw materials, consumables and supplies | 147.9 | 115.5 |
| Unfinished products | 73.1 | 57.7 |
| Finished products and goods | 259.2 | 170.1 |
| Down payments made | 2.9 | 3.4 |
| | **483.1** | **346.7** |

In fiscal year 2016, impairments in the inventories in the amount of EUR 5.2 million were reversed and recognized (previous year: addition of EUR 1.4 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 |
| 12/31/16 | 586.0 | 585.0 | 549.6 | 26.1 | 4.5 | 3.9 | 1.1 |
| 12/31/15 | 438.9 | 438.2 | 406.3 | 18.3 | 5.0 | 7.8 | 1.5 |

For agreed payment plans with customers, these receivables, inasmuch as they are observed, are reported neither as impaired nor as overdue. The impairments on current and non-current trade receivables developed as follows:

| EUR million | 2016 | 2015 |
|---|---|---|
| **Carrying amount as at 1/1/** | **4.8** | **3.6** |
| Exchange rate effects | 0.4 | 0.1 |
| Additions | 3.7 | 2.0 |
| Consumption | – 1.8 | – 0.6 |
| Reversals | – 0.7 | – 0.3 |
| **Carrying amount as at 12/31/** | **6.4** | **4.8** |

The gross value of the impaired trade receivables is EUR 7.0 million (previous year EUR 4.8 million). As regards the neither impaired nor defaulting inventory of trade receivables, there are no indications that the debtors will not fulfill their payment obligations.

Trade receivables with a carrying amount of EUR 55 million in total (previous year EUR 54.7 million) were sold on the basis of factoring agreements in fiscal year 2016. The receivables were derecognized in full.

## 25. Current financial assets

| EUR million | 12/31/2016 | 12/31/2015 |
|---|---|---|
| Derivative financial instruments | 2.0 | 36.4 |
| Receivables and loans | 48.3 | 51.9 |
| Securities | 188.1 | 123.9 |
| | **238.4** | **212.2** |

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

## 26. Shareholders' equity

We refer to our explanations in Note 9. Judgments and uncertainties in connection with estimates.

### 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 | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Before income taxes | Income taxes | After taxes | Before income taxes | Income taxes | After taxes |
| Difference from foreign currency translation | –31.2 | 0.0 | –31.2 | 14.3 | 0.0 | 14.3 |
| Fair value measurement of securities | –0.3 | 0.8 | 0.5 | 1.2 | –0.3 | 0.9 |
| Fair value measurement of cash flow hedges | –23.2 | 7.8 | –15.4 | 27.7 | –7.8 | 19.8 |
| Actuarial profits and losses | –35.0 | 9.6 | –25.4 | 8.7 | –2.5 | 6.2 |
| **Other result** | **–89.7** | **18.2** | **–71.5** | **51.9** | **–10.6** | **41.2** |

## Non-controlling interests

The non-controlling interests share of equity amounted to EUR 165.9 million (previous year EUR 16.6 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 were disclosed as borrowed capital in „Capital economically attributable to the shareholders“. This item amounted to EUR 714.0 million as at the end of the fiscal year.

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 266 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 (previous year equity ratio), the economic equity is used. This encompasses the balance sheet equity and the capital economically attributable to the shareholders disclosed within non-current liabilities. Due to the promissory note issued in anticipation of the purchase of the Affinia Group, the equity ratio of the previous year had already dropped.

| | 12/31/2016 | 12/31/2015 |
|---|---|---|
| Capital economically attributable to the shareholders and equity (previous year equity) in millions of euros | 879.9 | 948.5 |
| Capital economically attributable to the shareholders and equity relative to total assets (previous year equity ratio) in % | 21.7 % | 25.1 % |

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

## 28. Financial liabilities

| EUR million | Carrying amount as at 12/31/2016 | | | Carrying amount as at 12/31/2015 | | |
|---|---|---|---|---|---|---|
| | Total | Of which non-current | Of which current | Total | Of which non-current | Of which current |
| Other liabilities banks | 1,455.6 | 1,398.9 | 56.7 | 1,504.5 | 1,421.6 | 82.9 |
| Bonds | 98.1 | 98.1 | 0.0 | 98.0 | 98.0 | 0.0 |
| Payables from finance leasing | 20.6 | 19.6 | 1.0 | 6.2 | 6.0 | 0.2 |
| Derivative financial instruments | 24.5 | 19.7 | 4.8 | 10.8 | 0.0 | 10.8 |
| Other | 103.7 | 0.0 | 103.7 | 46.4 | 0.0 | 46.4 |
| | **1,702.5** | **1,536.3** | **166.2** | **1,665.9** | **1,525.6** | **140.3** |

The other financial liabilities consist largely of customer bonuses and exchange rate liabilities. The increase in other financial liabilities is predominantly due to the increase in liabilities from customer bonuses due to the new WIX Filtron companies.

The repayment installments of the long-term loans due within one year are reported in current financial liabilities. 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 0.48% (prior year 0.15%) to 11.25% (prior year 12.5%).

The country-specific interest rate on the loans recognized in the non-current financial liabilities ranges from 0.33% (previous year 1.19%) to 5.26% (previous year 5.26%). Slightly more than half of the loans has 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.

## 29. Other liabilities

| EUR million | Carrying amount as at 12/31/2016 | | | Carrying amount as at 12/31/2015 | | |
|---|---|---|---|---|---|---|
| | Total | Of which non-current | Of which current | Total | Of which non-current | Of which current |
| Staff liabilities | 90.8 | 0.3 | 90.5 | 64.0 | 0.6 | 63.4 |
| Down payments received | 8.1 | 0.0 | 8.1 | 9.8 | 0.0 | 9.8 |
| Taxes | 28.7 | 0.0 | 28.7 | 20.7 | 0.0 | 20.7 |
| Other | 42.6 | 5.7 | 36.9 | 37.5 | 1.0 | 36.5 |
| | **170.2** | **6.0** | **164.2** | **132.0** | **1.6** | **130.4** |

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 12/31/2016 | | | Carrying amount as at 12/31/2015 | | |
|---|---|---|---|---|---|---|
| | Total | Of which non-current | Of which current | Total | Of which non-current | Of which current |
| Liabilities from the operating area | 61.7 | 1.9 | 59.8 | 61.8 | 1.5 | 60.3 |
| Liabilities from the staff area | 43.3 | 33.6 | 9.8 | 52.4 | 42.9 | 9.5 |
| Other liabilities | 17.9 | 1.0 | 16.9 | 10.2 | 0.9 | 9.3 |
| | **122.9** | **36.4** | **86.5** | **124.4** | **45.3** | **79.1** |

| EUR million | 01/01/2016 | Exchange rate effects | Addi-tion | Changes in consolidated Group | Accrued interest | Trans-fers | 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** |

| EUR million | 01/01/2015 | Exchange rate effects | Addi-tion | Changes in consolidated Group | Accrued interest | Trans-fers | Offsetting plan assets | Consumption | Reversal | 12/31/2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| Liabilities from the operating area | 61.2 | 0.1 | 41.4 | 0.3 | 0.0 | 0.1 | 0.0 | -34.4 | -6.9 | 61.8 |
| Liabilities from the staff area | 23.4 | -0.6 | 42.8 | 0.3 | 0.7 | -0.1 | 1.0 | -14.9 | -0.2 | 52.4 |
| Other liabilities | 10.5 | -0.1 | 7.0 | 0.0 | 0.0 | 0.0 | 0.0 | -7.2 | 0.0 | 10.2 |
| | **95.1** | **-0.6** | **91.2** | **0.6** | **0.7** | **0.0** | **1.0** | **-56.5** | **-7.1** | **124.4** |

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 risks of litigation.

The liabilities from the staff area largely contain profit sharing, restructuring measures, partial retirement 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 current liabilities are expected to be consumed over the period of the next 12 months.

Usage of about 82% of the non-current liabilities from the operating area is expected within the coming five years. Furthermore, about 85% of the reserves in non-current liabilities from the staff area and about 98% of the reserves in other non-current liabilities will likely be used over the coming five years.

## 31. Pension provisions

Pension provisions are formed for liabilities from entitlements and from current benefits for active 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. Defined contribution and benefitprovision 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, whereby a differentiation is made between provision- and fund-financed pension systems.

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 locations. 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 and fluctuation, the following assumptions have a major impact on the amount of the liability:

| in % | 2016 | 2015 |
|---|---|---|
| Discount factor | 1.70 | 2.15 |
| 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 the 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 pension provisions.

The pension promises have the following financing status:

| EUR million | 12/31/2016 | 12/31/2015 |
|---|---|---|
| Cash value of the provision-financed pension entitlements | 450.0 | 402.0 |
| Cash value of the fund-financed pension entitlements | 36.9 | 43.2 |
| **Benefit cash value of the fund-financed pension entitlements** | 486.9 | 445.2 |
| Fund assets | 34.9 | 27.9 |
| **Net liabilities** | 452.0 | 417.3 |

The fund assets consist of the following:

| EUR million | 12/31/2016 | 12/31/2015 |
|---|---|---|
| Cash | 5.9 | 1.6 |
| Securities | 18.8 | 18.1 |
| Shareholders' equity instruments | 3.0 | 3.5 |
| Debt instruments | 5.0 | 5.8 |
| Fund shares | 10.7 | 8.8 |
| Other | 10.2 | 8.2 |
| | **34.9** | **27.9** |

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 | 2016 | 2015 |
|---|---|---|
| **Initial inventory of defined benefit obligations (DBO)** | **445.2** | **447.3** |
| +/- Exchange rate effects from abroad | – 1.8 | 0.9 |
| + Company acquisitions | 3.7 | 0.9 |
| + Current service costs | 12.7 | 12.5 |
| + Past service costs to be calculated | 0.0 | 0.0 |
| + Interest expense | 9.9 | 9.5 |
| - Settlements/curtailments | 0.0 | 0.0 |
| +/- Actuarial gains and losses from the change in demographic assumptions | – 0.2 | 0.0 |
| +/- Actuarial gains and losses from the change in financial assumptions | 33.1 | – 8.7 |
| +/- Actuarial gains and losses from experience-based adjustments | 2.1 | – 0.2 |
| + Contributions from the participants of the plan | 0.0 | 0.0 |
| - Pension payments made | – 19.3 | – 17.0 |
| +/ - Other changes | 1.5 | 0.0 |
| **End inventory of defined benefit obligations (DBO) as at 12/31/** | **486.9** | **445.2** |
| | | |
| **Initial inventory of fair value of fund assets** | **27.9** | **24.9** |
| +/- Exchange rate effects from abroad | – 1.8 | 0.8 |
| - Settlements/curtailments | 0.0 | 0.0 |
| + Expected income from the fund assets | 0.7 | 0.7 |
| +/- Actuarial gains and losses from the change in financial assumptions | 0.0 | – 0.3 |
| + Contributions made by the participants of the plan | 10.0 | 0.1 |
| + Contributions made by the employer to the plan | 0.0 | 2.8 |
| - Pension payments made | – 1.9 | – 1.1 |
| - Effects of the asset ceiling | 0.0 | 0.0 |
| +/ - Other changes | 0.0 | 0.0 |
| **Fair value of fund assets as at 12/31/** | **34.9** | **27.9** |
| | | |
| **Pension provisions as at 1/1/** | **417.3** | **422.4** |
| **Pension provisions as at 12/31/** | **452.0** | **417.3** |

The pension obligations yield expenses recognized in income from pension obligations in the amount of EUR 22.6 million (previous year EUR 21.3 million), which consist of the following components:

| EUR million | 2016 | 2015 |
|---|---|---|
| Current service costs | 12.7 | 12.5 |
| Past service costs to be calculated | 0.0 | 0.0 |
| Settlements and curtailments | 0.0 | 0.0 |
| Accrued interest of the net liabilities | 9.9 | 8.8 |
| | **22.6** | **21.3** |

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 (gains) in the amount of EUR 35.0 million (previous year EUR 8.6 million) are recognized directly in the accumulated other equity.

In reality, the fund assets posted a profit of EUR 0.6 million (previous year EUR 0.3 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 1.3 million in the following year, according to the best estimates. The estimate in the previous year for the 2016 fiscal year amounted to EUR 1.5 million.

The pension payments of subsequent years are as follows:

| EUR million | 2016 | 2015 |
|---|---|---|
| within the next fiscal year | 17.2 | 16.5 |
| between 2 and 5 fiscal years | 81.0 | 75.0 |
| between 5 and 10 fiscal years | 123.5 | 116.2 |
| due after more than 10 years | 377.3 | 1,199.0 |

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 6 and 16 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** | **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 |

| | Change to pension entitlement cash value |
|---|---|
| **EUR million** | **2015** |
| Discount factor | |
| – 0.25% points | 16.8 |
| + 0.25% points | – 15.9 |
| Pensions dynamics | |
| – 0.25% points | – 0.7 |
| + 0.25% points | 0.7 |
| Life expectancy | |
| – 1 year | – 11.7 |
| + 1 year | 11.7 |

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 133.9 million (previous year EUR 142.2 million), which were not utilized in the amount of EUR 117.0 million (previous year EUR 124.1 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 | 12/31/2016 | 12/31/2015 |
|---|---|---|
| Guarantees | 2.5 | 0.6 |
| Other | 1.7 | 0.2 |
| | **4.2** | **0.8** |

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 financial 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 | 12/31/2016 | 12/31/2015 |
|---|---|---|
| Renting and leasing | 55.5 | 57.7 |
| Purchase obligations | 62.3 | 45.4 |
| | **117.8** | **103.1** |

The purchase obligation is EUR 39.3 million (previous year EUR 25.8 million) for inventories, EUR 20.4 million (previous year EUR 19.5 million) for tangible assets and EUR 2.6 million (previous year EUR 0 million) for other services.

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

| EUR million | 12/31/2016 | 12/31/2015 |
|---|---|---|
| **Nominal sum of the future minimum lease payments** | | |
| due within one year | 15.6 | 17.5 |
| due between one and five years | 29.2 | 23.0 |
| due after more than five years | 10.7 | 17.2 |
| | **55.5** | **57.7** |

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 a 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 installments 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 31 December 2016, a provision of EUR 2.7 million (previous year EUR 2 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 of operation 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, MANN+HUMMEL International GmbH & Co. KG was installed as the new parent company. 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:

| 12/31/2016<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 | 714.0 | 714.0 | 0.0 | 0.0 | 714.0 |
| Trade payables | 484.8 | 484.8 | 0.0 | 0.0 | 484.8 |
| Other liabilities 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 |

| | | Carry amount balance sheet in accordance with IAS 39 | | | |
|---|---|---|---|---|---|
| **12/31/2015 EUR million** | **Carrying amount** | (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 | 1,617.7 | 1,617.7 | 0.0 | 0.0 | 1,617.7 |
| Trade receivables | 438.9 | 438.9 | 0.0 | 0.0 | 438.9 |
| Other financial assets | 51.9 | 51.9 | 0.0 | 0.0 | 51.9 |
| | | | | | |
| **Financial assets available for sale (AfS)** | | | | | |
| Holdings | 2.7 | 2.7 | 0.0 | 0.0 | 2.7 |
| Securities | 150.5 | 0.0 | 150.5 | 0.0 | 150.5 |
| | | | | | |
| **Financial assets held for trading (FAHfT)** | | | | | |
| Derivative financial instruments | 1.9 | 0.0 | 0.0 | 1.9 | 1.9 |
| | | | | | |
| **Derivative financial instruments with a hedge relationship (n.a.)** | 34.5 | 0.0 | 34.5 | 0.0 | 34.5 |
| | | | | | |
| **LIABILITIES** | | | | | |
| **Financial liabilities at amortized cost (FLAC)** | | | | | |
| Trade payables | 376.7 | 376.7 | 0.0 | 0.0 | 376.7 |
| Other liabilities banks | 1,504.5 | 1,504.5 | 0.0 | 0.0 | 1,432.1 |
| Other financial liabilities | 144.3 | 144.3 | 0.0 | 0.0 | 176.2 |
| | | | | | |
| **Payables from finance leasing (n.a.)** | 6.2 | 6.2 | 0.0 | 0.0 | 4.6 |
| | | | | | |
| **Derivative financial instruments (FLAFVTPL)** | 10.5 | 0.0 | 0.0 | 10.5 | 10.5 |
| | | | | | |
| **Derivative financial instruments with a hedge relationship (n.a.)** | 0.3 | 0.0 | 0.3 | 0.0 | 0.3 |

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 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 current financial assets, their carrying amount generally corresponds to nearly the fair value at the end of the reporting period.

The market values of the non-current 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 contractually 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 | 12/31/2016 | | | |
|---|---|---|---|---|
| | 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 |

| EUR million | 12/31/2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Securities | | | | |
| Shares | 42.7 | 0.0 | 0.0 | 42.7 |
| Bonds | 77.7 | 3.5 | 0.0 | 81.2 |
| Fund shares | 26.6 | 0.0 | 0.0 | 26.6 |
| Derivative financial instruments | 0.9 | 1.2 | 34.3 | 36.4 |
| | | | | |
| **Liabilities** | | | | |
| Derivative financial instruments | 0.3 | 2.0 | 8.5 | 10.8 |

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 | 12/31/2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Holdings | 0.0 | 0.0 | 4.2 | 4.2 |
| | | | | |
| **Liabilities** | | | | |
| Other liabilities 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 |

| EUR million | 12/31/2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Holdings | 0.0 | 0.0 | 2.7 | 2.7 |
| | | | | |
| **Liabilities** | | | | |
| Other liabilities banks | 0.0 | 1,432.1 | 0.0 | 1,432.1 |
| Other financial liabilities | 0.0 | 176.2 | 0.0 | 176.2 |
| Payables from finance leasing | 0.0 | 4.6 | 0.0 | 4.6 |

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. In the current fiscal year, these securities were sold; consequently there is no longer any holdings of level 3 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 | 2016 | 2015 |
|---|---|---|
| **Last revised 1/1/** | 28.5 | 38.0 |
| Fair value changes recognized directly in equity | 0.0 | 25.8 |
| Price gains / losses | 0.0 | 0.0 |
| Purchases | 0.0 | 0.0 |
| Sales | – 28.5 | – 6.7 |
| Changes to the consolidated Group | 0.0 | – 28.6 |
| Restructuring in level 3 | 0.0 | 0.0 |
| **Last revised 12/31/** | 0.0 | 28.5 |

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).

As regards the hedging of a considerable portion of the purchase price of the Affinia Group (underlying transaction) against currency fluctuations, the MANN+HUMMEL Group had already concluded several transaction-based futures contracts in the previous year.

## Net profits and losses by measurement categories

| EUR million | Total net profits and losses |
|---|---|
| **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 instruments held for trading | 0.0 |
| Financial liabilities at cost | – 48.5 |
| **2015** | |
| Loans and receivables | 1.7 |
| Financial assets available for sale | |
| valued at fair value | 1.6 |
| valued at amortized costs | 1.1 |
| Financial instruments valued at fair value directly in equity | – 2.0 |
| Financial instruments held for trading | – 6.3 |
| Financial liabilities at cost | – 41.3 |

Other net profits and losses of loans and receivables largely include currency gains and losses from foreign currency receivables and income from dissolutions of 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 instruments 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 financial assets categorized as available for sale, which were recognized directly in equity, amount to EUR 0.3 million before taxes in 2016 (previous year: EUR 1.2 million).

Reclassifications in the consolidated profit and loss statement were made in the current year in the amount of EUR 1.6 million (previous year EUR 1.4 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 2016 (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 | 12/31/2016 | | |
|---|---|---|---|
| | Gross amount | Offsetting | Net amount |
| Trade receivables (current) | 593.6 | 8.6 | 585.0 |
| Trade payables | 493.4 | 8.6 | 484.8 |

| EUR million | 12/31/2015 | | |
|---|---|---|---|
| | Gross amount | Offsetting | Net amount |
| Trade receivables (current) | 445.3 | 7.1 | 438.2 |
| Trade payables | 383.8 | 7.1 | 376.7 |

## 37. Risks from financial instruments

### Management of financial risks

The risk management system 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 rates, but also - in particular in the currency area - derivative financial instruments with plain vanilla character are used. These are concluded 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 banks with a 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 4.0 million (previous year EUR 7.5 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 the central financing of the Group. For all potential fluctuations, the company holds reserve liquidity 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 trade payables is presented in the following table:

| EUR million | Carrying amount as at 12/31/2016 | | | 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** |

| EUR million | Carrying amount as at 12/31/2015 | | | Cash outflows |
|---|---|---|---|---|
| | Total | 2016 | 2017 to 2021 | 2022 et seqq. |
| Liabilities to banks | 1,504.5 | 100.2 | 762.2 | 822.8 |
| Payables from finance leasing | 6.2 | 1.0 | 5.0 | 0.5 |
| Derivative financial instruments | 10.8 | – 8.1 | 31.5 | 24.3 |
| Other financial liabilities | 144.5 | 49.7 | 13.0 | 145.5 |
| Trade payables | 376.7 | 376.4 | 0.3 | 0.0 |
| | **2,042.7** | **519.2** | **812.0** | **993.1** |

In fiscal year 2016, there were financial guarantees in the amount of EUR 117.0 million (previous year EUR 124.1 million), which would be due in the short-term when claimed.

## 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. The diversification gives a rise to a 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 1.56 % or EUR 4.5 million (previous year between EUR 1.0 and EUR 3.2 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, GBP, PLN and CZK in the fiscal year.

To hedge a significant proportion of the purchase price payment for the acquisition of the Affinia Group, MANN+HUMMEL concluded deal contingent forwards in 2015 and exercised them in 2016 during the course of the acquisition. Furthermore, an interest currency swap for USD 400 million was concluded to finance the acquisition, which had a fair value as at December31, 2016 of EUR – 19.7 million (previous year EUR – 2.3 million). The acquisition price payment was made on May 4, 2016.

The hedging of fair value hedges gives rise to value changes from hedging transactions in the amount of EUR -19.7 million (previous year EUR 0.0 million) and value changes from underlying transactions in the amount of EUR 19.7 million (previous year EUR 0.0 million).

At the MANN+HUMMEL Group, the value at risk is determined, as it was in 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 27.1 million (previous year EUR 20.0 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 8.6% (previous year 10.6%).

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. MANN+HUMMEL minimizes the existing risks through long-term contracts, a selection of strategic, globally positioned suppliers and by monitoring of exchange rates.

## Interest rate change risk

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

An increase 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 -2.2 million (previous year EUR -0.7 million). In the event of a reduction by 50 basis points, the net profit or loss before income tax would rise by EUR 2.2 million (previous year EUR 0.7 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 0.15 million (previous year EUR 4.3 million). A fall by 50 basis points would have an effect on the net profit or loss before income tax of 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 2.1 million) in government grants was received in the fiscal year. This is broken down as follows:

| EUR million | 2016 | 2015 |
|---|---|---|
| Grants for investments | 0.0 | 0.8 |
| Cost subsidies | 0.4 | 1.3 |

Expense subsidies comprise largely state subsidies for further training and research, and for job creation.
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 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 2016 in the amount of EUR 5.1 million (previous year: EUR 6.2 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.

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

| EUR million | Associates | Other investees |
|---|---|---|
| **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 |
| | | |
| **2015** | | |
| Deliveries made and services provided | 7.7 | 0.4 |
| Sale of goods | 0.0 | 0.1 |
| Services | 0.0 | 0.2 |
| Other services | 0.0 | 0.0 |
| | | |
| Deliveries received and services procured | 0.0 | 0.0 |
| Sale of goods | 0.0 | 0.1 |
| Services | 0.0 | 2.1 |
| Other services | 0.0 | 0.0 |
| | | |
| Receivables | 1.0 | 11.5 |
| | | |
| Liabilities | 0.0 | 0.5 |

## 40. Remuneration of the Management and Supervisory Boards

### Management Board

Alfred Weber, Stuttgart
Chairman

Filiz Albrecht, Stuttgart (January 1, 2016 to March 31, 2017)

Hansjörg Herrmann, Ruschweiler

Kai Knickmann, Ludwigsburg (since March 1, 2016)

Josef Parzhuber, Ilsfeld / Auenstein (since March 1, 2016)

Steffen Schneider, Benningen (March 1, 2016 to March 31, 2017)

Emese Weissenbacher, Marbach

Manfred Wolf, Ludwigsburg (until June 30, 2016)

### Supervisory Board of MANN+HUMMEL Verwaltungs GmbH

Thomas Fischer, Schalksmühle
Chairman

Christine Wagner, Reisbach
Vice-Chairman
Works Council Member Marklkofen (until April 30, 2016)

Johann Huber, Marklkofen
Vice-Chairman
Works Council Member Marklkofen (since May 1, 2016)

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
Works Council Chairman Ludwigsburg

Jens Michael Hummel, Stuttgart

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

Dr. Gerhard Turner, Pliezhausen (until 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)

From January 1, 2016, the Group management functions are performed by MANN+HUMMEL International GmbH & Co. KG, for which reason no supervisory board needs 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 2016 fiscal year are EUR 5.0 million (previous year EUR 4.1 million). The expenses for the pension entitlements of the active members of the Management Board earned in the current fiscal year amount to EUR 1.0 million (previous year EUR 4.4 million).

The salaries of former members of the Management Board and their survivors amount to EUR 0.7 million (previous year EUR 0.7). The pension provisions for former members of the Management Board and their survivors is EUR 10.7 million (previous year EUR 10.0 million).

The short-term salaries of the Supervisory Board for the 2016 fiscal year amount to EUR 0.1 million (previous year EUR 0.1 million).

In addition, companies of the MANN+HUMMEL Group have not conducted any reportable transactions subject to contributions with members of the Management Board or the Supervisory Board of the MANN+HUMMEL Group or with 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, on annual average, 20,646 (previous year 16,607), of whom 6,948 (previous year 6,723) are salary earners and 13,698 (previous year 9,884) 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 0.6 million (previous year EUR 0.4 million) and consists of auditing services in the amount of EUR 0.3 million (previous year EUR 0.3 million), tax consultancy services of EUR 0.2 million (previous year EUR 0.0 million) and other services of EUR 0.1 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.

## 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 % |
|---|---|---|
| **1. Subsidiaries** | | |
| **Germany** | | |
| MANN+HUMMEL Holding GmbH, Ludwigsburg | V | |
| 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 |
| | | |
| **Abroad** | | |
| **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 Togliatti OOO, Togliatti / Russian Federation | 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 S.r.L, Pioltello / Italy | V | 83.3 |

| Company name and domicile | Consolidation status [1] | Equity interest % |
|---|---|---|
| MANN+HUMMEL, Vokes Air SL, Premià de Dalt Barcelona / Spain | 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 |
| 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 Filtration Technology Poland Sp.z.o.o. Gostyn / Poland | V | 83.3 |
| Filtron Poland sp. z o.o., Gostyn / Poland | 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 | N | 83.3 |

| Company name and domicile | Consolidation status [1] | Equity interest % |
|---|---|---|
| **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 | N | 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 | N | 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 6, 2017

MANN+HUMMEL International GmbH & Co KG

**The Management Board**

# Independent Auditor's Report

We have audited the consolidated financial statements prepared by MANN+HUMMEL International GmbH & Co. KG, Ludwigsburg, comprising the profit and loss statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity, and the notes to the consolidated financial statements, together with the Group status report for the fiscal year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the Group status report in accordance with IFRS as adopted by the EU, and the supplementary commercial regulations applicable under Section 315a (1) of the German Commercial Code (HGB) are the responsibility of the company's management. Our responsibility is to evaluate the consolidated financial statements and the Group status report based on our audit.

We conducted our audit of the consolidated financial statements 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). These standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, and results of operations in the consolidated financial statements in accordance with applicable financial reporting framework and in the Group status report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group status report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used, and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and the Group status report. We believe that our audit provides a reasonable basis for our evaluation.

Our audit has not led to any reservations.

In our evaluation, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU, and the supplementary commercial regulations applicable under Section 315a (1) of the German Commercial Code (HGB), and give a true and fair view of the net assets, financial position, and results of operations of the Group in accordance with these requirements. The Group status report is consistent with the consolidated financial statements and, as a whole, provides a suitable view of the Group's position and suitably represents the opportunities and risks of future development.

Ludwigsburg, April 6, 2017

Ernst & Young GmbH
Auditors

**Matischiok**
Auditor

**Difflipp**
Auditor

# Imprint

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