Overview of ElringKlinger's Activities and Structure

The ElringKlinger Group is a global, independent technology company whose focus is on developing and producing components for the vehicle industry. Drawing on its far-reaching capabilities as an innovator, ElringKlinger is helping to shape the future of mobility in an effort to reduce emissions, advance new drive technologies, and bring greater efficiency to conventional mobility.

Company profile

ElringKlinger has positioned itself as a global technology group. Its emphasis is on the development, industrial-scale series production, and distribution of components, modules, and systems used in the automobile sector. The company is channeling its innovatory abilities into solutions designed to deliver sustainable and climate-neutral mobility. Employing around 9,700[1] people, the Group has established a presence at 45 locations worldwide. In the 2020 financial year, ElringKlinger generated revenue of EUR 1.5 billion (2019: EUR 1.7 billion). The company, whose history stretches back to 1879, is headquartered in Dettingen/Erms, Germany.

Its product portfolio targeted at the vehicle industry consists of components for the drivetrain and body of passenger cars and commercial vehicles. This encompasses battery parts and systems, fuel cell* components and modules, lightweighting concepts, sealing technology, and shielding systems. The Group's customer base includes many of the world's automobile and engine manufacturers. Marketed under the "Elring – Das Original" brand, ElringKlinger also supplies an extensive range of spare parts. The Engineered Plastics segment offers a broad range of products engineered from high-performance plastics for various industrial sectors. In summary, the Group's operating activities are represented primarily by the segments Original Equipment, Aftermarket, and Engineered Plastics.

Business model and core competencies

The trend toward sustainable and safe mobility is reflected in the company's scope of products and services. Focusing on opportunities arising from the far-reaching changes currently seen within the industry, ElringKlinger is actively supporting general efforts to reduce emissions. Newly developed products are targeted at modern drive systems or relate to areas of the vehicle that are drivetrain-independent. In strategic terms, ElringKlinger is focused on four areas: e-mobility, lightweighting, established forms of mobility, and non-automotive applications. Within the long-standing fields of business encompassing sealing systems, plastic housing modules, and shielding systems, ElringKlinger has honed its skills as a technological innovator and carved out a solid market position over a period spanning several decades. Without neglecting this mainstay, the Group is taking advantage of its expertise in these areas to sharpen the focus of its portfolio on e-mobility and applications in the non-automotive sector. In particular, ElringKlinger has been pushing ahead with R&D in battery and fuel cell technology, charting an important route for the development, manufacture, and marketing of fuel cell products in the financial year under review (cf. "Significant Events"). Within the area of lightweight construction, ElringKlinger offers components made of modern materials that meet stringent requirements in regard to functionality, safety, stability, and environmental compatibility for vehicles of all drive system categories.

Among ElringKlinger's core competencies are extensive know-how relating to materials and processes in the field of metal and plastics processing as well as expertise when it comes to engineering tools for efficient series production. This includes high-precision metal processing, encompassing stamping, embossing, and coating, as well as a proven track record in plastic injection-molding. Within the Engineered Plastics segment, ElringKlinger can draw on extensive

[1] Unless otherwise stated, the data and figures presented in this section relate to the end of the reporting period (Dec. 31, 2020) or the 2020 financial year.

materials, applications, and processing expertise for high-performance engineered plastics.

Economic and legal factors

Demand for products in the Original Equipment segment is closely linked to global vehicle production trends, which in turn are influenced by sales markets and the economy as a whole. The individual economic factors include the employment situation and purchasing power in the various regions, consumer behavior, fuel prices, and government subsidies.

Regulations governing climate protection are considered to be a key influencing factor in terms of legislation. Due to ever-stricter emission standards, markets have seen growing demand for climate-friendly vehicle concepts. International trading conditions and the customs policies of individual countries can also have an impact on business development.

Group structure and organization

The parent company of the Group is ElringKlinger AG, which has its registered office in Dettingen/Erms. It is the largest operating Group company in respect of revenue and production volume and also performs Group-wide management tasks. In addition to strategic management, it is responsible for the central functions of Purchasing, IT, Communication, Finance, Legal Affairs, and Human Resources. To a large extent, sales activities as well as research and development are also concentrated within the parent company. The dual role of the parent company is also reflected in its financing function for the affiliated companies.

The Management Board of ElringKlinger AG consists of four members. The responsibilities of the Management Board are divided into the areas of accountability of the CEO, the CFO, the COO, and the CTO.

As of December 31, 2020, the ElringKlinger Group comprised 39 fully consolidated companies in 21 countries (cf. Notes, "Scope of Consolidation").

Sales markets and locations

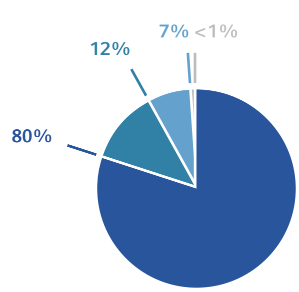
ElringKlinger has manufacturing sites in all of the world's key vehicle markets. The Group operates at 45 locations around the globe – ElringKlinger products are manufactured at 39 of these sites. Calculated on the basis of revenue, Europe ranks as the most important sales region. It accounts for 52.6% of Group revenue, followed by North America (24.8% revenue share) and Asia-Pacific (18.8% revenue share).

In the majority of cases ElringKlinger holds a Tier 1* supplier position within the automotive industry value chain. This means that it maintains a direct line of contact with vehicle and engine manufacturers. Within the Engineered Plastics segment, which boasts a wide range of products, ElringKlinger operates as a supplier to various branches of industry.

Segments and business units

The ElringKlinger Group's operating business is divided into four segments: Original Equipment, Aftermarket, Engineered Plastics, and Other. Effective from the 2020 financial year, the "Services" and "Industrial Parks" segments previously presented as separate items have been combined within the newly created segment of "Other" due to their minor significance within the Group. The segments

Group revenue by segment 2020



	in EUR million	(previous year)
Original Equipment Car, truck, and engine manufacturers, automotive suppliers, non-automotive	**1,186**	(1,423)
Aftermarket Independent aftermarket business	**182**	(173)
Engineered Plastics Vehicle industry, mechanical engineering, medical technology	**108**	(118)
Other Unspecified industries	**4**	(14)

* Cf. glossary

specified above also constitute the reportable segments under IFRS*.

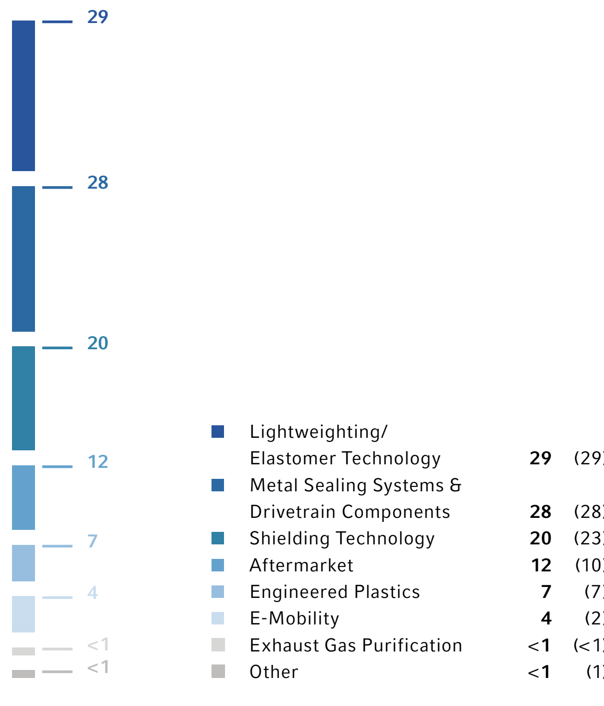
Within the **Original Equipment** segment, ElringKlinger develops, manufactures, and sells products and assemblies destined for the automotive industry. It is subdivided into the five business units Metal Sealing Systems & Drivetrain Components[1], Lightweighting/Elastomer Technology, Shielding Technology, E-Mobility, and Exhaust Gas Purification.

In the **Aftermarket** segment, ElringKlinger offers an extensive range of gaskets, gasket sets, and service parts for the repair of engines, transmissions, exhaust systems, and auxiliary units in cars and commercial vehicles. They are marketed under the "Elring – Das Original" brand. The customer base within the Aftermarket segment covers a global network of wholesalers and major group purchasing organizations. Based on revenue, the principal markets are Western and Eastern Europe, although both the Middle East and North Africa are also considered key sales regions. ElringKlinger has been expanding its sales activities in North America and China in recent years.

Within the **Engineered Plastics** segment, ElringKlinger develops, manufactures, and markets a wide range of customized products made of various plastics. Revenue is attributable primarily to sales within the mechanical engineering sector and the medical, chemical, and energy industries as well as the vehicle industry. ElringKlinger is pushing ahead with efforts to expand its business in this segment at an international level and also operates production sites in the United States and China.

As from the 2020 financial year, the segment referred to as **Other** comprises the activities of the former Services and Industrial Parks segments. With a share of 0.3% of Group revenue, it is of subordinate importance. Services include the operation of state-of-the-art engine test benches and measuring equipment for tests on engines, transmissions, and exhaust systems. The segment's customer base includes both vehicle manufacturers and automotive suppliers. This segment also includes logistics services for aftermarket sales and the catering service of a Group subsidiary.

Group revenue by business unit* 2020
(previous year) in %



* Presentation supplemented by the segments Aftermarket, Engineered Plastics, and Other

Business units in the Original Equipment segment

The ElringKlinger Group's strategy is aimed at developing and producing components for all types of drive system, whether for vehicles powered by combustion engines or by electric motors. The business unit organization has to ensure that existing competencies are available across all areas as needed and that synergies are exploited. It is with this in mind that ElringKlinger created the new business unit **Metal Sealing Systems & Drivetrain Components** effective from October 1, 2020. Previously operating as independent business units, Cylinder-head Gaskets and Specialty Gaskets were transferred to this new unit. The product portfolio managed within this business unit includes a broad range of gaskets for various locations in the vehicle, including batteries and electric motors as well as transmission control plates and complex formed parts engineered from sheet metal. It

[1] Effective from October 1, 2020, the former business units Cylinder-head Gaskets and Specialty Gaskets were merged into the Metal Sealing Systems & Drivetrain Components business unit.

also includes metallic cylinder-head gaskets as one of ElringKlinger's traditional fields of business.

The portfolio of the **Lightweighting/Elastomer Technology** business unit encompasses thermoplastics for drivetrain, body, and underbody applications. Hybrid technology, i. e., the combination of different materials such as plastic and metal in one product and manufactured in a single tool sequence, also forms an integral part of operations in this business unit. A variety of manufacturing processes and numerous materials or material-specific innovations provide the basis for tailor-made solutions with high functional integration and/or weight savings. Due to the trend toward lightweight construction within the automotive industry, this business unit offers significant growth potential.

The **Shielding Technology** business unit develops and produces thermal, acoustic, and aerodynamic shielding systems. They handle a wide range of tasks relating to temperature and acoustic management in modern motor vehicles, in addition to contributing to an aerodynamic design of the vehicle underbody. For e-mobility applications, the systems may also include electromagnetic shielding functions. ElringKlinger offers customized shielding packages for the entire vehicle – from the engine to underbody and exhaust tract.

The **E-Mobility** business unit offers the key technologies currently needed when it comes to drive system electrification: ElringKlinger can draw on many years of R&D expertise relating to battery and fuel cell technology and is already set up for series production. Intensive research and development activities and significant investments, e.g., in the construction of a technology center at the Dettingen/Erms site, have contributed to this in recent years. In 2020, ElringKlinger entered into several cooperation agreements (cf. "Significant Events") in the field of fuel cell technology for the purpose of taking it to the next level, in addition to accelerating production and marketing. Furthermore, the E-Mobility portfolio includes complete electric drive units.

Group activities within the **Exhaust Gas Purification** business unit are mainly restricted to the production of components on the basis of contract manufacturing.

Internal Control Criteria

ElringKlinger regularly compiles key ratios and evaluates company-specific leading indicators for the purpose of managing both the Group and the Group companies. Financial indicators form an important basis with regard to governance, but non-financial performance indicators are also taken into account in the planning and management process. Economic forecasts and sector-specific developments represent further information that is of relevance to corporate management.

Financial control criteria

The key financial indicators used within the ElringKlinger Group and the parent company ElringKlinger AG are sales revenue, earnings before interest and taxes (EBIT*), and return on capital employed (ROCE*). The parent company is managed on the basis of IFRS* due to its integration into the Group. Sales revenue and EBIT are budgeted, calculated, and continually monitored for the Group and the individual Group companies as well as for the four reportable segments and the respective business units. Variable remuneration for the managerial level directly below the Management Board is generally linked to the level of target attainment.

* Cf. glossary

Key financial control criteria of the ElringKlinger Group

	Guidance 2020[1]		Actual 2020	2019	2018	2017	2016
Revenue	Approximately at global market level (assumption market decline 4%)[2]	(in EUR million)	1,480.4[3]	1,727.0	1,699.0	1,664.0	1,557.4
EBIT[4]	Margin approximately at previous year's level	(in EUR million) Margin:	27.7 1.9%	63.2 3.7%	100.2 5.9%	141.8 8.5%	140.4 9.0%
ROCE	Slight year-on-year improvement		1.7%	3.4%	5.5%	8.2%	8.7%
Operating free cash flow	Positive in double-digit million euro range	(in EUR million)	164.7	175.8	-86.2	-66.6	-3.8
Equity ratio	40 to 50% of total assets		41.4%	41.5%	42.8%	44.0%	47.2%
Net debt/EBITDA	Year-on-year improvement		2.5	3.3	3.7	2.7	2.3

[1] Original guidance as per 2019 annual report; adjustments made during the 2020 financial year are not presented.
[2] Revenue guidance refers to organic growth (adjusted for currency and M&A effects)
[3] Revenue reported; revenue adjusted for effects of currencies and acquisitions (organic): EUR 1,525.2 million (-11.7%/market decline 16.1%)
[4] EBIT up to 2019 adjusted for depreciation/amortization relating to purchase price allocation (2019: EUR 1.9 million); 2020 discontinuation of adjusted presentation (2020: EUR 0.3 million)

As an indicator, ROCE refers to the return on capital employed. Illustrating how high the return on capital employed is, it is calculated by putting EBIT in relation to capital employed. In this context, ElringKlinger uses average capital employed as a basis of calculation. This includes shareholders' equity, financial liabilities, and provisions for pensions. In the 2020 financial year, the ElringKlinger Group recorded ROCE of 1.7% (2019: 3.4%). ElringKlinger had initially forecast a slight year-on-year improvement in this indicator for 2020. Since the beginning of May, however, its projections point to a deterioration in ROCE.

Calculating ROCE for the Group

in EUR million

EBIT	**27.7**	
	Dec. 31, 2020	**Dec. 31, 2019**
Equity	812.9	891.2
Financial liabilities	597.2	730.7
Provisions for pensions	156.9	148.2
Total	**1,567.0**	**1,770.1**
Average capital employed	**1,668.6**	
ROCE = EBIT/average capital employed	**1.7%**	

In addition, the key indicators "operating free cash flow" and "equity ratio" are of significance to the Group and the parent company, while "net debt/EBITDA" is of importance at a Group level.

Operating free cash flow* encompasses cash flow from operating activities and from investing activities, adjusted for cash flow in respect of acquisitions, divestments, and financial assets.

The table presented here lists the key financial control criteria and several other control criteria used within the ElringKlinger Group.

Non-financial control criteria

ElringKlinger also uses non-financial indicators for corporate management purposes. They include personnel, quality, and environmental indicators, particularly CO_2 emissions and energy consumption. Further details can be found in the combined non-financial report, which will be published by April 30 for the preceding financial year and can be accessed on the Group's website at www.elringklinger.com (Sustainability section).

Company- and market-specific leading indicators

Data relating to order intake and order backlog are to be seen as important company-specific leading indicators for the purpose of estimating the likely route taken by revenue. These indicators are monitored continuously and form the basis for the forecast review of the respective remaining year as well as the business plan to be prepared annually. Revenue budgeting and forecasting are based on planned quantities requested by customers as part of their scheduling less a safety margin and agreed product prices. As market-specific leading indicators, forecasts of vehicle demand and production as well as potential market price risks arising from exchange rate movements, changes in interest rates, and increases in the cost of materials are also monitored.

Research and Development

Ever stricter directives on emissions and government incentives to buy vehicles with alternative drive systems are leading to a huge shift in patterns of mobility. ElringKlinger has a long track record spanning many years of developing sustainable mobility solutions that help its customers reduce their emissions. In 2020, the Group's research and development activities were again heavily geared towards battery and fuel cell technology.

Research and development ratio at 5.1%

The ElringKlinger Group has established a strong profile in the areas of technology and innovation. With a constant flow of projects to adapt or create new products in both its newer E-Mobility unit and longer-established business units such as Metal Sealing Systems & Drivetrain Components and Shielding Technology and Lightweighting/Elastomer Technology, ElringKlinger is highly focused on the search for sustainable mobility solutions. In 2020, as in previous years, the main thrust of research and development (R&D) was on translating existing know-how into new applications for both battery-electric and hydrogen-based drive systems. In this context, third-party services were also used, such as testing services in the area of fuel cell* stacks. The company's R&D activities are highly centralized to avoid any loss of expertise. For this reason, the parent company has concentrated its development activities both in Germany – at its own sites and that of its subsidiary ElringKlinger Kunststofftechnik GmbH – and at the Group's US plant in Southfield, Michigan. ElringKlinger built up additional know-how during the year under review, especially in the field of battery and fuel cell technology. As a result, the number of employees working in R&D as of December 31, 2020, stood at 623, compared with the 2019 year-end figure of 611.

In 2020, R&D spending (including capitalized development costs) came to EUR 76.1 million (2019: EUR 80.8 million). This corresponds to an R&D ratio of 5.1% (2019: 4.7%), which was thus within the target range of around 5 to 6% (including capitalized development costs). Out of this total, the amount capitalized was EUR 12.4 million (2019: EUR 16.7 million), giving a capitalization ratio of 16.2% (2019: 20.7%). Amortization of capitalized development costs amounted to EUR 12.8 million in the financial year under review (2019: EUR 5.7 million).

ElringKlinger always seeks legal protection for new developments at both product and process level. The centralized patents department is tasked with protecting the company's technological expertise and intellectual property rights. In 2020, it applied for 86 new patents (2019: 81), the majority in strategic fields of the future.

Adapting traditional know-how for the future

Alongside its more established combustion engine products, ElringKlinger offers a wide range of solutions for alternative drive technologies such as batteries and fuel cells. Given the view of industry experts that the market for ICE vehicles will only decline gradually as demand for alternative drive systems picks up, the Group's portfolio is designed to meet the full spectrum of demand. Consequently, ElringKlinger is working hard to optimize the combustion engine and achieve further efficiency gains. At the same time, it is developing solutions based on battery and fuel cell technology to help minimize the emissions from a new generation of vehicles. In addition, there are many other areas of use in the battery and fuel cell sector that go beyond pure vehicle applications.

Key R&D figures

		2020	2019
R&D costs[1]	(in EUR million)	76.1	80.8
R&D ratio[1]	(in %)	5.1	4.7
Capitalization ratio[2]	(in %)	16.2	20.7

[1] Including capitalized development costs
[2] Capitalized development costs as a proportion of total R&D costs, including capitalized development costs

* Cf. glossary

As well as engine components, ElringKlinger's Lightweighting unit makes structural parts for the vehicle body. Looking ahead, the Group has identified the production of structural components as one of the strategic fields of the future since they are not dependent on a given drive technology.

In 2020, products designed for the company's strategic markets of the future – battery, fuel cells, electric drive units, and lightweight structural components – accounted for around 11% of total revenue (2019: around 8%), largely mirroring the ratio of new to conventional types of powertrain within the global vehicle market.

Wide-ranging activities in the field of new drive technologies

With regard to alternative drive systems, ElringKlinger has been researching and developing components in the area of fuel cell technology for some 20 years and has been supplying battery components at series production level for around 10 years. It does this by adapting the skills and expertise it has acquired in researching, developing, and manufacturing components for conventional drive technologies to the requirements of new mobility systems and then subjecting its results to a continuous process of refinement.

In the last year, on this basis, ElringKlinger took some important steps towards the production of fuel cell components and stacks on an industrial scale. Overall, in terms of fuel cell technology, ElringKlinger's development activities were again concentrated on the low-temperature fuel cell PEM (Proton Exchange Membrane), which is designed for mobile applications. The first step is to build a presence above all in the commercial vehicle sector and in distribution transport markets (so-called light commercial vehicles), as it is here that the full benefits of the technology are most evident in terms of applications and cost-savings. With industrial production in sight, development work continued on the NM12 series of fuel cell stacks*, which is particularly well suited to commercial vehicle applications on account of its power output characteristics. The target performance range was confirmed in every respect. At the same time, designs for the NM5-evo series were finalized to prepare the ground for larger-volume production at industrial scale.

The NM5-evo series, which is particularly well adapted for use as a range extender in light commercial vehicles, was successfully integrated into the systems of ElringKlinger's Austrian subsidiary. Again with a view to future industrialization in this area, the company's development activities included work to procure additional tools and series-production equipment. These make it possible to trace back all stacks delivered to customers, even in fully automated large-volume production, to ensure that the company is able to meet stringent quality requirements and that every step is reproducible.

In the last few years, ElringKlinger has established itself as an e-mobility supplier through its series production of cell contact systems* for lithium-ion batteries. More recently, the Group has taken another step forward in this area and now supplies modules and complete battery systems as well as components. That includes two large orders for battery systems, one with a prismatic and the other with a cylindrical cell architecture. Consequently, in 2020, ElringKlinger's development activities in this field were primarily focused on driving forward industrial production. The Group also continued development work on cell housings and their components. The company submitted a request to participate in a second IPCEI (Important Project of Common European Interest) on battery technology, the goal of which is to establish a competitive, innovative, and sustainable battery value chain in Europe. ElringKlinger was given the go-ahead after the end of 2020 financial year in January 2021.

Back in 2017, ElringKlinger forged a strategic partnership with the engineering specialist hofer. The company acquired a minority stake in hofer AG but is also a majority shareholder in joint production subsidiaries. While hofer's contribution to joint projects lies in its wide-ranging know-how in the field of electric drives, ElringKlinger's role is to provide expertise in the industrialization of series-production orders for customers. During the year under review, preparations were made for series production of new orders at various Group locations in Germany and internationally, with the result that production can now commence, for example, at ElringKlinger's UK subsidiary.

Metal Sealing Systems & Drivetrain Components: innovative solutions for both conventional and new drive technologies

ElringKlinger has set up a new Metal Sealing Systems & Drivetrain Components business unit combining the development expertise of two former units, Cylinder-head Gaskets and Specialty Gaskets. With regard to sealing systems for ICEs, the main focus of research and development work in 2020, as in previous years, was on standardization and design optimization in order to make them even more cost-efficient.

A further objective is to transfer the Group's component sealing expertise to new vehicle drive concepts. Examples of this knowledge transfer include metal gasket systems for electric motor housings with specially designed coatings that offer greater electromagnetic shielding and the integration of high-temperature sealing materials developed by the Group into solid-oxide fuel-cell (SOFC*) systems.

The third main focus in 2020 was on applying ElringKlinger's existing core specialisms to the development of new product groups. Here, for example, the Group applied its expertise in coating and punching thin metal sheets and in bonding components to the development of metal assemblies for the rotors and stators used in electric motors. As well as making production more efficient, these design improvements reduce losses inside the electric motor. In another project, the Group drew on its expertise in the precision embossing and fine-cutting of aluminum sheets to develop covers for lithium-ion cells incorporating an embossed bursting element. The purpose of the integrated bursting element is to save components and processing steps.

Shielding Technology: enhanced functionality, materials know-how, and active shielding

Demand for customized shielding systems has been growing rapidly for many years. This is because tightly packed units, more compact engines, increased levels of turbocharging, and minimized cooling air flows have led to ever higher temperatures in the engine compartment, underbody area, and exhaust tract.

In 2020, ElringKlinger's development activities in the Shielding Technology unit again ranged across the entire system. Acoustic engineering elements were added to thermal shielding systems, not only to minimize noise levels but also with a view to optimizing the acoustic behavior of certain applications. Another key area of development was mechanical decoupling, i.e., designing mechanical dampening elements that can specifically reduce operational strain on shielding components. Both here and in other applications, the choice of materials is highly relevant. With this in mind, ElringKlinger focused on raising awareness of material selection and on continuous refinement in order to make the shielding system as a whole more efficient.

Active shielding components can help to reduce the emissions of ICE vehicles by actively managing the operating temperature in the exhaust tract so that exhaust gas purification systems can be activated more rapidly. In the year under review, the company's development units confirmed the functionality and efficiency of these active shielding components in a series of test runs with several end customers. The tests showed that NO_X emissions can be reduced by a significant margin of over 50% in series-production exhaust systems that meet the EU6 standard using just a fraction of their available recuperation potential. Reductions are achievable for both customized solutions and retrofits since ElringKlinger's active shielding components can generally be adapted to existing exhaust system geometries.

Lightweighting/Elastomer Technology: plastics know-how

ElringKlinger has been developing innovative plastic solutions to replace conventional metal cylinder-head covers and oil pans for almost two decades. As well as providing additional functionality, e.g., an oil separation system, plastic components reduce the vehicle's overall weight. In turn, this reduces fuel and energy consumption and therefore cuts CO_2 emissions. Less weight also means less tire abrasion.

* Cf. glossary

After translating its ideas for the engine into actual solutions, the Group harnessed new tool technologies to identify areas of the vehicle body where hybrid plastic-metal components could replace conventional metal-only parts. In 2015, it began series production of cockpit cross-car beams* and front-end carriers* and adapters for a premium German car maker and has since received other orders. In the last financial year, the previous design was refined with a view to providing solutions that meet the complex requirements of customers and optimizing their cost-benefit profile. In this product group, gearing up to large-volume production despite short development cycles requires a great deal of design experience and expertise, together with the use of computer-assisted stress simulation.

In 2020, ElringKlinger adapted some of its plastic modules in order to make use of its existing know-how when handling large-volume orders for ICE applications. The unit's R&D team also drew on its process, materials, and tooling expertise to develop functional plastic modules for customers in the e-mobility sector, e.g., for components that conduct coolant or oil.

The protective solution devised by ElringKlinger – sandwich structures with outer layers containing a high proportion of continuous filament glass fibers – can be used not only for vehicle batteries but also outside the automotive industry. Compared with metal components, the potential benefits of this solution in terms of strength, weight-saving, and thermal insulation were confirmed in numerous and in some cases very different testing regimes.

Turning to sealing technology, the unit refined its metal-elastomer cylinder-head gaskets for use in trucks. In 2020, as part of a company-wide project involving teams working on materials development and production/tooling technology, the unit also expanded its design and materials portfolio. This helped to develop complex metal-elastomer gaskets for various battery projects on behalf of European OEMs. In the fuel cell business, too, this newly acquired expertise was put to good use developing gasket solutions for fuel cell stacks.

Engineered Plastics: broad range of potential applications

All work in the Engineered Plastics segment revolves around materials and their properties. The benefits of using high-performance plastics include a high level of chemical and thermal stability as well as manufacturing precision. As materials with these properties can be adapted for use in numerous industrial applications, the Group's development activities remain focused on key trends in the sectors represented by its customers. As a result, the company benefits not only from the shift toward e-mobility in the automotive sector but also from the trends towards miniaturization in medical technology and towards sensor technology in the field of mechanical engineering.

In 2020, as in previous years, one of the Engineered Plastic segment's priorities was to design highly flexible hoses for the medical life sciences sector. These hoses are made of fluoropolymer materials that allow for a very low bend radius. Other development projects included large dynamic gaskets with a diameter of more than two meters for various offshore applications. The segment also focused on technical refinements to highly efficient heat exchangers for use in the semiconductor industry and in geothermal energy applications. Alongside these developments, the Group installed a series of testing stations specially designed for the E-Mobility unit and now used specifically to validate fast-rotating applications.

Macroeconomic Conditions and Business Environment

The global economy continued to be dominated to a large extent by the effects of the coronavirus pandemic in 2020. In response to the global spread of the virus, many governments introduced state-managed protective measures in the spring of 2020, which precipitated a severe economic slump as early as the second quarter of the year, particularly in Europe and North America. These restrictions were subsequently lifted to some extent and both governments and central banks pressed ahead with far-reaching supportive measures centered around economic and fiscal policy. Against this backdrop, markets began to recover strongly in the third quarter. In the fourth quarter, renewed restrictions in response to a second wave of infection had a dampening effect on this upward trend.

In financial terms, 2020 was influenced largely by the economic impact of the coronavirus pandemic. According to data published by the International Monetary Fund (IMF), the gross domestic product (GDP) stood at -3.5%. By contrast, the IMF's outlook presented in January 2020 had pointed to slightly stronger growth of 3.3% compared to 2019 (2.8%).

During the first quarter of 2020, Covid-19* gradually spread around the globe. Over the course of the second quarter of 2020, national protective measures in the form of restrictions aimed at social and business activities (lockdowns) led to an economic slump of unprecedented proportions in many regions of the world. These containment measures were subsequently lifted on a step-by-step basis. In parallel, rescue packages were quickly put in place by governments. As a result of these action plans, in conjunction with the highly expansive monetary policy adopted by central banks, the global economy had managed to recover markedly by the fall of 2020. However, with the exception of China, whose economy was quick to return to its normal level, the respective economies failed to emulate their pre-crisis performance. In addition to the impact of the pandemic, economic activity was also influenced by the signing of the

GDP growth rates

Year-on-year change (in %)	2019	2020	2020 Q1	2020 Q2	2020 Q3	2020 Q4
World	**2.6**	**-3.7***				
Advanced economies	1.6	-5.2				
Emerging and developing countries	4.0	-1.6				
Eurozone	1.3	-7.3	-3.2	-14.7	-4.3	-7.1
Germany	0.6	-5.7	-2.1	-11.2	-4.0	-5.4
USA	2.2	-3.4	0.3	-9.0	-2.9	-1.9
Brazil	1.4	-4.2	-0.3	-10.9	-3.9	-1.7
China	6.1	2.3	-6.8	3.2	4.9	6.2
India	4.9	-8.0	3.1	-23.9	-7.5	-4.2
Japan	0.3	-5.3	-2.0	-10.3	-5.7	-3.4

Source: HSBC (Jan. 2021)
* IMF (Jan: 2021): 3.5%

* Cf. glossary

Light vehicle production

	Million units		Year-on-year change				
Region	2019	2020	Year	2020 Q1	2020 Q2	2020 Q3	2020 Q4
Europe[1]	21.2	16.6	-21.6%	-17%	-60%	-7%	2%
China	24.7	23.6	-4.4%	-46%	11%	11%	6%
Japan/Korea	13.1	11.2	-14.5%	-9%	-40%	-7%	0%
Middle East & Africa	2.0	1.8	-12.2%	-8%	-38%	-4%	1%
North America	16.3	13.0	-20.2%	-11%	-68%	0%	0%
South America	3.3	2.2	-31.6%	-17%	-82%	-22%	0%
South Asia	8.4	6.2	-26.7%	-18%	-78%	-20%	9%
World	**89.0**	**74.6**	**-16.1%**	**-22%**	**-43%**	**-2%**	**3%**

Source: IHS (Feb. 2021)
[1] Incl. Russia

phase-one trade deal between the USA and China in January and the sharp temporary drop in the price of oil in the second quarter as well as the conclusion of the Brexit agreement and the change of government in the United States.

Auto markets down sharply in 2020 amid Covid-19 crisis

Overall, 2020 proved to be an exceptionally challenging year for the automobile industry. Amid the coronavirus-induced crisis, vehicle markets slumped heavily in the first half of the year. This downturn was partially offset by the at times dynamic market recovery seen in the third quarter of 2020 and a further upward trend that lasted until the end of the year. In total, global vehicle production was down by 16.1% (2019: -6.0%) at 74.6 million light vehicles (passenger cars and light commercial vehicles).

The decline in production output and market sales moved along different lines in terms of regional impact and timing. China, which saw the first plant closures by vehicle manufacturers in February, returned to more normal levels as early as the second quarter. In parallel with the spread of the virus around the globe and the associated containment measures implemented by governments, further interruptions to production and plant closures at vehicle manufacturers followed at an international level from March onwards. At times, car sales came to a complete standstill. After bottoming out in the second quarter of 2020, the automobile market picked up significantly in the second half of the year.

Of the three major vehicle regions, Europe saw the largest decline in 2020 at 21.6%. In North America, annual production was down by 20.2% year on year, while China, the world's largest individual market, saw output fall by 4.4%.

The situation was similar within the sales markets. In Europe (EU27 & EFTA* & UK), new car registrations stood at close to 12.0 million units – almost a quarter down (-24.3%) on the prior-year figure. The five largest individual markets recorded double-digit percentage declines: Germany (-19.1% to 2.9 million units), France (-25.5%), United Kingdom (-29.4%), Italy (-27.9%), and Spain (-32.3%). In the United States, meanwhile, new light vehicle registrations totaled 14.5 million, a year-on-year decline of 14.7%. While the European market was still below the previous year's level in December, the United States recorded single-digit growth again. The Chinese market largely made up for the dramatic slump in the first quarter of 2020, reporting a 6.1% decline in new passenger car registrations.

Increasing trend toward e-mobility

The market has seen growing demand for electric vehicles recently, although the latter still occupied a subordinate position with regard to their percentage of overall production output in 2020. Government incentive measures and existing infrastructures for vehicle recharging continue to have a significant impact on demand in the individual regions. While in Germany, for example, the increase in subsidies under the government's Covid-19 stimulus package was reflected in a sharp rise in registrations of electric cars, growth slowed in China and the United States, where incentive programs were scaled back. The largest individual markets in respect of electric cars already registered are China and the US.

Around 2.3 million electric vehicles were produced worldwide in 2020. Their share of total production was around 3%. Europe saw the most pronounced growth rate, with an increase of 85% to around 600,000 units. This region thus moved into second place after China, whose production figure in 2020 was just under one million e-cars – slightly below the previous year's level. In North America, electric vehicle production was on a par with the previous year at around 410,000 vehicles.

Commercial vehicle markets in the doldrums

Impacted by the effects of the coronavirus pandemic, global commercial vehicle markets were on a downward trend in 2020. Despite the increase in new registrations of heavy commercial vehicles (>16 t) in Europe (EU & EFTA & UK) in the last two months of 2020, the year as a whole saw a decline of 28.4% to around 230,000 vehicles. The North American truck market (Class 8) also remained far behind the previous year with a decline of 30.2% to 235,000 units.

Significant Events

Alongside the effects of the coronavirus pandemic, the significant events for the Group in the 2020 financial year included the new elections to the Supervisory Board and, in particular, the agreements relating to two strategic partnerships with the aircraft manufacturer Airbus and the French automotive supplier Plastic Omnium.

Coronavirus pandemic impacts on business

At the beginning of the year, the coronavirus spread first in China and subsequently worldwide in the form of a pandemic. This prompted government containment measures at an international level. Initially, this led to extended New Year's holidays at ElringKlinger's plants in China during the first quarter of 2020, followed by interruptions to production. From mid-March onward, vehicle manufacturers in Europe and subsequently in North America, too, were faced with production downtime, as a result of which ElringKlinger temporarily suspended its operations at its European and North American plants to varying degrees or adjusted output volumes downwards at the beginning of the second quarter of 2020. The sites in India and South Africa were also affected. While the situation in China quickly returned to normal, European car makers gradually ramped up production again from the end of April 2020 and North American vehicle manufacturers mainly from May onward. The economic downturn led to a noticeable decline in business at ElringKlinger, particularly in the second quarter of 2020.

Against this backdrop, ElringKlinger took advantage of the option of short-time work as a transitional instrument at its German sites as from April 1, 2020. To protect employees, travel restrictions were introduced throughout the Group and strict hygiene precautions and other measures were implemented for the purpose of avoiding physical contact to the largest extent possible. In particular, the onset of the pandemic saw ElringKlinger press ahead with mobile working by employees.

Virtual annual general meeting – Newly elected Supervisory Board

Due to the restrictions on physical contact in response to the coronavirus pandemic, the 115th annual general meeting of ElringKlinger AG was postponed from the scheduled date of May 19, 2020, to July 7, 2020, and held in a virtual format for the very first time. It included the scheduled election of the Supervisory Board members appointed by the shareholders. Prof. Hans-Ulrich Sachs stood down from the Supervisory Board. Helmut P. Merch joined the board as a new member. He and all the other existing shareholder representatives were elected by a clear majority. The employee representatives had already been elected in May and also took office upon conclusion of the annual general meeting. In this context, Olcay Zeybek, Head of Accounting at ElringKlinger AG,

* Cf. glossary

and Barbara Resch, Wage Affairs Secretary at IG Metall Baden-Württemberg, were newly appointed to the Supervisory Board. They replaced Pasquale Formisano and Nadine Boguslawski, who had left the board.

Contract extension for COO Reiner Drews

At its meeting in May 2020, the Supervisory Board extended the contract with Management Board member Reiner Drews by five years to March 31, 2026. His term of office had been scheduled to end on March 31, 2021. Since April 1, 2018, Reiner Drews has been responsible for the business units Metal Sealing Systems & Drivetrain Components, Lightweighting/Elastomer Technology, and Shielding Technology, the German plants operating within the Original Equipment segment and the corporate units Production Management and Quality & Environmental Management.

Collaboration with aircraft manufacturer Airbus in the area of fuel cell technology

On October 14, 2020, ElringKlinger AG and Airbus Operations GmbH, Hamburg, Germany, concluded an agreement covering a long-term partnership within the area of fuel cell* technology. This partnership is aimed at jointly developing and validating fuel cell stacks* suitable for aircraft use. In this context, the contracting parties founded Aerostack GmbH, Dettingen/Erms, Germany, a company in which ElringKlinger AG holds an interest of 10% and Airbus Operations GmbH an interest of 90%. The agreement stipulates that ElringKlinger shall give the new company access to its technology and supply the components required for development purposes.

ElringKlinger and Plastic Omnium form fuel cell technology alliance

On October 28, 2020, ElringKlinger AG and Plastic Omnium, a French automotive supply group based in Levallois, France, signed an agreement aimed at driving forward the joint development, production, and marketing of fuel cell stacks. Thus, the companies will be looking to make a significant contribution to CO_2-neutral mobility. ElringKlinger and Plastic Omnium are committed to establishing a leading industrial presence as global suppliers of fuel cell stacks and components for cars, commercial vehicles, buses, trucks, and other transport applications.

The new ElringKlinger subsidiary EKPO Fuel Cell Technologies GmbH, based in Dettingen/Erms, Germany, commenced its business activities subsequent to the closing of the agreement, which came into effect after the end of the reporting period on March 1, 2021. ElringKlinger AG holds a 60% interest in the company, while Plastic Omnium's stake is 40%. The company is based in Dettingen/Erms, where ElringKlinger has recently built an e-mobility technology center. For the purpose of concluding the agreement, EK Fuel Cell Technologies GmbH, which had been founded in December 2020, changed its trading name; operations relating to fuel cell technology together with the employees assigned to this area of business as well as the associated know-how and patents were transferred to this company. In turn, Plastic Omnium will invest EUR 100 million in an effort to accelerate innovation, extend marketing at a commercial level, and increase production capacity. Under the terms of the agreement, Plastic Omnium also acquired ElringKlinger Fuelcell Systems Austria GmbH, Wels, Austria, an ElringKlinger Group company specializing in fuel cell system solutions, effective from March 1, 2021.

Cooperation agreement concluded with Dutch vehicle manufacturer for fuel cell technology

On November 12, 2020, ElringKlinger AG and Dutch vehicle manufacturer VDL Bus & Coach BV also reached an agreement on a strategic partnership in the field of fuel cell technology. The cooperation agreement covers the customized development and industrialization of fuel cell stacks and systems for mobile and stationary applications. Under the terms of the agreement, the new Group company EKPO Fuel Cell Technologies GmbH took over the activities relating to this cooperation.

Sales and Earnings Performance

In 2020, the coronavirus pandemic triggered a collapse in demand throughout the world's automobile markets, which shrank by around 16% at a global level. As a result, the ElringKlinger Group also reported a decline in sales revenue for the financial year just ended. However, at around -14%, the downturn was slightly less severe compared to that seen within the market as a whole. Earnings before interest and taxes (EBIT) amounted to €27.7 million, which corresponds to an EBIT margin of 1.9%.

Group revenue impacted by coronavirus pandemic

The 2020 financial year was dominated by the effects of the coronavirus pandemic. Overall, the ElringKlinger Group generated revenue of EUR 1,480.4 million, down EUR 246.6 million or 14.3% on the previous year (2019: EUR 1,727.0 million). Currency translation contributed EUR -40.7 million or -2.4%, primarily due to the exchange rate movements of the Mexican peso and the Brazilian real, but also the Turkish lira and the US dollar. In addition, changes relating to M&A* activities in the amount of EUR -4.1 million or -0.2% have to be taken into account; they were attributable primarily to the sale of the industrial park in Hungary. Excluding these effects from exchange rate changes and M&A activities, the decline in revenue amounted to EUR 201.8 million or -11.7%. The Group thus exceeded its original forecast of performing roughly at market level in respect of organic revenue. However, the actual performance of the market as a whole was well below prior-year expectations, which had assumed a market decline in the region of at least 4%. The outlook revised in the wake of the pandemic, which was centered on slightly outperforming the market in terms of organic revenue, was also exceeded.

The actual impact of the coronavirus pandemic varied over the course of the year. In the first quarter, the virus spread mainly in China, which responded by extending the Chinese New Year's holidays and imposing travel restrictions. The situation in China returned to normal in the second quarter, although other Asian countries, such as India, continued to be affected by the coronavirus. At the end of the first quarter, by which time the virus had already evolved into a global pandemic, lockdown measures were adopted by the respective governments in Europe and subsequently, with a few weeks' delay, in North America. The momentum of recovery in these regions varied over the course of the third quarter, becoming more pronounced in the fourth quarter.

Impact on revenue in all regions

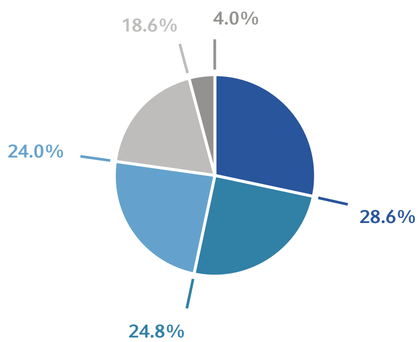
The decline in demand in the wake of the pandemic precipitated a slump in revenues in all regions, especially in the second quarter. Both in absolute and in relative terms, the downturn proved to be particularly severe in North America, at EUR -83.1 million or -18.4%. The Group generated revenue of EUR 367.7 million in this region in 2020 (2019: EUR 450.9 million), which corresponds to a revenue share

Factors influencing Group revenue

in EUR million	2020	2019	Change, absolute	Change, relative
Group revenue	**1,480.4**	**1,727.0**	**-246.6**	**-14.3%**
of which FX effects			-40.7	-2.4%
of which M&A			-4.1	-0.2%
of which organic			-201.8	-11.7%

* Cf. glossary

Group revenue by region 2020



in EUR million (previous year)

Rest of Europe	**423.4**	(494.2)
North America	**367.7**	(450.9)
Germany	**355.6**	(395.0)
Asia-Pacific	**274.8**	(310.0)
South America and Rest of the World	**58.9**	(76.9)

of 24.8% (2019: 26.1%). Adjusted for currencies, sales revenues fell by just EUR 66.0 million or 14.6%. By contrast, automobile production fell by -20.1% in this region according to data provided by IHS.

In China, meanwhile, the New Year's holidays were extended as early as the first quarter of 2020 and factories were ordered to close in an effort to contain the spread of the coronavirus. However, with the pandemic having little or no impact on other parts of Asia, the decline in revenue in Asia-Pacific was relatively modest in the first quarter. As the year progressed, the situation in this sales region reversed: China recovered quickly from the adverse effects of the first quarter, while other parts of Asia, such as India, were impacted by the pandemic in the second and third quarter. Overall, ElringKlinger generated revenue of EUR 274.8 million in this region over the course of the 2020 financial year, which corresponds to a revenue share of 18.6% (2019: 17.9%). In the previous year, the Group had recorded sales revenue of EUR 310.0 million in this region.

In the Rest of Europe, ElringKlinger's largest sales region, the structure of revenue flows over the course of the year was similar to that seen in North America. In the first quarter of 2020, the impact of the pandemic was relatively insignificant, as lockdown measures did not come into effect until the final weeks of March. Revenue plummeted in the second quarter of 2020 and subsequently recovered in the third quarter, before trending upward again in the final quarter compared to the same period a year earlier. In total, the Group generated sales revenue of EUR 423.4 million in this region during the 2020 financial year (2019: EUR 494.2 million). The share of total revenue thus remained at exactly the same level of 28.6% (2019: 28.6%).

In the region encompassing Germany, the decline in revenue during the second quarter of 2020 was less pronounced than in the regions covering North America or Rest of Europe. However, the subsequent recovery in the third quarter proved to be more sluggish. In total, the Group generated domestic revenue of EUR 355.6 million (2019: EUR 395.0 million), which represents 24.0% of Group revenue (2019: 22.9%).

In South America and Rest of the World revenues fell by EUR -18.0 million or -23.4% to EUR 58.9 million (2019: EUR 76.9 million). This decline is attributable not only to the pandemic but also to currency effects. If exchange rates had remained unchanged, the figure would have been down by just EUR 5.7 million or 7.5%. Overall, the share of Group revenue was 4.0% (2019: 4.5%).

The share of domestic revenue improved to 24.0% (2019: 22.9%), which was attributable partly to the proceeds received in the fourth quarter from a strategic partnership agreement. Correspondingly, the proportion of foreign sales amounted to 76.0% (2019: 77.1%).

Significant pandemic-induced decline in demand within Original Equipment segment

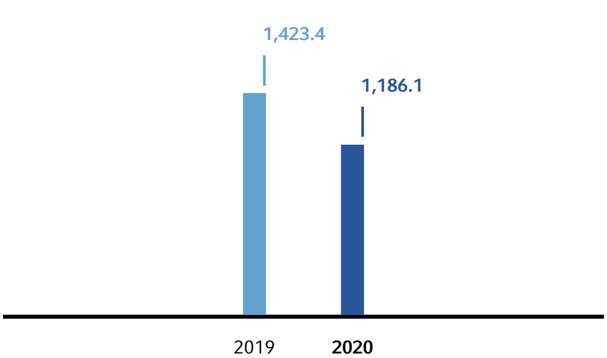
With a revenue share of 80.1% (2019: 82.4%), the Original Equipment segment constitutes the largest segment within the ElringKlinger Group. The segment generated revenue of EUR 1,186.1 million (2019: EUR 1,423.4 million), a decline of EUR 237.4 million or -16.7%. Thus, this segment performed roughly in line with the global car market as a whole, which saw a contraction in production output of 16.1%.

Within this segment, the Metal Sealing Systems & Drivetrain Components business unit, which was newly established on October 1, 2020, and comprises the two previous units of Cylinder-head Gaskets and Specialty Gaskets, was almost on a par with the segment as a whole, with revenue falling by -16.4% to EUR 410.7 million (2019: EUR 491.2 million). Lightweighting/Elastomer Technology, on the other hand, slightly outperformed the segment as a whole, recording sales revenue of EUR 422.6 million (2019: EUR 494.3 million) and a decline of just -14.5%. The Shielding Technology business unit was hit much harder, with a 27.1% downturn in revenue that took the figure to EUR 291.1 million (2019: EUR 399.2 million).

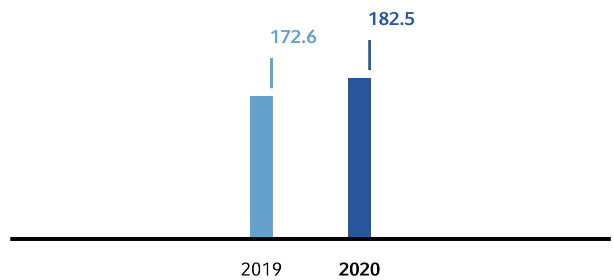
The E-Mobility business unit, which brings together the Group's activities relating to battery and fuel cell* technology as well as electric drive units, recorded buoyant revenue growth in the period under review. At EUR 54.7 million, the business unit almost doubled its revenue compared to the previous year (2019: EUR 27.1 million). This was attributable primarily to the proceeds from a partnership agreement relating to the Group's fuel cell business, which amounted to around EUR 25 million. In addition, pre-series production activities and series ramp-ups in the area of electric drive units had a positive impact on revenue generated within the E-Mobility unit. The business unit recorded negative earnings before interest and taxes in 2020. This was attributable primarily to preparations for series production in battery technology.

The Exhaust Gas Purification business unit saw a decline in revenue by EUR 3.5 million or 33.3% to EUR 6.9 million in the 2020 financial year (2019: EUR 10.4 million). Activities within this area of the business are mainly centered around the construction of housings as a component for exhaust gas purification systems.

Revenue in the Original Equipment segment
in EUR million



Revenue in the Aftermarket segment
in EUR million



Due to the sharp decline in demand in the wake of the coronavirus pandemic, the Original Equipment segment was unable to cover its fixed costs in full. Having said that, the downside effects were counteracted to some extent by the program implemented for the purpose of raising efficiency levels and instruments such as short-time work in Germany. Overall, segment earnings before interest and taxes amounted to EUR -23.7 million (2019: EUR 5.1 million). The EBIT margin* in this segment was -2.0% (2019: 0.4%).

Further growth in revenue and earnings for Aftermarket business

Despite the effects of the coronavirus pandemic and lockdowns imposed in many countries, the Aftermarket segment again saw an increase in revenue over the course of the financial year just ended. At EUR 182.5 million in 2020, it was up EUR 9.9 million or 5.7% year on year (2019: EUR 172.6 million). The segment managed to drive revenue forward in Eastern Europe, in particular, but also in the Middle East/Indian subcontinent as well as in North and South America. Revenue was only down slightly in Western Europe and Asia.

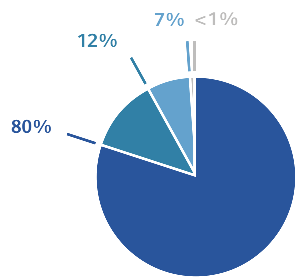
The Group-wide program aimed at efficiency enhancement also proved successful within the Aftermarket segment, in addition to lower travel and exhibition costs due to the coronavirus. Against this backdrop, segment earnings before interest and taxes amounted to EUR 39.0 million (2019: EUR 30.4 million), which corresponds to an EBIT margin of 21.4% (2019: 17.6%).

Engineered Plastics segment relatively robust against effects of pandemic

Against the backdrop of the global economic downturn, the Engineered Plastics segment recorded sales revenue of EUR 107.6 million in the 2020 financial year, which was down on the previous year (2019: EUR 117.5 million). Revenues fell by EUR 9.9 million or 8.4% as a result of the pandemic, primarily in Europe and North America, while

* Cf. glossary

Group revenue by segment 2020



in EUR million (previous year)

Original Equipment	**1,186.1**	(1,423.4)
– Lightweighting/Elastomer Technology	**422.6**	(494.3)
– Shielding Technology	**291.1**	(399.2)
– Metal Sealing Solutions & Drivetrain Components	**410.7**	(491.2)
– E-Mobility	**54.7**	(27.1)
– Exhaust Gas Purification	**6.9**	(10.4)
– Other	**0**	(1.2)
Aftermarket	**182.5**	(172.6)
Engineered Plastics	**107.6**	(117.5)
Other	**4.3**	(13.5)

revenue generated from sales in Asia remained largely unchanged.

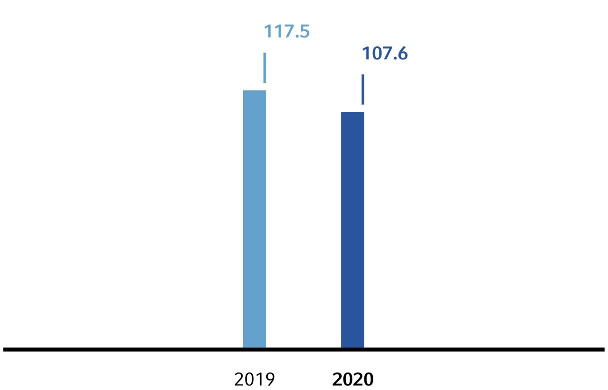
Despite the decline in demand from numerous sectors in the wake of the pandemic, the segment succeeded in maintaining earnings before interest and taxes at a robust level of EUR 14.0 million (2019: EUR 15.9 million). This was also attributable to savings in non-personnel and travel costs. The segment's EBIT margin was 13.0% (2019: 13.5%).

Services and Industrial Parks segments merged

Following the sale of the industrial park in Kecskemét, Hungary, at the end of 2019, the two segments Services and Industrial Parks were merged into the segment referred to as "Other" with effect from January 1, 2020. The latter generated revenue of EUR 4.3 million in the 2020 financial year (2019: EUR 13.5 million). Segment earnings before interest and taxes amounted to EUR -1.6 million. This was below the prior-year figure of EUR 9.9 million, which, however, had included a sum of EUR 8.6 million attributable to the sale of the industrial park.

Revenue in the Engineered Plastics segment

in EUR million



Efficiency enhancement program successfully on track

In the 2019 financial year, management implemented a global program aimed at raising efficiency levels to a sustainable extent throughout the Group. The first stage of this program focused primarily on streamlining costs. In parallel, two other elements in the form of a disciplined investment approach and the optimization of net working capital* were introduced for the purpose of generating positive operating free cash flow*. The latter was to be deployed in an effort to reduce net debt.

The cost savings were directed at staff and material costs as well as non-personnel costs. The fourth element was centered around price adjustments for contract renewals to current levels. The measures were also aimed at avoiding costs for special freight movements and additional shifts through process optimization, staff training, and the elimination of inefficiencies in administration and production. As in 2019, noticeable improvements in bottom-line results were again achieved in 2020.

Gross profit margin up in year of the coronavirus pandemic

Compared to sales revenue, which was down by -14.3%, the cost of sales fell by a slightly more pronounced rate of -14.7% in the 2020 financial year. The latter amounted to EUR 1,195.5 million (2019: EUR 1,401.7 million). Therefore, gross profit fell at a slower rate, down by -12.4% to EUR 284.9 million (2019: EUR 325.3 million), as a result of which the gross profit margin – at 19.2% – improved slightly compared to the previous year (2019: 18.8%) despite the impact of the pandemic. Positive factors, such as the benefits associated with instruments relating to short-time work or the proceeds from a partnership agreement in the field of fuel cells, were counteracted primarily by impairments of fixed assets in accordance with IAS 36.

The cost of materials represents a significant proportion of the cost of sales. It totaled EUR 622.7 million in the period under review, down substantially on the prior-year figure (2019: EUR 800.7 million). The year-on-year decline is attributable, on the one hand, to the sharp plunge in demand caused by the pandemic and, on the other hand, to a slight easing of commodity prices at a particularly high level. As the cost of materials fell at a more pronounced rate compared to revenue, the cost-of-materials ratio stood at 42.1% (2019: 46.4%).

The key materials needed by ElringKlinger to manufacture its products include aluminum, alloyed high-grade steels (and especially chromium-nickel alloys), carbon steel, polyamide-based polymer granules, and elastomers as well as polytetrafluoroethylene (PTFE*) in the Engineered Plastics segment. However, materials and components required for the production of battery and fuel cell systems are also becoming increasingly important. The Group uses aluminum primarily in the production of shielding parts in the Shielding Technology business unit, while high-grade steels and their alloys are used in the new Metal Sealing Systems & Drivetrain Components business unit.

In the financial year under review, the price indices for the raw materials that are of primary relevance to the Group, such as polyamide* (PA66), aluminum, or nickel, initially trended lower. However, they subsequently rose again from the end of the second quarter onward; by the end of the year, they had in some cases even risen above the level initially seen at the beginning of the year. The alloy surcharges for high-grade steels developed along very different lines as a whole, but for the most part remained at a constant level expressed in terms of their annual average.

Staff costs, which are accounted for in various functional categories of the income statement, amounted to EUR 472.1 million in the reporting year. They thus fell by 13.3% compared to the previous year (2019: EUR 544.4 million). On the one hand, the number of employees was adjusted in response to demand structures where possible, and on the other hand, the Group used instruments such as short-time work in Germany in response to measures implemented in an effort to contain the pandemic. Overall, staff costs in relation to Group revenue were only up slightly on the prior-year figure at 31.9% (2019: 31.5%).

Selling expenses fell significantly by EUR 26.4 million or 19.8% to EUR 107.0 million in 2020 (2019: EUR 133.4 million). Alongside the decline in revenue as an influencing factor, this trend clearly illustrates that the expansion, automation, and efficiency enhancement measures implemented for the purpose of addressing the issue of capacity bottlenecks at the North American plants increasingly took effect over the course of the year. In addition to staff costs, the Group was able to reduce costs for sorting and special freight movement by a significant margin in the period under review when compared to the previous year. At the same time, the reduction in travel costs as a result of the pandemic also played a role.

In parallel with the downturn in revenue, general and administrative expenses fell by 14.4% to EUR 72.6 million in the financial year just ended (2019: EUR 84.8 million).

R&D ratio within target range

Against the backdrop of the transformation process, the focus of R&D is on alternative drive technologies, i.e., activities centered around the battery and fuel cell as well as the electric drive unit in the context of the partnership with hofer AG. In the financial year under review, the Group kept its research and development costs at a level that was largely unchanged year on year – EUR 63.8 million (2019: EUR 64.1 million) – despite the pandemic-induced decline in demand. In addition, EUR 12.4 million (2019: EUR 16.7 million) in development costs were capitalized, as they met the relevant criteria for recognition. Amortization of capitalized development costs totaled EUR 12.8 million (2019: EUR 5.7 million). Taking into account development costs capitalized, the R&D ratio, i.e., R&D costs relative to Group revenue, rose to 5.1% (2019: 4.7%).

ElringKlinger received public-sector funding in the financial year under review in support of its research and development activities. This was granted in respect of research projects primarily centered around the fields of battery and fuel cell technology as well as lightweight construction. Funds granted with regard to R&D projects and recognized in profit or loss totaled EUR 3.6 million (2019: EUR 5.6 million). In parallel, the company again incurred project-related expenses at a comparable level for development work and prototyping conducted in 2020.

Other operating income amounted to EUR 9.8 million in the reporting year, which was down significantly on the prior-year figure of EUR 33.5 million. In 2019, this item had included a gain from the sale of the industrial park in Hungary in the amount of EUR 8.6 million as well as

* Cf. glossary

insurance payments and compensation for damages, which were also counterbalanced by corresponding expenses accounted for in the cost of sales at the time.

The increase in other operating expenses to EUR 23.6 million (2019: EUR 15.2 million) is attributable to various items, the most significant of which relates to allowances for accounts receivable.

Visible decline in earnings due in part to effects of pandemic

Despite the decline in demand in the wake of the coronavirus pandemic, earnings before interest, taxes, depreciation, and amortization (EBITDA*) remained solid year on year at EUR 181.5 million (2019: EUR 181.0 million). Alongside the proceeds from the fuel cell partnership, this was mainly due to instruments such as short-time work in Germany and the Group's global program aimed at raising efficiency levels. Due to impairment tests conducted in accordance with IAS 36, write-downs were up significantly year on year at EUR 153.7 million (2019: EUR 119.7 million). After deduction of depreciation and amortization, earnings before interest and taxes (EBIT) amounted to EUR 27.7 million (2019: EUR 61.2 million), which translates into a margin of 1.9% (2019: 3.5%). Taking purchase price allocations* into account, EBIT before purchase price allocation was EUR 28.1 million (2019: EUR 63.2 million), while the margin was 1.9% (2019: 3.7%). The EBIT margin before purchase price allocation thus fell short of the Group's original outlook of March 2020, which had assumed a margin for the full annual period roughly at the previous year's level.

Net finance cost up on previous year

The Group significantly reduced its financial liabilities in the course of the year. Consequently, interest expenses were also down on the prior-year figure, as a result of which the net interest result improved by a significant 18.9% compared to the previous year. The general volatility of exchange rates was reflected in the net result from currency translation. In particular, the exchange rate movements associated with the currencies of relevance to the Group led to higher foreign exchange losses. In this context, the most pronounced change was attributable to unrealized foreign exchange losses, which arise from the translation of the balance sheet items denominated in a foreign currency into EUR – as the reporting currency – at the year-end rate. In addition, the Group had to account for losses from associated companies. Ultimately, net finance costs* were substantially higher in the period under review, up by EUR 21.7 million to EUR -41.3 million (2019: EUR -19.6 million).

At EUR -13.6 million, therefore, the result before taxes was lower than in the previous year (2019: EUR 41.7 million).

Year-on-year reduction in income tax expense

Compared to the previous year, income tax expenses fell to EUR 26.4 million in 2020 (2019: EUR 36.6 million). The fact that the Group had to pay income taxes despite a pre-tax loss is due, among other things, to the tax deductibility of asset remeasurements. Against the backdrop of the coronavirus pandemic, the Group was also faced with a mixed picture with regard to profitability at the respective subsidiaries – with varying effects on taxes payable. In addition, no deferred tax assets were recognizable on losses incurred by subsidiaries.

Having deducted income tax expenses, net income stood at EUR -40.0 million (2019: EUR 5.0 million). Net income attributable to non-controlling interests fell slightly to EUR 0.8 million (2019: EUR 0.9 million). Eliminating these interests, net income attributable to the shareholders of ElringKlinger AG amounted to EUR -40.8 million (2019: EUR 4.1 million). Correspondingly, earnings per share* were down substantially year on year at EUR -0.64 (2019: EUR 0.06). As of December 31, 2020, the number of shares outstanding that were entitled to a dividend remained unchanged at 63,359,990.

Suspension of dividend

As in the previous year, the annual financial statements approved by the Supervisory Board show a net loss for the year. For the purpose of further strengthening internal financing in support of the company's transformation process, no revenue reserves were released. The annual financial statements of ElringKlinger AG, which were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB*) and are relevant for the payment of dividends, showed a net loss of EUR 11.6 million as of December 31, 2020 (2019: net loss of EUR 17.1 million). Therefore, the dividend for the 2020 financial year has been suspended. The loss will be carried forward to new account.

Financial Position

Based on an equity ratio of 41.4%, a further increase in liquidity during the financial year, and the overall structure of its assets, the financial position of the ElringKlinger Group remained robust as of December 31, 2020. Over the course of 2020, the Group continued to pursue the route taken during the 2019 financial year for the purpose of improving its key financial indicators. As a consequence, net working capital[1] was further reduced compared to the low level already recorded in 2019. In addition, the Group again managed to scale back its net debt[2] – by EUR 136.5 million to EUR 458.8 million. The net debt ratio[3] improved to 2.5, having stood at 3.3 in the previous year.

Effects of coronavirus pandemic

The decline in business seen in 2020 in the wake of the coronavirus pandemic is reflected to varying degrees in individual items of ElringKlinger's statement of financial position and cash flows*. The severe slump in demand during the second quarter is reflected in a temporary reduction in current assets, including trade receivables and inventories, as well as trade payables on the liabilities side of the balance sheet. By contrast, cash and cash equivalents increased during this period. The second half of the year saw business pick up again, as a result of which these effects can be deemed to have been offset again at the end of the financial year under review. Impairment tests performed at the end of the year necessitated the recognition of impairment losses of around EUR 24 million in total with regard to property, plant, and equipment at some of the subsidiaries within the Group.

Total assets at EUR 2 billion – Asset structure remains robust

Total assets held by the ElringKlinger Group amounted to EUR 1,963.1 million as of December 31, 2020, compared with EUR 2,146.5 million as of the end of 2019. The reduction by EUR 183.4 million reflects not only general business transactions during the period under review but also the impact of currency translation, which on the whole had a dilutive effect on the balance sheet items. The ratio of non-current to current assets remained virtually unchanged

[1] Inventories as well as trade receivables less trade payables
[2] Current and non-current financial liabilities less cash and cash equivalents and securities
[3] Net debt in relation to EBITDA (earnings before interest, taxes, depreciation, and amortization)

Key figures Financial Position

in EUR million	Dec. 31, 2020	Dec. 31, 2019
Total equity and liabilities	1,963.1	2,146.5
Equity ratio	41.4%	41.5%
Net working capital	402.8	432.6
in relation to Group revenue	27.2%	25.0%
Net debt	458.8	595.3
Net debt/EBITDA	2.5	3.3

* Cf. glossary

compared to the previous year. Non-current and current assets accounted for 61.7% (Dec. 31, 2019: 61.2%) and 38.0% (Dec. 31, 2019: 38.8%) of total assets respectively - 0.3% of the assets were accounted for as held for sale.

Within non-current assets, which had a carrying amount of EUR 1,212.2 million as of December 31, 2020 (Dec. 31, 2019: EUR 1,314.0 million), “property, plant, and equipment” represents the largest item. This item was down by EUR 103.8 million on the figure posted at the end of 2019 (EUR 1,043.7 million), with around one-third of the reduction being attributable to currency effects. In addition, the volume declined due to lower investment activity in the Group in 2020, with the result that systematic depreciation for the financial year, totaling EUR 113.9 million (2019: EUR 109.4 million), was around EUR 20 million higher than additions from investments (including leasing transactions) of EUR 92.7 million (Dec. 31, 2019: EUR 110.5 million). Furthermore, reduced expectations regarding the future earnings performance at six Group companies led to impairment losses totaling EUR 24.2 million (2019: EUR 0 million).

Intangible liabilities amounted to EUR 201.1 million at the end of 2020 (Dec. 31, 2019: EUR 208.1 million). New additions associated with internally generated development costs (EUR 12.4 million) were on a par with the corresponding amortization of EUR 12.8 million in the 2020 financial year (2019: EUR 5.7 million). As in the past, the main item within intangible assets was goodwill from previous M&A* activities with a carrying amount of EUR 161.9 million (Dec. 31, 2020: EUR 166.3 million). This item was slightly lower in the period under review, primarily as a result of currency effects and a reclassification to assets held for sale.

As of December 31, 2020, no investment property was accounted for in the consolidated statement of financial position. The item of EUR 3.3 million included in the previous year’s statement of financial position comprised land and buildings at the site in Idstein, Germany, which were reclassified to property, plant, and equipment in the 2020 financial year due to the fact that they are now predominantly used by the company itself.

Financial assets were up at EUR 15.1 million at the end of the period under review, compared to EUR 3.6 million in the previous year. The year-on-year increase was attributable primarily to the financial investments accounted for in this item with regard to the acquisition of a non-controlling interest in Aerostack GmbH, Dettingen/Erms, Germany (cf. “Significant Events”) as well as the non-current receivable granted in this context.

The investments in associates relate to interests in hofer AG, Nürtingen, Germany, which are accounted for using the equity method. At the end of 2020, they amounted to EUR 17.2 million (Dec. 31, 2019: EUR 23.7 million).

Further reduction in working capital

Current assets accounted for within the ElringKlinger Group fell by EUR 86.8 million year on year to EUR 745.7 million (Dec. 31, 2019: EUR 832.5 million). Inventories, which fall under this heading, decreased by EUR 41.4 million (adjusted for currency effects) to EUR 300.5 million (Dec. 31, 2019: EUR 356.5 million), having already been scaled back noticeably in the previous year. This trend reflects the success of the long-term optimization measures for working capital* (inventories and trade receivables) implemented throughout the Group. At EUR 231.2 million (Dec. 31, 2019: EUR 233.2 million), trade receivables were on a par with the previous year at the end of the reporting period.

Within the item encompassing “Other current assets,” whose carrying amount was EUR 71.4 million (Dec. 31, 2019: EUR 88.7 million), tax receivables and other receivables from third parties decreased year on year.

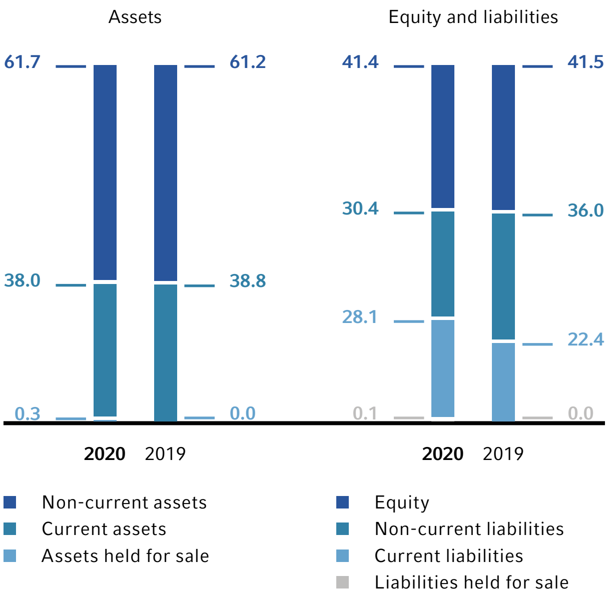
As of December 30, 2020, the ElringKlinger Group had cash and cash equivalents of EUR 127.9 million (Dec. 31, 2019: 135.5 million).

The assets and liabilities recognized as held for sale relate to items from the consolidation of the Austrian subsidiary. The company, which operates within the field of fuel cell* development, was sold to the French automotive supply group Plastic Omnium, Levallois, France, after the end of the reporting period as part of an agreement reached with the company in October 2020 (cf. “Significant Events”).

Equity ratio at 41%

As of December 31, 2020, equity accounted for by the ElringKlinger Group amounted to EUR 812.9 million (Dec. 31, 2019: EUR 891.2 million). The equity ratio of 41.4% (Dec. 31, 2019: 41.5%) remains within the range of 40% to 50% targeted by management. In the 2020 financial year, the net loss of EUR - 40.0 million for the period as well as the effects from currency translation of EUR - 29.5 million and from the remeasurement of pension commitments of EUR -7.4 million were recognized in equity.

Structure of the ElringKlinger Group's statement of financial position
As at December, 31
in %



At EUR 1.7 million, the dividend distribution for the previous year was attributable solely to non-controlling interests.

The carrying amount of pension provisions at the end of 2020 was EUR 156.9 million (Dec. 31, 2019: EUR 148.2 million). The increase of EUR 8.7 million was mainly due to changes in parameters on which the regular revaluation of future obligations as of the reporting date was based (cf. Note 25 in the Notes to the consolidated financial statements). Other current and non-current provisions increased by EUR 10.5 million year on year, resulting in non-current provisions with a carrying amount of EUR 19.8 million at the end of the year (Dec. 31, 2019: EUR 18.5 million) and current provisions of EUR 26.9 million (Dec. 31, 2019: EUR 17.7 million). In the financial year under review, personnel-related obligations, which are to be recognized in the context of partial retirement and similar items, increased by EUR 2.8 million. Other significant allocations to provisions related to warranty obligations, potential losses from customer contracts, and other risks.

Further reduction in net debt

Despite the downturn in business, the ElringKlinger Group further improved its solid financial situation over the course of the year under review. Net debt[1] was again scaled back, having already been reduced markedly in the previous year, particularly with the help of a program implemented by management with the aim of raising efficiency levels. Compared to the figure posted at the end of 2019 (EUR 595.3 million), it was down by EUR 136.5 million to EUR 458.8 million. Non-current financial liabilities accounted for the largest share at EUR 391.9 million (Dec. 31, 2019: EUR 570.4 million). The Group thus managed to improve its net debt/EBITDA* ratio significantly from 3.3 in the previous year to 2.5 in the period under review.

In the period under review, there were no significant changes in credit terms, not even as a result of influences from the coronavirus pandemic. As of December 31, 2020, ElringKlinger complied with all covenants agreed with financial institutions.

Net working capital lower

As of December 31, 2020, trade payables accounted for by the ElringKlinger Group amounted to EUR 128.9 million (Dec. 31, 2019: EUR 157.1 million). The reduction compared with the previous year's level is mainly due to the lower purchasing volume during the financial year as a result of cost-cutting measures and a conservative investment policy. Despite this counteracting effect on net working capital*, which corresponds to inventories and trade receivables less trade payables, net working capital decreased from EUR 432.6 million at the end of 2019 to EUR 402.8 million at the end of the reporting period; this was attributable to the disproportionately large reduction in inventories.

Other current liabilities amounted to EUR 125.5 million at the end of the reporting period (Dec. 31, 2019: EUR 109.6 million). They include a written put option of EUR 36.9 million as well as a number of deferrals relating to various items, e.g., personnel and outstanding invoices as well as other deferrals. In the 2020 financial year, among other things, the liabilities existing with regard to the put option increased due to changed parameters.

[1] Current and non-current financial liabilities less cash and cash equivalents and short-term securities; securities (Dec. 31, 2020: EUR 10.5 million) are excluded as from the 2020 financial year.

* Cf. glossary

The ElringKlinger Group's return on capital employed (ROCE) amounted to 1.7% in 2020 (2019: 3.4%). This financial indicator, which is of relevance to corporate management activities, expresses how high the return on capital employed is; it is determined from the relation of EBIT* to average capital employed (cf. "Internal Control Criteria"). After initially assuming a slight year-on-year improvement in this indicator for 2020, ElringKlinger anticipated a deterioration from May onwards as a result of its lower earnings forecast.

Cash Flows

Despite challenging market conditions in 2020, the ElringKlinger Group managed to generate substantial net cash of EUR 217.8 million from operating activities. This was underpinned by extensive measures centered around cost streamlining and cash management measures, which also included a disciplined approach to investment. At EUR 164.7 million, the Group again achieved a significant level of operating free cash flow[1] – on the back of EUR 175.8 million generated in the previous year. In conjunction with undrawn credit lines, the ElringKlinger Group's financial situation in terms of cash flows thus remains solid.

Operating cash flow again in excess of EUR 200 million

Cash flow* from operating activities proved very favorable in 2020, despite the general difficulties associated with the financial year. In this context, measures introduced by the Group for the purpose of scaling back costs and optimizing net working capital* (inventories and trade receivables less trade payables) proved particularly effective. The Group's operating cash flow totaled EUR 217.8 million, which is to be seen against the backdrop of a substantial inflow of EUR 277.6 million in the previous year.

The change in net working capital (including other assets and liabilities not attributable to investing or financing activities) produced a cash inflow of EUR 57.4 million in the financial year under review (2019: EUR 150.1 million). In this context, lower inventories had a favorable impact, while in the previous year an expansion of trade payables had also led to a reduction in the overall commitment of funds.

In contrast to the Group's earnings performance, which was impacted by depreciation, amortization, and impairments of EUR 153.7 million (2019: EUR 119.7 million), cash flow remained unaffected. Similarly, the share of the result of associates of EUR -6.8 million (2019: EUR 0.5 million) had no effect on cash flow.

Investments in property, plant, and equipment down sharply

Following extensive investments in previous years, from 2019 onward ElringKlinger directed its investment activities primarily at projects of strategic importance. Against the backdrop of the unexpected economic slump seen in the first half of 2020, the Group stepped up its disciplined investment approach in the financial year under review.

[1] Cash flow from operating activities less cash flow from investing activities, adjusted for cash flows in respect of acquisition activities and changes in financial assets

Key figures Cash Flows

in EUR million	2020	2019
Net cash from operating activities	217.8	277.6
Operating free cash flow	164.7	175.8
Investments in property, plant, and equipment*	57.3	92.2
Investment ratio	3.9%	5.3%

* Payments for investments in property, plant, and equipment and investment property

As a result, payments for investments in property, plant, and equipment were significantly lower compared to the previous year, at EUR 57.3 million (2019: EUR 92.2 million). Around half of this volume was attributable to the German sites operated by the parent company. Among other things, these investments were attributable to the installation of a production line for battery systems at the site in Thale as well as production systems for fuel cell* modules in Dettingen/Erms. In addition, expenses were incurred for the final completion of work on the Technology Center for E-Mobility, which was built at the main site in Dettingen/Erms in 2019 and has been operating since 2020.

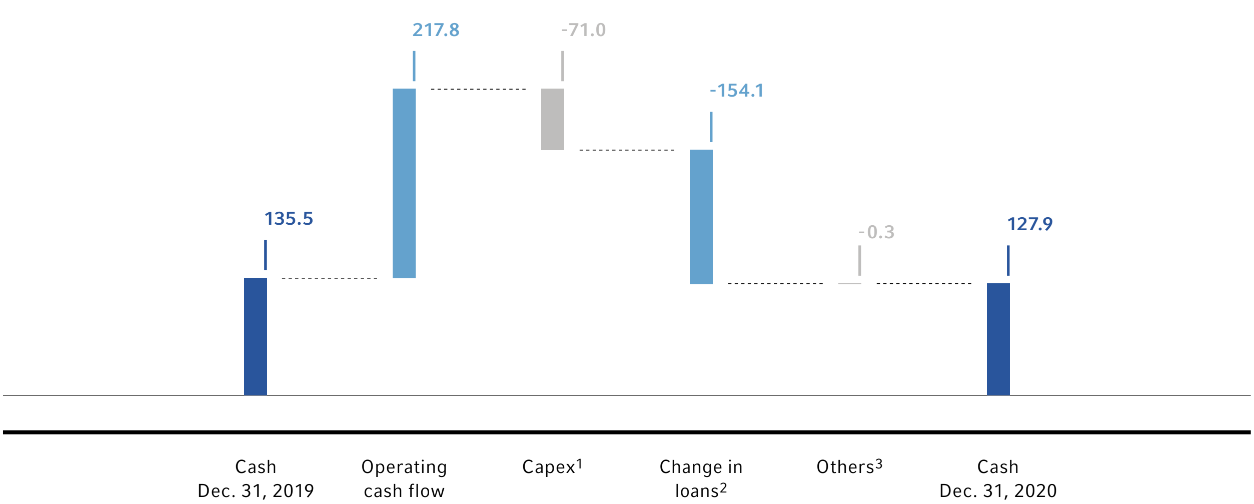
Furthermore, ElringKlinger made investments in all regions, the focus being on installing systems for serial production ramp-up or implementing essential automation and replacement measures.

The investment ratio (payments relating to investments in property, plant, and equipment and investment property relative to Group sales revenue) fell to 3.9% (2019: 5.3%).

Payments for intangible assets, which also include expenses relating to capitalized development costs, amounted to EUR 13.7 million (2019: EUR 19.1 million).

Changes in cash 2020

in EUR million



[1] Payments for investments in property, plant, and equipment, investment property, and intangible assets
[2] Including lease liabilities
[3] Cash inflow from investing activities EUR 10.4 million (netted), currency effects on cash and cash equivalents EUR -9.0 million, payments to non-controlling interests EUR 1.7 million

* Cf. glossary

Cash inflows from disposals of property, plant, and equipment, intangible assets, and investment property amounted to EUR 17.9 million (2019: EUR 9.6 million). They included proceeds of EUR 17.3 million from a sale-and-leaseback transaction in the Services segment. The key items relating to the previous year included the sale of land and the disposal of the Hungarian industrial park presented in the Notes under subsidiaries sold.

In total, net cash used in investing activities by the Group amounted to EUR - 60.6 million in 2020, after EUR - 84.5 million in the previous year.

Operating free cash flow of EUR 164.7 million

Benefiting from cash flow from operating activities and low capital expenditure, ElringKlinger once again recorded very good operating free cash flow* in the 2020 financial year. At EUR 164.7 million, it came close to the prior-year figure of EUR 175.8 million. ElringKlinger thus further bolstered its financial strength in the 2020 financial year.

Cash flow from financing activities

ElringKlinger used the surplus of cash generated within the Group to further reduce its debt. This primarily included the repayment of long-term loans: the inflows and outflows relating to long-term loans resulted in a net outflow of EUR 183.2 million in 2020 (2019: inflow of EUR 60.3 million).

Cash flow from financing activities, which also takes into account changes in short-term borrowings of EUR 29.2 million (2019: EUR -163.3 million) and distributions to non-controlling interests of EUR 1.7 million (2019: EUR 0.8 million), amounted to EUR -155.8 million in 2020 (2019: EUR -103.8 million).

As of December 31, 2020, the ElringKlinger Group had cash and cash equivalents of EUR 127.9 million (Dec. 31, 2019: EUR 135.5 million) and open, unused credit lines of EUR 236.0 million (Dec. 31, 2019: EUR 150.5 million). ElringKlinger thus continues to enjoy a comfortable level of aggregate liquidity of EUR 363.9 million (Dec. 31, 2019: EUR 286.0 million).

Overall assessment by the Management Board of the financial position, financial performance, and cash flows of the Group

The 2020 financial year was dominated by the effects of the coronavirus pandemic, which was reflected in lower sales volumes for the ElringKlinger Group as a whole, particularly in the first half of the year. Despite the overall decline in revenue by 14.3%, the Group achieved earnings before interest, taxes, depreciation, and amortization that were on a par with the prior-year figure. Above all, however, the Group further bolstered its financial strength, as evidenced by the significant reduction in financial liabilities and the improvement in key financial indicators.

Reflecting the current economic circumstances and the Covid-19*-induced decline in demand, Group revenue fluctuated significantly over the course of the financial year. The market upturn seen in the second half of the year partially compensated for revenue shortfalls recorded in the first half. Overall, ElringKlinger's performance in respect of revenues, adjusted for currency and M&A* effects, was better at approx. -12% than that relating to global vehicle production, which fell by around 16%. The slump in markets in the first half of the year as well as the associated impact of the pandemic, which was difficult to gauge, posed a major challenge to the operating units. Building on countermeasures such as more extensive cost reductions, disciplined capital expenditure, or flexible adjustments to requirements at an operational level, the Group succeeded in meeting its revised expectations with regard to earnings performance for the annual period as a whole. Earnings before interest and taxes (EBIT*) for the 2020 financial year amounted to EUR 27.7 million, while the EBIT margin stood at 1.9%.

In addition, the efficiency enhancement program pursued by the Group in the longer term led to further cost reductions. Among its key elements are the identification of streamlining potential and optimization measures in net working capital*. This also paved the way for financial improvements, as a result of which ElringKlinger recorded substantial cash inflows from operating activities for the second year in a row and again managed to scale back its financial liabilities. The debt ratio (net debt*/EBITDA*) was reduced to 2.5 (after 3.3 a year earlier), while operating free cash flow for the financial year totaled EUR 164.7 million.

Over the course of the 2020 financial year, ElringKlinger remained committed to the rigorous pursuit of its strategic positioning with regard to the transformation process within the automotive industry. This includes key alliances entered into in 2020 with the aircraft manufacturer Airbus and the

French automotive supplier Plastic Omnium for the purpose of advancing fuel cell technology. ElringKlinger made preparations for this transition at an early stage. The Group's product range includes customized solutions both for classic applications and for vehicles with alternative battery and fuel cell technology drives. Management is of the opinion that ElringKlinger's strong portfolio, broad customer base, which includes both established and new manufacturers, and global network of production sites provide an excellent basis for consistently solid business development.

Financial Performance, Net Assets, and Cash Flows of ElringKlinger AG

As in previous years, the management report of ElringKlinger AG and the Group management report have been brought together in a combined format. The business performance relating to ElringKlinger AG, as outlined below, is based on its annual financial statements, which have been prepared in accordance with the provisions set out in the Commercial Code (Handelsgesetzbuch – HGB) and the additional requirements of the Stock Corporation Act (Aktiengesetz – AktG) as well as the relevant provisions of the Articles of Association.

In the wake of the coronavirus pandemic global car production fell by around 16% in 2020. Revenues generated by ElringKlinger AG were comparatively robust, declining by just 8.5%. While factors such as the year-on-year increase in depreciation and taxes had an adverse effect, the lower cost-of-materials ratio and the reduction in personnel expenses had a positive impact on the bottom-line result.

Revenue performance visibly better than market change

Against the backdrop of the coronavirus pandemic, ElringKlinger AG recorded sales revenues of EUR 648.6 million in the period under review (2019: EUR 709.1 million). This corresponds to a decline of 8.5%. The company thus performed better than expected, as the downturn was less pronounced than that relating to global car production (-16.2%) and European production output (-22.0%). Originally, the direction taken by sales revenue within the parent company had been expected to be roughly in line with the market as a whole in 2020. In this context, however, the actual performance of the market as a whole was significantly below prior-year expectations, which had assumed a market decline in the region of 4% or slightly more.

The consequences of the coronavirus pandemic, such as lockdowns and production downtime, led to a decline in revenue in all regions. In Germany, in particular, the company was able to cushion the blow relatively well, with revenue falling by just 3.4% or EUR 8.2 million year on year to EUR 233.7 million (2019: EUR 241.8 million). This figure includes revenues from products fitted to vehicles and engines that are subsequently exported.

* Cf. glossary

Accounting for 42.7% (2019: 43.5%) of revenue, the Rest of Europe (excluding Germany) is the most important sales market for ElringKlinger AG. At EUR 277.1 million, revenue generated from sales in this region was EUR 31.5 million or 10.2% below the level recorded in the previous year (2019: EUR 308.6 million). In North America, the percentage downturn was more pronounced; revenue totaled EUR 57.8 million, EUR 15.7 million or 21.4% down on the prior-year figure (2019: EUR 73.5 million). In the Asia-Pacific region, the company generated EUR 54.3 million in revenue, EUR 5.4 million or 9.0% less than in the previous financial year (2019: EUR 59.6 million).

In total, revenue from foreign sales was down by 11.2% to EUR 414.9 million (2019: EUR 467.3 million). Thus, the share of foreign sales fell by 1.9 percentage points to 64.0% (2019: 65.9%).

Revenue down in Original Equipment segment

The Original Equipment segment generated revenue of EUR 483.1 million in 2020, thus falling EUR 67.6 million or 12.3% short of the prior-year figure (2019: EUR 550.7 million). As a result of this decline, its share of the company's total revenue also decreased, down by 3.2 percentage points to 74.5% (2019: 77.7%). The largest declines in revenue were attributable to the Lightweighting/Elastomer Technology and Metal Sealing Systems & Drivetrain Components business units. The E-Mobility business unit, which includes battery and fuel cell* technology, more than doubled its revenue in the period under review.

Revenue growth in Aftermarket business despite pandemic

Although the effects of the pandemic had a detrimental effect on the economies of many countries, the Aftermarket segment managed to drive revenue forward in the 2020 financial year. At EUR 165.4 million, revenue was up EUR 7.1 million or 4.5% on the prior-year figure (2019: EUR 158.3 million). Thus, the segment succeeded in visibly expanding its share of revenue to 25.5% (2019: 22.3%).

At EUR +6.7 million, growth was particularly buoyant in Eastern Europe. Having said that, the Aftermarket segment also expanded in Germany, the Middle East/Indian subcontinent, and in North and South America – in some cases significantly. Only Western Europe and Asia saw a decline in revenue.

Significant year-on-year decline in total operating revenue

The downturn in business was also reflected in a reduction in inventories by EUR 4.3 million (2019: EUR -2.4 million). Other own work capitalized rose slightly to EUR 1.3 million (2019: EUR 0.2 million). Overall, total operating revenue thus amounted to EUR 645.6 million (2019: EUR 706.9 million), a decrease of EUR 61.3 million or 8.7%.

Other operating income totaled EUR 36.9 million (2019: EUR 12.5 million). The significant year-on-year increase is mainly due to write-ups relating to financial assets and financial receivables.

Other operating expenses rose by EUR 4.5 million or 4.2% to EUR 113.0 million (2019: EUR 108.5 million). The Group-wide efficiency enhancement program also resulted in cost savings for the parent company. In parallel, Covid-19-related savings, such as lower travel costs, fewer services from third parties, or lower advertising costs due to fewer trade show appearances, prompted a reduction in expenses. These savings were more than offset by predominantly unrealized expenses from foreign exchange differences and additions to provisions or other occurrences of damage.

Lower cost-of-materials ratio

While the standard indices for some of the key raw materials required by ElringKlinger for the manufacture of its products, such as polyamides*, aluminum, and nickel, recovered visibly in the first half of the year, they began to rise steadily again from the end of the second quarter onward. In parallel with the significant decline in demand in the wake of the coronavirus pandemic, the cost of materials fell by a total of EUR 41.2 million or 13.8% to EUR 258.4 million in the financial year under review (2019: EUR 299.6 million). Consequently, the cost-of-materials ratio, which puts the cost of materials in relation to total operating revenue, improved to 40.0% (2019: 42.4%).

Personnel expense ratio also down

The decline in demand due to the coronavirus pandemic also had an impact on the overall headcount at ElringKlinger AG. At the end of 2020, the company had 3,213 employees, 154 fewer than at the end of the previous financial year (Dec. 31, 2019: 3,367 employees). The company pursued a personnel policy that was as demand-oriented as possible by filling vacant positions internally whenever feasible. In those instances in which this conservative approach was not possible, external replacements were made in individual cases. In addition, the company took advantage of short-time work, which also resulted in lower social security contributions. In total, personnel expenses fell by 10.5% or EUR 25.6 million to EUR 219.5 million (2019: EUR 245.2 million). The personnel expense ratio – i. e. personnel expenses in relation to total operating revenue – improved slightly to 34.0% (2019: 34.7%).

Write-downs of current assets

At EUR 36.2 million, systematic depreciation and amortization of intangible and tangible fixed assets remained largely unchanged year on year (2019: EUR 36.8 million). In contrast to the previous year, write-downs of current assets were made in the amount of EUR 16.6 million to the extent that they exceed the write-downs that are usual for the corporation. This related to current financial receivables within the Group from subsidiaries.

Earnings before interest, taxes, and equity investments (operating EBIT) better than expected

Due to the factors outlined above, ElringKlinger AG's earnings before interest, taxes, and equity investments increased by EUR 9.5 million or 32.3% year on year (2019: EUR 29.4 million) to EUR 38.8 million. This is equivalent to an EBIT margin* (as a proportion of total operating revenue) of 6.0% (4.2%). The company had originally expected its EBIT margin to drop below the prior-year figure due to the less favorable economic outlook and in view of the initial impact of the coronavirus.

Slight increase in net finance costs

Income from equity investments rose by EUR 7.1 million or 23.4% to EUR 37.3 million in 2020 (2019: EUR 30.3 million). In addition, income of EUR 0.5 million (2019: EUR 0.7 million) was generated from other securities and long-term loans. This was offset by write-downs of long-term financial assets, which at EUR 65.7 million were EUR 10.5 million or 19.0% higher than in the previous year. At EUR 7.2 million, other interest expenses were comparable to last year's figure (2019: EUR 7.3 million). Interest and similar expenses, by contrast, were reined in by EUR 2.8 million or 17.6% to EUR 13.2 million (2019: EUR -16.0 million), mainly due to the significant reduction in net debt*. Net finance costs* thus rose from EUR -32.9 million in 2019 to EUR -33.9 million in the financial year under review.

Higher tax expenses

Due to the improvement in earnings before interest, taxes, and equity investments, the pre-tax result was in positive territory at EUR 5.0 million (2019: EUR -3.6 million) despite slightly higher net finance costs. On the one hand, the write-downs of financial assets are not effective for tax purposes and, on the other hand, the proceeds attributable to a strategic partnership had to be taken into account. As a result, there was no reduction in taxes on income compared to the previous year. They amounted to EUR 16.2 million in the financial year under review (2019: EUR 13.3 million). This item includes taxes relating to other periods in the amount of EUR 1.1 million (2019: EUR 1.8 million). In total, post-tax profit at the end of the reporting period stood at EUR -11.2 million (2019: EUR -16.9 million). After deducting other taxes, ElringKlinger AG posted a net loss of EUR 11.6 million for the financial year under review (2019: EUR 17.1 million). Taking into account the loss carried forward of EUR 22.4 million from the previous year, the accumulated loss in 2019 amounts to EUR 34.0 million (2019: EUR -22.4 million).

Suspension of dividend

No reversals of revenue reserves were made in the 2020 financial year, the aim being to further strengthen internal financing for the transformation process of the company. The 2020 financial year produced a net loss of EUR 11.6 million (2019: net loss of EUR 17.1 million). The Management Board and Supervisory Board have therefore jointly decided to again suspend the dividend for the 2020 financial year. The accumulated loss will be carried forward to new account.

* Cf. glossary

Net Assets of ElringKlinger AG

The asset structure of ElringKlinger AG reflects its dual role as an operating production company with simultaneous holding and financing functions within the ElringKlinger Group. In addition to the assets required for operating activities, the balance sheet prepared in accordance with the German Commercial Code (HGB*) includes a substantial amount of financial assets and receivables from affiliated companies. In the 2020 financial year, the equity ratio again improved at a solid level to 43.5% (2019: 40.2%). Financial liabilities were scaled back substantially year on year – by EUR 126.0 million to EUR 393.4 million. Thus, ElringKlinger AG managed to further strengthen net assets in the period under review.

Fixed assets account for 58% of total assets

Total assets stood at EUR 1,194.1 million at the end of 2020, compared with EUR 1,319.3 million at the end of the previous financial year. Fixed assets, which had a carrying amount of EUR 690.0 million (Dec. 31, 2019: EUR 735.7 million) and accounted for 57.8% (Dec. 31, 2019: 55.8%) of total assets, were divided almost equally between tangible fixed assets and financial assets. Intangible assets amounted to EUR 6.3 million (Dec. 31, 2019: EUR 7.9 million).

Tangible fixed assets were down at EUR 334.3 million as of the end of the reporting period (Dec. 31, 2019: EUR 352.2 million). While new additions from investing activities of EUR 33.0 million were almost on a par with depreciation and amortization (EUR 34.1 million), the overall reduction was due to disposals in the financial year. Among other items, they were related to the sale of a building at the site of ElringKlinger Logistic Service GmbH, Ergenzingen, Germany.

As of December 31, 2020, financial assets had a carrying amount of EUR 349.4 million (Dec. 31, 2019: EUR 375.6 million). Significant movements in the year under review included write-downs and write-ups on the interests in affiliated companies accounted for in this item. They arose in the course of the annual impairment test, in which calculations in accordance with the income approach were performed on the basis of the medium-term budget of the respective company. As a result, the interests in seven Group companies decreased, and reversals of impairment losses were recognized for three shareholdings. At the end of 2020, the carrying amount was EUR 36.4 million lower at EUR 306.2 million (Dec. 31, 2019: EUR 342.7 million). The equity investments accounted for by ElringKinger AG include the non-controlling interests in hofer AG, Nürtingen, Germany, and – since 2020 – in Aerostack GmbH, Dettingen/Erms, Germany (cf. "Significant Events"). Loans to other long-term investees and investors include non-current receivables of EUR 6.3 million relating to the new equity investment.

Current assets down on previous year

The inventories held by ElringKlinger AG mainly encompass raw materials for the production process as well as semi-finished and finished products, including stock relating to the aftermarket business. Inventories were scaled back as part of a longer-term inventory optimization program. In this context, the slight overall reduction in raw material prices also proved somewhat beneficial in the 2020 financial year. By contrast, increased demand in the fourth quarter of 2020 and substantial order backlogs for the ensuing months required an expansion of raw materials and work in progress at the end of the year. In total, inventories were down slightly year on year to EUR 141.2 million (Dec. 31, 2019: EUR 147.8 million).

As ElringKlinger AG is responsible for central finance and liquidity management within the Group, it also raises external funds and makes them available to affiliated companies for financing purposes. This financing function is mainly reflected in two asset items. The first encompasses loans to affiliated companies, which amounted to EUR 7.4 million as of December 31, 2020 (Dec. 31, 2019: EUR 7.6 million). The other item – with a larger volume in comparative terms – relates to receivables from affiliated companies included in current assets. At the end of 2020, they amounted to EUR 273.8 million (Dec. 31, 2019: EUR 336.0 million). In the 2020 financial year, repayments in the double-digit million euro range were recorded with regard to subsidiaries in Hungary and Mexico. Impairment losses on short-term loans of EUR 16.6 million relating to various companies, which are also to be seen in the context of annual impairment testing, had a contrary effect.

Trade receivables accounted for by ElringKlinger AG amounted to EUR 64.5 million at the end of the financial year under review, which was around 14% higher than the prior-year figure (Dec. 31, 2019: EUR 56.8 million). In total, ElringKlinger AG recorded receivables and other assets of EUR 358.6 million as of December 31, 2020 (Dec. 31, 2019: EUR 417.3 million).

Equity ratio of ElringKlinger AG at 44%

As of December 31, 2020, equity accounted for by ElringKlinger AG totaled EUR 519.0 million (Dec. 31, 2020: EUR 530.5 million). Its share of the balance sheet total was higher year on year, as a result of which the equity ratio rose to 43.5% (Dec. 31, 2019: 40.2%). As the company did not pay a dividend for the previous financial year, the change in shareholders' equity compared with the end of the previous year was attributable solely to the net loss for the 2020 financial year (EUR -11.6 million).

Provisions recognized by ElringKlinger AG amounted to EUR 141.3 million as of December 31, 2020 (Dec. 31, 2020: EUR 124.2 million). They include provisions for pensions and similar obligations of EUR 84.7 million (Dec. 31, 2019: EUR 81.2 million) as well as tax provisions and other provisions. Pension provisions were remeasured as scheduled at the end of the year on the basis of defined parameters, such as interest rates. Tax provisions increased by EUR 9.1 million to EUR 11.4 million (Dec. 31, 2019: EUR 2.3 million). Other provisions accounted for by ElringKlinger AG amounted to 45.2 million (Dec. 31, 2019: EUR 40.6 million). Almost half of these are personnel-related obligations such as provisions associated with anniversaries, time credits, or partial retirement obligations. Beyond this, other provisions were made up of a wide range of items. Compared with the previous year's reporting date, there was an increase primarily in warranty obligations, outstanding customer credits, and maintenance costs as well as provisions relating to other risks.

Liabilities accounted for by ElringKlinger AG totaled EUR 533.6 million at the end of the reporting period (Dec. 31, 2019: EUR 664.4 million). The inflow of capital from operating activities and from financial transactions with affiliated companies provided the basis for a significant reduction in bank borrowings in the 2020 financial year. Liabilities to banks decreased by EUR 126.0 million year on year to EUR 393.4 million (Dec. 31, 2019: EUR 519.4 million). Trade payables fell to EUR 32.7 million in the period under review, down from EUR 53.7 million in the previous year. Liabilities to affiliated companies amounted to EUR 58.6 million as of December 31, 2020 (Dec. 31, 2019: EUR 40.4 million). They increased mainly due to a short-term loan provided by a subsidiary as part of the cash pooling arrangement.

ElringKlinger AG's return on capital employed (ROCE*) was 3.3% for the 2020 financial year (2019: 3.6%). This financial indicator expresses how high the return on capital employed is; it is determined from the relation of EBIT to average capital employed. As regards ElringKlinger AG, this performance indicator is calculated on the basis of IFRS* figures due to its integration within the Group (cf. "Internal Control Criteria"). While the lower-than-budgeted EBIT result had an adverse effect on profitability, the above-target reduction in average capital employed (equity, financial liabilities, pension provisions) had a positive effect on the key indicator.

* Cf. glossary

Cash Flows of ElringKlinger AG

Operating cash flow at EUR 71 million

On the back of substantial cash flow* recorded last year (2019: EUR 138.5 million), at EUR 70.8 million, ElringKlinger AG again generated significant net cash from operating activities in 2020. The impairment losses on financial assets (EUR 39.0 million, net of write-ups) and on short-term loans to affiliated companies (EUR 16.6 million), as outlined earlier, had no effect on cash flow. While the company had recorded substantial cash inflow in the previous year from the reduction in funds tied up in net working capital* (inventories and trade receivables less trade payables), in 2020 the funds absorbed in inventories and receivables as a whole were kept at a level comparable to that seen at the end of 2019.

Investment focus on e-mobility

In 2020, ElringKlinger AG's investments in tangible fixed assets resulted in a cash outflow of EUR 33.0 million (2019: EUR 25.9 million). Capital expenditure was directed, among other things, at an assembly line for battery modules at the site in Thale as well as at production equipment for fuel cell technology in Dettingen/Erms. Other investments were targeted at automation in the company's core business and the improvement of building infrastructures. Payments for investments in financial assets amounting to EUR 6.5 million mainly related to the acquisition of interests in an equity investment. The sale of a building at the site of affiliated company ElringKlinger Logistic Service GmbH in Ergenzingen, Germany, had a contrary effect on cash. They represented the majority of cash inflows from disposals of tangible fixed assets and intangible assets, which amounted to EUR 17.5 million in the 2020 financial year (2019: EUR 6.9 million).

In total, net cash used in investing activities amounted to EUR 23.1 million (2019: EUR 20.4 million) at ElringKlinger AG.

Operating free cash flow at EUR 54 million

As net cash generated from operating activities was considerably higher than net cash used in investing activities, ElringKlinger AG recorded operating free cash flow[1] of EUR 54.3 million in the 2020 financial year (2019: EUR 118.2 million). The company used this, as well as the proceeds from loan repayments by affiliated companies (net inflow of EUR 65.1 million), to reduce liabilities to banks. Thus, EUR 127.1 million (2019: EUR 82.1 million) was used for the repayment (netted against borrowings) of non-current and current liabilities to banks and loans. As the 2019 financial year had produced a net loss, no dividend payment was made in 2020 for the previous year. In total, net cash used by ElringKlinger AG for financing activities amounted to EUR 62.0 million (2019: outflow of EUR 103.3 million).

As of December 31, 2020, the undrawn lines of credit available to ElringKlinger AG totaled EUR 192.9 million (December 31, 2019: EUR 100.4 million).

The statement of cash flows in respect of the annual financial statements was again prepared according to the provisions set out in GAS 2.

[1] Cash flow from operating activities less cash flow from investing activities (excluding funds for acquisitions/divestments and before investments in financial assets)

People

As of December 31, 2020, the ElringKlinger Group employed 9,724 people (Dec. 31, 2019: 10,393) at 45 locations worldwide. In the 2020 financial year, the effects of the coronavirus pandemic prompted the use of instruments such as short-time work, the expansion of mobile working, and the further digitalization of processes in an effort to protect the workforce.

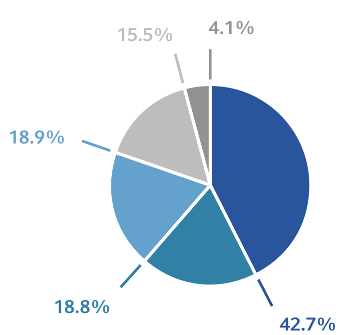
Lower headcount

Recruitment measures have generally been scaled back in the context of the efficiency enhancement program that ElringKlinger has been pursuing since 2019. This policy was reinforced by the sharp decline in capacity utilization as a result of the economic slump seen in the first half of 2020. In addition, fundamentally, fixed-term employment contracts were not extended in the financial year under review. At some Group locations, instruments such as short-time work, i. e., furlough schemes, were used from April 1, 2020, and mobile working was implemented as far as possible. In parallel, the Group promoted digital working, as a result of which, for example, professional training measures and meetings were conducted in a virtual format to an increasing extent.

Compared to the previous year, the headcount within the Group decreased by 669 to 9,724 as of December 31, 2020. The annual average number of employees within the ElringKlinger Group was 10,013 (2019: 10,457). The parent company ElringKlinger AG, which operates sites in Dettingen/Erms, Gelting, Runkel, Langenzenn, Idstein, Lenningen, and Thale, had a total of 3,213 (2019: 3,367) employees at the end of the reporting period.

In line with the overall economic trend, staff numbers in Europe and North America declined at a more pronounced rate than in Asia. Germany employed 4,149 people at the end of the year (Dec. 31, 2019: 4,324), representing 42.7% (Dec. 31, 2019: 41.6%) of the total workforce. The number of employees abroad was 5,575 (Dec. 31, 2019: 6,069), which represents a share of 57.3% (Dec. 31, 2019: 58.4%).

ElringKlinger Group employees
as of December 31, 2020 (previous year)



Germany	**4,149**	(4,324)
Rest of Europe	**1,824**	(2,028)
North America	**1,841**	(2,069)
Asia-Pacific	**1,512**	(1,545)
South America and Rest of the World	**398**	(427)

Report on Opportunities and Risks

ElringKlinger has a comprehensive risk management system in place for the purpose of identifying risks at an early stage, assessing them, and mitigating them by means of specific instruments and measures. In addition to external factors, such as technological aspects, internal factors, such as financial aspects, also influence the risk positions. The Group has a comprehensive set of instruments aimed at preventing the occurrence of such an event or, in the event of its occurrence, minimizing its impact on the company.

Risk management system

By monitoring markets, customers, and suppliers on a continual basis and maintaining detailed internal reporting and controlling processes, the company is able to gauge risk in a timely manner and seize market opportunities. The effectiveness and suitability of the risk management system itself is continually adapted and refined in accordance with new requirements as they arise.

The risk management system is made up of various tools and control systems. Among the key components are strategic Group planning and internal reporting. Planning enables potential risks to be identified and taken into account when making critical and significant decisions. All key areas within the Group are involved in strategic Group planning. Within this context, information is retrieved, collated, and evaluated in a standardized process. The Management Board bears overall responsibility. Internal reporting is used to monitor and control business performance. A key component of the risk management system is regular reporting by the management of the respective domestic and foreign Group companies as well as the business units, which is performed on a half-yearly basis. It covers risk-related developments in all fields relevant to the Group that can affect business activity and, in particular, the continuation of the ElringKlinger Group as a going concern. The focus is primarily on changes to the economic or political situation, new regulatory requirements, technological developments, commodities markets, and internal risks. This reporting system involves identifying and evaluating all risks and subsequently drafting recommendations on how to prepare for and mitigate them. The Chief Financial Officer is responsible for coordinating these activities. This approach is designed to ensure that risks are identified at an even earlier stage and measures aimed at avoiding or mitigating such risks can be implemented rapidly. The risk structure of the Group and the AG does not differ significantly overall.

In order to realize opportunities for the Group, the Management Board holds strategy meetings at regular intervals, at which it discusses market developments, customer requirements, and industry and technology trends. As an essential element of these meetings, the Management Board analyzes the Group's product portfolio and compares it with the framework requirements. As a result, conclusions for action are derived on this basis, which are implemented in the short, medium, and long term.

The Management Board assesses the aggregate risk and submits regular and comprehensive reports on its findings to the Supervisory Board and the Audit Committee. Another important aspect of the centralized risk and quality management system deployed at the ElringKlinger Group is that of tracking the implementation of defined measures. This occurs regularly as part of the committee meetings of the respective Group companies. The Group considers risk management to be an all-embracing activity that encompasses not only the identification and assessment of risk, as outlined above, but also a system of preventive measures and contingency planning that has proven to be very effective.

Alongside regular reporting, internal audits are an important control mechanism and thus an essential element of the risk management system. Audits are carried out in the business and corporate units of ElringKlinger AG as well as at the Group companies. They are conducted by the Audit department in cooperation with external accountancy firms commissioned by ElringKlinger AG. The rationale behind the use of internal and external specialists is to ensure that risks are identified, statutory requirements are met, internal processes are reviewed, and potential for improvement is recognized. The findings of such audits are compiled in reports, which are directed in particular at the Management Board and the Chairperson of the Audit Committee within the Supervisory Board. The reports are evaluated, whereupon necessary measures are initiated. The execution of measures is monitored by the Management Board member whose remit covers this area; this Management Board member is also responsible for reviewing assessments conducted with regard to risk positions identified by the company. All relevant findings are discussed with the areas concerned in order to bring about improvements or rectify any weaknesses.

Over the course of the 2020 financial year, the coronavirus pandemic also had an impact on internal audit activities. Travel restrictions imposed in response to the pandemic necessitated a realignment of the audit approach. Thus, the scheduled audits were carried out digitally or remotely. The time spent on the switchover was offset to a large extent by efficient processes. However, the overall number of audits was reduced compared to the original plan. In total, six process audits, two system audits, and six follow-up audits were conducted in the period under review. None of the audits conducted within this context gave rise to any significant objections. Both statutory regulations and internal requirements were consistently met. The recommendations submitted with regard to potential areas for optimization have been put in place or are currently being implemented.

In accordance with the existing compliance system, the Chief Compliance Officer reports directly to the Chief Executive Officer. Additional Compliance Officers have been appointed for individual regions in which ElringKlinger is active; they report to the Chief Compliance Officer. The ElringKlinger code of conduct forms an important part of the compliance system. It sets out binding rules for all employees of the ElringKlinger Group. Among other aspects, the code covers issues such as fair competition, corruption, discrimination and the protection of confidential data. The code is distributed to all employees in the language of the country in which they are based. Staff members, and particularly management personnel, receive training relating to these issues. Training courses are held on a regular basis in order to prevent compliance-related infringements.

ElringKlinger's Whistleblower System allows employees to report any irregularities they may come across. This gives them an anonymous line of communication in order to pass on information on misconduct, violations of statutory provisions, and policy infringements. The Chief Compliance Officer responded to all indications of compliance-related infringements in order to investigate the circumstances and initiate requisite measures. Where evidence suggested that an infringement may have occurred, the Management Board was informed accordingly. There are no significant breaches to report for 2020. The Management Board is committed to adapting and refining the existing compliance system to changing circumstances and the possibility of evolving risk exposure.

In order to reduce the liability risk from potential damage and any associated losses, the Group has taken out appropriate insurance policies. The suitability of these policies, which also cover the Group companies, is subjected to regular review with regard to the actual risks covered and the level of cover provided. Where necessary, the policies are then amended.

Control and risk management system with regard to accounting

With regard to accounting and external financial reporting within the Group, the internal control and risk management system may be described with reference to the basic characteristics outlined below. The system is geared toward the identification, analysis, valuation, risk control, and monitoring of these activities. The structuring of the system in line with the specific requirements of the company is the responsibility of the Management Board and Supervisory Board.

In accordance with the distribution of responsibilities within the company, the Finance department, which is in charge of accounting, comes under the remit of the Chief Financial Officer. This area, which also includes the Financial Reporting and Controlling departments, coordinates accounting within the Group and ElringKlinger AG and compiles the information required for the preparation of the consolidated financial statements and the annual financial statements of ElringKlinger AG. In this context, Financial Reporting sets the standards within the Group and describes the processes, while Controlling takes on planning, steering, and monitoring tasks. The Group companies are supported by the Regional Finance Managers responsible for the respective region. The Group companies report to the Chief Executive Officer.

The principal risks associated with the accounting process derive from the need to provide accurate and complete information within the specified time frame. This presupposes that the requirements have been clearly communicated and the departments responsible are placed in a position where they can meet those requirements. ElringKlinger has compiled an accounting manual on the basis of International Financial Reporting Standards. All Group companies are required to apply the standards outlined in this manual as a basis of the financial reporting process. All the principal valuation standards such as those covering inventories, tools, and receivables under IFRS* are specified in mandatory form within the manual. Mandatory accounting standards are also in use across the Group as a way of ensuring uniform treatment of the same issues.

All Group companies are obliged to comply with a pre-defined schedule for preparation of the Group financial statements. All Group companies are responsible for drawing up their separate financial statements in accordance with local accounting rules and the reporting packages pursuant to IFRS and the ElringKlinger accounting manual. Financial reporting by all the Group companies is conducted by means of a Group reporting system. Internal Group clearing accounts are reconciled with the help of confirmation of balances and the Group reporting system. It contains not only financial data but also information that is of importance to the notes to the consolidated financial statements and the combined management report of the ElringKlinger Group and ElringKlinger AG. The data and information are checked by the Finance department prior to release and consolidation.

SAP is used by all the German and the majority of the foreign subsidiaries within the ElringKlinger Group. As for the other companies, various IT systems are currently in use. In the medium-term, SAP is to be introduced at other key companies within the Group. All implemented systems feature hierarchical access systems; all clearances are documented in the system. For companies that use SAP, access rights are managed centrally according to established rules. Access decisions are the responsibility of the Chief Financial Officer. Local management makes decisions on access in those companies that use other systems.

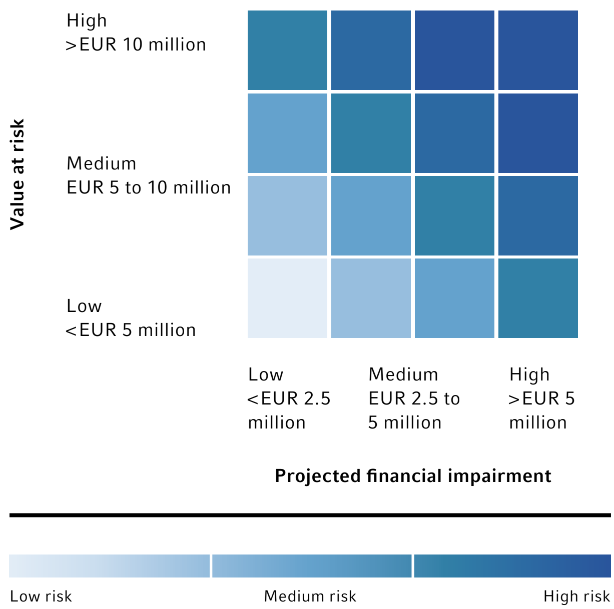
Among the risks that may affect the accounting process are, for instance, those associated with delays or errors in the entry of transactions or failure to observe the accounting manual and account allocation rules. In order to avoid mistakes, the accounting process is based on the separation of responsibilities and competencies, the automation of procedures, and plausibility checks for reporting purposes. Calculations are subject to continuous monitoring. Comprehensive and detailed checklists have to be worked through before the established reporting deadline.

The accounting process is also incorporated into the ElringKlinger Group's risk management system as a way of identifying accounting-related risks at an early stage, allowing the company to take prompt action to anticipate and address potential risks. As is the case with the other areas and functions of the Group, accounting is also subject to the investigations conducted as part of internal auditing; these are performed by external accountancy firms. Accounting processes and procedures at ElringKlinger AG and its Group companies are reviewed in the course of regular internal audits. The findings are then used to make further refinements and improvements.

Assessment of opportunities and risks

In order to assess risks, the ElringKlinger Group introduced a comprehensive new risk reporting system in the financial year under review, based on the application of statistical methods. For this purpose, the individual risks are identified according to the bottom-up principle, evaluated with regard to their probability of occurrence, and categorized centrally by the Group's Corporate Risk Manager. Using the Monte Carlo method, a very wide range of possible risk scenarios relating to the company are simulated and brought together in the form of a probability distribution of the overall risk situation. Each risk is calculated on the basis of the assessment conducted by the risk managers with its possible range of effects and its frequency in the period under consideration and combined to form the overall risk of the company. The wide range of calculated scenarios results in a profile of very probable and less probable outcomes that can be described with key indicators and provide the basis for quantitative risk assessment.

Risk matrix of the ElringKlinger Group



The following table presents an overview of material risks to which the ElringKlinger Group is currently exposed. Risks are recorded according to the net approach, i. e., the respective countermeasures are taken into account within the risk assessment. The respective risk categories comprise numerous individual risks and are elaborated further below. Based on the scenario analysis, the risks were assessed and classified into different classes. An anticipated financial impairment of up to EUR 2.5 million per category was classified as "low," a projected negative impact of more than EUR 2.5 million and up to EUR 5 million as "medium," and an expected financial loss of more than EUR 5 million as "high." At the same time, the value at risk was taken into account within the risk matrix. This statistical indicator determines the maximum loss that will not be exceeded in the specified period with a certain probability – in this case 95%. Thus, it does not describe the maximum potential loss, as a scenario beyond this probability is still considered possible. The same risk classes were formed with regard to value at risk. An expected maximum value of up to EUR 5 million per category at the stated confidence level of 95% was classified as "low," a projected value of more than EUR 5 million and up to EUR 10 million as "medium," and an anticipated value of more than EUR 10 million as "high." The assessment of opportunities and risks was performed as of the end of the reporting period, i. e., December 31, 2020. Reporting in respect of risks is always based on a period of one year.

Risks associated with the coronavirus pandemic

The coronavirus pandemic had a significant impact on economic activity worldwide in the 2020 financial year. In the majority of cases, countries responded by introducing strict measures aimed at protecting the population and lessening the impact on health care systems. In Europe and North America, in particular, the second quarter of 2020 highlighted the significant effect that a lockdown, including plant closures, can have on the economy. Many sectors were faced with a severe decline in revenues, with companies having to respond in the form of short-time work, structural adjustments, or other measures. In addition to the impact of plant closures, the automotive industry saw a sharp decline in demand. The latter recovered rapidly in China in the second quarter and dynamically in North America over the course of the third quarter, while the upturn in Europe proved sluggish in the same period.

Risk profile of the ElringKlinger Group

Risk categories	Value at risk	Projected financial impairment
Risks associated with the coronavirus pandemic	High	Medium
Inventory management risks	Medium	Medium
Financial risks	Medium	Medium
Customer risks	Medium	Low
Material and supplier risks	Low	Low
Labor cost risks	Low	Low
New customer risks	Low	Low
Operational risks	Low	Low
Technology risks	Low	Low
Personnel risks	Low	Low

Higher infection rates at the beginning of the fourth quarter, particularly in South Asia, Europe, and North and South America, pointed to a second wave of the pandemic. This, in turn, shows the overall vulnerability of the globalized world to such a pandemic. Again, governments implemented measures to protect the population. Scheduled to remain in place in 2021 to some extent, they may have an impact on the economic situation in general as well as on the automotive industry in particular. Although vaccines have been developed, full vaccination coverage of the population is not expected before mid-2021. Additionally, it cannot be ruled out entirely that mutations of the virus may be resistant to vaccines, which would potentially make vaccinations ineffective. As a result, the risk of plant closures, volatile markets, supply chain disruptions, customer or supplier insolvencies, or similar events that may have an impact on the Group's financial situation continues to exist for the 2021 financial year. This also includes an outbreak of infection at individual plants operated by the Group.

ElringKlinger introduced extensive preventive measures at an early stage in order to protect its employees at all its sites. These include the introduction of hygiene rules, the separation of work areas, extensive policies on mobile working, and restrictive rules on business travel and visits. In addition, staff members are provided with mouth-nose protection masks and have access to tests based on the polymerase chain reaction method (so-called PCR tests*). In the event of production downtime, ElringKlinger uses instruments such as short-time work in Germany or similar programs elsewhere, insofar as they exist at the Group's international sites. Suppliers and customers with corresponding risk profiles are closely monitored in order to be able to react quickly to outages. ElringKlinger is also committed to long-term partnerships with both its customers and suppliers, in addition to pursuing a multi-supplier strategy in order to mitigate individual risks to the greatest extent possible.

Inventory management risks

Due to the Group's long history, its numerous product groups with multi-level development cycles, its extensive development activities, and its global positioning with 45 locations, there is a risk of low turnover rates in inventories relating to raw materials as well as semi-finished and finished products. These interrelationships tend to play a more pronounced role in times of production interruptions or a high degree of uncertainty. A complex management approach is required to eliminate these risks.

At ElringKlinger, inventories held within the Group are regularly reviewed with regard to their turnover rate in order to assess material-related risks. Stocks with a low turnover rate are evaluated to determine whether they should be used, sold, or scrapped.

Financial risks

With 45 locations worldwide, revenues well in excess of EUR 1 billion, and a headcount of close to 10,000, the overall scale of ElringKlinger as a Group is such that various financial risks have to be taken into consideration.

ElringKlinger is automatically exposed to currency risks by virtue of its global operations. These include local currency surpluses at certain Group companies and intra-Group loans. Local currency surpluses are largely minimized through natural hedging*, i.e., in almost all sales regions the majority of costs and revenues are denominated in the same currency. Intra-Group financing risks are gradually eliminated by shifting the loans into the same currency zone.

ElringKlinger is also exposed to currency translation risks when local results are consolidated in the Group currency. Therefore, changes in the average exchange rates can have an accretive or a dilutive effect on the Group's revenue and earnings.

In times of higher uncertainty, in particular, exchange rate changes tend to occur more frequently or at a more pronounced level. They are also reflected in net finance costs*. These factors are mainly associated with the funding of Group entities by the parent company as well as with the measurement of accounts receivable and payable.

In order to limit currency risks, ElringKlinger employs hedging instruments depending on necessity and risk profile.

Beyond the risk associated with currencies, the Group is exposed to other financial risks that play a subordinate role in the scenario analysis with regard to the bottom-up approach. These include the risk of bad debts, which is mitigated in particular by long-standing customer relationships, a broadly diversified customer base, and advance payments as a condition of payment or with the help of trade credit insurance.

The Group may be exposed to liquidity and financing risks if it cannot meet its financial obligations (e.g., to repay loans) and generate enough cash to cover its ongoing capital requirements and therefore continue to operate, and/or if it is unable to refinance its activities.

The Group's financing requirements are largely determined by corporate growth and the development of new technologies. In recent years it has been possible to obtain credit on relatively favorable market terms. If, in future, rating agencies were to downgrade the automotive industry as a whole in response to a generally less favorable risk profile, credit terms for the sector and ultimately also for ElringKlinger would be adversely affected. In this respect, the Group is also exposed to interest rate risk. Against this background, despite relatively low market interest rates and the industry's continued ability to generate healthy levels of revenue, the company is constantly exposed to an implicit financing risk.

Thanks to its strong balance sheet, the ability of the ElringKlinger Group to refinance itself remains solid. At 41.4% (2019: 41.5%) the equity ratio still lies within the Group's medium-term target corridor of 40–50% of total assets. The debt factor (net debt* in relation to EBITDA*) in the period under review was 2.5, which is an improvement on the prior-year figure (2019: 3.3).

At the end of the reporting period, the loan agreements of the ElringKlinger Group mainly included standard bank contractual clauses relating to compliance with certain financial requirements (financial covenants*). As of December 31, 2020, no circumstances were present that would have justified the exercise of unilateral termination rights by banks. In the opinion of the Management Board, these are also not to be expected for the 2021 financial year. The company has identified no immediate risks that might jeopardize the financing of major projects planned by ElringKlinger or prevent the company from meeting its payment deadlines. From today's perspective, financing risks that might jeopardize the company's existence as a going concern can be ruled out.

The ElringKlinger Group funds itself through cash flow* generated from operating activities as well as through borrowings from banks. The bonded loan (Schuldscheindarlehen) granted in 2017 was used to optimize the term structure of the Group's interest expenses and therefore make them easier to plan. In total, a volume of EUR 200 million was issued in tranches covering maturities of five, seven, and ten years and with an average rate of interest of 1.23%. In addition, a syndicated loan* agreement was concluded with meanwhile seven domestic and international banks in February 2019, covering a sum of EUR 350 million over a minimum term of five years. The current level of interest rates within the market is low when viewed over an extended period of time. A marked increase in interest rates would feed into variable rate loans and would ultimately also have an impact on ElringKlinger's net finance result. To a large extent, however, fixed interest rates have been agreed in respect of the bilateral financing liabilities of the ElringKlinger Group (cf. Notes: "Non-current and current financial liabilities").

ElringKlinger only makes use of derivative financial instruments in isolated cases, e.g., for the purpose of protecting the company against price fluctuations relating to high-grade steel alloys (particularly nickel). Where hedging contracts are employed as a protective instrument against commodity price volatility, they are always based on the actual quantity of physical materials required by the company.

Customer risks

A sudden decline in demand faced by one or several key customers may pose the risk of a substantial reduction in demand for ElringKlinger components to be installed in the respective vehicles and/or engines. In the context of industry transformation, manufacturers may also revise their production strategies and aim for in-house production with regard to components or systems that they previously sourced externally. In addition to these fundamental developments, there are operational issues arising from existing contractual relationships with customers.

Should this apply to ElringKlinger's products, the Group must take account of the contract terms at an early stage and adjust capacity planning wherever necessary. Fundamentally, the Group is protected by the fact that a focus on technology forms an integral part of ElringKlinger's DNA. This generally makes substitution more difficult. In addition, ElringKlinger has steadily broadened its customer base in recent years in order to reduce its dependence on individual customers.

Beyond this specifically defined risk, as a manufacturing company and supplier to the automotive sector, ElringKlinger is exposed to the warranty and product liability risks generally associated with this industry. The supply of non-compliant components may necessitate an exchange or recall of such parts, with corresponding costs and claims for damages. Furthermore, this may damage the company's reputation over the long term.

* Cf. glossary

In this context, the development of entirely new products for fields of application beyond the automobile industry or in the area of alternative drive technologies is associated with further potential risks.

ElringKlinger uses appropriate quality assurance systems to prevent and mitigate the aforementioned risks. As an element of the Group-wide risk management system, significant quality and warranty risks are covered to a large extent by insurance policies, e.g., product liability insurance. The type and scope of insurance cover is regularly reviewed and adjusted if necessary. Additionally, where possible, agreements on limitation of liability are concluded between ElringKlinger and the contracting party in question.

There are isolated risks within the Group with regard to inadequate product quality. In order to minimize these risks, ElringKlinger has introduced a variety of improvement measures at project and process levels. Cases of deficient quality are tackled, for example, by tightening up procurement specifications for input materials and by continuously upgrading production equipment and increasing the level of automation. The Group also optimizes its logistics processes.

Material and supplier risks

Overall, the prices of raw materials used by ElringKlinger are at an elevated level compared to previous years. This is partly due to the global trade conflicts involving drastic, short-term tariff increases on cross-border raw material transports. In this context, there are still potential risks of punitive, countervailing, or compensatory duties (anti-dumping and countervailing duties*) on raw materials imported into the USA. In the course of 2020, expectations regarding a financial impact became more pronounced due to growing market uncertainty. The risks created by excessive rises in material prices would have a direct and – depending on the extent of any such increases – potentially considerable impact on the Group.

ElringKlinger's central procurement unit works continuously to identify and implement optimization measures in order to counter the risks associated with rises in the cost of input materials. These measures include improving and standardizing internal processes across the Group and conducting ongoing reviews of procedures for selecting and approving suppliers. In addition, ElringKlinger responds actively to persistently higher raw material prices by optimizing the design of its products and improving its manufacturing processes.

In its negotiations with its raw material suppliers ElringKlinger generally concludes contractual agreements that are as long term as possible. Any additional quantities required are procured at prevailing market prices. In order to respond to the high level of raw material prices in fiscal 2020 and to be prepared for possible price declines, contracts with shorter terms were also agreed. Alloys such as nickel are exclusively traded on the stock exchange and cannot be fixed in framework agreements. In order to cushion volatility associated with nickel prices, hedging transactions are concluded in a targeted manner.

As part of a range of measures to reduce its dependence on material price rises over the medium to long term, ElringKlinger negotiates cost escalation clauses in its customer contracts. If this is not possible, price rises that exceed cost estimates have to be passed on to customers where this is considered feasible. This involves a risk that additional costs cannot be passed on in full or only with some delay.

Although high material prices have an adverse impact on the Group's earnings, ElringKlinger benefits from the same high prices when it sells the metal residues produced during stamping processes. All metal residues are recycled and sold by the Group's in-house scrap management unit. Potential cost increases can be offset, at least in part, by the proceeds from scrap sold in this way.

As part of its risk assessment, ElringKlinger monitors not only trends relating to material prices but also the actual availability of materials. In order to mitigate risks associated with bottlenecks or non-deliveries to the largest extent possible, ElringKlinger relies on close collaboration with its suppliers over the long term. The Group makes a point of planning its material requirements well in advance and is committed to a multi-supplier strategy in order to mitigate the risk of production-related disruption or downtime due to disruptions within the supply chain. The intention is that this shall also take effect if one of the suppliers runs into delivery difficulties for financial reasons. To the largest extent possible, ElringKlinger develops alternatives for commodities and materials that are either in short supply or that are subject to severe fluctuations in price.

Alongside the materials needed for its traditional product portfolio (e.g., alloyed high-grade steel, C-steel, aluminum, polyamides*, and elastomers), the Group uses other types of commodities and materials for battery and fuel cell* components and systems in its New Business Areas. With regard to these inputs, it is difficult to estimate future volumes, price movements, and supplier structures based on the information currently available, partly because of the lack of certainty over future demand for vehicles with alternative drive systems. ElringKlinger counters this uncertainty and therefore minimizes its exposure to risk by minimizing its own inventories and by also requesting these input materials as required from the supplier's consignment warehouse, i.e., the supplier retains ownership of the goods until they are requested by ElringKlinger.

Labor cost risks

At 42.7% (2019: 41.6%), a significant proportion of the Group's overall workforce is employed at sites in Germany. Fundamentally, persistent wage increases at a domestic level or the reduction in working hours covered by collective bargaining agreements could have a visibly negative impact on earnings performance within the Group. Therefore, as illustrated by the progression of staff cost ratios at German sites, the competitive position of ElringKlinger AG would deteriorate further in relation to its international peers. The next round of collective bargaining is scheduled to take place in 2021; it will also be influenced by the effects of the coronavirus pandemic. In addition, there is a risk of strikes. If comparatively high wage settlements or corresponding equivalents such as lower working hours for the same pay were to be enforced, Germany as an industrial location, including ElringKlinger's domestic sites, would continue to feel the adverse effects. Similar risks associated with union-led bargaining also exist at foreign sites.

The level of labor costs in emerging countries such as China, South Korea, India, or Turkey, where on average around 14% (2019: around 15%) of ElringKlinger's workforce is employed, is well below the Group average. A positive aspect is that both revenue and staffing levels in these regions are expanding at a faster rate than in Germany. In these markets too, however, the dynamics of wage development are to be viewed critically with regard to the financial performance of the regional companies.

In the event of an unexpectedly strong downturn in customer demand, the staff cost ratio may increase dramatically. Capacity constraints caused by a possible outage of machinery may also result in higher staff costs (temporary labor, night-shifts, and weekend work). ElringKlinger has a number of instruments at its disposal with regard to strategic HR planning (such as working time accounts, shift systems, and temporary employment contracts) that allow the company to respond rapidly and flexibly to such scenarios.

The Group has offset the more pronounced wage costs seen in recent years by making substantial capital investments and implementing continuous measures aimed at raising efficiency levels in production in order to safeguard its international competitiveness and retain jobs in the domestic market.

New customer risks

The transition within the automotive industry from the combustion engine to alternative drives is also accompanied by more pronounced changes to the customer structure: alongside the established car makers, new, innovative manufacturers are increasingly appearing – focusing exclusively on vehicle models with alternative drives and/or pursuing entirely new mobility concepts. Many of these new industry players are start-ups. It is difficult to predict whether such challengers will succeed. This depends on their development capacity and their ability to negotiate adequate financing. Consequently, some of these new manufacturers may fail to break into the market if they cannot secure continued financing and/or fail to generate sufficient demand or acceptance among potential customers.

As a consequence, ElringKlinger may lose existing development projects or orders secured from such players. Additionally, the company may potentially be adversely affected in financial terms in the form of expense items. The Group has established business relationships with several customers in this category and therefore classes the corresponding projects as being exposed to the risks outlined above. In these cases, ElringKlinger counters the increased counterparty risk with a risk-minimizing customer strategy. Among other things, the aim is to agree payment terms that correspond largely to project progression and therefore cover any investment and development amounts outstanding, in addition to closely monitoring business performance.

* Cf. glossary

Operational risks

ElringKlinger is a production company that manufactures products characterized by a high level of technological sophistication. These include, for example, multilayer cylinder-head gaskets with precision-stamped stopper geometries, thick-walled sheet metal formed parts with rolled serrations, thermoplastic fiber composites for structural applications, and structural components in hybrid technology. The associated processes often require special machines that have to meet certain technical standards and cannot be supplied by every machine manufacturer. In some areas, these machines also lack redundancy in production and therefore constitute a risk for the Group. The failure of these machines could jeopardize contractually agreed output quantities and give rise to recourse claims from customers.

To counter such operational risks, risk matrices are generated and technical improvements are implemented.

Technology risks

The automotive industry is undergoing far-reaching transformation. While global car production is generally expected to increase over the next few years, growth is attributed primarily to new drive technologies, with strong growth rates anticipated with regard to hybrid and all-electric vehicles.

The business model of the ElringKlinger Group is based on a culture of excellence in innovation and the principle of technology leadership. The company's operations are tailored to the development of products that are technologically sophisticated and to the manufacture of such goods at a high level of productivity. On this basis, the Group aims to achieve long-term growth rates in excess of global automobile production output (cf. "Overview of ElringKlinger's Activities and Structure").

At around 5 to 6% of its total Group revenue, ElringKlinger invests a substantial sum in research and development in order to develop new technologies and innovations. Additionally, substantial investments have been channeled into the expansion of the Group's technology portfolio in recent years. ElringKlinger protects significant technologies and processes in the form of property rights and patents in order to combat the risk of damages caused by me-too products and imitations.

The company focuses its R&D activities firmly on key areas of interest currently driving the automotive industry, namely the optimization of vehicle weight by means of lightweight structural components and the development of alternative drive technologies. ElringKlinger positioned itself within the market for alternative drive systems at an early stage and with considerable capital expenditure, be it in the field of battery technology or fuel cell solutions.

The technology risks of significance to the ElringKlinger Group consist of unforeseeable changes within the area of drive technologies as well as excessively stringent legislation with regard to emission standards that do not correspond to the transformation process scenarios anticipated to date. Even if, as planned, the E-Mobility business area generates a greater contribution to total Group revenue over the next few years, any abrupt shift in technology or further tightening of the regulations on CO_2 emissions would have a substantial impact on revenue from the Group's traditional business areas. In turn, this may possibly lead to severe pressure on prices. ElringKlinger counters these risks by consistently expanding its product portfolio, which in addition to traditional combustion engine components also includes components, modules, and systems for alternative drive technologies such as batteries or fuel cells.

In order not to lose its market position relating to components for established drive technologies, competitors would have to enter the respective markets. In this context, substantial investments would be needed to introduce the requisite production systems. The machinery used by ElringKlinger is usually designed according to company specifications, i.e., it is not available as a standardized solution within the marketplace. To be financially viable, it is essential that plants produce large volumes as part of manufacturing operations. Experience has shown that initial orders placed with new suppliers tend to be relatively small in scale. However, these volumes are not sufficiently high to cover costs.

Personnel risks

The deployment of qualified and motivated employees is essential when it comes to successfully shaping the process of transition within the automotive industry. In those business units currently driving transformation within the Group it is considered particularly important to retain knowledge at a Group level, while at the same time attracting new, creative minds to the Group in order to further develop existing expertise. This is especially true for key personnel working on next-generation technologies. However, this is comparatively difficult at some locations and in certain specialist areas, e.g., due to the low availability of high-caliber staff or pronounced wage competition.

In order to keep the staff turnover rate as low as possible and to be successful in its efforts to compete for talent and qualified applicants, ElringKlinger attaches great importance to a socially balanced and motivating working environment. In this context, the Group can differentiate itself from the competition by offering attractive conditions. In addition, targeted HR marketing measures have long been part of ElringKlinger's concept for attracting young talent to the Group. The company attends career fairs, where it showcases itself as an attractive employer to graduates – insofar as such events can take place in the context of the pandemic. It also meets the needs of university and college students by offering internships and dissertation opportunities in order to retain their services in the long term. Additionally, the Group has taken on young people as technical and commercial apprentices to secure talent for the future. In order to retain staff in the long term, ElringKlinger offers internal and external training courses and programs for personal advancement.

Beyond the material risks outlined above, further overarching risks have to be taken into account which, as part of the bottom-up scenario analysis, do not derive an individual risk relating to the operating units that is subsequently simulated but which are instead primarily relevant at Group level. They are determined via the risk categories covered by the corporate functions. A probability of occurrence of 10% is considered "low," one of 40% is classified as "medium," and one of 80% is deemed "high." The potential financial impact is categorized on the basis of criteria, ranging from "insignificant" to "significant." In this context, in the event of occurrence "insignificant" refers to a potential impact on Group earnings before interest and taxes of less than 5%, "moderate" between 5 and 10%, and "significant" in excess of 10%. The overall potential with regard to higher-level risks in relation to the respective category is derived from the interaction of probability of occurrence and potential financial impact. The assessment of higher-level risks was performed as of the end of the reporting period, i.e., December 31, 2020. Reporting in respect of risk is based on a period of one year.

General internal risks, work-related accidents, fire

Among the general internal risks that are not connected directly to the business model of the ElringKlinger Group are, in particular, work-related accidents and the risk of fires at production facilities.

By applying preventative measures such as the implementation of safety standards applicable throughout the Group and the provision of safety briefings for personnel, ElringKlinger endeavors to mitigate the risk of work-related accidents to the largest extent possible. Where accidents do occur, the reasons and circumstances are investigated in depth and existing safety standards are adjusted accordingly in order to ensure a consistently high level of protection.

The risk of a fire occurring at an operating site of the ElringKlinger Group is considered to be comparatively low. Fundamentally, however, it cannot be ruled out entirely.

Risk profile of higher-level risks relating to the ElringKlinger Group

Risk categories	Probability of occurrence	Potential financial impact
General internal risks, work-related accidents, fire	Low	Moderate
Legal risks/Compliance risks	Low	Moderate
IT risks	Medium	Significant
External growth/acquisitions/joint ventures/divestments	Low	Moderate
Economic and industry risks	High	Significant
Political risks	Medium	Moderate

Alongside the risk of personal injury, a fire – with the associated downtime of operations over an extended period – poses the risk of substantial damage to property and significant costs for the repurchase of production machinery and equipment. Production downtime and disruption to the supply of customers, however, can be ruled out to a large extent, as the Group is able to draw on its international manufacturing network for the purpose of offsetting a capacity shortfall through production at an alternative site or transferring such activities on a temporary basis.

The Group addresses the possible financial impact of fire damage well in advance through appropriate fire protection insurance policies. Insurance appraisers compile fire protection reports at all of the Group's operating plants. The suggestions included in the reports with regard to fire protection improvements are analyzed and implemented.

Legal risks/Compliance risks

Beyond the risks already discussed in the section dealing with warranty risks, the ElringKlinger Group is exposed to further legal risks attributable to its business model and the size of the Group. As an element of the risk management system, significant risks are largely covered by insurance policies, such as the warranty and product liability risks described above. Furthermore, ElringKlinger addresses its exposure to legal risks by recognizing provisions in its separate and consolidated financial statements. Such a provision was additionally recognized for individual items in 2020. Compared with the previous year, there were no other significant risks in the period under review. Likewise, ElringKlinger is at present not exposed to any significant litigation risks.

The structure of the compliance system was outlined earlier in the description of the risk management system. Risks can occur at both the parent company and the subsidiaries as a result of unlawful actions. In view of the compliance system instruments put in place and the ElringKlinger culture applied and embraced by the company, the probability of occurrence in respect of significant infringements can be classified as low but cannot be ruled out entirely. The financial effects on Group earnings are difficult to specify; depending on the respective case, they may reach a scale that could be considered significant.

IT risks

In the digital age, companies' IT infrastructure is constantly exposed to potential risks such as cyber crime and hacking attacks. The confidentiality, integrity, and availability of data are considered to be a precious commodity. Protection within this area requires an increasing number of preventative and corrective measures. Any disruption to IT systems and application software can lead to tangible delays to individual processes – from the handling of purchase orders and ongoing production control through to activities in the supply chain. Such a scenario would have a negative impact on operations, which may also affect revenue and earnings. Successful attacks by Trojans, which cannot be ruled out in principle and always represent a potential threat, would have similar effects.

The Group aims to minimize these risks by maintaining an IT infrastructure divided into a strategic and an operational unit. Data that are of importance to operational processes are always stored twice or redundant systems are deployed. Additional back-up systems and bridging solutions are also in place to deal with potential risks for specific projects and processes. In addition, employees are constantly sensitized and trained for malware or Trojan attacks through simulation measures.

Staff access to confidential data is controlled by means of scalable access authorizations. State-of-the-art security software applications are used for the purpose of protecting the company against unauthorized access via external sources.

The company's headquarters in Dettingen/Erms, Germany, has two data centers operating independently of each other. For security reasons, these data centers are accommodated in different buildings, i. e., at two separate locations. In taking this approach, the company protects itself against system failure and data loss. Furthermore, all data pertaining to the international sites are backed up at a central location.

The Group is TISAX-certified at numerous sites in Germany. This is a standard within the automotive industry that harmonizes the level of information security throughout the value and supply chain.

External growth/acquisitions/joint ventures/divestments

ElringKlinger is generally receptive to complementary acquisitions and targeted takeovers in order to enter new technology fields or to better cultivate regional markets. Acquisitions or joint ventures are fundamentally associated with the risk that the acquired entities may fall short of specified targets or fail to meet them in the planned time frame. This may necessitate unforeseen restructuring measures that – at least temporarily – would exert downward pressure on the Group's profit margin. In addition, the level of new investment required in this area may be higher than originally planned. This, in turn, would lead to more substantial funding requirements. Technology purchases also pose the fundamental risk that the performance originally expected by the company may not be achievable in full or to the extent desired. Thus, there is a risk that the products may ultimately fail to meet customer expectations.

Prior to an acquisition or joint venture, ElringKlinger invariably conducts extensive due diligence investigations. As a matter of principle, all projects are also reviewed by a company and/or external team of experts. Financial plans and technical details are checked and evaluated thoroughly for plausibility. As part of mandatory annual impairment tests, it may be necessary to recognize impairment losses in connection with goodwill or investees, which would in turn adversely affect annual Group earnings.

Similarly, risk exposure also occurs in the context of divestments already made or potentially yet to be made with regard to subsidiaries and/or areas of business. In this context, fundamentally, there is a risk, for example, of subsequent contractual commitments or operational obligations; this risk is mitigated by extensive legal reviews of the contractual framework in advance of such a transaction.

Economic and industry risks

The global vehicle markets tend to perform in line with prevailing economic trends. A substantial downturn in the economy represents a risk to demand and, ultimately, to vehicle production. This, in turn, could possibly result in lower demand for the product portfolio of the ElringKlinger Group.

Based on the Group's most recent year-end assessment, there is a risk of a general slowdown in global market growth. Having already caused a significant decline in demand worldwide in 2020, the coronavirus pandemic will remain a major influencing factor in 2021. In addition, there are potential global trade conflicts, especially between the United States and China as key economic powers.

Due to its customer structure, ElringKlinger is not dependent on specific markets or individual manufacturers. Given its global presence with production and sales locations in 21 countries, the Group is relatively well placed to handle potential stagnation or waning demand in specific vehicle markets. Therefore, the effects of an economic slump in a particular region can be offset at least in part. Due to its cost structures, ElringKlinger would be able to respond immediately to market conditions in the event of more severe economic turbulence. Instruments available to the company include flexitime accounts and flexible shift models as well as the option of issuing an application for short-time work. Furthermore, the company can react to changing market conditions by adjusting its staffing levels to demand patterns and by pooling the production quantities of individual plants. The central purchasing department works in close cooperation with suppliers for the purpose of continuously assessing and adjusting procurement volumes. ElringKlinger factors in economic risks to an appropriate extent at the forward planning stage. The company always takes a cautious view of each macroeconomic scenario when drawing up budgets.

The far-reaching transformation of the automotive sector gives rise to industry-specific risks, which, given ElringKlinger's product portfolio, mainly relate to the speed of change from internal combustion engines to alternative drive systems such as batteries or fuel cells. If the speed of transition decelerates, the Group will be able to act in line with its established market position for combustion engine components. In response to a more dynamic pace of change, the company has a wide range of products for alternative drive systems in its portfolio, such as cell contact systems*, pressure equalization elements, bipolar plates*, disk carriers, or metal-elastomer seals for batteries. The ElringKlinger Group aligned its product range to the requirements of all types of drive system at a very early stage.

Diesel technology continues to be a major topic of public debate. The resulting uncertainty among end consumers is having a noticeable effect on purchasing behavior: the diesel share of new vehicle registrations is significantly lower than in previous years. This does not have a major impact on ElringKlinger, as most of the company's product range is not dependent on a particular fuel type. However, it is

* Cf. glossary

impossible to rule out specific repercussions for the automotive industry as a whole, also as a result of the increasing number of driving bans in major German cities.

Political risks

Fundamentally, there is the potential that political decisions taken by national or international lawmakers will have a significant impact on the future business activities of the ElringKlinger Group. The same consequences can cause unstable political situations. Additionally, new laws and regulations can have a direct or indirect impact on technology trends and on the Group's sales regions.

Due to the increasingly noticeable effects of climate change, the issue of environmental protection has become more significant. As a result, various social initiatives have formed – evolving to some extent on the back of dissatisfaction with the current lack of desire among ruling political parties to pursue change. Overall, this has raised awareness of climate change and measures to protect the earth and has become part of the social discourse. Failure to deal with climate change in a targeted manner is considered to be a significant risk. Overall, political radicalization of the issue and/or far-reaching reactive measures at the expense of the automotive industry could have consequences for the entire industry.

At a geopolitical level, there are numerous trouble spots around the world. The situation remains volatile in large parts of the Middle East, despite recent peace treaties signed between Israel and other states in the region, such as the United Arab Emirates or Bahrain. Rivalries are being revived – partly on the basis of well-equipped armed forces – and tensions remain high on a daily basis. The North African countries, especially Libya, also remain politically unstable.

For ElringKlinger, all these regions present certain sales risks. As regards the Original Equipment segment, these regions are of no particular relevance to business activities. However, North Africa and the Middle East are core regions for the Group's Aftermarket segment, which is therefore exposed to a general risk in terms of revenue. As sales in these regions are billed in euros, customers' restricted access to foreign currency could result in delayed payments or, in the worst-case scenario, lead to default on such payments.

Given the outcome of the US presidential election in November 2020, it remains to be seen how the change in administration will affect US trade policy. Indeed, the newly formed government may not necessarily feel inclined to reverse recently imposed tariffs and duties. Moreover, while new US import tariffs on raw materials would not appear to be likely, they cannot be ruled out entirely.

The United Kingdom's exit from the European Union ("Brexit") has been completed and a withdrawal agreement concluded. However, due to the effects of the pandemic, its is impossible to rule out specific risks relating to the establishment of cross-border trade under the new agreement. This is evident in particular in the situation relating to the border between Northern Ireland and the Republic of Ireland. While the ElringKlinger Group is undoubtedly affected by the issue of Brexit given its existing customer relationships and UK-based operations, the overall extent of risk exposure associated with its UK subsidiary is considered manageable in relation to the Group as a whole – particularly against the backdrop of the agreement that has now been concluded.

Opportunities

The opportunities were graded in qualitative terms according to the probability of occurrence and the potential financial impact. The assessment of opportunities was performed in the same manner as when assessing higher-level risks.

Profile of opportunities relating to the ElringKlinger Group

Categories of opportunities	Probability of occurrence	Potential financial impact
Climate change/Emission laws	High	Significant
Technology trends	High	Significant
Extension of product and service portfolio	High	Significant
New sales markets	High	Significant
Industry consolidation/M&A	Medium	Moderate

Climate change/Emission laws

Debate surrounding climate change and environmental protection has intensified, even against the backdrop of the coronavirus pandemic, and is an issue of importance to society as a whole. Although the pandemic has been grabbing the headlines recently, in many areas of life, particularly in Europe, there is evidence of heightened awareness in politics, business, and the population – whether through stricter environmental regulations, a greater focus on environmental indicators or sustainability projects, or through broad-based protest movements for eco-friendly action.

This also affects the automobile industry. The reduction of emissions continues to be at the heart of the transformation process, which is also influenced by environmental factors such as sustainability relating to drive technology. The European Union is subject to strict emission regulations that are more far-reaching than those in many other regions of the world. In addition, the EU Commission is currently working on new regulations that will further tighten existing standards. Countries in North America and Asia have also introduced regulations – to varying degrees – aimed at limiting emissions. Many emerging countries also tend to look to standards implemented by industrialized countries when drawing up their own exhaust gas legislation. In addition, more and more countries in Europe have announced that they will ban classic combustion engines effective from a certain date in order to limit pollutants and greenhouse gas emissions, the aim being to protect the climate and promote sustainable drive technologies.

For the ElringKlinger Group this legislative framework offers business potential for the coming years. The trend toward fuel-efficient, low-emission engines is further heightening the requirements for sealing technology and shielding systems. This translates into greater demand for products that help manufacturers to meet the more stringent standards.

Hybrid vehicles, i. e., the combination of a combustion engine and an electric motor, are gaining market share. Many car makers are extending their product portfolio to include such hybrids, the aim being to achieve the strict CO_2 limits applied to their vehicle fleets. For ElringKlinger, hybrid concepts open up the opportunity to generate higher revenue per vehicle. Alongside the components installed in combustion engines, hybrids provide the company with the chance to market components for the battery unit of the powertrain, e.g., cell contact systems* and pressure equalization modules.

In addition, government initiatives such as the "National Hydrogen Strategy" in Germany or the European funding project "IPCEI Battery II" offer significant opportunities. For one thing, this illustrates that state institutions are now focusing on these technologies – and that such solutions are receiving political support. For example, the National Hydrogen Strategy is aimed, among other things, at establishing hydrogen technologies as core elements of the energy transition and at strengthening German companies and their competitiveness. At the same time, these initiatives provide government funding for the next-generation technologies embraced by ElringKlinger, which also unlocks the potential of targeted support for the Group. For example, ElringKlinger was awarded a contract relating to the "IPCEI Battery II" project.

In addition to benefiting from public-sector initiatives, new drive technologies also have access to government subsidies. Vehicles fitted with an electric drive, for example, receive a concession relating to the taxation of company cars. Incentives such as these are designed to contribute to a broad shift in consumer thinking and more extensive sales of passenger cars powered by alternative drive units.

The shift towards battery technology within the automotive industry continues to accelerate. Gradually, models are being introduced to the market that are either partially or fully electrically powered. Further progress in the development of battery technology, e.g., to improve vehicle range and bring down the price, would help to stimulate demand and persuade buyers to invest in electric vehicles. ElringKlinger would benefit directly from growing sales in the e-mobility market as its product portfolio includes a range of components for battery-powered vehicles. In fact, the company's E-Mobility unit has been supplying various car makers and automotive suppliers with series products for battery-driven and hybrid models for some years.

Fuel cell technology also plays an important role when it comes to alternative powertrains. In the truck and bus sector, in particular, fuel cells are set to become more prominent in the medium term. In contrast to battery technology, the fuel cell offers the advantage of extended range. What is more, the hydrogen required for these drive systems can be distributed via the existing network of service stations. ElringKlinger was quick off the mark in its efforts to embrace fuel cell technology and now supplies various components as well as complete fuel cell stacks* or systems. To this end,

* Cf. glossary

the Group concluded two agreements in the 2020 financial year that will drive forward development and market penetration. First, ElringKlinger entered into a strategic partnership with Airbus for the purpose of refining and validating fuel cell technology for the aviation industry. Secondly, ElringKlinger has established a subsidiary, in which French automotive supplier Plastic Omnium has acquired an interest. The joint aim is to tap into the global market for fuel cell stacks and components. Against this backdrop, the ElringKlinger Group sees considerable potential for the coming years. After an initial ramp-up phase over the next few years, the company expects to achieve more in-depth market penetration from 2025 onwards.

The revenue and earnings potential associated with the issue of climate change and greenhouse gas prevention can be categorized as significant for the ElringKlinger Group. The potential for ElringKlinger to exploit these market opportunities in the medium term, at the latest, by drawing on its existing product portfolio and R&D expertise is considered highly probable.

Technology trends

As a result of increasingly strict international emissions standards, the probability of the technology trends outlined above actually coming to fruition is classed by the ElringKlinger Group as high. The industry will have to focus on efficient engines, lightweight engineering, and the use of alternative drive technologies if it is to have any chance of achieving the ambitious CO_2 targets set by policymakers.

Insofar as ElringKlinger continues to succeed in developing new solutions to tackle these issues and rolling them out onto the market by utilizing its existing expertise relating to materials processing, tooling, and development and production processes, the prospects for revenue and earnings growth of the Group can be categorized as significant.

If the shift occurs more rapidly than currently forecast, the Group can market its existing portfolio of products covering different areas of alternative drive technology and harness the transition to boost its revenue. The battery components and systems, fuel cell stacks and systems, and complete electric drive units developed by ElringKlinger are ready for full market rollout.

Extension of product and service portfolio

The majority of the business units within the Group are well placed to apply their decades-long expertise and existing know-how in materials and processes for the purpose of transforming the product range or expanding the portfolio in a targeted manner.

The possibilities open to the Group have already been discussed extensively in the chapter on Research and Development. By way of example, these include the Group's expertise in the design of new lightweight materials and in alternative drive technologies for battery and fuel cell systems. Beyond the automotive industry, new opportunities are presenting themselves continuously for the area of Engineered Plastics and PTFE* components, e.g., in the industrial sector as a whole or in the area of medical technology.

All the Group's business units are working proactively on the expansion of their product and service portfolios with a view to meeting the organic revenue growth target that exceeds global expansion in automobile production.

New sales markets

Opportunities for significant revenue and earnings growth in the coming years are offered by additional incoming orders, including high-volume orders, especially for the two promising pillars of electromobility, i.e., fuel cell and battery technology, and structural lightweight construction. First and foremost in this context is the Asian vehicle market, where numerous initiatives for the development of battery and fuel-cell-powered vehicles have emerged. Also due to existing projects in this region, the Group sees the potential for considerable growth in sales volumes in the coming years.

There are opportunities for further expansion within the Aftermarket business, particularly by tapping new sales regions in North America and in Asia. Trading under the "Elring – Das Original" brand, for instance, the Aftermarket segment within the ElringKlinger Group has been ratcheting up its activities in Asia. The Group has also systematically improved the processes and structures in its Aftermarket business in North America.

For the Engineered Plastics segment, with its product portfolio based around the high-performance plastic PTFE, future growth potential is also opening up in the Asian and US markets.

Industry consolidation/M&A

In the medium term, globalization poses significant challenges for many small and medium-sized enterprises that currently have either an insufficient international presence or none whatsoever. They have to invest more in research and development due to the far-reaching transformation process and are increasingly confronted with financing risks due to the numerous changes seen within the markets, e.g., in relation to customer structures or their own share of value added. It can therefore be assumed that consolidation in the supply industry will continue in the coming years. Against this backdrop, the risk of insolvencies cannot be ruled out.

For the ElringKlinger Group, this continues to offer opportunities to extend its technology portfolio through targeted acquisitions or to establish a stronger competitive position through consolidation of individual product groups. In some cases, competitors also exit the market without the influence of consolidation processes. ElringKlinger will continue to monitor the market systematically in order to identify potential opportunities for acquisitions as early as possible and pursue them where this is deemed appropriate and financially viable. ElringKlinger may pursue growth opportunities through acquisitions in the coming years. The Group is focused on future-oriented areas of business, whereas further acquisitions relating to the classic fields of business centered around combustion engine technology are unlikely. The associated financial impact is difficult to quantify in advance. It may range from insignificant to very significant when measured on the basis of revenue and earnings contributions to the Group.

Overall assessment of risks and opportunities

Based on the optimized risk management system, the conclusion drawn by the Management Board from scrutinizing the opportunities and risks in their entirety is that the situation of the ElringKlinger Group in respect of risk exposure remains similar to that of the previous year, despite some changes in general conditions that have a direct impact on the automotive industry. Some of the risks to which the Group is exposed are of a geopolitical or external nature, and ElringKlinger therefore has either no or a very limited capacity to control these risks in an active manner. When weighing the relevance of risk in respect of the possible financial impact on Group earnings, the principal risks to which the ElringKlinger Group is exposed are, in particular, a sudden global slump in the market or changes that would also have an impact on the financial markets and exchange rates, an unforeseen transformation scenario relating to drive technology, and external attacks on the IT infrastructure. In addition, the wider pandemic situation is considered to be of relevance. A third wave of infection cannot be ruled out at present, neither for Germany nor for other countries. Indeed, reference has already been made to a third wave in some countries. The effects of such a wave cannot be precisely estimated at present, but economic losses due to government lockdown measures are considered to be likely, even if the extent of such an impact cannot be gauged at present. Assuming an end to the measures in spring as well as effective vaccinations for the population, it would appear likely that global car markets will continue to recover in the second half of the year at the latest.

Even though the pandemic has maintained its grip on the world, the macroeconomic environment as a whole remains relatively robust. The three principal car markets of Europe, North America, and China have seen some forward momentum following the interruptions to production in the first and second quarter of 2020. However, a return to pre-pandemic levels would appear unlikely in the short term. The political situation continues to be subject to risk in large parts of the Middle East. While the change of government in the United States is not necessarily expected to lead to a tightening of customs regulations for the time being, there is also no relief in sight with regard to the global trade conflict between the US and China. Arrangements have been made in respect of future trade relations between Britain and the European Union, but it will take time to fully coordinate the associated processes. Overall, each of these political risks may have a direct impact on the ElringKlinger Group.

* Cf. glossary

In addition, certain strategic and operational risks within the Group remain unchanged: these include the financial opportunities and risks relating to exchange rate fluctuations. The price of commodities of relevance to the Group is also at an elevated level. The process of transition seen within the automotive industry has meant changes to ElringKlinger's product portfolio. Products within the area of structural lightweighting and electromobility, which are considered promising fields for the future in strategic terms, are gaining in importance, while conventional products associated primarily with the combustion engine will become less relevant in the years ahead.

Drawing on the risk management system outlined above and its flexible cost structure, if necessary the ElringKlinger Group is in a position to respond promptly to any risks that may arise by implementing the corresponding risk management arrangements. The entity makes a point of not exposing itself to risks that may jeopardize the existence of the ElringKlinger Group. The Group's solid financial position and its continued ability to raise additional funds provides a protective shield in respect of ElringKlinger and its business model even in the event of a protracted market crisis, of which, however, – with the exception of the uncertainties as yet associated with the pandemic – there are no indications at present.

The principal opportunities for the Group relate to the technological trend toward fuel-efficient or emission-free drive systems, which is inextricably linked to the issue of climate change and a global drive toward stricter emission laws. The company invested at an early stage in areas such as battery and fuel cell technology that offer considerable potential going forward. Benefiting from products targeted at alternative drive systems and power supply as well as a number of new concepts in the field of lightweight construction, the Group can look forward to opportunities for growth around the globe. On this basis, ElringKlinger has charted an important route for the future of its fuel cell business in concluding strategic partnerships with Airbus and Plastic Omnium. In a joint effort, ElringKlinger and its partners will evolve this technology for use at Airbus and tap the market potential of fuel cell stacks and components worldwide.

There are currently no identifiable risks that might jeopardize the future existence of the company as a going concern, either in isolation or in conjunction with other factors. The Group is well positioned to actively seize any opportunities arising from long-term technology trends. Against the backdrop of a manageable risk profile, the ElringKlinger Group remains well positioned to continue outpacing global market growth in the coming years.

Compensation report

Compensation structure for members of the Management Board

Contracts for members of the Management Board are drawn up by the Personnel Committee of the Supervisory Board, negotiated with the respective members of the Management Board, and concluded following approval by the entire Supervisory Board. The Personnel Committee reviews the level of compensation at predefined intervals and advises the Supervisory Board on appropriate adjustments where required. These recommendations are decided upon by the full Supervisory Board. The recommendations take into account the size and international operations of the company, its economic and financial situation, its prospects for the future, the level and structure of management board compensation offered by similar companies, and the compensation structure in place in other areas of the company. In addition, the duties and performance of each member of the Management Board are taken into consideration. Compensation is set at a level that ensures it is competitive within the market for highly qualified managers and provides an incentive for successful work in a corporate structure with a strong focus on performance and achievement. If requested by the company, the Management Board members also take on responsibilities in affiliated entities. The Management Board members receive no additional compensation for such activities.

Management Board compensation for the 2020 financial year is presented in accordance with the provisions set out in two different standards: first, the applicable financial reporting standards (GAS 17) and secondly, the German Corporate Governance* Code in the version of February 7, 2017. In order to ensure comparability with the previous year, the presentation has been retained, regardless of the fact that this information is no longer required under the provisions of the new Code of December 16, 2019.

System of compensation

The compensation system applicable as from January 1, 2014, includes fixed and variable components. It comprises:

1. Annual fixed salary
2. Long-term incentive I (LTI I)
3. Long-term incentive II (LTI II)
4. Fringe benefits
5. D&O insurance
6. Retirement pension

Fixed annual salary

The fixed annual salary is a cash payment in respect of the current financial year; it takes into account the area of responsibility of the Management Board member in question and is paid in twelve monthly installments.

Long-term incentive I (LTI I) (annual management bonus)

LTI I is a variable component of compensation that is based on the average Group EBIT* (Group earnings before interest and taxes) of the last three financial years. The Management Board receives a percentage share of the three-year mean. LTI I is limited to a maximum of three times the amount of fixed compensation in the financial year in question. Payment of LTI I for a financial year ended occurs on approval of the separate and consolidated financial statements by the Supervisory Board in the subsequent year. On termination of the appointment as a Board member either at the request of the Management Board member in question or for good cause, entitlements to the variable compensation components of LTI I shall lapse as soon as the termination of said Board appointment comes into legal effect.

Long-term incentive II (LTI II)

The so-called Economic Value Added (EVA) bonus is granted to the Management Board as a constituent element of variable Management Board compensation that focuses on positive corporate performance over the long term. LTI II creates a long-term incentive for the Management Board to make a committed contribution to the success of the company. LTI II is a bonus based on the economic value added to the ElringKlinger Group. The Management Board receives a percentage of the economic value added calculated in respect of the company. The claim for the EVA bonus is granted at the beginning of a three-year benefit period and corresponds to the percentage of average economic value added in respect of the three subsequent financial years. The annual economic value added is calculated according to the following formula:

$$EVA = (EBIT \times (1-T)) - (WACC \times \text{Capital Invested})$$

The first component is calculated on the basis of Group earnings before interest and taxes (Group EBIT) in respect of the financial year as well as the average Group tax rate (T).

The second component is computed by multiplying Group WACC by capital invested. The weighted average cost of capital (WACC) is calculated with the help of the basic interest rate, the market risk premium, and the beta factor. The beta factor represents the individual risk of a share in relation to the market index. It is determined as an average value of all the peer group companies. The credit spread for borrowing costs, as the premium on the risk-free basic interest rate, was derived from a peer group rating. Capital invested is calculated on the basis of Group equity plus net financial liabilities (i.e., Net debt*) as of January 1 of the financial year.

90% of the LTI II amount is paid out to the member of the Management Board in question, after the end of the three-year benefit period, in the subsequent year. Using the remaining 10% of the LTI II amount, the company purchases shares in ElringKlinger AG on behalf and for account of the Management Board member in question. The Management Board member is prohibited from accessing these shares for a further three years. Dividends and subscription rights are at the disposal of the Management Board member. The maximum amount granted from LTI II has been set at twice the amount of fixed compensation.

If a member of the Management Board enters the service of the company during the financial year and is not in employment for the company for a full twelve-month period, LTI II is reduced pro rata temporis.

On termination of a contract of service, the Management Board member in question may access the shares only after a period of twelve months subsequent to said termination. On termination of the appointment as a Board member either at the request of the Management Board member in question or for good cause, entitlements becoming applicable in the future in respect of the variable compensation components of LTI II shall lapse.

Fringe benefits

The taxable fringe benefits awarded to Management Board members mainly encompass the provision of a company car and mobile phone and communication devices as well as expense allowances and insurance benefits.

* Cf. glossary

D&O insurance

The members of the Management Board are covered by the Group's existing directors' and officers' liability insurance (D&O insurance). The agreed deductible corresponds to the minimum deductible set out in Section 93 (2) sentence 3 AktG (German Stock Corporation Act) in the applicable version.

Benefits for private pension provision

In 2020, the pension agreement was amended for three Management Board members and a benefit allowance was granted in respect of private pension provision. The benefit allowance is a fixed amount that is paid out annually. As a constituent part of non-performance-related remuneration, this is presented in the overview of Management Board compensation pursuant to the German Corporate Governance Code as amended on December 16, 2019.

Retirement pension

The contracts of the Management Board members of ElringKlinger AG include commitments in respect of an annual retirement pension. The new contracts for three Management Board members result in the following change: in addition to the benefit allowance for the private pension, the retirement pension has been contractually defined. It ranges from EUR 14k to EUR 190k annually.

In the case of the fourth member of the Management Board, no contract adjustment was made due to the limited term. His retirement pension continues to be calculated as a percentage of pensionable income. The percentage is dependent on the number of years of service as a Management Board member. The percentage rate is 3.2% of the last monthly fixed salary prior to leaving the company in respect of each full year of service. This percentage rate can rise to a maximum of 45%.

The entitlement to a retirement pension becomes applicable in respect of all contracts as soon as the contract of service has ended, but not before the individual has reached the age of 63. This entitlement also becomes applicable as soon as the Management Board member has reached the age that entitles him to receive full statutory pension benefits as well as in the event of occupational disability. Existing entitlements in respect of time spent as a salaried employee of the company are not factored in to this calculation and continue to apply.

If a member of the Management Board acts in a manner that is grossly negligent or displays gross negligence in his failure to act in specific instances and such actions or failures to act would result in significant damages to the Group, all entitlements to a retirement pension shall lapse; the same shall apply if the member of the Management Board enters the service of an entity that is in direct competition with the company.

The contracts include provisions governing surviving dependents' benefits. If a member of the Management Board dies during the period in which the employment contract is applicable or once the retirement benefits become due, his widow or dependent children shall receive a widow's or orphan's pension. The widow's pension amounts to 50% of the retirement pension of the deceased. The orphan's pension amounts to 20% of the widow's pension to the extent that a widow's pension is payable simultaneously and 40% of the widow's pension to the extent that no widow's pension is payable.

The widow's or orphan's pensions shall not exceed 60% of the amount to which the deceased would have been entitled if he had entered into retirement on the day of his death.

Review and adjustment of compensation

The salary components are to be reviewed by the company's Supervisory Board every two years. The Supervisory Board has the right to grant the Management Board special remuneration for exceptional accomplishments. The Supervisory Board is also authorized to reduce the Management Board's total compensation to an appropriate level if the company's situation deteriorates to such an extent that continued payment of the former remuneration would be unreasonable.

Severance pay cap

In the event of premature termination of the contract of service without good cause any payments potentially to be agreed with the Management Board member shall not exceed the amount equivalent to two years' annual compensation (severance pay cap) and the amount equivalent to compensation payable in respect of the remaining term of this contract of service.

In the event of a change of control any potential severance payment to be agreed by the parties shall not exceed 150% of the severance pay cap.

Loans to Management Board members

As in the previous year, no advances were granted to members of the Management Board in 2020. The company provided no guarantees or similar commitments.

Management Board compensation 2020

Management Board compensation for the 2020 financial year has been presented pursuant to the applicable financial reporting standards (GAS 17) as well as in accordance with the recommendations of the German Corporate Governance Code. Average EBIT of the years 2018–2020, totaling EUR 61,716 k, was used as a basis for calculating LTI I. Of this, the respective members of the Management Board receive the following percentage shares:

- Dr. Wolf 0.80%
- Becker 0.60%
- Drews 0.40%
- Jessulat 0.40%

Based on the calculation of the Economic Value Added (EVA) bonus (LTI II), no compensation is payable for the 2020 financial year, as the targeted return is below the Group WACC.

Management Board compensation 2020 pursuant to financial reporting standard GAS 17

Total Management Board compensation in accordance with Section 314 (1) no. 6a sentence 1 to 4 HGB* (German Commercial Code) is presented in the table below.

	Dr. Stefan Wolf		Theo Becker		Reiner Drews		Thomas Jessulat		Total	
in EUR k	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Short-term compensation										
Fixed compensation	995	593	440	485	600	299	665	365	2,700	1,742
Variable performance-related compensation	490	786	367	589	245	393	245	393	1,347	2,161
Total	**1,485**	**1,379**	**807**	**1,074**	**845**	**692**	**910**	**758**	**4,047**	**3,903**
Long-term compensation										
Long-term performance-related compensation	0	0	0	0	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total compensation	**1,485**	**1,379**	**807**	**1,074**	**845**	**692**	**910**	**758**	**4,047**	**3,903**

Pension obligations

The current service cost as well as the present value (DBO) of the pension provisions are as follows:

	Dr. Stefan Wolf		Theo Becker		Reiner Drews		Thomas Jessulat		Total	
in EUR k	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Current service cost	0	258	197	168	0	205	0	207	197	838
Present value (DBO)	6,243	6,897	5,487	4,951	381	462	817	1,026	12,928	13,336

Management Board compensation pursuant to German Corporate Governance Code

The following presentation of compensation granted to and received by the Management Board members for the 2020 financial year is based on the recommendations of the German Corporate Governance Code (GCGC) in the version dated December 16, 2019.

The following table presents benefits granted to the members of the Management Board in respect of the 2020 financial year, as disclosable under the provisions of the German Corporate Governance Code:

Benefits granted (Pursuant to GCGC)

	Dr. Stefan Wolf				Theo Becker			
in EUR k	2020	Min. 2020	Max. 2020	2019	2020	Min. 2020	Max. 2020	2019
Non-performance-based compensation								
Fixed annual salary	558	558	558	556	432	432	432	432
Fringe benefits	37	37	37	37	8	8	8	53
Benefits for private pension provision	400	400	400	0	0	0	0	0
Total	**995**	**995**	**995**	**593**	**440**	**440**	**440**	**485**
Performance-based compensation								
One-year variable compensation	490	0	1,674	786	367	0	1,296	589
Multi-year variable compensation 2017–2019	0	0	0	0	0	0	0	0
Multi-year variable compensation 2018–2020	0	0	0	0	0	0	0	0
Multi-year variable compensation 2019–2021	0	0	0	0	0	0	0	0
Multi-year variable compensation 2020–2022	0	0	1,116	0	0	0	864	0
Total	**490**	**0**	**2,790**	**786**	**367**	**0**	**2,160**	**589**
Service cost	0	0	0	258	197	197	197	168
Total compensation	**1,485**	**995**	**3,785**	**1,637**	**1,004**	**637**	**2,797**	**1,242**

In contrast to GAS 17, the table presents long-term compensation granted in 2020 for LTI II. In addition, the minimum and maximum amounts achievable have been listed. The benefit expense, which is presented in the form of the current service cost in the above table, has been included in total compensation.

The following table presents the allocation in/for the 2020 financial year. As regards fixed annual salary, fringe benefits, annual management bonus, and LTI II 2020, the table presents the allocation for the 2020 financial year.

Allocation pursuant to GCGC

	Dr. Stefan Wolf		Theo Becker	
in EUR k	2020	2019	2020	2019
Non-performance-based compensation				
Fixed annual salary	558	556	432	432
Fringe benefits	37	37	8	53
Benefits for private pension provision	400	0	0	0
Total	**995**	**593**	**440**	**485**
Performance-based compensation				
One-year variable compensation	490	786	367	589
Multi-year variable compensation 2017–2019	0	0	0	0
Multi-year variable compensation 2018–2020	0	0	0	0
Total	**490**	**786**	**367**	**589**
Service cost	0	258	197	168
Total compensation	**1,485**	**1,637**	**1,004**	**1,242**

	Reiner Drews				Thomas Jessulat				Total			
	2020	Min. 2020	Max. 2020	2019	2020	Min. 2020	Max. 2020	2019	2020	Min. 2020	Max. 2020	2019
	288	288	288	288	317	317	317	317	1,595	1,595	1,595	1,593
	12	12	12	11	48	48	48	48	105	105	105	149
	300	300	300	0	300	300	300	0	1,000	1,000	1,000	0
	600	**600**	**600**	**299**	**665**	**665**	**665**	**365**	**2,700**	**2,700**	**2,700**	**1,742**
	245	0	864	393	245	0	950	393	1,347	0	4,784	2,161
	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	576	0	0	0	634	0	0	0	3,190	0
	245	**0**	**1,440**	**393**	**245**	**0**	**1,584**	**393**	**1,347**	**0**	**7,974**	**2,161**
	0	0	0	205	0	0	0	207	197	197	197	838
	845	**600**	**2,040**	**897**	**910**	**665**	**2,249**	**965**	**4,244**	**2,897**	**10,871**	**4,741**

	Reiner Drews		Thomas Jessulat		Total	
	2020	2019	2020	2019	2020	2019
	288	288	317	317	1,595	1,593
	12	11	48	48	105	149
	300	0	300	0	1,000	0
	600	**299**	**665**	**365**	**2,700**	**1,742**
	245	393	245	393	1,347	2,161
	0	0	0	0	0	0
	0	0	0	0	0	0
	245	**393**	**245**	**393**	**1,347**	**2,161**
	0	205	0	207	197	838
	845	**897**	**910**	**965**	**4,244**	**4,741**

Compensation structure for members of the Supervisory Board

Supervisory Board compensation is governed by the provisions set out in Section 13 of the Articles of Association of ElringKlinger AG. The level of compensation is determined by the Annual General Meeting. The members of the Supervisory Board shall receive remuneration that is commensurate with their duties and the circumstances of the company. Within this context, the most recent resolution was passed on July 7, 2020. In accordance with the recommendations of the German Corporate Governance Code in the version of December 16, 2019, variable remuneration is no longer paid. In the past, the amount of variable compensation granted was equivalent to 0.02% of average Group earnings before taxes of the three preceding financial years, however only up to a maximum of EUR 40,000 per Supervisory Board member. The members of the Supervisory Board receive fixed compensation of EUR 50k (2019: EUR 20k) for each full financial year they have served on the Supervisory Board. Membership of a committee is remunerated at EUR 6k (2019: EUR 4k) and membership of the Audit Committee is remunerated at EUR 10k (2019: EUR 4k). Furthermore, the members of the Supervisory Board receive a lump-sum payment of EUR 1k (2019: EUR 1k) for each Supervisory Board meeting they attend. The chairperson of a committee shall receive double the aforementioned amounts. Compensation in respect of membership of the Mediation Committee shall only be payable in those cases in which the Committee has to be convened. No remuneration is paid to the Nomination Committee.

The role of the Supervisory Board Chairman and the role of his Deputy are taken into consideration when determining the level of compensation. The Chairman of the Supervisory Board receives three times (2019: two times) and the Deputy Chairman two times (2019: one-and-a-half times) the compensation paid to other Supervisory Board members. Expenses incurred by the Supervisory Board members are reimbursed to an appropriate extent. Supervisory Board members who have not held the post for a full financial year receive a pro rata amount of fixed compensation.

Supervisory Board compensation 2020

In the period under review total compensation for the Supervisory Board of ElringKlinger AG was EUR 889k (2019: EUR 589k). Additionally, travel expenses totaling EUR 2k (2019: EUR 2k) were reimbursed. Compensation payable to the individual members of the Supervisory Board was as follows:

	Fixed compensation		Variable compensation		Total compensation	
in EUR k	2020	2019	2020	2019	2020	2019
Klaus Eberhardt	183	70	0	30	183	100
Markus Siegers	114	46	0	23	114	69
Nadine Boguslawski	28	25	0	15	28	40
Armin Diez	65	29	0	15	65	44
Pasquale Formisano	28	24	0	15	28	39
Rita Forst	55	25	0	15	55	40
Andreas Wilhelm Kraut	55	23	0	15	55	38
Helmut P. Merch	37	0	0	0	37	0
Gerald Müller	55	25	0	15	55	40
Paula Monteiro-Munz	55	29	0	15	55	44
Barbara Resch	27	0	0	0	27	0
Prof. Hans-Ulrich Sachs	28	25	0	15	28	40
Gabriele Sons	61	33	0	15	61	48
Manfred Strauß	71	32	0	15	71	47
Olcay Zeybek	27	0	0	0	27	0
Total compensation	**889**	**386**	**0**	**203**	**889**	**589**

Disclosures pursuant to Section 289a(1) and Section 315a HGB,

particularly with regard to share capital and disclosure of potential takeover obstacles

As of December 31, 2020, the nominal capital of ElringKlinger AG was EUR 63,359,990, divided into 63,359,990 registered shares, each furnished with one vote. The notional interest in the company's nominal capital is EUR 1.00 per registered share. Profits are distributed in accordance with Section 60 of the German Stock Corporation Act (Aktiengesetz – AktG) in conjunction with Section 23 no. 1 of the Articles of Association.

The persons or entities with a direct and/or indirect interest in capital who, according to the details of the Stock Register, held voting rights in excess of 10% as of December 31, 2020, are presented in the table below. These relate solely to interests attributable to family ownership.

Lechler Beteiligungs-GmbH, Stuttgart, Germany	Total of 28.943% (of which 18.912% is attributable to it under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG*))
KWL Beteiligungs-GmbH, Neuhausen auf den Fildern, Germany	Total of 28.943% (of which 28.939% is attributable to it under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))
Klaus Lechler Beteiligungs-GmbH, Neuhausen auf den Fildern, Germany	Total of 28.943% (of which 18.941% is attributable to it under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))
Elrena GmbH, Basel, Switzerland	Total of 28.943% (of which 20.038% is attributable to it under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))
Eroca AG, Basel, Switzerland	Total of 28.943% (of which 28.943% is attributable to it under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))
Lechler GmbH, Metzingen, Germany	Total 10.013%

No shareholder is equipped with special rights constituting controlling powers.

ElringKlinger does not operate any employee profit-sharing schemes.

The number of Management Board members is determined by the Supervisory Board (Section 7 of the Articles of Association). The appointment and removal of Management Board members is performed in accordance with Sections 84 and 85 of the German Stock Corporation Act (Aktiengesetz – AktG). The Articles of Association contain no regulations that could be considered non-compliant with the provisions set out by law as regards the conditions applicable to the appointment or removal of Management Board members.

As stipulated by Section 179 of the Stock Corporation Act in conjunction with Section 20 of the Articles of Association, all amendments to the Articles of Association require a resolution of the Annual General Meeting with a majority of three-quarters.

The Management Board is authorized to buy back company shares up to a total amount of 10% of share capital existing at the date on which this resolution was passed (July 7, 2020). This authorization remains valid until July 7, 2025.

Details relating to authorized capital and the utilization of authorized capital are included in the Notes.

ElringKlinger has not entered into any agreements containing a change of control provision that would apply in the event of a takeover bid.

There are no compensation agreements with members of the Management Board or employees in the event of a takeover bid.

* Cf. glossary

Corporate Governance Statement

The Corporate Governance* Statement pursuant to Section 315d in conjunction with Section 289f of the German Commercial Code (Handelsgesetzbuch – HGB*) has been published on the ElringKlinger website at www.elringklinger.com/en/company/corporate-governance.

Combined Non-Financial Report

For fiscal 2020, ElringKlinger has prepared a separate non-financial report for the exchange-listed parent company ElringKlinger AG in accordance with Section 289b HGB*, which has been combined with the separate non-financial Group report pursuant to Section 315b HGB. The combined non-financial report of ElringKlinger for the 2020 financial year will be published by April 30, 2021, on the corporate website at www.elringklinger.com/2020-nfb-en.

Report on Expected Developments

The general view among economists at the start of 2021 is that the global economy will experience a recovery as the year progresses. The International Monetary Fund (IMF) sees global economic output to possibly increase by 5.5%, although it also warns of great uncertainty. According to automotive industry experts, vehicle production is set to rise by around 13% after the downturns of the last year. The ElringKlinger Group anticipates organic revenue growth at roughly the same level and an EBIT margin of between approx. 4 and 5%.

Outlook – Market and Sector

Given the risks associated with the ongoing coronavirus pandemic, the outlook for 2021 remains highly uncertain. Now that many countries have launched vaccination programs, however, economists expect the global economy to start recovering as long as there are no further setbacks. The IMF estimates that global GDP could increase by 5.5% compared with the previous year. Despite its upbeat forecast, it warned that national economies were drifting further apart and stressed that the upswing was heavily dependent on maintaining an expansionary fiscal policy and extremely loose monetary policy. Economists expect Chinese GDP to continue to develop along the lines of its pre-crisis level. In the US, meanwhile, it is hoped that a planned stimulus package will help to build momentum. After falling back into recession due to a second lockdown in winter 2020/2021, the eurozone is also likely to see an upturn from spring onwards.

GDP growth projections

Year-on-year change in %	2020	Projections 2021	Projections 2022
World	**-3.5**	**5.5**	**4.2**
Advanced economies	-4.9	4.3	3.1
Emerging and developing countries	-2.4	6.3	5.0
Germany	-5.4	3.5	3.1
Eurozone	-7.2	4.2	3.6
USA	-3.4	5.1	2.5
Brazil	-4.5	3.6	2.6
China	2.3	8.1	5.6
India	-8.0	11.5	6.8
Japan	-5.1	3.1	2.4

Source: International Monetary Fund (Jan. 2021)

Automotive industry shows signs of recovery

The upward trend in vehicle markets that was first seen in the second half of 2020 is expected to continue in 2021. IHS experts currently anticipate year-on-year growth of 13.4% in global vehicle production to 84.6 million units, although this is still below the pre-crisis level of 89.0 million vehicles. Growth rates are likely to vary between regions. In Europe, where many countries remain in lockdown at the start of the year, vehicle production is expected to rise at a slower pace than in North America. ElringKlinger's own view is that markets will grow by around 13%.

The German Association of the Automotive Industry (VDA) predicts a slow recovery. Its view is that sales will remain badly affected by the pandemic in the first half of 2021 but will slowly pick up over the next six months. The current shortage of semiconductors could also hold back the recovery. Germany's passenger car market is expected to grow by 8% to 3.15 million vehicles, still well below the usual 3.5 million new registrations of recent years before the pandemic. New registrations are forecast to increase in Europe by 12% to 13.4 million passenger cars and in the US by 9% to 15.8 million units. China could see an 8% rise in new passenger car registrations, taking the figure to 21.4 million.

Light vehicle production
Million units

				Year-on-year change[2]	
Region	2020	2021	2022	2021	2022
Europe[1]	16.6	19.0	20.1	14.3%	5.8%
China	23.6	25.0	26.0	5.9%	3.9%
Japan/Korea	11.2	12.1	12.2	7.6%	0.7%
Middle East & Africa	1.8	2.0	2.1	14.1%	3.5%
North America	13.0	16.2	16.8	24.4%	3.4%
South America	2.2	3.0	3.3	32.9%	10.3%
South Asia	6.2	7.4	8.4	19.9%	12.8%
World[2]	**74.6**	**84.6**	**88.7**	**13.4%**	**4.8%**

Source: IHS (Feb. 2021)
[1] Incl. Russia
[2] Percentage figures and summation calculated on actual values (no rounding)

Apart from dealing with the general macroeconomic situation, the automotive industry faces other challenges such as the current regulatory framework and fundamental shifts in patterns of mobility. At the end of 2020, as part of a broader package of CO_2 legislation, the European Union introduced a new cap of 95 g/km CO_2 on average fleet emissions for newly registered vehicles. Compared with the previous limit of 130 g/km, this is a major change. In combination with government incentive programs, it is accelerating the transition to e-mobility, especially in Europe. In response, manufacturers are expanding their range of models with hybrid or fully-electric drive systems.

Commercial vehicle markets head back up from a low base

The VDA expects the German heavy truck market to grow by 15% to around 78,000 vehicles. In Europe and North America, industry experts anticipate a strong recovery after substantial downturns in the previous year. On this basis, new registrations of heavy trucks in Europe (EU, EFTA*, and UK) and North America could increase by roughly 25% to 290,000 units.

Outlook – Company

Ongoing pandemic

Venturing into 2021, the world is still in the grip of the coronavirus pandemic that wreaked such havoc throughout the last year. Infection rates remain high, and many countries, especially in Europe, have decided to reintroduce precautionary measures or extend existing ones. Furthermore, scientists have identified mutations of the virus that can be transmitted more quickly and cause more acute symptoms. Experts believe the pandemic can be defeated with the help of vaccines that have proven highly effective in early studies. Although vaccination programs are being established worldwide, it will be some time before the protection they afford extends to whole populations.

Measures introduced to try and prevent the virus from spreading also restrict economic activity in those countries, in some cases severely, and could lead to a situation, after the economic devastation of the previous year, where the upswing forecast for 2021 is no longer as strong as originally anticipated. This economic fallout could also extend to the automotive markets.

Given this high degree of uncertainty and the many factors involved, it is very difficult to make predictions for the current fiscal year. External developments, e.g., new pandemic waves, delays in implementing vaccination strategies, and medical breakthroughs, could reshape current expectations in terms of the likely direction or scale of recovery.

Research and development activities as the basis for future innovation

As a technology-focused group, ElringKlinger's goal is to develop innovative solutions for its customers and in this way open up new areas of business. With this in mind, and against the backdrop of technological change in the automotive sector, the Group plans to channel around 5 to 6% of Group revenue (including capitalized amounts) into its research and development efforts.

Significant increase in orders over second half of 2020

After a massive decline in new orders during the first half of 2020 (down 40.4% compared with the first half of 2019), figures for the second half-year pointed to a recovery (up 14.2% compared with the second half of 2019). Despite this better news, it was simply not possible over the rest of the year to make up for the downturn in the second quarter (-54.1%). The total value of orders received by the Group in 2020 was EUR 1,483.1 million, 14.6% down on the previous year's total of EUR 1,737.2 million.

Without the headwind of exchange rate movements, the second-quarter decline (down 37.0%) and the improvement in the second half of the year (up 21.0%) would have been more favorable. If the figures are adjusted to exclude exchange-rate movements, the overall downturn for 2020 works out at just -9.7%.

Revenue trend roughly at market level

Due to the ongoing pandemic and many other factors, the current fiscal year is subject to a high degree of uncertainty. Both macroeconomic and industry-specific developments may have an impact. In light of these risks and opportunities, the Group currently expects organic growth in revenue over 2021 as a whole to be roughly in line with the increase in global vehicle production.

The automotive industry is undergoing a rapid transformation. Demand for new drive technologies is growing all the time. Based on the Group's plans, a number of larger-scale e-mobility orders will be ramping up in the near future. Reflecting the shift in its product portfolio over recent years, the Group's revenue structure will also change. Consequently, in the medium term, the Group expects organic growth in revenue to outpace global market growth.

The impact of exchange-rate movements is generally difficult to predict given ongoing volatility and a high degree of uncertainty. Acquisitions cannot be ruled out, even in the current financial year. All such options are under continuous review by management. The emphasis here is on companies that would either complement the Group's existing product portfolio or allow better access to certain markets. It is unlikely, however, that the scope of such transactions will exceed that of previous activities by a considerable extent. From today's perspective, it is also impossible to rule out divestments within subsegments that are not part of the Group's core business.

High commodity price levels

Global market prices for key raw materials used by ElringKlinger have risen in recent years, in some cases significantly. Driven by strong global demand, this trend has intensified since the beginning of 2021, especially for steel and, to a slightly lesser extent, for polyamides*, elastomers, and aluminum. Supply constraints on international freight markets are also driving up prices. Overall, depending on the raw material in question, ElringKlinger expects prices for its key materials to rise moderately or substantially to a sustained high level over the course of 2021.

With regard to personnel, reflecting the fall in demand caused by the pandemic, the Group has generally allowed non-permanent employment contracts to expire and scaled back its recruitment activities. If an economic recovery takes hold as anticipated, it can be assumed that the number of employees will rise again in line with capacity utilization.

Efficiency enhancement program to continue

An efficiency program was launched by the Management Board in 2019 in order to improve the Group's key financial indicators. The program will continue in 2021. It is specifically designed to strengthen the Group's operating free cash flow* and reduce its net financial liabilities by increasing profitability, optimizing net working capital*, and following a disciplined approach to capital investment.

Improvement in earnings

As part of this program, the Group will again focus on reining in staff costs in 2021, in addition to reducing material-related costs and roughly maintaining the level of non-personnel costs in relation to revenue. Overall, these measures are expected to result in an improvement in profitability – also taking into account the proceeds from the sale of the Austrian subsidiary to Plastic Omnium in 2021. Under the terms of the agreement, excluding transaction-related expenses, these proceeds should amount to EUR 15 million. In addition, the two partnerships with Airbus and Plastic Omnium are expected to prove beneficial to the development budget in the long term and generate orders for fuel cell* stacks.

If the economy and global car production recover as expected, the Group expects an EBIT margin* of around 4 to 5% for the 2021 financial year as a whole. As in the past, the Group anticipates that it will be in a position to gradually improve its EBIT margin in the medium term.

Further optimization of working capital

Net working capital comprises inventories as well as trade receivables and payables. As part of its program aimed at raising efficiency levels, the Group will continue to pursue the approach of extending payment terms in respect of liabilities, while reducing receivables and optimizing

* Cf. glossary

inventories. Overall, the Group anticipates a slight year-on-year reduction in net working capital at the end of 2021, which, as expected, will also be reflected in a lower net working capital ratio (net working capital as a percentage of Group revenue) in conjunction with projected revenue growth. In the medium term, the level of net working capital as a percentage of consolidated revenue is expected to be 25% at most.

Focused investment policy

Following the end of the investment cycle, the Group significantly reduced investments (in property, plant, and equipment and investment property) over the course of the past two years compared to previous years. The Group will continue to pursue this disciplined approach in the coming year, focusing primarily on investment measures directed at new drive technologies and lightweight construction. At the same time, it will actively manage investments in its longstanding business units. ElringKlinger always conducts thorough assessments concerning the necessity, timing of execution, and funding requirements of such measures. Overall, the Group anticipates an investment ratio (in property, plant, and equipment and investment property as a percentage of Group revenue) of around 6% for the current financial year. In the medium term, the range is expected to be between 5 and 7%.

Continuation of cash flow generation

Due to the structural improvement in the key financial indicators outlined above, the Group also expects to generate positive operating free cash flow at a sustainable level. Against the backdrop of the efficiency enhancement program, the Group's projections for the coming year point to operating free cash flow in the mid-double-digit million euro range. Operating free cash flow is also expected to be in positive territory in the medium term.

Further reduction in net financial liabilities

Benefiting from strong operating free cash flow, the Group was able to further reduce its net financial liabilities in the financial year just ended. The same route will be taken in 2021. Based on an expected improvement in earnings, the Group anticipates that it will also be able to improve its net debt* ratio (net financial liabilities in relation to EBITDA) in 2021 compared to the previous year. In the medium term, the target for this ratio is a figure of less than 2.

As regards its equity ratio, the Group remains committed in the short to medium term to a target range of 40 to 50% – a corridor within which it has been moving for several years.

Improvement in return on capital employed

The Group applies return on capital employed (ROCE*) for the purpose of measuring its profitability. Based on market information currently available and against the backdrop of the significant uncertainties at present, the Group expects a visible year-on-year improvement in its return on capital employed in the 2021 financial year. In the medium term, the Group anticipates a steady annual improvement in ROCE.

Original Equipment segment

With a share of around 80%, the Original Equipment segment makes a major contribution to Group revenue. Due to the nature of its product portfolio, this segment is heavily dependent on the direction taken by the automotive industry. The current financial year is characterized by significant uncertainties, while the pandemic continues to have an impact on economic activity as a whole. Overall, organic revenue is likely to develop in line with the trajectory of global car production. The EBIT margin is expected to be below that of the Group average.

Engineered Plastics segment

The Engineered Plastics segment covers activities relating to high-performance plastics. After the pandemic-related decline in demand, business is expected to pick up again in 2021. As a result, revenue is likely to grow. The EBIT margin is expected to remain well above the Group level.

Aftermarket segment

After a buoyant performance in 2020, the Group expects revenue in the Aftermarket segment to be approximately on a par with the prior-year figure. In this context, however, the high degree of uncertainty relating to currency movements, macroeconomic influences, and tensions over trade policy must also be taken into account. The EBIT margin will remain well above the Group average.

Parent company ElringKlinger AG

The parent company ElringKlinger AG contributes more than one third of consolidated revenues and thus plays a key role within the Group. After the pandemic-induced slump in demand last year, the Group expects business to recover in the current year 2021. In the coming years, ElringKlinger will generate additional sales revenue through newly established capacities relating to next-generation technologies. The new location in Neuffen will see the gradual ramp-up of orders for battery technology. Additionally, a battery assembly line is being installed in Thale. The larger-scale orders are not scheduled to commence in 2021 or will only start at a relatively slow pace. Taking into account the impact of the fuel cell partnership with Plastic Omnium, the parent company is therefore expected to see an overall improvement in revenue with a growth rate at least in the high single-digit percentage range.

The situation with regard to the company's order book is satisfactory. At EUR 412.7 million, order backlog as of December 31, 2020, was once again significantly higher than at the end of the previous year (EUR 391.3 million).

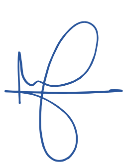
The efficiency enhancement program, which applies to the entire Group, is also being implemented at the parent company. While the company will benefit from streamlining measures relating to staff or non-personnel costs, these effects will be counteracted by factors such as persistently high commodity prices. Nevertheless, the EBIT margin for the parent company in 2021 is expected to be slightly above the previous year's level. ROCE is forecast to match the prior-year figure, especially as capital employed is expected to increase.

2021 outlook for the ElringKlinger Group

The following table presents the key Group figures for the 2021 outlook.

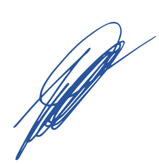
Significant financial control criteria		**Actual 2020**
Sales revenue	Organic approximately roughly at global market level	Organic: -11.7%
EBIT	Margin of around 4 to 5%	1.9%
ROCE	Visible year-on-year improvement	1.7%
Other control criteria and indicators		
R&D costs	Around 5 to 6% of Group revenue (incl. capitalization)	5.1%
Investments in property, plant, and equipment and investment property	Around 6% of Group revenue	3.9%
Net working capital	Slight year-on-year improvement (in % of Group revenue)	27.2%
Operating free cash flow	Positive in double-digit million euro range	EUR 164.7 million
Equity ratio	40 to 50% of total assets	41.4%
Net debt/EBITDA	Year-on-year improvement	2.5

Dettingen/Erms, March 25, 2021
The Management Board



Dr. Stefan Wolf
CEO

Theo Becker



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