Notes to the Consolidated Financial Statements

for the Financial Year 2020

General information

As parent company of the Group, ElringKlinger AG is filed in the commercial register of the local court of Stuttgart (Amtsgericht) under the number HRB 361242. The Company is domiciled in Dettingen/Erms (Germany). The address is ElringKlinger AG, Max-Eyth-Str. 2, 72581 Dettingen/Erms. The Articles of Association are dated August 12, 2020. The registered company name is ElringKlinger AG.

The financial year is the calendar year.

The object of ElringKlinger AG and its subsidiaries (the "ElringKlinger Group") is the development, manufacture and distribution of technical and chemical products, in particular of gaskets, sealing materials, plastic products and modules for the automotive sector and for the manufacturing industry in general. The Company also offers services relating to the technology used in its products. The corporate object also encompasses the administration and commercial exploitation of landed property.

Accounting principles

The consolidated financial statements of ElringKlinger AG as of December 31, 2020, have been prepared in accordance with the International Financial Reporting Standards (IFRSs) approved by the International Accounting Standards Board (IASB) as adopted by the European Union (EU), the interpretations of the International Financial Reporting Interpretations Committee (IFRS IC), the supplementary commercial law regulations pursuant to Section 315e (1) German Commercial Code (Handelsgesetzbuch, "HGB") and the provisions of German commercial and stock corporation law. ElringKlinger AG's Articles of Association contain regulations on profit appropriation. All IASs, IFRSs and IFRICs mandatory for the financial year 2020 have been observed.

On March 25, 2021, the Management Board of ElringKlinger AG submitted the consolidated financial statements for approval by the Supervisory Board, which also convene on March 25, 2021.

The consolidated financial statements have been prepared in euros. Unless otherwise stated, all amounts are in thousands of euro (EUR k).

The income statement was prepared in accordance with the cost of sales method. In order to enhance the clarity of presentation, various items in the consolidated statement of financial position and in the consolidated income statement have been combined.

The following regulations and amendments to existing regulations were applied for the financial year 2020 for the first time:

IFRS pronouncement (published on)	Title	To be applied for financial years beginning on or after
Amendments to various IFRS Standards (March 2018)	Changes in references to the Framework in IFRS standards	January 1, 2020
Amendments to IFRS 3 (October 2018)	Definition of a Business	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 (September 2019)	Interest Rate Benchmark Reform	January 1, 2020
Amendments to IAS 1 and IAS 8 (October 2018)	Definition of Material	January 1, 2020

The first-time application of the regulations listed in the table had no or no material effect on the presentation of financial performance, net assets and cash position of the ElringKlinger Group.

The following regulations or amendments of existing provisions are not yet mandatory and have not been applied by the ElringKlinger Group:

IFRS pronouncement (published on)	Title	To be applied for financial years beginning on or after
Incorporated in European law		
Amendments to IFRS 4 (June 2020)	Extension of the temporary exemption from the application of IFRS 9	January 1, 2021
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (August 2020)	Interest Rate Benchmark Reform – Phase 2	January 1, 2021
Amendments to IFRS 16 (May 2020)	Covid-19-Related Rent Concessions	June 1, 2020
Incorporation in European law still outstanding		**Endorsement expected**
IFRS 17 (May 2017) incl. amendments to IFRS 17 (June 2020)	Insurance Contracts and amendments to IFRS 17	January 1, 2023
Amendments to IFRS 3 (May 2020)	References to the Conceptual Framework	January 1, 2022
Amendment to IAS 1 (July 2020)	Classification of Liabilities as Current or Non-current	January 1, 2023
Amendment to IAS 16 (May 2020)	Proceeds before Intended Use	January 1, 2022
Amendment to IAS 37 (May 2020)	Onerous Contracts – Costs of Fulfilling a Contract	January 1, 2022
Annual Improvements Cycle 2018–2020 (May 2020)	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	January 1, 2022
Amendment to IAS 1 (February 2021)	Disclosure of Accounting Policies	January 1, 2023
Amendment to IAS 8 (February 2021)	Definition of Accounting Estimates	January 1, 2023

ElringKlinger will adopt these standards and amendments as of the mandatory date for first-time application. For standards that are yet to be adopted by the EU, the initial date for first-time application is assumed to be the date approved by the IASB.

ElringKlinger, after performing a review, has come to the conclusion that the first-time application of the reporting requirements mentioned in the table will have no or no material effect on the presentation of financial performance, net assets and cash position of the ElringKlinger Group.

Scope of consolidated financial statements

The consolidated financial statements of ElringKlinger AG as of December 31, 2020, include the annual financial statements of 7 (2019: 6) domestic and 31 (2019: 32) foreign subsidiaries in which ElringKlinger AG holds, either directly or indirectly, more than 50% of the shares or is able to control the entity's financial and business policy for other reasons. Inclusion begins at the time the control relationship comes into being and ends when control is deemed to no longer exist.

The 24.71% share in hofer AG, Nürtingen, Germany, is recorded as an associate in non-current group assets, as ElringKlinger has a significant influence on the business and financial policies. A significant influence in assumed for associates with voting rights ranging from 20% to 50%. As of December 31, 2020, the following companies made use of the exemption provisions provided by Section 264 (3) HGB:

- ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen,
- ElringKlinger Logistic Service GmbH, Rottenburg/Neckar,
- Kochwerk Catering GmbH, Dettingen/Erms,
- Elring Klinger Motortechnik GmbH, Idstein.

An overview of the 38 companies included in the consolidated financial statements of the parent company is provided below.

Schedule of shareholdings and scope of consolidation

as of December 31, 2020

Name of company	Registered office	Share of capital in %
Parent company		
ElringKlinger AG[1]	Dettingen/Erms	
Shares in affiliated companies (fully consolidated in the consolidated financial statements)		
Germany		
Gedächtnisstiftung KARL MÜLLER BELEGSCHAFTSHILFE GmbH	Dettingen/Erms	100.00
Elring Klinger Motortechnik GmbH	Idstein	92.86
ElringKlinger Logistic Service GmbH	Rottenburg/Neckar	96.00
ElringKlinger Kunststofftechnik GmbH	Bietigheim-Bissingen	77.50
hofer powertrain products GmbH	Nürtingen	53.00
KOCHWERK Catering GmbH	Dettingen/Erms	100.00
EK Fuel Cell Technologies GmbH	Dettingen/Erms	100.00
Shares in affiliated companies (fully consolidated in the consolidated financial statements)		
Foreign		
ElringKlinger Abschirmtechnik (Switzerland) AG	Sevelen (Switzerland)	100.00
Elring Klinger (Great Britain) Ltd.	Redcar (UK)	100.00
hofer powertrain products UK Ltd.	Warwick (UK)	53.00
ElringKlinger Italia Srl	Settimo Torinese (Italy)	100.00
ElringKlinger Hungary Kft.	Kecskemét-Kádafalva (Hungary)	100.00
Elring Parts Ltd.	Gateshead (UK)	100.00
Elring Klinger, S.A.U.	Reus (Spain)	100.00
ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş.	Bursa (Turkey)	100.00
ElringKlinger Meillor SAS	Nantiat (France)	100.00

Name of company	Registered office	Share of capital in %
ElringKlinger Fuelcell Systems Austria GmbH	Wels (Austria)	100.00
ElringKlinger Silicon Valley, Inc.	Fremont (USA)	100.00
HURO Supermold S.R.L.	Timisoara (Romania)	100.00
ElringKlinger Canada, Inc.	Leamington (Canada)	100.00
ElringKlinger USA, Inc.	Buford (USA)	100.00
ElringKlinger Automotive Manufacturing, Inc.	Southfield (USA)	100.00
ElringKlinger Manufacturing Indiana, Inc.	Fort Wayne (USA)	100.00
Elring Klinger México, S.A. de C.V.	Toluca (Mexico)	100.00
EKASER, S.A. de C.V.	Toluca (Mexico)	100.00
Elring Klinger do Brasil Ltda.	Piracicaba (Brazil)	100.00
ElringKlinger South Africa (Pty) Ltd.	Johannesburg (South Africa)	100.00
ElringKlinger Automotive Components (India) Pvt. Ltd.	Ranjangaon (India)	100.00
Changchun ElringKlinger Ltd.	Changchun (China)	88.00
ElringKlinger Korea Co., Ltd.	Gumi-si (South Korea)	100.00
ElringKlinger China, Ltd.	Suzhou (China)	100.00
ElringKlinger Chongqing Ltd.	Chongqing (China)	100.00
ElringKlinger Engineered Plastics North America, Inc.[2]	Buford (USA)	77.50
ElringKlinger Engineered Plastics (Qingdao) Co., Ltd.[2]	Qingdao (China)	77.50
ElringKlinger Marusan Corporation[3]	Tokyo (Japan)	50.00
Marusan Kogyo Co., Ltd.[5]	Tokyo (Japan)	23.45
PT. ElringKlinger Indonesia[4]	Karawang (Indonesia)	50.00
ElringKlinger (Thailand) Co., Ltd.[4]	Bangkok (Thailand)	50.00
Shares in associates (accounted for using the equity method in the consolidated financial statements)		
Germany		
hofer AG	Nürtingen	24.71

[1] ElringKlinger AG prepares consolidated financial statements for the largest and the smallest group of subsidiaries to be consolidated.
[2] Wholly owned subsidiary of ElringKlinger Kunststofftechnik GmbH.
[3] Consolidated due to contractual possibility of exercising control.
[4] Wholly owned subsidiary of ElringKlinger Marusan Corporation.
[5] 46.9% subsidiary of ElringKlinger Marusan Corporation, consolidated due to majority of voting rights.

Notes on non-controlling interests in subsidiaries

In ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen (Germany), ElringKlinger AG holds, with its two subsidiaries

- ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd., Qingdao, China
- ElringKlinger Engineered Plastics North America, Inc., Buford, USA

(EKT subgroup) controlling interests of 77.5% (unchanged). The non-controlling interests amount to 22.5%.

The share in the earnings of this subgroup attributable to non-controlling interests for the financial year 2020 is EUR 1,973 k (2019: EUR 2,636 k).

As in the previous year, no dividend was distributed to the non-controlling interests of the subgroup in the financial year 2020.

Cash flow of the subgroup
EUR k

	2020	2019
Operating activities	16,737	26,087
Investing activities	-4,522	-8,725
Financing activities	-12,498	-16,041
Changes in cash	**-283**	**1,321**
Effects of currency exchange rates on cash	**-77**	**7**

ElringKlinger Kunststofftechnik GmbH is integrated in the monetary transactions of the ElringKlinger Group. Cash and cash equivalents are continuously made available to or called from ElringKlinger AG. They are reported under cash flow from financing activities.

Summarized key financial information of the subgroup
EUR k

	2020	2019
Non-current assets	63,852	65,122
Current assets	68,667	57,471
Non-current liabilities	17,107	15,809
Current liabilities	12,727	11,950
Sales revenue	99,270	110,110
Earnings before taxes (EBT)	12,113	14,025
Net income	**8,768**	**10,145**
Total comprehensive income	**7,849**	**8,867**

Further detailed information
EUR k

	2020	2019
Cash and cash equivalents	**3,653**	**4,012**
Cash in hand	7	9
Bank deposits	3,646	4,003
Non-current financial liabilities	**433**	**396**
Current financial liabilities	**323**	**274**
Interest income	**429**	**255**
Interest expenses	**107**	**220**
Depreciation and amortization	**6,297**	**6,274**

Newly formed company 2020

EK Fuel Cell Technologies GmbH, based in Dettingen/Erms, Germany, a wholly owned subsidiary of ElringKlinger AG, was founded with effect from October 28, 2020.

Divestitures 2020

No divestitures were made.

Merger 2020

With effect from October 31, 2020, Technik-Park Heliport Kft., based in Kecskemét-Kádafalva, Hungary, a wholly owned subsidiary of ElringKlinger AG, domiciled in Dettingen/Erms, Germany, was merged with ElringKlinger Hungary Kft., based in Kecskemét-Kádafalva, Hungary.

Newly formed company 2019

TPH Asset Management Kft., based in Kecskemét-Kádafalva, Hungary, a wholly owned subsidiary of Technik-Park Heliport Kft., also based in Kecskemét-Kádafalva, Hungary, was founded with effect from August 10, 2019.

Divestitures 2019

The Group primarily focuses its strategic direction on areas of the future: lightweighting, electromobility and electric drive systems. Against this background, in October 2019 the Group reached an agreement with two Hungarian entities on the sale of TPH Asset Management Kft., based in Kecskemét-Kádafalva, Hungary, a wholly owned subsidiary of Technik-Park Heliport Kft., also based in Kecskemét-Kádafalva, Hungary. The acquisition agreement was signed on October 14, 2019. The transaction was closed on December 20, 2019 with immediate effect. The selling price is EUR 21,550 k. 100% of the shares previously held in TPH Asset Management Kft. were transferred in full to the ownership of the contracting partners. The net gain on disposal of EUR 8,616 k is included in other operating income. Ancillary costs of EUR 397 k have been incurred for the disposal of TPH Asset Management Kft. These have been reported in administrative expenses.

Merger 2019

Effective January 1, 2019, Polytetra GmbH, based in Mönchengladbach, Germany, a wholly owned subsidiary of ElringKlinger Kunststofftechnik GmbH, based in Bietigheim-Bissingen, Germany, was merged into ElringKlinger Kunststofftechnik GmbH.

Summary of the principal accounting and measurement methods

The consolidated financial statements were prepared on the basis of historical acquisition and manufacturing costs with the exception of assets and liabilities for which measurement at fair value is mandatory in accordance with IFRS.

The fundamental accounting and measurement methods applied in preparing the consolidated financial statements are described below:

Consolidation methods

Assets and liabilities of the domestic and foreign companies included in the consolidated financial statements are recognized and measured according to the accounting policies that apply uniformly across the ElringKlinger Group.

Upon acquisition of a company, the assets and liabilities of the subsidiaries acquired are measured at their fair value at the time of acquisition. If the purchase price of the interest exceeds the identified assets and liabilities to be measured at fair value, the excess is capitalized as goodwill. If the difference is negative, the identifiable assets and liabilities are remeasured, as are the acquisition costs.

Any remaining negative difference is recorded in income.

Any hidden reserves and liabilities that have been uncovered are rolled forward, depreciated, or released together with the corresponding assets or liabilities. Goodwill is not amortized, but is subject to annual impairment testing.

If additional shares of an already fully consolidated subsidiary are acquired, the difference between the purchase price and carrying amount of non-controlling interests is recognized through other comprehensive income.

The minority interest in subsidiaries held by shareholders outside the Group must be shown as a separate line item under group equity.

Net income for the year for subsidiaries acquired or sold in the course of the year are included in the group income statement from the effective time of acquisition or until the effective time of divestment.

The financial year of all consolidated companies, except the Indian subsidiary (March 31), corresponds to the financial year of the parent company. If the reporting dates differ, interim financial statements are prepared as of the reporting date of the parent company.

All receivables, liabilities, sales revenue, other income and expenses within the scope of consolidation are eliminated. Accumulated gains and losses from intercompany supplies are eliminated from inventories or non-current assets.

Investments in associates

Associates are measured at their share of equity using the equity method and initially recognized along with their acquisition costs, including the transaction costs. The Group's share in the associate's net profit or loss for the period is recognized separately in the consolidated income statement as a share of the financial result. The share in other comprehensive income is recognized directly in group equity. The cumulative changes after the acquisition date increase or decrease the carrying amount of the investment in the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associates. At each reporting date, the Group determines whether there is any objective evidence of impairment of an investment in an associate. If so, the impairment loss is determined as the difference between the recoverable amount of the investment in an associate and its carrying amount, and the loss is recognized through profit or loss as "Share of result of associates."

Currency translation

The reporting currency of the ElringKlinger Group is the euro.

Foreign currency transactions are translated in the annual financial statements of ElringKlinger AG and its consolidated companies at the rates current as of the transaction date. As of the end of the reporting period, assets and liabilities in foreign currency are measured at the closing rate. Differences arising on translation are posted through profit or loss.

Currency translation differences from monetary items that form part of a net investment in a foreign operation are reported in equity under other comprehensive income until the disposal of the net investment.

The financial statements of the foreign companies are translated into euros since this is the functional currency of the parent company. Since the subsidiaries operate their businesses independently in financial, economic and organizational respects, the functional currency is generally identical to the relevant national currency of the company. The expenses and income from financial statements of entities included in the consolidated financial statements which were originally prepared in foreign currencies are translated at the average rate for the year. The average rate for the year is calculated on the basis of daily rates. Assets and liabilities are translated at the closing rate. Currency differences are reported in other comprehensive income and as a separate item in equity.

In the event of a disposal of a consolidated entity, accumulated currency differences are recorded as part of the gain or loss on sale.

The rates used for currency translation are shown in the table below:

		Closing rate		Average rate	
Currency	Abbr.	Dec. 31, 2020	Dec. 31, 2019	2020	2019
US dollar (USA)	USD	1.22710	1.12340	1.14700	1.11945
Pound sterling (UK)	GBP	0.89903	0.85080	0.88935	0.87587
Franc (Switzerland)	CHF	1.08020	1.08540	1.07090	1.11114
Canadian dollar (Canada)	CAD	1.56330	1.45980	1.53802	1.48221
Real (Brazil)	BRL	6.37350	4.51570	5.99878	4.41745
Peso (Mexico)	MXN	24.41600	21.22020	24.73002	21.60815
RMB (China)	CNY	8.02250	7.82050	7.89749	7.72366
WON (South Korea)	KRW	1,336.00000	1,296.28000	1,350.23750	1,303.16917
Rand (South Africa)	ZAR	18.02190	15.77730	18.91385	16.17013
Yen (Japan)	JPY	126.49000	121.94000	121.88417	121.95917
Forint (Hungary)	HUF	363.89000	330.53000	354.05167	325.75167
Turkish lira (Turkey)	TRY	9.11310	6.68430	8.15792	6.35774
Leu (Romania)	RON	4.86830	4.78300	4.84251	4.75011
Indian rupee (India)	INR	89.66050	80.18700	84.94442	78.77538
Indonesian rupiah (Indonesia)	IDR	17,240.76000	15,595.60000	16,743.66083	15,800.49750
Baht (Thailand)	THB	36.72700	33.41500	35.90242	34.59233
Swedish krona (Sweden)	SEK	10.03430	10.44680	10.48153	10.58238

Accounting policies

Goodwill

The goodwill is attributable to cash-generating units (segments) as follows:

EUR k	2020	2019
Original Equipment	153,937	158,338
Engineered Plastics	6,313	6,313
Aftermarket	1,658	1,658
Total	**161,908**	**166,309**

Testing for impairment

Annual impairment testing of goodwill is performed as of the reporting date on December 31. An impairment is recognized in the consolidated income statement through profit or loss if the recoverable amount, which is the higher of fair value less costs of disposal and value in use, is lower than the carrying amount of the cash-generating units.

Impairment of goodwill is not reversed, even if the impairment has ceased to apply. The recoverable amount of the respective cash-generating units for impairment testing as of December 31, 2020, is determined using the respective value in use as present value of forecast future cash inflows. For this purpose, the value in use of the cash-generating unit is determined by discounting future cash flows. A detailed plan of the cash flows for the cash-generating units is established over the forecast period of five years. Subsequent periods are accounted for by a perpetual annuity (terminal value) determined on the basis of the last detailed planning year.

Planning is based on expectations and assumptions of the Management Board regarding future market developments, taking into consideration the business development to date. Significant assumptions relate to the future development of sales revenue and earnings after taxes. Sales revenue and cost planning at the ElringKlinger Group is performed at individual component level.

Both historical data as well as the expected market performance are taken into account for determining the value in use of the cash-generating units. With regard to short-term sales revenue planning, the current order backlog, information on the respective manufacturer and information from independent sources, such as advisory firms or automobile associations, is used. In its sales revenue planning for the medium term, ElringKlinger assumes that it will be able to outpace global growth in automotive production. The figures allocated to the key assumptions are generally in line with external sources of information, e.g., production and expected sales for the respective regional sales markets and customer-specific budgets.

Cost planning takes into account both efficiency gains as well as cost increases.

The cost of capital of the cash-generating units is calculated as the weighted average cost of equity and debt capital. Capital structure, equity and debt capital are based on the Company's peer group and are derived from the available capital market information. The WACC (weighted average cost of capital) applied in each case is determined on the basis of the risk-free rate according to the method of the IDW ["Institut der Wirtschaftsprüfer in Deutschland e. V.,": Institute of Public Auditors in Germany], the market risk premium and the beta factor. Beta represents the individual risk of a share as compared to a market index. It is calculated as the average value for the peer group. The credit spread, which expresses the premium over the risk-free rate, was derived from a rating of the peer group.

As in the previous year, the discount rate was used without applying a growth discount to determine the terminal value, i. e., a growth rate of 0% is applied in the model.

The discount factor applied as of December 31, 2020 was the weighted average cost of capital (WACC) before taxes of 10.41% (2019: 10.40%).

The following significant assumptions have been applied for the projections of individual segments:

Original Equipment

The "Original Equipment" segment was directly affected by the effects of the coronavirus pandemic in the financial year 2020. The segment was especially burdened in the first nine months, a recovery was only visible in the fourth quarter. The negative effects were countered by implementing cost-cutting measures and the efficiency improvement program that had already been introduced before the coronavirus pandemic. However, the planning in terms of earnings was not achieved. The impairment test as of December 31, 2020, in addition to the historical development of the unit, included the development of the peer group as well as the general market outlook. The strategy of the Management Board is still to capture further market share, to increase the sales revenue and to implement margin improvements. Therefore, in the planning period it was assumed that margin improvements can also be realized with rising sales and the margins will again be higher than the margins of the peer group. Furthermore, ElringKlinger is expecting changes in demand arising from the transformation of the automotive industry, which may prove beneficial.

Engineered Plastics

Among other things, due to a very positive market response and successful development in the past financial years, the Engineered Plastics segment in its planning still assumes an increase in sales revenue and a constant positive development in margin.

Aftermarket

The planning of the Aftermarket segment also assumes an increase in sales revenue and the related constant positive development in margin. The planned growth is to be realized through further expansion of business relationships with existing and new customers.

The impairment test performed as of December 31, 2020, did not result in any impairment of goodwill.

The value in use, determined on the basis of the abovementioned assumptions for the Original Equipment segment, exceeds the carrying amount by around EUR 202 million. Changes in cost of capital or profit margin can meanwhile lead to the situation where the carrying amount exceeds the recoverable amount. In the case of an isolated increase in cost of capital by around 0.9 percentage points, the recoverable amount would correspond to the carrying amount. An isolated reduction of the profit margin in the terminal value by around 1.1 percentage point would have the same effect.

Intangible assets

Purchased intangible assets, mainly patents, licenses and software, are recognized at cost.

Internally generated intangible assets, with the exception of goodwill, are capitalized if it is sufficiently probable that use of the asset is associated with a future economic benefit, the costs of the asset can be determined reliably, and the technical and economic feasibility along with the ability and intent to market it are ensured.

The manufacturing costs of internally generated intangible assets are determined on the basis of directly attributable individual costs as well as their proportion of attributable overheads. The revaluation method, which is also permitted, is not applied.

All intangible assets in the Group – with the exception of goodwill – have determinable useful lives and are amortized over these useful lives using the straight-line method. Patents, licenses and software generally have useful lives of 10 years. Capitalized development costs and basic standard software have useful lives of five years. If the actual useful life is materially longer or shorter than 10 or 5 years, this actual useful life is recognized.

Property, plant and equipment

Tangible assets used in business operations for a period longer than one year are measured as property, plant and equipment at cost less straight-line depreciation in accordance with their useful life as well as any necessary impairment. The manufacturing cost of self-constructed property, plant and equipment is determined on the basis of directly attributable individual costs and their proportion of attributable overheads. The revaluation method, which is also permitted, is not applied.

Depreciation is calculated throughout the Group based on the following useful lives:

Class of property, plant and equipment	Years
Buildings	15 to 40
Plant and machinery	12 to 15
Special tooling	3
Operating and office equipment	3 to 15

The useful lives and the depreciation methods and residual carrying amounts are reviewed regularly in order to ensure that the depreciation method and period are consistent with the expected consumption of the economic benefit.

Investment property

Investment property is measured at cost less straight-line depreciation. It is reported separately under non-current assets.

The useful lives of investment property are 40 years in the case of buildings and 20 years in the case of external facilities.

Impairment of property, plant and equipment and intangible assets other than goodwill

Pursuant to IAS 36, property, plant and equipment and intangible assets are subjected to impairment testing at the end of each reporting period or if there is evidence of impairment. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized to the recoverable amount. The recoverable amount is the higher of the following two amounts: the net realizable value less anticipated costs to sell or the value in use. If the recoverable amount for an individual asset cannot be determined, an estimate of the recoverable amount is made at the next higher level cash-generating unit.

Impairment losses are generally allocated in proportion to the carrying amount to the non-current assets of the cash-generating unit.

In the event that the recoverable amount exceeds the carrying amount in subsequent periods, a reversal is recognized up to, at most, amortized cost.

Impairments and reversals of impairments are recorded through profit or loss.

Assets and liabilities held for sale

Assets held for sale or asset and liability groups related to assets held for sale are classified as "held for sale" and recognized separately in the statement of financial position if the corresponding carrying amount is mostly realized by the sale transaction and not by its continued use. In this case, the sale must be concluded and its completion should be highly probable within one year. Assets held for sale and related liabilities are recognized at the lower of the carrying amount and fair value less costs to sell. Depreciation ceases when an asset is classified as held for sale.

Financial instruments

According to IFRS 9, financial assets are measured at either amortized cost or fair value, depending on the business model of the Group with regards to the control and on the cash flow characteristics of financial assets.

Debt instruments are measured **at amortized cost** if they meet two conditions. First, for a financial asset the business model determines collecting cash flows from the financial asset exclusively. Second, the contractual terms determine specified dates that are solely for payments of interest and principal on the principal amount outstanding. By contrast, if the business model does not exclusively provide for the collection of cash flows, but also the sale financial assets, then a financial asset is measured **at fair value through other comprehensive income**. If these conditions are not fulfilled, it is measured **at fair value through profit or loss**. However, there is an option for first-time recognition to designate the financial asset as **at fair value through profit or loss**, provided this designation eliminates or significantly reduces the accounting mismatch. This option was not exercised in the Group.

In general, equity instruments are measured **at fair value through profit or loss**, as they do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. An exception is formed by equity instruments that are held for trading. In this context, there is an option for first-time recognition to designate equity instruments as measured at fair value through other comprehensive income. In this case, the changes in value recognized in other comprehensive income upon derecognition of the equity investment cannot be reclassified to profit or loss.

Financial instruments held within the Group are divided into the following categories:

- Financial assets measured at amortized cost
- Financial assets at fair value through profit or loss
- Financial assets at fair value through other comprehensive income
- Financial liabilities measured at amortized cost
- Financial liabilities measured at fair value through profit or loss

At their acquisition date, financial instruments are categorized on the basis of their intended use.

Financial assets include cash and cash equivalents, trade receivables, financial investments, long-term securities, other loans and receivables as well as derivative financial assets held for trading.

The financial liabilities include trade payables, liabilities to banks, derivative financial liabilities held for trading as well as other financial liabilities.

Financial assets

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Groups' business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or at fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Derivatives are recognized on the trade date, all other regular way purchases and sales of financial assets are recognized in the statement of financial position on the settlement date.

The fair values recognized in the statement of financial position generally correspond to the market prices of the financial assets. If market prices are not available, the fair values are calculated using recognized measurement models and with recourse to current market parameters. The measurement methods include using the most recent transactions between knowledgeable, willing and independent business partners (i. e., at arm's length), comparison with a current fair value of another, substantially identical, financial instrument and the analysis of discounted cash flows.

A financial asset is derecognized if the contractual rights to receive cash flows from this financial asset have expired or have been transferred. In the framework of the transfer, essentially all risks and rewards connected with ownership of the financial asset or the power of control over the asset must be transferred.

Financial assets measured at amortized cost are financial assets resulting from money transfer, the rendering of services or the procurement of merchandise involving third parties are classified as loan and receivables. Current assets classified in this category are measured at acquisition cost, the non-current financial assets are measured at amortized cost in accordance with the effective interest method.

Financial assets acquired for the purpose of sale in the near future (financial instruments held for trading) are recognized **at their fair value through profit or loss**. Equity instruments not held for trading are also measured at fair value through profit or loss, provided the option to recognize at fair value through other comprehensive income is not exercised at the time of first-time recognition. Debt instruments, which do not pass the business model assessment or have the characteristics of cash flows, are also measured at fair value through profit or loss.

Financial assets measured **at fair value through other comprehensive income** if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Upon initial recognition of equity instruments, it may also be elected to irrevocably classify them as at fair value through other comprehensive income if they fulfill the definition of equity according to IAS 32 and are not held for trading.

Cash and cash equivalents include cash in hand, bank deposits and short-term deposits with an original term of less than three months, and are measured at amortized cost.

Applying the expected credit loss model (ECL), the future expected credit loss is material for impairment losses in accordance with IFRS 9. Valuation allowances will be recognized for all financial assets measured at historical cost as well as for debt instruments measured at fair value through other comprehensive income. For the measurement, external measurement sources are consulted for the counterparties. IFRS 9 outlines a three-step model. A risk provision will either be recognized on the basis of the 12-month expected credit loss (step I) or on the basis of the lifetime expected credit loss, if the credit risk has significantly increased since the first-time recognition (step II) or if there is a deterioration in the credit rating (step III). The changes in measurement between the individual steps are determined according to external ratings and based on the model of established rating agencies: investment grade (step I), speculative grade (step II) and risk/default grade (step III).

The simplified procedure is applied to trade receivables. According to this, expected credit losses are calculated over the entire lifetime of receivables.

Impairments on doubtful receivables involve to a considerable extent estimates and judgments of the individual receivables based on the creditworthiness of the customer concerned. Should this not be possible or appropriate under certain circumstances, an average rating (which is based on the average of all the ratings obtained in the reporting period) is applied. ElringKlinger considers this estimate regarding ratings as appropriate.

If there is objective evidence of impairment of loans and receivables (e.g., major financial difficulties on the part of the debtor or negative changes in the market environment of the debtor), these are recognized through profit or loss. The expected credit loss methodology (ECL) in accordance with IFRS 9 applies forward-looking indicators. These not only consider the micro- and macroeconomic aspects, but also the expected development of the individual borrower. For determining risk provisions, ElringKlinger uses the assessment of recognized rating agencies (S&P, Moody's, Fitch, etc.). Impairments of trade receivables are initially recognized in an adjustments account. The impaired receivable is derecognized when it is considered unrecoverable. An irrecoverability is indicated in case of a "D" rating (according to S&P), or insolvency of the debtor has been made public or if there are specific payment defaults.

Financial liabilities

Financial liabilities comprise, in particular, trade payables, bank debt, derivative financial liabilities and other liabilities.

Upon initial recognition, financial liabilities are measured according to fair value less any transaction costs directly attributable to borrowing.

Financial liabilities are derecognized when the liability on which the obligation is based is settled, terminated or has expired.

At ElringKlinger, **financial liabilities measured at amortized cost** include trade payables, liabilities to banks and other financial liabilities. They are measured at amortized cost using the effective interest method. Gains or losses are recognized through profit or loss when the liability is retired or has been redeemed.

Financial liabilities measured at fair value through profit or loss comprise the financial liabilities held for trading purposes, in this case, derivatives, including any embedded derivatives that have been separated from the host contract, if applicable, since these do not qualify for hedge accounting as a hedging instrument. Gains or losses are recognized through profit or loss.

Other current liabilities

ElringKlinger agreed on a call and put option with the non-controlling shareholders for their share as part of the agreements with minority interests of ElringKlinger Marusan Corporation, Tokyo, Japan. The obligation that results from this agreement is recognized at the fair value of the shares under other current liabilities with an effect on income. ElringKlinger Marusan Corporation is therefore fully consolidated in the ElringKlinger Group; non-controlling interests have not been disclosed.

Derivative financial instruments and hedge accounting

Under IFRS 9, all derivative financial instruments such as currency, price and interest swaps as well as forward exchange transactions, must be recognized at market values, independently of the purpose or the intent of the agreement under which they were concluded. Since no hedge accounting is applied in the ElringKlinger Group, the changes in the fair value of the derivative financial instruments are always recognized through profit or loss.

The derivative financial instruments used in the ElringKlinger Group are price hedges. The purpose of derivative financial instruments is to reduce the negative effects of interest and price risks on the financial performance, net assets and cash position of the Group. As of the reporting date, there were forward contracts for electricity and gas, nickel and currency derivatives.

Costs to fulfill a contract

According to IFRS 15, the costs that are not within the scope of another standard can be recognized as an asset, if the costs relate directly to a contract and generate or enhance resources that will be used in satisfying performance obligations of a contract, and they are expected to be recovered as part of a contract.

Costs to fulfill a contract are determined on the basis of directly attributable individual costs and their proportion of attributable overheads.

The capitalized contract costs are amortized on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer. Amortization is recognized in cost of sales.

Furthermore, costs to fulfill a contract are amortized affecting cash if the carrying amount of an asset exceeds the amount of consideration the entity expects to receive in exchange for providing the associated goods and services, less the remaining costs that relate directly to providing those goods and services.

Contract assets and contract liabilities

A contract asset is the right to consideration in exchange for goods or services already transferred to the customer. Contract assets are reported as receivables when they have been billed.

Contract liabilities are recognized for prepayments received from customers before performing the contractually agreed service. On satisfying the performance obligations, these contract liabilities are recognized as revenue.

Inventories

Inventories are recognized at cost or the lower net realizable value. Raw materials supplies and consumables as well as merchandise are measured at the average amortized cost. Cost of conversion of work in progress and finished goods is determined on the basis of directly attributable individual costs and their proportion of production overheads. The proportion of overhead cost attributable to these products is determined on the basis of normal staffing levels. Cost of conversion does not include selling expenses and borrowing cost. Administrative expenses are included in cost of conversion if related to production. Net realizable value represents the estimated sales price less all estimated costs through to completion as well as the cost of marketing, sales and distribution. Markdowns are recorded for detectable impairment due to lack of marketability and quality defects, and to account for declining sales prices.

In the majority of cases, the customers acquire beneficial ownership of tools. The tools are recognized under inventories until the transfer of beneficial ownership.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, checks and bank deposits available on demand. There are cash equivalents. Cash is recognized at amortized cost.

Provisions for pensions

Provisions for pensions are calculated on the basis of the projected unit credit method in accordance with IAS 19 (revised 2011). The calculation considers not only the pensions and vested claims known at the end of the reporting period but also future anticipated increases in pensions and salaries, with appropriate estimates of the relevant factors, as well as biometric assumptions, for which different discount rates are used.

Actuarial gains and losses resulting from the difference between the expected and actual accounting changes in headcount, as well as differences arising from changes to accounting assumptions, are recognized in full in the period in which they occur. They are recognized outside of the income statement under other comprehensive income.

In determining the discount interest rates, the Company is guided by the interest rates observed in capital markets for corporate bonds with first class credit ratings (AA rating or better) which are denominated in the same currency and have similar terms.

Provisions

Provisions are recorded when a past event gives rise to a present legal or constructive obligation to a third party, utilization of the obligation is probable and the anticipated amount of the obligation can be estimated reliably.

Provisions are recognized for risks arising from litigation if an entity of the ElringKlinger Group is the defendant and the weight of evidence supports a negative outcome. The provision is recognized in the amount that the entity will probably lose in the case of a negative outcome. This amount includes any payments to be made by the entity, particularly compensation and severance payments as well as the expected costs of the lawsuit. In litigation in which the entity itself is the plaintiff, provisions are set up for the cost of the lawsuit only.

The measurement of these provisions is at the present best estimate of the expenses necessary to fulfill the obligation.

If appropriate, the amount of the provision corresponds to the present value of the expenditures expected to be necessary to meet the obligations.

Refund claims are capitalized separately, if applicable. If the Group expects at least a partial refund for a provision, the refund is recognized under other assets if the return of the refund is virtually certain.

Leases

IFRS 16 requires a uniform accounting model for lessees, according to which the lessee is required to recognize a right-of-use asset for all leases as well as a lease liability for the outstanding lease payments. The lease liability is recognized at the present value of the future lease payment, discounted with the term-based incremental rate, and reported under financial liabilities. Reference interest rates for a period of up to 15 years from the return on government bonds in the countries concerned is used to determine the incremental borrowing rate. The reference interest rates are extended by a lease risk premium on the basis of Euler Hermes assessment of the ElringKlinger Group.

The rights of use reported under property, plant and equipment are recognized at cost less accumulated amortization and any accumulated impairment losses necessary. The acquisition cost of the right-of-use asset is determined as the present value of all future lease payments plus the lease payments that are made at or before the beginning of the lease as well as the costs to conclude the contracts and the estimated costs for dismantling or restoring the lease asset. All lease incentives received are deducted.

Practical expedients provided by IFRS 16 are applied for low-value assets and short-term leases (with a term of up to 12 months). The lease payments associated with these leases are charged to profit or loss for the reporting period on a straight-line basis over the lease term. In the statement of cash flows, the payments are reported under cash flow from operating activities.

For sale and leaseback transactions with transfer of control to the buyer (lessor), the leaseback assets are recognized at the pro rata carrying amount which is derived from the leased back pro rata right of use. Accordingly, any gain or loss is only recognized to the extent it relates to the rights transferred to the lessor.

Recognition of income and expense

Sales revenue is measured at the fair value of the transaction price received or to be received and represents the amounts that are to be obtained for goods and services in the normal course of business. Sales revenue is shown net of sales deductions, discounts and value added taxes.

Sales revenue is recorded when the performances due have been rendered and the control has passed to the buyer and receipt of the payment can be reliably expected.

A portion of income from development services is to be recognized over time because the customer simultaneously receives and consumes the benefits provided by the ElringKlinger Group. The progress of development services is determined using the input method because there is a direct relationship between the effort of the ElringKlinger Group and the transfer of service to the customer. The Group recognizes sales revenue on the basis of the costs incurred relative to the total expected costs to complete the service.

Sales revenue from licenses which were granted for the first time in the financial year, with which ElringKlinger grants customers the right to use its intellectual property (at the time of issuing the license), is recognized on the date the licenses are granted. Considerations that are dependent on certain milestones being reached are recognized in the income statement when it is highly likely that the milestones will be reached.

Interest income is recognized on an accrual basis using the effective interest method.

Dividend income from financial investments is recorded at the time the payment claim arises.

Other income is recognized on an accrual basis in accordance with the substance of the underlying contract.

Operating expenses are recorded in the consolidated income statement at the time of performance or at the time of origination.

Research and development costs

Research costs are expensed at the time they are incurred. The costs for development activities are capitalized provided all of the following criteria are fulfilled:

- The development costs can be determined reliably.
- The product or the process can be realized technically and commercially.
- Future commercial benefits are likely.
- There is the intent and sufficient resources to complete the development and to use or sell the asset.

Capitalized costs are included under intangible assets. Other development costs are recognized as an expense when incurred. Capitalized development costs are amortized over five years.

Government grants

In accordance with IAS 20, government grants are recognized at fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grant and that the grant will be received.

The Group receives government grants primarily for development projects. These are recorded in income in the period when they are received and reported as other operating income, since the expenses have already been incurred.

Grants that relate to the acquisition or production cost of assets are recognized as deferred income and systematically released to income over the expected useful life of the related asset. The item is disclosed in other current and non-current liabilities.

Borrowing costs

Borrowing costs directly associated with the acquisition, construction, or production of qualifying assets are added to the production costs of these assets until the period in which the assets are largely available for their intended use or for their sale. Interest not capitalized pursuant to IAS 23 is recognized on an accrual basis as an expense using the effective interest method. The actual borrowing costs are capitalized if a financing loan can be definitively assigned to a specific investment. Unless a direct relationship can be established, the Group's average interest rate for borrowed capital for the current period is used. The Group's average interest rate for borrowed capital for the financial year 2020 amounted to 2.5% (2019: 2.02%). In the financial year 2020, borrowing costs of EUR 613 k (2019: EUR 358 k) were capitalized.

Income taxes and deferred taxes

The income tax expense represents the sum of current tax expense and deferred tax expense.

Current tax expense is determined on the basis of the taxable income for the relevant year. Taxable income differs from earnings before taxes as shown in the income statement, since it excludes expenses and income which will be tax deductible in earlier or later years or those which will never become taxable or tax deductible. The liability of the Group for current tax expense is calculated on the basis of applicable tax rates or tax rates established by law as of the end of the reporting period.

Deferred taxes are the expected tax charges and benefits from the differences in the carrying amounts of assets and liabilities in the tax base of the individual companies compared with the valuations in the consolidated financial statements under IFRS. The balance sheet liability method is applied. Such assets and liabilities are not recognized if the temporary difference is the result of (i) the first-time recognition of goodwill or (ii) the first-time recognition of other assets and liabilities resulting from occurrences (not including business combinations) that do not affect taxable income or earnings before taxes according to the income statement. Deferred taxes are recorded on all deductible temporary differences when it is probable that taxable profits will be available against which the deductible temporary differences can be offset. Otherwise, deferred tax assets are recognized on loss carryforwards to the extent that their future use may be anticipated.

The carrying amount of deferred tax assets is reviewed every reporting date.

Deferred taxes are measured at the future tax rates, i. e., those that are expected to apply at the time of realization.

Changes in deferred tax assets are recognized in the income statement as tax income or expense unless they relate to other comprehensive income or items recognized directly in equity; in these cases, changes in deferred taxes are also reported under other comprehensive income or directly in equity.

Contingent liabilities and contingent receivables

Contingent liabilities are not recognized. They are disclosed in the notes, unless the possibility of an outflow of resources with economic benefit is remote. Contingent receivables are not recognized in the financial statements. If the inflow of economic benefits is probable, they are disclosed in the notes.

Use of estimates

Financial statements are prepared in accordance with the pronouncements of the IASB using estimates which influence valuations of items in the statement of financial position, the nature and the scope of contingent liabilities and contingent receivables as of the end of the reporting period and the amounts of income and expenses in the reporting period. At ElringKlinger, the assumptions and estimates relate mainly to the recognition and measurement of provisions, the measurement of financial liabilities from put options, the measurement of goodwill and the realization of future tax relief. Actual results may deviate from these estimates. Changes are recognized through profit or loss at the time better insights are available.

Due to the consequences of the Covid-19 pandemic worldwide, which are still unpredictable at present, the estimates and assumptions used in connection with the assets and liabilities accounted for in particular are subject to higher uncertainty. However, ElringKlinger is currently expecting that this will be a temporary phenomenon.

While updating the estimates and assumptions, the available information regarding the Covid-19 pandemic was taken into account in terms of the expected economic development as well as country-specific measures.

This information was considered when testing the identified cash-generating units and segments for impairment. The value in use determined includes estimates specifically with regard to the forecast of future cash flows. They in turn rely on projections regarding the future demand volume and selling prices as well as on cost forecasts. This resulted in impairment losses on intangible assets and property, plant and equipment in the reporting year.

Warranty obligations may arise by force of law, by contract or for policy reasons. Provisions are recognized for the expected claims arising from warranty obligations. A claim may be expected especially if the warranty period has not yet expired, if warranty expenses have been incurred in the past, or if there is concrete evidence of warranty incidents being imminent. The warranty risk is determined on the basis of the circumstances from individual estimates or from past experience, and appropriate provisions are recognized.

Provisions for potential additional payments and penalties from US import duties stem from the assessment of lawyers and the Management Board on the basis of scenario analyses.

The estimates regarding the realization of future tax relief are based on calculations by external consultants.

The use of estimates for other items in the group statement of financial position and the group income statement are described in the accounting principles for the respective items. This pertains in particular to the matters: Impairments of goodwill and the measurement of pension provisions.

Risks and uncertainties

As a rule, the global automotive markets develop similarly to the economy in general. If economic development cools down considerably, this represents a risk for demand and ultimately for vehicle production. This could possibly result in lower demand for the product portfolio of the ElringKlinger Group.

According to ElringKlinger's assessment as of the reporting date, risks regarding economic development exist in the general slowdown of the global market growth. The coronavirus pandemic resulted in a considerable decline in demand in 2020 worldwide, and remains a significant influencing factor in 2021. Besides, there is potential for global trade conflicts, for example between the economic heavyweights, the US and China. Above all, the sustained high commodity prices and interruptions in production due to a shortage of semi-conductor chips play an important role in the automotive industry. Furthermore, stringent CO_2 emission regulations came into effect in the EU at the beginning of the year; non-compliance results in high penalties for the manufacturers.

With 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 to a large extent well positioned to handle potential stagnation or waning demand in individual vehicle markets.

This means that an economic downturn in one region can at least be partially offset. Thanks to its cost structures, ElringKlinger, in the event of greater economic turmoil, would be in the position to react immediately to the market conditions. The instruments available include flextime accounts and flexible shift models as well as the option to apply for government-sponsored schemes for shorter working hours. In addition, it is possible to react to changing market situations by adjusting the headcount to the demand situation and by merging the production quantities of individual plants. The central purchasing department works in close cooperation with suppliers for the purpose of assessing and adjusting procurement volumes continuously.

ElringKlinger makes adequate provision for economic risks during the planning stage. A policy of using a cautious macro-economic scenario for budgeting purposes is applied.

Individual disclosures on the Group Income Statement

1 — Sales revenue

EUR k	2020	2019
Lightweighting/Elastomer Technology	422,591	494,299
Metal Sealing Systems & Drivetrain Components*	410,678	491,186
Shielding Technology	291,074	399,161
E-Mobility	54,739	27,133
Exhaust Gas Purification	6,931	10,388
Others	52	1,281
Segment Original Equipment	**1,186,065**	**1,423,448**
Segment Original Equipment	1,186,065	1,423,448
Segment Aftermarket	182,473	172,610
Segment Engineered Plastics	107,554	117,451
Sales of goods and licensing	**1,476,092**	**1,713,509**
Sale of goods	1,451,592	1,713,509
Proceeds from licensing	24,500	0
Proceeds from the rendering of services	4,328	9,400
Revenue from contracts with customers	**1,480,420**	**1,722,909**
Revenue from contracts with customers	1,480,420	1,722,909
Income from rental and leasehold	18	4,116
Total	**1,480,438**	**1,727,025**

* Founded as of October 1, 2020; includes the former divisions Cylinder-head Gaskets and Specialty Gasketsz

Breakdown by geographical markets:

EUR k	2020	2019
Revenue from contracts with customers	355,598	394,978
Income from rental and leasehold	18	18
Total Germany	**355,616**	**394,996**
Revenue from contracts with customers	1,124,822	1,327,931
Income from rental and leasehold	0	4,098
Total other countries	**1,124,822**	**1,332,029**
Total	**1,480,438**	**1,727,025**

The location of the customer is used to determine allocation of sales revenue. The division of group sales revenue by segment and region is provided under Note (35) Segment reporting.

Contract balances

EUR k	Dec. 31, 2020	Dec. 31, 2019
Trade receivables	231,249	233,231
Contract assets	10,442	12,403
Contract liabilities	**38,768**	31,992

Sales revenue of EUR 19,995 k (2019: EUR 10,469 k) was recorded in the reporting period, which, at the beginning of the financial year, was included in contract liabilities.

A contract asset is the right to consideration in exchange for goods or services already transferred to the customer. This mainly takes place through sales revenue that is to be recognized over time. Contract assets are reported as receivables when billed. This is generally performed on a short-term basis within a month.

Contract liabilities include long-term prepayments for customer-specific provisions of additional production capacity and short-term prepayments for customer-specific tools. The increase in contract liabilities in the financial year 2020 was mainly due to prepayments received on account of orders of customer-specific systems and tools of EUR 10,569 k.

Reconciliation of contract balances

The changes in contract assets and contract liabilities in the reporting period result from the following matters:

EUR k	Contract assets	Contract liabilities
As of Jan. 1, 2019	**7,616**	**13,083**
Revenue that was included in the contract liability balance at the beginning of the reporting period		10,469
Reclassification of contract assets reported at the beginning of the reporting period to trade receivables	6,297	
Additions from payments received less amounts reported as sales revenue in the reporting period		29,378
Additions from performance completed not yet billed in the reporting period	11,084	
As of Dec. 31, 2019	**12,403**	**31,992**
Revenue that was included in the contract liability balance at the beginning of the reporting period		19,995
Reclassification of contract assets reported at the beginning of the reporting period to trade receivables	10,891	
Additions from payments received less amounts reported as sales revenue in the reporting period		26,771
Additions from performance completed not yet billed in the reporting period	8,930	
As of Dec. 31, 2020	**10,442**	**38,768**

Performance obligations

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as of December 31, 2020 are as follows:

EUR k	Dec. 31, 2020	Dec. 31, 2019
Within one year	5,079	6,489
More than one year	1,080	3,780

Limited variable consideration is not taken into account in the disclosed amounts. Furthermore, no information is included for performance obligations from contracts with an expected original term of a maximum of one year. Similarly, no disclosures on performance obligations are included that are satisfied over a certain period and for which the entitlement of a consideration is equivalent to the amount that corresponds directly to the value of the performance already completed and for which revenue can be realized to that amount that can be billed.

2 — Cost of sales

The cost of sales shows the costs incurred to obtain the sales revenue.

Cost of sales includes:

EUR k	2020	2019
Cost of materials	622,679	800,720
Personnel expenses	315,062	369,284
Depreciation and amortization	138,398	104,206
Reversal of costs to fulfill a contract	1,809	1,053
Other expenses	117,578	126,483
Total	**1,195,526**	**1,401,746**

3 — Selling expenses

Compared to 2019, selling expenses decreased by EUR 26,403 k to EUR 107,032 k. Selling expenses mainly include personnel expenses, material and marketing costs, as well as depreciation and amortization related to sales activities.

4 — General and administrative expenses

General and administrative expenses primarily include personnel expenses and material costs as well as the depreciation and amortization related to the administrative area. Compared to 2019, general and administrative expenses decreased by EUR 12,247 k to EUR 72,576 k.

5 — Research and development costs

Research and development costs include the personnel expenses, amortization and depreciation and the cost of experimental materials and tools attributable to these activities, unless these are development costs that are required to be capitalized under the conditions set forth in IAS 38.57. Compared to 2019, research and development costs decreased by EUR 313 k to EUR 63,758 k. Development costs of EUR 12,351 k (2019: EUR 16,695 k) were capitalized in the financial year 2020.

6 — Other operating income

EUR k	2020	2019
Government grants	3,631	5,581
Reimbursements from third parties	2,501	3,549
Income from the disposal of non-current assets	619	423
Insurance reimbursements/claims reimbursements	291	7,832
Other taxes (excl. income tax)	165	5,241
Reversal of impairments on receivables	66	147
Income from first-time consolidation	0	8,616
Other	2,554	2,117
Total	**9,827**	**33,506**

7 — Other operating expenses

EUR k	2020	2019
Impairment of receivables	6,005	1,222
Losses from the disposal of non-current assets	5,222	2,113
Other taxes (excl. income tax)	4,620	7,122
Expenditures for claims	3,170	1,000
Other fees	1,900	1,417
Defaults on receivables	586	515
Selling costs for machinery	444	243
Recognition of provisions/deferred liabilities	0	365
Other	1,690	1,226
Total	**23,637**	**15,223**

8 — Associates

ElringKlinger holds a share of 24.71% in hofer AG, Nürtingen. The hofer Group is a competent systems developer for drive train systems in the automotive sector. ElringKlinger continues to use the equity method to account for its share in hofer AG in the consolidated financial statements. The following table provides summarized information of the Group's investment in hofer AG.

EUR k	2020	2019
Non-current assets	57,255	56,724
Current assets	88,098	90,421
Non-current liabilities	5,864	19,371
Current liabilities	84,626	46,496
Net assets	**54,863**	**81,278**
Group share 24.71%	13,557	20,084
Goodwill	13,432	13,432
Accumulated impairment previous years	-9,810	-4,287
Impairment current year	0	-5,523
Carrying amount of the Group's share	**17,179**	**23,706**
Sales revenue	54,216	109,759
Comprehensive income for the financial year	**-26,414**	**-4,965**
thereof other comprehensive income	946	-455
Group share in profit/loss	**-6,527**	**-1,961**
Dividends received	**0**	**0**

As of December 31, 2020, the associate had contingent liabilities of EUR 3,289 k (2019: EUR 497 k) and liabilities to banks of EUR 1,987 k (2019: EUR 2,486 k).

In the previous year, the impairment test of the carrying amount of the investment performed as of December 31, 2019 resulted in a need to recognize impairment of EUR 5,523 k. Here the recoverable amount of the net investment was compared to its carrying amount. The value in use was applied as the recoverable amount, which was determined using the following assumptions:

A detailed plan of the cash flows on the basis of the revised assessment by management was established over the forecast period of five years. Necessary investments contained in the business plan were taken into account. Subsequent periods are accounted for by a perpetual annuity (terminal value) determined on the basis of the last detailed planning year.

The discount factor applied was the weighted average cost of capital (WACC) before taxes of 9.75%.

9 — Net finance costs

EUR k	2020	2019
Finance income		
Income from currency differences	28,532	20,852
Interest income	837	2,245
Other	1	7
Finance income, total	**29,370**	**23,104**
Finance costs		
Expenses from currency difference	-40,546	-21,097
Interest expenses	-16,649	-21,730
Other	-6,706	-387
Finance costs, total	**-63,901**	**-43,214**
Expenses from associates	-6,761	-7,484
Income from associates	0	8,022
Share of result of associates	**-6,761**	**538**
Net finance costs	**-41,292**	**-19,572**

Of the interest expenses, EUR 1,444 k (2019: EUR 2,513 k) relate to interest portions of pension plans and the remainder to bank interest and interest expense from the reversal of discounts on non-current provisions. Interest expenses of EUR 1,176 k (2019: EUR 1,299 k) resulted from the roll forward of lease liabilities in accordance with the effective interest method. Borrowing costs for qualifying assets in the amount of EUR 613 k were capitalized in the reporting year (2019: EUR 358 k); this represents a corresponding improvement in the result.

The expenses from associates contain the roll forward of the carrying amount affecting income of EUR -6,761 k (2019: EUR -1,961 k) as well as the impairment on the recoverable amount, determined as value in use, of EUR 0 k (2019: EUR 5,523 k).

The income from associates in the previous year resulted from the deemed disposal of shares, as ElringKlinger AG did not participate in the capital increase of hofer AG.

Other financial expenses contain expenses of EUR 6,661 k (2019: EUR 222 k) due to the subsequent measurement of a liability contained in other current liabilities resulting from the written put option on non-controlling interests of ElringKlinger Marusan Corporation, Tokyo, Japan.

10 — Income taxes

Income taxes break down as follows:

EUR k	2020	2019
Current tax expense	34,052	32,549
Deferred taxes	-7,633	4,100
Tax expense reported	**26,419**	**36,649**

The income taxes consist of corporation and municipal trade taxes including the solidarity surcharge of the domestic Group companies as well as comparable income taxes of the foreign Group companies.

The income tax rate calculated for the German companies is 28.8% (2019: 28.7%). Foreign taxation is calculated at the rates applicable in the countries concerned and lies between 9.0% and 34.7% (2019: between 9.0% and 34.7%). The average foreign tax rate is 23.8% (2019: 23.3%).

Deferred taxes are calculated by applying the applicable tax rates or tax ratios established by law in the different countries at the time of realization based on the accounting policies above.

The following table shows a reconciliation between the income tax expense that might theoretically be expected to arise for the Group under application of the current domestic rate of 24.7% (2019: 24.2%) and the income tax expense actually reported.

EUR k	2020	2019
Earnings before taxes	-13,556	41,661
Expected tax rate	**24.65%**	**24.20%**
Expected tax expenses	**-3,342**	**10,082**
Change in the expected tax rate due to:		
– Permanent differences	6,787	1,399
– Difference in basis of assessment of local taxes	-846	449
– Use of non-capitalized or forfeiture of capitalized tax loss carryforwards	325	-389
– Addition to non-current tax loss carryforwards (relating to the period)	15,664	15,750
– Taxes relating to other periods	1,499	3,851
– Deviations due to changes in tax rate	4,565	4,199
– Deviations on account of withholding taxes	1,832	1,880
– Other effects	-65	-572
Tax expense reported	**26,419**	**36,649**
Actual tax rate	**-194.9%**	**88.0%**

Retained earnings of EUR 56,003 k (2019: EUR 28,447 k) at domestic and foreign subsidiaries will be distributed to ElringKlinger AG in the coming years. The tax expense on distributions in Germany amounts to EUR 3,080 k (2019: EUR 1,238 k) and was recorded as a deferred tax liability. Further retained earnings of domestic and foreign subsidiaries of EUR 104,846 k (2019: EUR 189,217 k) are intended to be permanently reinvested in those operations on the basis of current planning.

Deferred tax assets on tax loss carryforwards have been recognized in the amount of EUR 5,668 k (2019: EUR 8,063 k). No deferred tax assets were recognized in respect of tax loss carryforwards amounting to EUR 245,471 k (2019: EUR 198,706 k), since it was not expected that the deferred tax assets would be utilized in the foreseeable future.

Unused income tax loss carryforwards primarily relate to foreign subsidiaries. The loss carryforwards not recognized for tax purposes will be forfeited as follows:

Loss carryforwards are forfeited within EUR k	Dec. 31, 2020	Dec. 31, 2019
One year	0	0
Two years	0	0
Three years	12,722	0
Four years	8,762	8,789
Five years	11,294	9,916
More than five years	88,146	79,583
Non-forfeitable	124,547	100,418
Total	**245,471**	**198,706**

Tax deferrals relate to the following line items:

	Deferred tax assets		Deferred tax liabilities	
Line items EUR k	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Intangible assets	780	873	11,338	11,416
Property, plant and equipment	4,363	2,878	50,088	45,033
Investment property	0	82	0	1,933
Financial assets	3	5	21	0
Other non-current assets	19	21	2,247	2,495
Inventories	8,661	7,737	0	0
Current contract assets	0	0	2,212	2,533
Trade receivables	2,454	913	61	144
Other current assets	693	1,551	494	200
Cash and cash equivalents	1	0	0	0
Provisions for pensions	27,936	26,681	0	0
Non-current provisions	3,584	2,967	0	5
Non-current financial liabilities	14,569	7,431	0	0
Other non-current liabilities	1,328	604	2	0
Current provisions	1,124	1,497	67	0
Trade payables	15	1,101	34	133
Current financial liabilities	6,484	3,601	0	3,887
Current contract liabilities	0	153	0	0
Other current liabilities	5,090	2,836	3,335	2,052
Deferred taxes associated with investments in subsidiaries	0	0	3,080	1,238
Tax loss carryforwards	5,668	8,036	0	0
Tax credits	285	871	0	0
Reclassification to assets held for sale	-7			
Total	**83,050**	**69,865**	**72,979**	**71,069**
Offsetting deferred tax assets against deferred tax liabilities	-59,287	-54,901	-59,287	-54,901
Recognized in the statement of financial position	**23,763**	**14,964**	**13,692**	**16,168**

Deferred taxes totaling EUR 3,131 k (2019: EUR 6,038 k) were recognized in other comprehensive income. Of this amount EUR 3,084 k (2019: EUR 6,019 k) relates to pension provisions and EUR 47 k (2019: EUR 19 k) to exchange rate differences.

11 __ Basic and diluted earnings per share

To obtain the basic earnings per share, the period profit attributable to the shareholders of the parent company is divided by the number of individual shares.

Diluted earnings per share correspond to basic earnings per share and are calculated as follows:

	2020	2019
Profit/loss attributable to the shareholders of ElringKlinger AG (EUR k)	-40,803	4,068
Average number of shares	63,359,990	63,359,990
Earnings per share in EUR	**-0.64**	**0.06**

Disclosures on the Group Statement of Financial Position

12 __ Intangible assets

EUR k	Development costs (internally developed)	Goodwill (purchased)	Patents, licenses, software and similar rights (purchased)	Intangible assets under construction (purchased)	Total
Acquisition/production cost as of Jan. 1, 2020	**59,961**	**179,907**	**53,741**	**338**	**293,947**
Currency changes	-510	-3,162	-314	0	-3,986
Additions	12,351	0	886	471	13,708
Reclassifications	0	0	285	-272	13
Disposals	15,831	0	1,144	0	16,975
Reclassification to assets held for sale	0	1,500	86	0	1,586
As of Dec. 31, 2020	**55,971**	**175,245**	**53,368**	**537**	**285,121**
Write-downs as of Jan. 1, 2020	**30,367**	**13,598**	**41,833**	**0**	**85,798**
Currency changes	-488	-261	-250	0	-999
Additions	12,766	0	2,789	0	15,555
Impairment	0	0	47	0	47
Write-ups	0	0	0	0	0
Disposals	15,826	0	502	0	16,328
Reclassification to assets held for sale	0	0	23	0	23
As of Dec. 31, 2020	**26,819**	**13,337**	**43,894**	**0**	**84,050**
Net carrying amount as of Dec. 31, 2020	**29,152**	**161,908**	**9,474**	**537**	**201,071**

EUR k	Development costs (internally developed)	Goodwill (purchased)	Patents, licenses, software and similar rights (purchased)	Intangible assets under construction (purchased)	Total
Acquisition/production cost as of Jan. 1, 2019	**48,995**	**171,327**	**50,930**	**1,386**	**272,638**
Currency changes	695	8,580	49	0	9,324
Additions	16,695	0	2,082	314	19,091
Reclassifications	0	0	1,590	-1,362	228
Disposals	6,424	0	910	0	7,334
As of Dec. 31, 2019	**59,961**	**179,907**	**53,741**	**338**	**293,947**
Write-downs as of Jan. 1, 2019	**30,431**	**13,523**	**38,377**	**0**	**82,331**
Currency changes	641	75	30	0	746
Additions	5,719	0	4,385	0	10,104
Reclassifications	0	0	0	0	0
Write-ups	0	0	55	0	55
Disposals	6,424	0	904	0	7,328
As of Dec. 31, 2019	**30,367**	**13,598**	**41,833**	**0**	**85,798**
Net carrying amount as of Dec. 31, 2019	**29,594**	**166,309**	**11,908**	**338**	**208,149**

Purchase commitments to acquire intangible assets amounted to EUR 418 k as of December 31, 2020 (December 31, 2019: EUR 1,502 k). All amortization of intangible assets is contained under the following line items in the income statement:

EUR k	2020	2019
Cost of sales	13,079	6,110
Selling expenses	244	1,650
General and administrative expenses	1,587	1,527
Research and development costs	645	817
Total	**15,555**	**10,104**

13 __ Property, plant and equipment

EUR k	Land and buildings	Plant and machinery	Other equipment, furniture and fixtures	Property, plant and equipment under construction	Total
Acquisition/production cost as of Jan. 1, 2020	**562,318**	**1,241,553**	**233,520**	**61,056**	**2,098,447**
Currency changes	-13,516	-39,711	-4,390	-2,824	-60,441
Additions	35,077	24,909	9,415	23,257	92,658
Reclassifications	14,614	32,787	753	-39,392	8,762
Disposals	21,946	28,133	9,095	0	59,174
Reclassification to assets held for sale	2,829	631	244	82	3,786
As of Dec. 31, 2020	**573,718**	**1,230,774**	**229,959**	**42,015**	**2,076,466**
Write-downs as of Jan. 1, 2020	**135,503**	**770,361**	**148,847**	**0**	**1,054,711**
Currency changes	-2,343	-18,964	-2,231	0	-23,538
Additions	22,251	72,521	19,175	0	113,947
Impairment	3,170	19,359	1,642	0	24,171
Reclassifications	5,511	0	0	0	5,511
Disposals	5,945	24,221	7,782	0	37,948
Reclassification to assets held for sale	265	42	34	0	341
As of Dec. 31, 2020	**157,882**	**819,014**	**159,617**	**0**	**1,136,513**
Net carrying amount as of Dec. 31, 2020	**415,836**	**411,760**	**70,342**	**42,015**	**939,953**
Acquisition/production cost as of Jan. 1, 2019	**496,537**	**1,137,450**	**206,816**	**110,727**	**1,951,530**
Adjustment carryforward new standards	39,062	405	5,940	0	45,407
Acquisition/production cost as of Jan. 1, 2019	**535,599**	**1,137,855**	**212,756**	**110,727**	**1,996,937**
Currency changes	4,852	12,968	842	1,785	20,447
Additions	18,400	42,498	21,300	28,334	110,532
Reclassifications	13,510	62,083	3,959	-79,780	-228
Disposals	10,043	13,851	5,337	10	29,241
As of Dec. 31, 2019	**562,318**	**1,241,553**	**233,520**	**61,056**	**2,098,447**
Write-downs as of Jan. 1, 2019	**113,369**	**705,902**	**134,416**	**0**	**953,687**
Adjustment carryforward new standards	0	0	0	0	0
Write-downs as of Jan. 1, 2019	**113,369**	**705,902**	**134,416**	**0**	**953,687**
Currency changes	1,370	7,315	494	0	9,179
Additions	21,260	69,297	18,803	0	109,360
Reclassifications	0	30	-30	0	0
Disposals	496	12,183	4,836	0	17,515
As of Dec. 31, 2019	**135,503**	**770,361**	**148,847**	**0**	**1,054,711**
Net carrying amount as of Dec. 31, 2019	**426,815**	**471,192**	**84,673**	**61,056**	**1,043,736**

For property, plant and equipment (including the right-of-use assets reported under property, plant and equipment), the changes in the expected demand in connection with the transformation process in the automotive industry, as well as the course of the global coronavirus pandemic resulted in lower cash flow forecasts for individual cash-generating units and thus to impairment totaling EUR 24,171 k. They mainly concern the following cash-generating units:

EUR k	South Africa	UK	Italy	Korea	Hungary	Switzer-land	Germany
Land and buildings	130	0	2,917	0	0	0	0
Plant and machinery	667	3,050	580	2,255	0	6,307	3,351
Other equipment, furniture and fixtures	57	1,002	122	243	0	2	194
Value in use	570	-9,121	1,944	-4,671	15,182	77,605	-42,714
WACC	10.3	8.0	9.6	7.9	9.6	7.4	7.4
Impairment not reported pursuant to IAS 36.105	0	13,190	3,910	7,134	12,709	0	10,061

Of the impairment recorded on land and buildings and other equipment, furniture and fixtures, an amount of EUR 3,163 k and EUR 177 k, respectively, is attributable to the right-of-use assets.

The expected cash flows of the respective cash-generating unit are derived from the business plan and comprise the detailed planning period until 2025. The terminal value was calculated using the growth rate of 1%.

However, due to the threshold pursuant to IAS 36,105, a total of EUR 47,004 k of the impairment losses that have been determined was not reported. The incomplete reporting of impairment losses due to IAS 36,105 stems from the higher fair values less costs of disposal allocable to the individual assets, whose calculation is subject to judgment and is mainly based on the estimates of possible stand-alone selling prices.

Impairment losses on property, plant and equipment are to a large extent reported under cost of sales and to a lesser extent under other functional areas.

Purchase commitments to acquire property, plant and equipment from third parties amounted to EUR 14,575 k as of December 31, 2020 (December 31, 2019: EUR 34,212 k).

As regards property, the ElringKlinger Group primarily rents production halls, office space as well as parking spaces. The rented technical equipment primarily comprises machines, which are deployed in production. The operating and office equipment comprises leased vehicles and forklifts. Lease contracts can include extension and termination options. All lease contracts are negotiated individually and contain a number of different conditions.

Right-of-use assets disclosed under property, plant and equipment break down as follows:

EUR k	Land and buildings	Plant and machinery	Other equipment, furniture and fixtures	Total
Acquisition/production cost as of Jan. 1, 2020	**43,110**	**453**	**13,958**	**57,521**
Currency changes	-2,649	-7	-355	-3,011
Additions	29,667	1,484	3,978	35,129
Disposals	2,856	332	1,778	4,966
Reclassification to assets held for sale	1,569	0	83	1,652
As of Dec. 31, 2020	**65,703**	**1,598**	**15,720**	**83,021**
Write-downs as of Jan. 1, 2020	**7,782**	**222**	**3,662**	**11,666**
Currency changes	-673	-5	-193	-871
Additions	9,170	328	4,768	14,266
Impairment	3,046	0	117	3,163
Disposals	1,933	293	1,520	3,746
Reclassification to assets held for sale	232	0	13	245
As of Dec. 31, 2020	**17,160**	**252**	**6,821**	**24,233**
Net carrying amount as of Dec. 31, 2020	**48,543**	**1,346**	**8,901**	**58,790**

EUR k	Land and buildings	Plant and machinery	Other equipment, furniture and fixtures	Total
Acquisition/production cost as of Jan. 1, 2019	**39,062**	**405**	**5,940**	**45,407**
Currency changes	1,170	4	67	1,241
Additions	9,534	281	8,857	18,672
Disposals	6,656	237	906	7,799
As of Dec. 31, 2019	**43,110**	**453**	**13,958**	**57,521**
Write-downs as of Jan. 1, 2019	**–**	**–**	**–**	**–**
Currency changes	44	0	18	62
Additions	8,093	426	4,346	12,865
Disposals	355	204	702	1,261
As of Dec. 31, 2019	**7,782**	**222**	**3,662**	**11,666**
Net carrying amount as of Dec. 31, 2019	**35,328**	**231**	**10,296**	**45,855**

As part of a sale and leaseback transaction, one property was sold and leased back in the reporting year. The transaction resulted in a gain of EUR 298 k. The lessor was granted a lessee loan that accrues over the lease term and amounts to EUR 1,061 k as of the reporting date. As the repayment is directly dependent on the residual value of the property, the lessee loan is to be considered as the residual value guarantee in accordance with IFRS 16 and is included in the amount of the expected claim in the lease liability. At present, ElringKlinger does not expect that it will be claimed. The repayment claim is recognized at fair value through profit or loss and is reported as other financial investment under non-current financial assets.

For further comments on leases, please refer to Note (30), (31) and (32) in the notes to the financial statements.

14 — Investment property

EUR k	Investment property	Investment property under construction	Total
Acquisition/production cost as of Jan. 1, 2020	**8,763**	**11**	**8,774**
Currency changes	0	0	0
Additions	0	0	0
Reclassifications	-8,763	-11	-8,774
Disposals	0	0	0
Reclassification to assets held for sale	0	0	0
As of Dec. 31, 2020	**0**	**0**	**0**
Write-downs as of Jan. 1, 2020	**5,511**	**0**	**5,511**
Currency changes	0	0	0
Additions	0	0	0
Disposals	0	0	0
Reclassifications	-5,511	0	-5,511
Reclassification to assets held for sale	0	0	0
As of Dec. 31, 2020	**0**	**0**	**0**
Net carrying amount as of Dec. 31, 2020	**0**	**0**	**0**
Acquisition/production cost as of Jan. 1, 2019	**28,185**	**106**	**28,291**
Currency changes	-564	-3	-567
Additions	106	261	367
Reclassifications	263	-263	0
Disposals	0	90	90
Reclassification to assets held for sale	19,227	0	19,227
As of Dec. 31, 2019	**8,763**	**11**	**8,774**
Write-downs as of Jan. 1, 2019	**11,724**	**0**	**11,724**
Currency changes	-187	0	-187
Additions	267	0	267
Disposals	0	0	0
Reclassification to assets held for sale	6,293	0	6,293
As of Dec. 31, 2019	**5,511**	**0**	**5,511**
Net carrying amount as of Dec. 31, 2019	**3,252**	**11**	**3,263**

The Idstein industrial park, which was reported under investment property in the previous year, was reclassified to (13) Property, plant and equipment in the financial year. The reclassification was made at the carrying amount of EUR 3,263 k.

15 — Financial assets

EUR k	Non-current securities	Other financial assets	Total
Acquisition cost as of Jan. 1, 2020	**1,619**	**2,016**	**3,635**
Currency changes	-5	0	-5
Additions	0	11,561	11,561
Changes in value	-21	0	-21
Disposals	0	0	0
As of Dec. 31, 2020	**1,593**	**13,577**	**15,170**
Depreciation and amortization as of Jan. 1, 2020	**84**	**0**	**84**
Currency changes	-2	0	-2
Additions	1	0	1
Changes in value	0	0	0
Write-ups	1	0	1
Disposals	0	0	0
As of Dec. 31, 2020	**82**	**0**	**82**
Net carrying amount as of Dec. 31, 2020	**1,511**	**13,577**	**15,088**
Fair value Dec. 31, 2020	1,524	13,577	
Acquisition cost as of Jan. 1, 2019	**729**	**2,016**	**2,745**
Currency changes	-1	0	-1
Additions	1,020	0	1,020
Changes in value	-18	0	-18
Disposals	111	0	111
As of Dec. 31, 2019	**1,619**	**2,016**	**3,635**
Depreciation and amortization as of Jan. 1, 2019	**82**	**0**	**82**
Currency changes	-1	0	-1
Additions	10	0	10
Changes in value	0	0	0
Write-ups	7	0	7
Disposals	0	0	0
As of Dec. 31, 2019	**84**	**0**	**84**
Net carrying amount as of Dec. 31, 2019	**1,535**	**2,016**	**3,551**
Fair value Dec. 31, 2019	1,540	2,016	

Of the non-current securities, EUR 364 k (2019: EUR 309 k) is pledged in full to secure pension claims.

Other financial assets contain an investment in a minority interest of EUR 4,200 k in Aerostack GmbH, based in Dettingen/Erms, Germany. This is an expression of long-term partnership between ElringKlinger AG, based in Dettingen/Erms, Germany, and Airbus Operations GmbH, based in Hamburg, Germany, in the field of fuel cell technology with the aim of jointly developing and validating fuel cell stacks suitable for aviation. The investment constitutes an equity instrument in which ElringKlinger has invested in for strategic reasons.

It has been allocated to the FVtPL (Fair Value to Profit and Loss) measurement category. The investment is measured at fair value through profit or loss, gains and losses from the fair value measurement are reported in the net income.

Furthermore, other financial assets contain a bullet, interest-free, non-tradable or transferable promissory note against this company. If any capital increases take place, these are allocated proportionally to the respective company's equity. The promissory note represents a portion of the compensation that ElringKlinger receives for licensing. The fair value amounts to EUR 6,300 k as of the reporting date and is allocated to the FVtPL measurement category.

16 — Non-current income tax assets and other non-current assets

Non-current income tax assets include an investment income tax credit carried by ElringKlinger Automotive Components (India) Pvt. Ltd., based in Ranjangaon, India, of EUR 335 k (2019: EUR 295 k).

Other non-current assets include a receivable of ElringKlinger do Brasil Ltda., based in Piracicaba, Brazil, of EUR 1,227 k (2019: EUR 1,785 k), which results from a tax recoverable from the Brazilian government. This will be offset against the ongoing local tax gradually over a period of one year.

Other non-current assets also include a receivable due to a warranty event of EUR 750 k (2019: EUR 750 k).

17 — Costs to fulfill a contract

In accordance with IFRS 15, costs associated with fulfilling contracts with customers are capitalized if certain requirements are satisfied. As of December 31, 2020, the carrying amount of costs to fulfill a contract have increased to EUR 9,784 k (December 31, 2019: EUR 9,428 k).

18 — Non-current and current contract assets

As of December 31, 2020, the rolled forward carrying amount of the contract assets came to EUR 10,442 k (December 31, 2019: EUR 12,403 k). No significant events for impairment pursuant to IFRS 9 were identified.

19 — Inventories

EUR k	Dec. 31, 2020	Dec. 31, 2019
Raw materials, consumables and supplies	101,147	124,768
Work in progress	62,877	66,747
Finished goods and merchandise	128,383	155,953
Advance payments	8,096	9,009
Total	**300,503**	**356,477**

Impairments of EUR 18,766 k were recognized on inventories due to market risks and obsolescence (2019: EUR 17,765 k). Impairments and write-ups of inventories are recognized in cost of sales.

20 — Trade receivables, current income tax assets and other current assets

For trade receivables, valuation allowances of EUR 9,443 k (2019: EUR 3,708 k) were recognized for future credit risks.

The carrying amount of the trade receivables and other assets corresponds to their fair values.

Trade receivables do not bear interest and are generally due in 30 to 120 days.

Movements in the bad debt allowance for trade receivables and current assets are presented in the table below:

EUR k	2020	2019
As of Jan. 1	3,708	3,492
Additions	6,005	770
Reversals/utilizations	-586	-541
Change of risk parameters (IFRS 9)	459	0
Exchange rate effects	-143	-13
As of Dec. 31	**9,443**	**3,708**

Risk provisioning in the course of the coronavirus pandemic was accounted for by adjusting the risk parameters as well as a dedicated substantive test for affected customers. Subsequently, risk provisions of EUR 4,475 k were recognized in the financial year due to customers who are vulnerable to insolvency.

As of December 31, 2020, trade receivables with a carrying amount of EUR 60,839 k (2019: EUR 60,448 k) were sold as part of an ABCP program (Asset Backed Commercial Papers).

In the reporting period, receivables currently in execution with a carrying amount of EUR 586 k (2019: EUR 515 k) have been written off.

The impairment model takes into account the expected credit losses (expected credit loss model (ECL), where mainly forward-looking information is used. ElringKlinger applies the simplified impairment model of IFRS 9 and considers the lifetime expected losses from all receivables and active contract items.

The ratings from Standard & Poor’s (S&P) or other well-known rating agencies are used as the basis for the impairment model. Future impairments are determined using these ratings and with the help of probability of default, also published by S&P.

The risk categories used for the model are also used as internal risk categories:

Internal credit rating	External rating by S&P	Probability of default	Basis for the recognition of the risk provision	Gross carrying amount
High creditworthiness	AAA – A	0.0%	Lifetime expected credit loss	18,617
Medium creditworthiness	BBB – B	0.0% – 11.0%	Lifetime expected credit loss	214,759
Low creditworthiness	CCC – C	11.0% – 50.0%	Lifetime expected credit loss	3,076
Default	D	50.0% – 100.0%	Impairment of assets	4,240
Risk provision pursuant to IFRS 9				9,443
Total				**231,249**

Current income tax assets mainly contain the corporate income tax credits of ElringKlinger México, S.A. de C.V., based in Toluca, Mexico, of EUR 3,102 k (2019: EUR 4,240 k) and ElringKlinger TR Otomotiv Sanayi ve Ticaret A.S., based in Bursa, Turkey, of EUR 1,506 k (2019: EUR 1,278 k).

Other current assets include tax receivables from VAT and other taxes of EUR 7,350 k (2019: EUR 18,240 k), time deposits and securities of EUR 10,522 k (2019: EUR 8,724 k) and other receivables from third parties including claims from the sale of receivables of EUR 53,565 k (2019: EUR 61,720 k), of which EUR 4,117 k (2019: EUR 12,920 k) relates to financial assets, EUR 14,298 k (2019: EUR 15,882 k) to other assets from factoring and EUR 8,607 k (2019: EUR 832 k) to financial derivatives.

21 — Cash and cash equivalents

The item cash and cash equivalents comprises cash and deposits held by the Group in current accounts. As in the previous year, there were no cash equivalents. No significant events for impairment pursuant to IFRS 9 were identified.

The carrying amount of these assets corresponds to their fair value.

22 — Assets and liabilities held for sale

The Group primarily focuses its strategic direction on areas of the future: lightweighting, electromobility, electric drive systems and fuel cell technology. Against this background, in the future the Group will work together with the French automotive supplier Plastic Omnium, based in Levallois, France, to further accelerate the hydrogen-based fuel cell technology. In October 2020, the Group reached an agreement with Plastic Omnium on the sale in full of the subsidiary ElringKlinger Fuelcell Systems Austria GmbH, based in Wels, Austria, which specializes in fuel cell technology solutions, for a purchase price of EUR 13,449 k. The acquisition agreement was signed on October 28, 2020. The closing of the transaction was completed on March 1, 2021; explanations have been provided under subsequent events.

The assets and liabilities of ElringKlinger Fuelcell Systems Austria GmbH allocated to the Original Equipment segment were reclassified to assets and liabilities held for sale in accordance with IFRS 5.

EUR k	Dec. 31, 2020
Intangible assets	1,563
Property, plant and equipment	3,443
Other non-current assets	60
Deferred tax assets	7
Non-current assets	**5,073**
Inventories	101
Other current assets	61
Cash and cash equivalents	14
Current assets	**176**
ASSETS	**5,249**
Non-current provisions	4
Non-current financial liabilities	1,244
Non-current provisions and liabilities	**1,248**
Trade payables	309
Current financial liabilities	158
Tax payable	38
Other current liabilities	166
Non-current provisions and liabilities	**671**
LIABILITIES AND EQUITY	**1,919**

23 — Equity

The changes in individual items of equity in the Group are shown separately in the "Statement of changes in equity".

The share capital of ElringKlinger AG amounted to EUR 63,359,990 as of December 31, 2020 and is divided into 63,359,990 registered shares, each entitled to a single vote. The share capital is paid in full. Each registered share represents a theoretical interest of EUR 1.00 of the share capital. Profit is distributed in accordance with Section 60 German Stock Corporation Act (Aktiengesetz, AktG) in conjunction with Section 23 no. 1 of the Articles of Association.

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the Company's share capital by issuing new shares for cash and/or in-kind contributions on one or more occasions, however by no more than EUR 31,679,995, by May 17, 2022 (Authorized Capital 2017). As a rule, the shareholders are entitled to subscription rights. The shares may also be acquired by one or more banks subject to the provision that they offer them to the shareholders for subscription. However, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude shareholder subscription rights

- in order to eliminate fractional amounts;
- if the capital increase against in-kind contributions is implemented specifically for the purpose of acquiring companies, parts of companies, equity investments classified as fixed financial assets or other assets in connection with an intended acquisition or within the framework of business combinations and the shares issued excluding the subscription rights do not exceed 10% of the capital stock, either on the date on which this authorization takes effect or on the date on which it is exercised;

- if the new shares are issued against cash contributions and if the issue price per new share does not fall significantly below the quoted price of shares already listed, and the shares issued without subscription rights pursuant to Section 186 (3) sentence 4 AktG, do not represent more than 10% of the share capital, either on the date on which this authorization takes effect or on the date on which it is exercised. The upper limit of 10% of share capital includes any shares issued or sold during the term of this authorization in exclusion of shareholders' subscription rights in direct or indirect application of Section 186 (3) sentence 4 AktG.

The Management Board has not exercised the authorization to date.

The capital reserves were essentially created from the premium from the 2010 capital increase.

The revenue reserves contain the earnings generated by the group companies which have not yet been distributed. There is also an amount of EUR 26,181 k arising from the first application of IFRSs in 2005.

Other reserves contain remeasurements of defined benefit plans, equity impact of controlling interests and currency translation differences.

Under the AktG, the distributable dividend is measured by the sum of retained earnings and the profit or loss for the year, as shown in the annual financial statements of ElringKlinger AG that have been drawn up according to the provisions of the German Commercial Code (HGB). In view of the Group's earnings performance in the financial year 2019, the Management Board and the Supervisory Board have jointly agreed to depart from the Group's established dividend policy and to suspend the dividend for the financial year 2019. Accumulated loss of EUR 11,566 k is reported in the financial year 2020 (2019: EUR 17,112 k). Therefore, the Management Board and Supervisory Board have decided jointly again not to distribute a dividend for the financial year 2020. The loss will carried forward to new account.

24 — Non-controlling interests in equity and net income

ElringKlinger AG holds less than 100% of the shares in some of the companies that have been included in the consolidated financial statements. In accordance with IFRS 10, the relevant non-controlling interests are reported under equity in the group statement of financial position, separately from the equity attributable to the shareholders of the parent company. Similarly, non-controlling interests in the net income and in total comprehensive income are reported separately in the group income statement and in the consolidated statement of comprehensive income.

25 — Provisions for pensions

The pension obligations of most of the Group's foreign companies mainly take the form of defined contribution plans while in the case of domestic companies and the group company in Switzerland, pension obligations take the form of defined benefit and defined contribution plans.

Under the **defined contribution plans** the Company pays contributions to state or private pension schemes on the basis of statutory or contractual obligations or on a voluntary basis. Once the contributions are paid, the Company has no further obligations, such as follow-up contribution payments. Current contribution payments are reported under personnel expenses in the reporting year; in the reporting year, the Group's contribution payments totaled EUR 27,033 k (2019: EUR 26,589 k) and are allocated to the relevant function costs.

The Group accounts for **defined benefit plans** by creating provisions for pensions that are calculated using the projected unit credit method pursuant to IAS 19. Under the defined benefit plans, the employees receive life-long pension payments once they have reached a certain age or suffered disability. In addition, surviving dependents also receive benefits. The amount of the benefit is determined by the number of years with the Company and the final salary. For employees subject to collective bargaining, the eligible service period is limited to 30 years. For executive employees, the benefit is limited to 35% or 45% of the terminal salary, whereby in certain cases the benefits from prior commitments do not count towards this limit.

In the financial year 2011, the ElringKlinger AG's pension system was partially modified. In order to secure pension payments going forward, the obligations to certain executive employees were transferred to Allianz Pensionsfonds AG, Stuttgart, and a provident fund covered by plan assets, the Allianz Pensions-Management e. V., Stuttgart. This does not affect the amount of benefits. The assets received by the pension fund constitute plan assets within the meaning of IAS 19.8 and are therefore netted against the obligation to the plan beneficiaries.

The pension plans of the Swiss Group company insure employees against the economic consequences of old age, disability and death. The pension benefits not covered by plan assets are covered by employer's pension liability insurance. No shortfall can arise from an agreement on an insured pension fund.

The obligations from the benefits granted are subject to certain risks. The main risks are interest rate risks, where falling market interest rates lead to a higher present value of the obligation in the future, inflation risks, which may lead to higher pension benefits and longevity risks where benefits are paid over a period longer than the one assumed in the mortality tables.

The following assumptions were used as a basis for measuring the Group's obligations.

Measurement as of	**Dec. 31, 2020**	**Dec. 31, 2019**
Discount rate (vesting period)	0.48%	0.90%
Discount rate (pension period)	0.37%	0.74%
Expected salary increases	2.70%	2.69%
Future pension increases	1.21%	1.50%

The changes in the present value of the defined benefit obligation are as follows:

EUR k	**2020**	**2019**
Present value of pension benefits as of Jan. 1	**178,167**	**152,966**
Current service cost	5,104	5,417
Plan participant contributions	1,477	1,847
Interest expense	1,444	2,513
Disbursements/utilization	-7,319	-7,507
Actuarial gains/losses	10,850	21,911
Past service cost	-1,672	0
Currency differences	-145	994
Other changes	57	26
Present value of pension benefits as of Dec. 31	**187,963**	**178,167**
of which (partially) covered by plan assets	60,499	58,765
of which not covered	127,464	119,402

The average weighted term of the defined benefit obligation amounts to 19 years (2019: 19 years).

Actuarial gains and losses arise from the following effects:

EUR k	2020	2019
Effects from changes in the interest rate	12,645	23,318
Effects from changes in demographic assumptions	15	-47
Effects from other experience-based adjustments	-1,810	-1,360
Actuarial gains/losses	**10,850**	**21,911**

The table below shows the changes to the plan assets over the course of the financial year:

EUR k	2020	2019
Market value as of Jan. 1	**29,952**	**28,565**
Interest income	159	334
Employer contributions	2,571	2,250
Plan participant contributions	1,477	1,847
Service costs	-3,411	-3,796
Actuarial gains/losses	190	9
Currency effects	90	743
Market value as of Dec. 31	**31,028**	**29,952**

Plan assets comprise insurance claims. The plan assets and present values of defined benefit obligations are allocated to key countries as follows:

EUR k	2020	2019
Present value of pension benefits as of Dec. 31		
Germany	151,812	142,096
Switzerland	30,096	29,943
Other	6,055	6,128
Present value of pension benefits as of Dec. 31	**187,963**	**178,167**
Market value of plan assets as of Dec. 31		
Germany	9,695	8,453
Switzerland	20,859	21,001
Other	474	498
Market value of plan assets as of Dec. 31	**31,028**	**29,952**

The actual return on plan assets amounts to EUR 350 k (2019: EUR 347 k).

In 2021, liquidity is likely to be reduced due to contributions to plan assets and by direct Group benefit payouts, which are expected to amount to EUR 4,182 k (2020: EUR 6,494 k). The future payments from pension obligations are as follows:

EUR k	2020	2019
For the next 12 months	4,182	6,494
Between one and five years	15,432	65,274
More than five years	238,682	257,853

The following amounts are reported in the income statement for defined benefit plans:

EUR k	2020	2019
Current service cost	5,104	5,417
Net interest expenses	1,284	2,179
Past service cost	-1,671	0
Administrative expenses plan assets	15	0
Total pension expense	**4,732**	**7,596**

Net interest expenses comprise interest expenses of EUR 1,444 k (2019: EUR 2,513 k) as well as interest income from plan assets of EUR 159 k (2019: EUR 334 k).

The current and past service cost is reported as part of the personnel expenses of the functional areas.

The full amount of actuarial gains and losses during the current year is reported under other comprehensive income. Changes are shown in the table below:

EUR k	2020	2019
Actuarial gains (–) and losses (+) recognized in other comprehensive income	10,660	21,911
Deferred taxes on actuarial gains (–) and losses (+) recognized under other comprehensive income	-3,084	-6,019

The amount of the Group's obligation as reported on the statement of financial position is derived as follows:

EUR k	2020	2019
Present value of the pension obligation	187,963	178,167
Fair value of plan assets	31,028	29,952
Reported pension provision	156,935	148,215

With regard to sensitivities, the key actuarial assumptions determined were the discount rate, salary increases and future pension developments.

A 0.5% increase/decrease in the discount rate would lead to a decrease/increase in the DBO of EUR 30,866 k/EUR 35,630 k.

A 0.5% increase/decrease in future salary increases would lead to an increase/decrease in the DBO of EUR 3,209 k/EUR 3,052 k.

A change in future pension developments of +0.25%/-0.25% would lead to an increase/decrease in the DBO of EUR 7,783 k/EUR 7,409 k.

26 — Other provisions

Other provisions can be broken down as follows:

EUR k	Dec. 31, 2020	Dec. 31, 2019
Current provisions	26,905	17,713
Non-current provisions	19,793	18,503
Total	**46,698**	**36,216**

Current provisions:

EUR k	Personnel obligations	Warranty obligations	Onerous contracts	Litigation costs	Other risks	Total
As of Dec. 31, 2019	**2,294**	**7,780**	**4,614**	**121**	**2,904**	**17,713**
Currency changes	-10	-448	-55	-5	-98	-616
Utilization	489	6,436	4,211	0	1,328	12,464
Reversal	86	276	122	62	414	960
Unwinding of the discount/ discounting	-4	0	0	0	0	-4
Additions	1,299	4,644	6,710	1,385	8,865	22,903
Reclassifications	0	200	0	0	133	333
Held for sale	0	0	0	0	0	0
As of Dec. 31, 2020	**3,004**	**5,464**	**6,936**	**1,439**	**10,062**	**26,905**

Current warranty obligations are counterbalanced by insurance reimbursements claims of EUR 147 k (2019: EUR 4,670 k). They are reported under other current assets. Provisions for other risks cover, among other things, the customs duty audit in the US of EUR 4,890 k as well as subsequent, volume-based price credit notes to customers of EUR 1,844 k.

Non-current provisions:

EUR k	Personnel obligations	Warranty obligations	Litigation costs	Other risks	Total
As of Dec. 31, 2019	**14,576**	**1,663**	**15**	**2,249**	**18,503**
Currency changes	-71	-16	0	-461	-548
Utilization	523	30	0	0	553
Reversal	55	35	0	42	132
Unwinding of the discount/discounting	66	0	0	0	66
Additions	2,702	5	0	87	2,794
Reclassifications	0	-200	0	-133	-333
Held for sale	-4	0	0	0	-4
As of Dec. 31, 2020	**16,691**	**1,387**	**15**	**1,700**	**19,793**

Non-current warranty obligations are counterbalanced by a claim of insurance reimbursement in the amount of EUR 750 k (2019: EUR 750 k), which is reported under other non-current assets.

Personnel provisions are recognized for phased retirement schemes, long-term service benefits and similar obligations.

The provision for warranties represents the most current estimate of management and was recognized on the basis of past experience and the industry average for defective products with regard to the Group's liability for a warranty of twelve months. In addition, specific individual warranties were taken into account.

The other risks relate to a variety of identifiable individual risks and uncertain obligations, which have been recognized as they are more likely than not to lead to an outflow of resources.

27 Non-current and current financial liabilities

EUR k	Domestic (Germany)	Foreign	Total Dec. 31, 2020	Domestic (Germany)	Foreign	Total Dec. 31, 2019
Overdrafts	43,636	1,227	44,863	11,631	4,262	15,893
Lease liabilities with a residual term of less than one year	3,834	8,790	12,624	2,847	8,202	11,049
Financial liabilities with a residual term of less than one year	96,605	51,165	147,770	80,096	53,269	133,365
Current financial liabilities	**144,075**	**61,182**	**205,257**	**94,574**	**65,733**	**160,307**
Lease liabilities with a residual term of more than one year and less than five years	6,403	21,100	27,503	3,851	21,114	24,965
Financial liabilities with a residual term of more than one year and less than five years	232,132	83,492	315,624	412,057	96,711	508,768
Lease liabilities with a residual term of more than five years	7,797	16,186	23,983	198	10,495	10,693
Financial liabilities with a residual term of more than five years	24,810	0	24,810	25,990	0	25,990
Non-current financial liabilities	**271,142**	**120,778**	**391,920**	**442,096**	**128,320**	**570,416**
Total	**415,217**	**181,960**	**597,177**	**536,670**	**194,053**	**730,723**

Lease liabilities from IFRS 16 are described in more detail in Note (30) Hedging policy and financial instruments.

The average interest rates were:

in %	Dec. 31, 2020	Dec. 31, 2019
Overdrafts:		
Domestic (Germany)	1.25	4.08
Foreign	1.92	3.06
Financial liabilities:		
Domestic: less than one year	1.28	1.69
Domestic: more than one year and less than five years	1.69	1.68
Domestic: more than five years	2.08	1.85
Foreign: less than one year	3.05	3.50
Foreign: more than one year and less than five years	3.97	3.73
Foreign: more than five years		

Fixed interest rates have been agreed for financial liabilities amounting to EUR 416,257 k (2019: EUR 446,349 k).

Land charges on company land with a carrying amount of EUR 129,980 k (2019: EUR 130,694 k) are recognized as collateral. The secured liabilities amounted to EUR 20,188 k (2019: EUR 38,291 k) as of December 31, 2020.

As of December 31, 2020, the Group had unused lines of credit amounting to EUR 236,026 k (2019: EUR 150,487 k).

On February 15, 2019, ElringKlinger AG concluded a syndicated loan with a banking syndicate of six national and international banks, which was joined by one more bank during 2019. The syndicate comprises Commerzbank, Landesbank Baden-Württemberg and Deutsche Bank, who have arranged the financing jointly. In addition, DZ Bank, HSBC, Banque Européenne du Crédit Mutuel and Crédit Suisse (Schweiz) AG are also involved. The agreement comprises a total volume of EUR 350 million over a minimum term of five years. EUR 139,577 k had been drawn as of December 31, 2020 (2019: EUR 235,253 k).

28 — Current and non-current contract liabilities

Contract liabilities include long-term prepayments for customer-specific provisions of additional production capacity and short-term prepayments for customer-specific tools. As of December 31, 2020, the carrying amount of contract liabilities came to EUR 38,768 k (December 31, 2019: EUR 31,992 k). The increase in current contract liabilities in the financial year 2020 was mainly due to the change in prepayments received on account of orders of customer-specific systems and tools of EUR 10,569 k. By contrast, non-current liabilities decreased by EUR 4,388 k.

29 — Trade payables and other current and non-current liabilities

Trade payables and other non-current and current liabilities include open obligations from the exchange of goods and services.

The carrying amounts of trade payables approximate their fair value.

The trade payables and other current and non-current liabilities are not secured except for the retentions of title that are customary in trading relationships.

Other current liabilities from third parties contain financial liabilities of EUR 55,508 k (2019: EUR 51,882 k).

As of December 31, 2020, government grants of EUR 5,918 k (2019: EUR 6,231 k) were recognized as deferred income. This includes an investment allowance and a repayment allowance for a loan. These grants were provided for property, plant and equipment, particularly buildings and machinery at the locations in Dettingen/Erms, Germany, and Kecskemét-Kádafalva, Hungary. In the reporting period, a total of EUR 286 k (2019: EUR 313 k) of the deferred item was released through profit or loss. The release takes place in cost of sales.

30 — Hedging policy and financial instruments

Risks and hedging policy

As a consequence of the international nature of the activities of the ElringKlinger Group, changes in exchange rates, interest rates and prices of raw materials impact the financial performance, net assets and cash position of the Group. The risks arise from currency and interest rate fluctuations in connection with business operations and financing. Further risks result from fluctuations in the market prices of raw materials. Additionally, there are liquidity risks which relate to credit and market risks or accompany a deterioration of business operations and financial market turmoil.

By concluding hedges, the Management Board of ElringKlinger AG aims to manage the risk factors that may adversely affect the financial performance, net assets and cash position and thus to minimize these influences. Within the ElringKlinger Group, derivative financial instruments may only be entered into with the consent of the Management Board. Hedge accounting in accordance with IFRS 9 was not applied.

Currency risk

Due to the international nature of its business, the ElringKlinger Group is exposed to currency risks in the normal course of business.

Exchange rate risk arises for the Group in relation to its operating business principally when sales revenue is generated in a currency other than that in which the related costs are incurred. Sales revenue is generally generated in the functional currency (which is the relevant local currency) of the Group entity concerned. In order to reduce currency risks from operating business, the purchases of goods, raw materials and services as well as investing and financing activities are generally accounted for in the functional currency of the group entity. The group also endeavors to minimize its foreign currency risk by manufacturing its products in the relevant local sales markets.

Furthermore, to reduce the exchange rate risk, the central treasury department uses hedging instruments depending on the requirement and the risk profile. Subsidiaries are not permitted to take out financing in foreign currency or to invest it for speculative reasons. Intercompany financing and investment is usually denominated in the relevant functional currency.

Several ElringKlinger AG subsidiaries are domiciled outside the euro area. Since the euro is the reporting currency of the ElringKlinger Group, the income and expenses of these subsidiaries are translated into euros upon consolidation. Changes in the closing rates and changes in the closing rates compared to the average rates and historical rates can give rise to currency translation effects that are reflected in the equity of the Group under other comprehensive income.

Due to the inclusion of subsidiaries, the group also recognizes assets and liabilities relating to these subsidiaries outside of the euro area that are denominated in national currencies. When these assets are translated into euros, exchange rate fluctuations can lead to changes in value. The changes in these net assets are reflected in group equity under other comprehensive income.

A sensitivity analysis has been conducted in order to quantify the potential effects of exchange rate changes on consolidated net income. This analysis illustrates the change in consolidated net income in the event that the relevant functional currency of the Group companies appreciates or depreciates by 10% as compared to the foreign currency.

Dec. 31, 2020
EUR k

Local currency	EUR	CHF	MXN	USD	GBP	Other	Total
Local currency +10%							
Consolidated net income	-10,893	2,954	2,759	1,987	1,189	2,619	615
Local currency -10%							
Consolidated net income	9,244	-2,954	-2,759	-1,987	-1,189	-2,619	-2,264

Dec. 31, 2019
EUR k

Local currency	EUR	MXN	USD	GBP	BRL	Other	Total
Local currency +10%							
Consolidated net income	-9,171	4,999	3,086	1,101	677	2,340	3,032
Local currency -10%							
Consolidated net income	8,990	-4,999	-3,086	-1,101	-677	-2,340	-3,213

Interest rate risk

Interest rate risk arises primarily from financial liabilities that are subject to a floating rate of interest. The Group manages interest rate risk with the objective of optimizing its interest income and expense.

Fixed interest rates have been agreed mainly for the financing liabilities of the ElringKlinger Group. As a result, the risk arising from interest rate fluctuations is only slight.

Had market interest rates been 30 basis points higher as of December 31, 2020, earnings would have been EUR 361 k (2019: EUR 509 k) lower. Had market interest rates been 30 basis points lower, earnings would have been EUR 107 k (2019: EUR 191 k) lower.

Risk arising from prices for raw materials

ElringKlinger is exposed to risks from changes in the prices for the raw materials it uses in production. In order to mitigate fluctuations in the purchase prices for raw materials, ElringKlinger has entered into nickel hedges. Where necessary, it is possible to secure acceptable procurement prices by means of additional derivatives.

ElringKlinger processes a significant volume of high-grade stainless steels. This includes alloy surcharges, in particular for nickel, which is a listed metal subject to market price fluctuations. ElringKlinger uses derivative financial instruments to hedge portions of alloy surcharges assessed in cost calculations. A price corridor surrounding the average calculation cost is hedged. If the quoted exchange price of nickel exceeds the upper range of the corridor, ElringKlinger receives a compensatory payment. If the quoted exchange price of nickel falls below the lower range of the corridor, ElringKlinger has to pay a surcharge. As of the reporting date, there were three nickel hedges for a total of 180 metric tons of nickel. One nickel hedge ends on April 30, 2021, the two other end on June 30, 2021 and August 31, 2021.

The Group manages the credit risk of derivatives by entering into derivative financial transactions exclusively with major banks of impeccable creditworthiness in accordance with uniform guidelines.

Had the market value of nickel been 10% higher on December 31, 2020, earnings would have been EUR 181 k higher (2019: EUR 0 k). A 10% decrease in the market value would have resulted in a decrease in earnings of EUR 202 k (2019: EUR 0 k).

Credit risk

Credit risk defines the risk of economic loss arising from a counterparty's failure to satisfy contractual payment obligations.

Credit risk involves both the direct risk of default and the risk of a deterioration in creditworthiness as well as risks of a concentration of individual risks. The maximum risk exposures of financial assets generally subject to credit risk correspond to their carrying amounts and can be described as follows:

Liquid funds

Liquid funds comprise primarily bank deposits available on demand. The ElringKlinger Group is exposed to losses from credit risks in connection with the investment of liquid funds if financial institutions fail to meet their obligations (counterparty risk). In order to minimize this risk, care is taken in selecting the financial institutions at which deposits are made. The maximum risk exposure corresponds to the carrying amount of the liquid funds at the end of the reporting period.

Trade receivables

Trade receivables relate primarily to the global sales of gaskets, sealing materials, plastic products and modules for the automotive sector and for the manufacturing industry in general. Credit risk resides in the possibility of counterparty default, and is characterized by the Group's customer base, which includes a number of key accounts.

In domestic business, most receivables are secured by retention of title. In order to limit credit risk, credit checks in the form of inquiries with credit information services are performed for selected counterparties. Moreover, internal processes are in place to continually monitor receivables where partial or complete default may be anticipated.

As part of an ABCP program, the ElringKlinger Group sells a part of trade receivables to a structured entity. The sale will be on a revolving basis at the nominal value of receivables less variable reserves. The financing volume committed under the ABCP program is EUR 100 million. The structured entity is not controlled and therefore not consolidated.

As of December 31, 2020, trade receivables with a carrying amount of EUR 60,839 k (2019: EUR 60,448 k) were sold. They were derecognized with the exception of the ongoing interest of EUR 1,217 k (2019: EUR 1,207 k). A corresponding liability was recognized in the same amount. In connection with the provisional withholding of variable reserves, other current assets of EUR 14,297 k are reported as of December 31, 2020 (2019: EUR 15,882 k). In addition, customers payments received for receivables sold, which are yet to be forwarded to the purchaser, of EUR 22,594 k (2019: EUR 16,075 k) are reported under other current liabilities.

In its export business, ElringKlinger also assesses the credit standing of its counterparties by submitting inquiries to credit information services and on the basis of the specific country risk. In addition, credit insurance policies are taken out or letters of credit are required in certain cases. Trade receivables of EUR 20,652 k (2019: EUR 10,645 k) are secured by credit insurance policies.

Allowances are also recognized in respect of identifiable individual risks. The maximum risk exposure from trade receivables corresponds to the carrying amount of these receivables at the end of the reporting period. The carrying amounts of trade receivables, together with disclosures on valuation allowances, can be found under Note (20).

In 2020, the two largest customers accounted for 10.2% and 8.9% of sales (2019: 10.5% and 9.8%).

Liquidity risk

The solvency and liquidity of the ElringKlinger Group is constantly monitored by liquidity planning. Furthermore, a cash liquidity reserve and guaranteed credit lines ensure solvency and liquidity. Reference is also made to the financing risks presented in the risk report as part of the group management report of the ElringKlinger Group (Opportunity and risk report – Financial risks– Liquidity and financing risks).

Expected cash outflows

The following table shows all contractually fixed payments for redemptions, repayments and interest from financial liabilities recognized in the statement of financial position, including derivative financial instruments that have a negative market value.

EUR k	Trade payables	Financial liabilities	Liabilities from IFRS 16	Derivatives	Other current liabilities	Total
As of Dec. 31, 2020						
Carrying amount	**128,920**	**533,067**	**64,110**	**0**	**55,508**	**781,605**
Expected outflows:	**128,920**	**535,838**	**68,622**	**0**	**55,508**	**788,888**
– less than one month	64,546	5,246	1,082	0	0	70,874
– between one and three months	62,298	12,446	2,164	0	11,754	88,662
– between three months and one year	1,374	174,856	9,739	0	43,754	229,723
– between one and five years	344	318,480	29,949	0	0	348,773
– more than five years	358	24,810	25,688	0	0	50,856

EUR k	Trade payables	Financial liabilities	Liabilities from IFRS 16	Derivatives	Other current liabilities	Total
As of Dec. 31, 2019						
Carrying amount	**157,119**	**684,015**	**46,707**	**1,210**	**51,882**	**940,933**
Expected outflows:	**157,119**	**690,905**	**52,203**	**1,210**	**51,882**	**953,319**
– less than one month	100,688	23,223	998	0	0	124,909
– between one and three months	51,835	29,086	2,007	0	15,144	98,072
– between three months and one year	2,998	101,022	9,048	1,210	36,738	151,016
– between one and five years	1,298	500,585	28,089	0	0	529,972
– more than five years	300	36,989	12,061	0	0	49,350

Further disclosures on financial liabilities are provided under Note (27).

31 — Additional information on financial instruments

This section provides a comprehensive overview of the significance of financial instruments and offers additional information on line items of the statement of financial position containing financial instruments. No recognized financial instruments were offset.

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

EUR k	Cash and cash equivalents CA	Trade receivables CA	Other current assets CA
As of Dec. 31, 2020			
Financial assets measured at amortized cost	127,852	231,249	14,639
Financial assets at fair value through profit or loss	0	0	0
Financial assets at fair value through other comprehensive income	0	0	0
Total	**127,852**	**231,249**	**14,639**
As of Dec. 31, 2019			
Financial assets measured at amortized cost	135,450	233,231	22,294
Financial assets at fair value through profit or loss	0	0	0
Financial assets at fair value through other comprehensive income	0	0	0
Total	**135,450**	**233,231**	**22,294**

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

EUR k	Other current liabilities CA	Current financial liabilities CA	Short-term lease liabilities IFRS 16 CA	Trade payables CA
As of Dec. 31, 2020				
Financial liabilities measured at amortized cost	55,508	192,633	12,624	128,920
Financial liabilities measured at fair value through profit or loss	0	0	0	0
As of Dec. 31, 2019				
Financial liabilities measured at amortized cost	51,882	149,181	11,049	157,119
Financial liabilities measured at fair value through profit or loss	0	0	0	0

	Derivatives	Non-current securities		Other financial assets		Total
	CA	CA	FV	CA	FV	CA
	0	1,438	1,451	2,008	2,008	377,186
	8,607	0	0	11,561	11,561	20,168
	0	73	73	8	8	81
	8,607	**1,511**	**1,524**	**13,577**	**13,577**	**397,435**
	0	1,438	1,443	2,008	2,008	394,421
	832	0	0	0	0	832
	0	97	97	8	8	105
	832	**1,535**	**1,540**	**2,016**	**2,016**	**395,358**

	Derivatives		Non-current financial liabilities		Long-term lease liabilities IFRS 16	Total
	CA	FV	CA	FV	CA	CA
	0	0	340,434	329,093	51,486	781,605
	26	26	0	0	0	26
	0	0	534,724	489,862	35,658	939,613
	1,210	1,210	0	0	0	1,210

Management determined that the carrying amounts of cash, trade receivables, other current assets, trade payables, other current financial liabilities and other current liabilities are virtually the same as their fair value, primarily as a result of the short-term nature of these instruments.

Other current assets also include time deposits and securities of EUR 10,522 k (December 31, 2019: EUR 8,724 k).

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

Other current liabilities contain a liability of EUR 36,913 k (December 31, 2019: EUR 30,252 k) resulting from the written put option on non-controlling interests of ElringKlinger Marusan Corporation, Tokyo, Japan. The obligation that results from this agreement is measured at acquisition cost in the amount of its fair value. The fair value is calculated using internal estimates made when forecasting business development as well as when selecting the interest rate used regarding the liability recognized. A 10% change in the business value causes the put option to increase/decrease by approximately EUR 3,691 k (December 31, 2019: EUR 3,025 k).

Equity instruments of the measurement category **at fair value recognized through other comprehensive income:**

EUR k	Fair value Dec. 31, 2020	Fair value Dec. 31, 2019
Non-current securities	73	97
Other financial assets	8	8
Total	**81**	**105**

Financial assets and liabilities measured at fair value are classified into the following 3-level fair value hierarchy as of the valuation date December 31, 2020:

EUR k	Level 1	Level 2	Level 3
Dec. 31, 2020			
Financial assets			
Non-current securities	73	0	0
Other financial assets	8	0	11,561
Derivatives*	0	8,607	0
Total	**81**	**8,607**	**11,561**
Financial liabilities			
Derivatives*	0	26	0
Total	**0**	**26**	**0**

EUR k	Level 1	Level 2	Level 3
Dec. 31, 2019			
Financial assets			
Non-current securities	97	0	0
Other financial assets	8	0	0
Derivatives*	0	832	0
Total	**105**	**832**	**0**
Financial liabilities			
Derivatives*	0	1,210	0
Total	**0**	**1,210**	**0**

* These are derivatives which do not meet the prerequisites for hedge accounting.

The following table presents the allocation of financial assets and liabilities not measured at fair value, but for which fair value is disclosed, to the 3-level fair value hierarchy as of the measurement date December 31, 2020:

EUR k	Level 1	Level 2	Level 3
Dec. 31, 2020			
Financial assets			
Non-current securities	1,451	0	0
Other financial assets	0	0	2,008
Total	**1,451**	**0**	**2,008**
Financial liabilities			
Non-current financial liabilities	0	329,093	0
Purchase price liability from written put option	0	0	36,913
Total	**0**	**329,093**	**36,913**
Dec. 31, 2019			
Financial assets			
Non-current securities	1,443	0	0
Other financial assets	0	0	2,008
Total	**1,443**	**0**	**2,008**
Financial liabilities			
Non-current liabilities from financial leases	0	0	0
Non-current financial liabilities	0	502,152	0
Purchase price liability from written put option	0	0	30,252
Total	**0**	**502,152**	**30,252**

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

Level 1: Measurement based on market prices.

Level 2: Measurement based on market prices for similar instruments on the basis of measurement models based on inputs that are observable on active markets.

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

The fair value (equity value) of the minority interest in Aerostack GmbH, Dettingen/Erms, Germany of EUR 4,200 k is determined using a discounted cash flow model taking account of probability-weighted scenarios. The weighted average cost of capital (WACC) applied for the valuation is 8.46%. Assuming a successful implementation of the business plan, the terminal value is determined by applying a terminal growth rate (TGR) of 2.0%. The WACC and TGR sensitivities calculated for the parameters are presented in the following table:

		+0.5% points	-0.5% points
WACC	8.46%	8.96%	7.96%
Equity value	4,200	3,041	5,684
		+0.5% points	**-0.5% points**
TGR	2.00%	2.50%	1.50%
Equity value	4,200	4,724	3,809

The fair value of the bullet, interest-free, non-tradable or transferable promissory note to this company with a nominal amount of EUR 6,800 k is measured taking into account an expected successive contribution to the equity of the company in the course of capital increases in the years 2021 to 2024 and a risk-equivalent and maturity-specific cost of debt of 2.9%. The fair value amounts to EUR 6,300 k. An increase or decrease in WACC of 0.5% results, all other things being equal, in a fair value of EUR 6,259 k or EUR 6,411 k, respectively.

An assessment is made at the end of every reporting period as to whether the assets and liabilities accounted for at fair value have been transferred between the levels of the fair value hierarchy.

The liabilities of fair value level 3 developed as follows:

EUR k	2020	2019
As of Jan. 1	**30,252**	**30,030**
Change in fair value	6,661	222
As of Dec. 31	**36,913**	**30,252**

Net gains/losses on financial instruments:

EUR k	2020	2019
At fair value recognized in profit or loss*	7,093	-755
Financial assets measured at amortized cost	4,279	1,894
Financial liabilities measured at amortized cost	-21,405	-1,084

* These are derivatives which do not meet the prerequisites for hedge accounting.

Net gains and losses from derivatives include the effects from changes in market values, which were recorded in full in profit or loss for the period.

Net gains and losses from financial assets measured at amortized cost primarily consist of currency effects.

Net gains from financial liabilities measured at amortized cost include currency effects.

Total interest income and expenses for financial assets and financial liabilities not measured at fair value through profit or loss are as follows:

EUR k	2020	2019
Total interest income	831	1,200
Total interest expense	-15,388	-18,699

As in the previous year, total interest income does not contain any interest income from impaired financial assets.

32 — Leases

The following amounts are reported in the income statement for leases:

EUR k	2020	2019
Cost of sales		
Expenses relating to short-term leases	1,712	1,543
Expenses from small ticket leases	118	250
Expenses from variable lease payments	44	0
Other expenses from leases (ancillary costs)	385	411
Depreciation and amortization		
Depreciation of right-of-use assets	14,266	12,865
Impairment of right-of-use assets	3,163	0
Net finance costs		
Interest expenses from lease liabilities	1,176	1,299
Income from currency translation of lease liabilities	543	344
Expenses from currency translation of lease liabilities	0	4

Information on expected cash outflows is contained in Note (30) Hedging policy and financial instruments.

33 — Capital management

ElringKlinger believes that the Group's sound financial base is a prerequisite for further growth. The Group's solid capital resources render it possible to invest in future organic growth, as well as in external growth.

The Management Board of the parent company has set a target equity ratio of 40% to 50% within the Group. ElringKlinger AG's Articles of Association do not define any capital requirements.

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). The authorization is valid until July 7, 2025. There are no share option programs that impact the capital structure.

The following table presents changes in equity, debt and total capital as of December 31, 2020 as compared to December 31, 2019.

EUR million	2020	2019
Equity	**812.9**	**891.2**
as % of total capital	41.41%	41.52%
Non-current liabilities	597.3	773.5
Current liabilities	551.0	481.8
Liabilities in connection with the assets held for sale	1.9	0
Liabilities	**1,150.2**	**1,255.3**
as % of total capital	58.59%	58.48%
Total capital	**1,963.1**	**2,146.5**

The change in equity from December 31, 2019 to December 31, 2020 was due primarily to a decrease in other reserves and the net loss. Debt decreased year on year by 8.37%.

At 41.41%, the Group equity ratio achieved the 40% target equity ratio set by the Supervisory Board and Management Board.

For one loan at a subsidiary, financial covenants have been agreed upon. These affect the equity ratio and gearing factor. If these covenants are breached, the terms of the loan change and the loan becomes immediately callable.

As of December 31, 2020, there were no issues prevailing that would have justified banks exercising their unilateral right of termination. The Management Board expects that the financial covenants agreed will be reached in the financial year 2021.

34 — Notes to the statement of cash flows

The group statement of cash flows shows how the liquidity of the ElringKlinger Group has changed as a result of cash inflows and outflows in the course of the financial year. In accordance with IAS 7, cash flows are categorized as cash flows from operating activities, investing activities or financing activities.

The cash reported in the statement of cash flows comprises liquid funds reported in the statement of financial position, i. e., cash in hand, checks and bank deposits.

Cash flows from investing and financing activities are determined by reference to payments. By contrast, cash flows from operating activities are derived indirectly from earnings before taxes for the year. For the indirect computation, effects from currency translation and changes to the basis of consolidation are eliminated from the changes to the items of the statement of financial position arising from operating activities. For this reason, it is not possible to reconcile the changes in the relevant items of the statement of financial position with the corresponding figures in the published group statement of financial position.

Change in liabilities from financing activities:

EUR k	Non-current financial liabilities	Current financial liabilities
Dec. 31, 2019	570,416	160,307
Changes in cash	-92,422	-61,658
Exchange rate differences	-8,942	-4,142
Non-cash changes[2]	-77,132	110,750
Dec. 31, 2020	**391,920**	**205,257**
Dec. 31, 2018	472,005	296,786
Adjustment carryforward new standards[1]	36,133	9,274
Changes in cash	127,428	-230,435
Exchange rate differences	2,578	2,155
Non-cash changes[2]	-67,728	82,527
Dec. 31, 2019	**570,416**	**160,307**

[1] IFRS 16

[2] This primarily includes reclassifications between non-current and current financial liabilities and leases-related matters.

Cash outflows from leases are contained in the statement of cash flows as follows:

EUR k	2020	2019
Repayments for lease liabilities (cash flow from financing activities)	14,693	11,758
Interest paid (cash flow from operating activities)	1,176	1,299
Short-term or small ticket leases (cash flow from operating activities)	1,785	1,793
Expenses from variable lease payments	44	0
Total	**17,698**	**14,850**

Cash inflows of EUR 17.3 million received as part of a sale and leaseback transaction are reported under cash flow from investing activities.

35 — Segment reporting

The organizational and internal reporting structure of the ElringKlinger Group is centered around its five business fields. Accordingly, the segments are defined as "Original Equipment", "Aftermarket", "Engineered Plastics" and "Other".

The activities in the "Original Equipment" and "Aftermarket" reporting segments relate to the manufacturing and distribution of parts and components for the engine, transmission and exhaust system and lightweight plastic components in motor vehicles (powertrain), as well as battery and fuel cell components and tools machining.

The "Engineered Plastics" segment manufactures and distributes technical products made of high-performance PTFE plastics for the vehicle and general industrial sectors.

Since January 1, 2020, the former segments "Services" and "Industrial Parks" are combined in the "Other" segment. The prior-year figures have been adjusted accordingly.

The "Consolidation" column in the "Segment reporting" table below provides an overview of consolidation entries between the segments. Internal control and reporting are based on IFRS. With the exception of the Original Equipment segment's provision of supplies to the Aftermarket segment, the extent of trade between the individual segments is insignificant. The exchange of goods and/or services between the segments takes place at arm's-length prices.

The Original Equipment segment contains an impairment loss of EUR 24,218 k.

10.2% or EUR 151,000 k of the Group sales revenue (2019: 10.5% or EUR 182,043 k) was generated with one customer in the segment Original Equipment.

Segment reporting

Segment	Original Equipment		Aftermarket		Engineered Plastics	
EUR k	2020	2019	2020	2019	2020	2019
External revenue	**1,186,065**	**1,423,448**	**182,473**	**172,610**	**107,554**	**117,451**
Intersegment revenue	23,217	23,012	0	0	17	66
Segment revenue	**1,209,282**	**1,446,460**	**182,473**	**172,610**	**107,571**	**117,517**
EBIT[1]	**-23,673**	**5,123**	**38,982**	**30,406**	**14,038**	**15,850**
Depreciation and amortization[2]	116,468	106,812	3,787	3,862	7,079	6,681
Capital expenditures[3]	87,304	115,804	2,214	4,773	4,141	7,043
Segment assets	1,723,143	1,894,357	112,028	107,569	127,521	131,011

Segment	Other		Consolidation		Group	
EUR k	2020	2019	2020	2019	2020	2019
External revenue	**4,346**	**13,516**	**0**	**0**	**1,480,438**	**1,727,025**
Intersegment revenue	7,650	7,952	-30,884	-31,030	0	0
Segment revenue	**11,996**	**21,468**	**-30,884**	**-31,030**	**1,480,438**	**1,727,025**
EBIT[1]	**-1,611**	**9,854**	**0**	**0**	**27,736**	**61,233**
Depreciation and amortization[2]	2,167	2,377	0	0	129,501	119,732
Capital expenditures[3]	12,707	2,371	0	0	106,366	129,991
Segment assets	32,948	44,151	-32,527	-30,593	1,963,113	2,146,495

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

Segment reporting by region

Region EUR k		Sales revenues[1]	Non-current assets	Investments
Germany	2020	355,616	536,577	67,176
	2019	394,996	548,261	57,991
Rest of Europe	2020	423,404	233,757	10,104
	2019	494,234	268,761	15,536
North America	2020	367,730	213,184	22,271
	2019	450,871	243,816	37,505
Asia-Pacific	2020	274,779	184,761	5,984
	2019	309,996	207,640	17,232
South America and rest of the world	2020	58,909	14,795	831
	2019	76,928	23,355	1,727
Group	**2020**	**1,480,438**	**1,183,074[2]**	**106,366**
	2019	**1,727,025**	**1,291,833[2]**	**129,991**

[1] The location of the customer is used to determine allocation of sales revenues to the regions
[2] This includes financial assets of EUR 15,088 k (previous year: EUR 3,551 k)

Other disclosures

Contingent liabilities

As in the previous year, the ElringKlinger Group does not have any contingent liabilities stemming from guarantees, performance bonds or bills of exchange issued.

Other financial commitments

Energy purchase commitments

EUR k	Dec. 31, 2020	Dec. 31, 2019
Less than one year	13,509	13,180
More than one year and less than five years	13,786	12,863
Total	**27,295**	**26,043**

Proceeds from lease agreements

The future lease payments due to ElringKlinger from lease contracts from letting the Idstein industrial park and space to a development cooperation partner at the Dettingen/Erms location break down as follows:

EUR k	Dec. 31, 2020	Dec. 31, 2019
Less than one year	218	18
More than one year and less than five years	476	9
More than five years	0	0
Total	**694**	**27**

Contingent assets and liabilities

As of the reporting date, there were no contingent assets and liabilities.

Number of employees

The average number of employees during the year (excluding Management Board members) was as follows:

	2020	2019
Employees	9,832	10,247
Trainees	181	210
Total	**10,013**	**10,457**

Personnel expenses

Personnel expenses in the reporting year amounted to EUR 472,105 k (2019: EUR 544,394 k) and break down as follows:

EUR k	Dec. 31, 2020	Dec. 31, 2019
Wages and salaries	401,318	464,854
Social security contributions	62,415	70,506
Post-employment benefit	8,372	9,034
Total	**472,105**	**544,394**

Personnel expenses contain public grants related to income in Germany, Switzerland and Canada of EUR 14,766 k in connection with the utilization of government-subsidized short-time work allowances and the associated reimbursement of social security contributions.

Related-party disclosures

Transactions between the parent company, ElringKlinger AG, and its subsidiaries are eliminated in the course of consolidation and are therefore not discussed in this note. Other than these, the following business relationships exist between companies of the ElringKlinger Group and related parties and companies controlled by related parties:

Cooperation agreement between ElringKlinger AG and Lechler GmbH, Metzingen, concerning traineeships. The deceased Prof. Walter H. Lechler held a significant interest in ElringKlinger AG and control over Lechler GmbH. The testamentary disposition of Prof. Lechler regarding the shares he held has yet to be conclusively implemented. ElringKlinger AG earned EUR 34 k during the reporting year (2019: EUR 52 k). Receivables outstanding amounted to EUR 15 k as of the reporting date (2019: EUR 10 k).

Agreement between ElringKlinger Logistic Service GmbH, Rottenburg-Ergenzingen (EKLS), and Lechler GmbH, Metzingen, regarding assembly activities and the storage of components. This agreement gave rise to EUR 474 k in sales revenue during the reporting year (2019: EUR 550 k). As of December 31, 2020, there were open receivables of EUR 35 k (2019: EUR 33 k).

Business relations between the ElringKlinger subsidiary, Changchun ElringKlinger Ltd., Changchun, China, (CEK), and Changchun Hongyu Automobile Parts Co., Ltd. (CHYAP), based in Changchun, China, controlled by Ms. Liu, a close relative of Mr. Huang, who is a joint partner in CEK. CEK procured EUR 8 k worth of services under these business relations in 2020 (2019: EUR 12 k). As of December 31, 2020, there are liabilities of EUR 2 k (2019: EUR 1 k).

Loan agreement between Lechler GmbH and ElringKlinger AG. Lechler GmbH granted ElringKlinger AG loans totaling EUR 5,000 k (2019: EUR 12,000 k). The funds granted concern a loan extended as of June 19, 2020. The loan carries an interest rate of 1.40% p.a. and has a term until January 7, 2021. In the reporting year, a loan of EUR 7,000 k was repaid to Lechler GmbH.

Supply agreement between Lechler GmbH and KOCHWERK Catering GmbH, (EKKW), Dettingen/Erms, a wholly owned subsidiary of ElringKlinger AG. EKKW supplies Lechler GmbH with canteen food. Sales revenue of EKKW amounted to EUR 95 k in the reporting year (2019: EUR 134 k). As of the reporting date, outstanding receivables came to EUR 9 k (2019: EUR 12 k).

Relationships in the course of ordinary activities exist between various subsidiaries of hofer AG, Nürtingen, and the ElringKlinger subsidiary hofer powertrain products GmbH, Nürtingen, as well as hofer powertrain products UK Ltd., Warwick, UK. The business dealings pertain to services received and other expenses of EUR 5,363 k (2019: EUR 2,119 k). Outstanding liabilities come to EUR 3,404 k as of December 31, 2020 (2019: EUR 788 k). At EUR 5,055 k (2019: EUR 1,850 k), the services received mainly relate to services for sales, project management and product development and an amount of EUR 269 k (2019: EUR 269 k) for a rent agreement between hofer powertrain products GmbH, Nürtingen and the subsidiary of hofer AG, hofer Immobilien UG & Co. KG, Nürtingen, for the rent of office and production space in Nürtingen. The goods and services received, and other expenses are counterbalanced by income from development services rendered or from delivery of machines and tools of EUR 2,358 k (2019: EUR 1,750 k). Outstanding liabilities as of December 31, 2020 come to EUR 347 k (2019: EUR 1,707 k).

The salaries of the employee representatives to the Supervisory Board are in line with market conditions.

Corporate Bodies

Supervisory Board

Klaus Eberhardt Lindau, Chairman	Independent consultant, Lindau Former CEO of Rheinmetall AG, Düsseldorf **Governance roles:** a) MTU Aero Engines AG, Munich b) n/a
Markus Siegers* Nürtingen, Deputy Chairman	Chairman of the Works Council of ElringKlinger AG, Dettingen/Erms
Nadine Boguslawski* Stuttgart until July 7, 2020	Principal Authorized Representative of IG Metall Stuttgart, Stuttgart **Governance roles:** a) Robert Bosch GmbH, Gerlingen-Schillerhöhe b) n/a
Armin Diez* Lenningen	Vice President of the Battery Technology/E-Mobility Division at ElringKlinger AG, Dettingen/Erms **Governance roles:** a) n/a b) e-mobil BW GmbH, Stuttgart
Pasquale Formisano* Vaihingen an der Enz until July 7, 2020	Former Chairman of the Works Council of Elring-Klinger Kunststofftechnik GmbH, Bietigheim-Bissingen
Rita Forst Dörsdorf	Independent consultant, Dörsdorf Former member of the Management Board of Adam Opel AG, Rüsselsheim **Governance roles:** a) NORMA Group SE, Maintal b) AerCap Holdings N. V., Dublin, Ireland Joh. Winklhofer Beteiligungs GmbH & Co. KG, Munich Westport Fuel Systems Inc., Vancouver, Canada
Andreas Wilhelm Kraut Balingen	Chairman and CEO of Bizerba SE & Co. KG, Balingen
Helmut P. Merch Meerbusch since July 7, 2020	Member of the Management Board of Rheinmetall AG **Governance roles:** a) n/a b) Rheinmetall Automotive AG, Neckarsulm Rheinmetall Denel Munition (PTY) Ltd., Somerset, South Africa

Gerald Müller* Reutlingen	Second Authorized Representative and Treasurer of IG-Metall Reutlingen-Tübingen, Reutlingen
Paula Monteiro-Munz* Grabenstetten	Deputy Chairwoman of the Works Council of ElringKlinger AG, Dettingen/Erms
Barbara Resch* Stuttgart since July 7, 2020	Secretary of IG Metall Baden-Württemberg **Governance roles:** a) Schaeffler AG, Herzogenaurach Rheinmetall AG, Düsseldorf b) n/a
Prof. Hans-Ulrich Sachs Bremen until July 7, 2020	Managing Partner of betec Umformtechnik GmbH, Adelmannsfelden
Gabriele Sons Berlin	Lawyer, Berlin Former member of the Management Board of thyssenKrupp Elevator AG, Essen **Governance roles:** a) Grammer AG, Ursensollen b) Board of Directors, TÜV Rheinland Berlin Brandenburg Pfalz e. V., Cologne
Manfred Strauß Stuttgart	Managing Partner of M&S Messebau und Service GmbH, Neuhausen a. d. F. **Governance roles:** a) n/a b) Pro Stuttgart Verwaltungs GmbH, Stuttgart Pro Stuttgart Verkehrsverein, Stuttgart Lechler GmbH, Metzingen Eroca AG, Basel, Switzerland
Olcay Zeybek* Bad Urach since July 7, 2020	Head of Accounting

* Employee representative
a) Membership in statutory Supervisory Boards as defined by Section 125 AktG
b) Membership in comparable domestic and foreign control bodies as defined by Section 125 AktG

Remuneration of the Supervisory Board

In the period under review, total compensation for the Supervisory Board of ElringKlinger AG was EUR 889 k (2019: EUR 589 k). Additionally, travel expenses totaling EUR 2 k (2019: EUR 2 k) were reimbursed. The remuneration of the employee representatives in the Supervisory Board amounted to EUR 722 k in the financial year 2020 (2019: EUR 714 k) for their activities as employees.

Management Board

Dr. Stefan Wolf, Bad Urach, Chairman	Responsible for Group companies, the corporate units Legal, HR, Global Strategy M&A and Innovations, Strategic Communications, Marketing & Communications and Sales as well as the business unit Aftermarket
Theo Becker, Metzingen	Responsible for the business units Battery Technology & E-Mobility, Fuel Cell and Drivetrain as well as the corporate units of Purchasing, Real Estate & Facility, Product Risk Management as well as Toolshop/Technology
Reiner Drews, Dettingen/Erms	Responsible for the business units Lightweight/Elastomer, Shielding Technology, Metal Sealing Systems & Drivetrain Components as well as the corporate units of Production, Quality & Environmental Management as well as the German locations ElringKlinger AG
Thomas Jessulat, Stuttgart	Responsible for the corporate units Finance, Controlling, IT und Supply Chain

Governance roles in supervisory boards and other supervisory bodies

Dr. Stefan Wolf, Bad Urach, Chairman	Member of the Supervisory Board of ALLGAIER Werke GmbH, Uhingen, and member of the Supervisory Board of Duale Hochschule Baden-Württemberg (DHBW) KöR, Stuttgart
Theo Becker, Metzingen	Member of the Supervisory Board of BLANC & FISCHER Familienholding GmbH, Oberderdingen
Thomas Jessulat, Stuttgart	Chairman of the Supervisory Board of hofer AG, Nürtingen

Remuneration of the Management Board

The remuneration of the Management Board amounted to:

EUR k	2020	2019
Short-term fixed remuneration	2,700	1,742
Short-term variable performance-based remuneration	1,347	2,161
Expenses from post-employment benefits	197	838
Total	**4,244**	**4,741**

In the financial year, total Management Board remuneration pursuant to Section 314 (1) no. 6a sentence 1 to 4 HGB came to EUR 4,047 k (2019: EUR 3,903 k). The present value (DBO) of the pension provisions amounted to EUR 12,928 k (2019: EUR 13,336 k).

Provisions for pensions and remuneration for former members of the Management Board

Provisions of EUR 17,171 k (2019: EUR 17,050 k) were recognized for pension obligations to former members of the Management Board, the management of merged companies, and their surviving dependents. The total remuneration of former members of the Management Board – including remuneration of former members of corporate bodies of merged companies – came to EUR 914 k in the financial year 2020 (2019: EUR 890 k).

The auditor fees amounted to:

EUR k	2020	2019
Audit of the annual financial statements	681	770
Other assurance services	54	33
Tax services	25	0
Total	**760**	**803**

The audit services include fees for mandatory audits of financial statements as well as fees for the mandatory audit of the consolidated financial statements. The other assurance services comprise fees for review work in connection with the non-financial statement and assurance services related to the syndicated loan agreement and factoring. In addition, tax services were rendered in connection with a project.

Declaration of compliance with the German Corporate Governance Code

The Management Board and Supervisory Board issued a declaration of compliance pursuant to Section 161 AktG on the German Corporate Governance Code in the version dated December 16, 2019 and published it on the ElringKlinger AG website on December 3, 2020. This declaration of compliance will be available on the ElringKlinger AG website and therewith made permanently available to shareholders.

Events after the end of the reporting period

On October 28, 2020, ElringKlinger reached an agreement with the French automotive supplier Plastic Omnium, based in Levallois, France, to drive forward the development, production and marketing of fuel cell stacks in a joint entity. ElringKlinger will hold 60% of the shares and Plastic Omnium 40% of the shares in the entity based in Dettingen/Erms. ElringKlinger will contribute its complete fuel cell portfolio including employees, know-how and patents; Plastic Omnium will invest EUR 100 million to expand the capacity. In addition, an agreement was signed according to which Plastic Omnium acquires the Austrian ElringKlinger subsidiary, ElringKlinger Fuelcell Systems Austria, Wels, Austria, which specializes in fuel cell technology solutions, for a purchase price of EUR 13,449 k. Both the agreements were provided to the antitrust authorities and are subject to the customary legal requirements. The transaction closing was executed on March 1, 2021.

There were no further significant events after the reporting date that would require additional disclosures.

Dettingen/Erms, March 25, 2021
The Management Board

Dr. Stefan Wolf
CEO

Theo Becker

Thomas Jessulat

Reiner Drews