

Search Result

Surname	Area	information	V. date
Diehl Foundation & Co. KG Nuremberg	Accounting / financial reports	Consolidated financial statements for the financial year from January 1, 2017 to December 31, 2017	12/19/2018

Diehl Foundation & Co. KG

Nuremberg

Consolidated financial statements for the financial year from January 1, 2017 to December 31, 2017

Group management report for the 2017 financial year

of the Diehl Foundation & Co. KG

General economic conditions

After the already quite strong growth of 1.9% in 2016, the overall economic expansion in Germany increased significantly again in 2017 to 2.2%. It can be stated that the positive mood and the sustained strong growth of the German economy continue to determine the picture. According to the Expert Council, the economy is experiencing a strong upswing. While the expectations were somewhat restrained twelve months earlier, the situation improved noticeably in the course of the year thanks to the revival of the global economy and the flourishing export activity of German industry. The January monthly report of the Deutsche Bundesbank emphasizes

However, this positive development should not hide the fact that the German economy is still faced with numerous risks. These include the sustained rise in energy and raw material prices with their negative consequences for the German manufacturing location, as well as the ongoing uncertainties associated with Brexit, the political course of the Eastern European EU members and the monetary stability in the euro area. The consequences of the protectionist measures that the US government is promoting to protect its own companies cannot currently be foreseen.

Overall, the global sentiment indicators are showing increasing optimism. According to the BMWi, the economies in the euro zone, the United States and Japan are on a stable growth path. China has found its way back to more even economic development, and Russia and Brazil have emerged from their recession.

Business development of the Diehl Group

At the group level, the key performance indicators for business development remain sales and earnings (EBIT).

The group was able to take advantage of the positive general economic mood in the year under review and consequently recorded strong growth. At € 3,749.2 million, consolidated sales were 9.9% higher than the previous year's sales and thus well above the sales forecast of € 3.6 billion targeted last year. With the exception of Metering, all subgroups are involved in this growth, in particular the subgroups Aviation, Metall and Controls. The Defense subgroup recorded a positive development and is growing again.

Compared with the reporting date, the number of employees has increased by 788 people or 4.8% to 17,173 employees. This is due in particular to the ongoing increase in staff in the Aviation subgroups (331) - here in particular at the Laupheim site and in Hungary for the A350 XWB program - and Controls (324), where capacities in Mexico and Poland for expanding the appliance Activities have been expanded. The Metall subgroup increased its personnel capacities at the DMA in Berlin in preparation for the further expansion of the ability to contribute to e-mobility. The changes in the scope of consolidation did not affect the comparison of the figures on the reporting date.

The forecast increases in sales and earnings were exceeded in the year under review. The generated EBIT of € 274.3 million is well above the previous year's figure of € 174.7 million. It should be noted here that the previous year included a one-time expense of € 49.1 million from the full transfer of the remaining adjustment amount to the pension provisions, which was no longer incurred in the year under review. In 2017, an amount of € 12.4 million was recognized in income for structural adjustments.

Special features of the asset and financial situation as well as risk provision

The Diehl Group's total assets increased by € 41.7 million to € 2,357.4 million in the year under review. Fixed assets increased by € 11.4 million due to additional investments in property, plant and equipment due to the good order situation. The decline in intangible assets in fixed assets is due to the scheduled amortization of goodwill. The decline in inventories of € 25.5 million is due to the ongoing amortization of capitalized development work in the Aviation subgroup and to increased deliveries at the end of the year. This resulted in an increase in receivables due to the reporting date. On the liabilities side, equity increased by 103 due to the continued good earnings situation, € 7 million to € 733.6 million; the equity ratio thus improved to 31.1% compared to 27.2% in the previous year. The further increase in pension provisions by € 23.7 million results primarily from the change in the interest rate parameters compared to the previous year. On the other hand, the advance payments received for orders, which were openly deducted from inventories on the assets side for the first time in the 2017 financial year, decreased by € 15.6 million. The previous year's figures have been adjusted accordingly. The positive cash flow was used to repay liabilities, particularly bank liabilities, so that liabilities were reduced by a total of € 69.1 million. The equity ratio thus improved to 31.1% compared to 27.2% in the previous year. The further increase in pension provisions by € 23.7 million results primarily from the change in the interest rate parameters compared to the previous year. On the other hand, the advance payments received for orders, which were openly deducted from inventories on the assets side for the first time in the 2017 financial year, decreased by € 15.6 million. The previous year's figures have been adjusted accordingly. The positive cash flow was used to repay liabilities, particularly bank liabilities, so that liabilities were reduced by a total of € 69.1 million. The equity ratio thus improved to 31.1% compared to 27.2% in the previous year. The further increase in pension provisions by € 23.7 million results primarily from the change in the interest rate parameters compared to the previous year. On the other hand, the advance payments received for orders, which were openly deducted from inventories on the assets side for the first time in the 2017 financial

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The cash flow from operating activities improved by € 79.6 million to € 205.2 million and, after deducting the cash flow from investing activities of € 92.4 million, leads to a free cash flow of 112.8 million €. The cash flow from financing activities is negative at € 108.5 million due to the repayment of financial liabilities.

Advance payments

Investments (additions to property, plant and equipment and intangible assets) totaled € 104.2 million in the year under review (after € 117 million in the previous year). In a multi-year comparison, the value remains at a similar level. The majority of the investments were again made in the subgroups Metal, Aviation and Controls. In the metal sector, the focus was on the new horizontal pipe press in Röthenbach as well as strip electroplating systems and punching presses at the DMA site in Berlin to expand e-mobility. At Aviation, the focus was still on expanding capacity for the A350 XWB project and the strategic expansion in Hungary, at Controls the further development of the locations in Poland and Mexico. Metering invested in particular in new tools and production facilities for the start-up of new products in Germany, France and Poland.

Research and development expenditure rose significantly in the year under review, to € 307.3 million (after € 245.9 million in the previous year). The reason for this is, among other things, the further increase in development costs in the area of cabin equipment from Diehl Aviation. The development of the next generation anti-ship missiles started at Diehl Defense with the industrial partner Saab as well as the increase in combat value of the Rolling Airframe Missile (RAM) in a block 2B as part of the transatlantic cooperation with Raytheon to further secure the technology leadership in the field of guided missiles also contributed to this.

Changes in corporate law

In the reporting year, the company's shareholder, member of the supervisory board and chairwoman of the management board, Dr.-Ing. Died on April 16, 2017 at the age of 66. Eh Thomas Diehl. Mr. Werner Diehl and the fourth generation of shareholders, Dr. Alexander Diehl, Ms. Stephanie Haas, Mr. Markus Diehl, Ms. Laura Diehl, Ms. Carla Diehl and Mr. Konstantin Diehl continue to run the company in the sense of a family business. Furthermore, the shareholders and the supervisory board decided to strengthen the management board with a spokesman in the 2018 financial year.

In the year under review there were again some important changes under company law:

With effect from February 1 of the reporting year, Diehl Defense Holding GmbH, the management company for the defense business of the Diehl Group, and Diehl BGT Defense GmbH & Co. KG (DBD) became Diehl Defense GmbH & Co. KG as the largest corporate unit in the subgroup (DDK) merged. The DDK is thus the new management company of the subgroup. All affiliated companies are concentrated under Diehl Defense Holding GmbH. With the new structure, the subgroup sees itself as more powerful and future-proof.

With effect from May 8 of the reporting year, Diehl Defense GmbH & Co. KG took over the stake held by the US partner Raytheon Missile Systems Company in the previously joint subsidiary Diehl Raytheon Missile Systeme GmbH. The company is now still active under the name Diehl Retrofit Missile Systeme GmbH in the traditional business of marketing, modernization as well as worldwide logistics and longevity support of the Sidewinder types AIM-9L.

The liquidation of Diehl Hellas Monoprosopi Eteria Periorismenis Efthisis in Athens was completed at the beginning of 2018. Society is extinguished.

At the beginning of 2018, Diehl Ventures GmbH also acquired a stake in Symvaro GmbH in Klagenfurt, Austria, a company that has specialized in the simple and efficient management of water meter data. The Metering subgroup is thus experiencing a strengthening of its digitization topics.

The Diehl Aerosystems aviation division with the Diehl Aircabin, Diehl Comfort Modules and Apparatebau Gauting business units has been operating under the new Diehl Aviation brand at all locations since April 10 of the current year. The new uniform name also marks the beginning of a further organizational integration of the subgroup in the course of the year. Diehl Aerospace as a joint venture with the French partner Thales continues to operate under the traditional name.

The business development outlined above shows the following picture when viewed individually by subgroup:

metal

For the first time in years, the metal subgroup was able to record sales growth. This can be attributed to the positive global economic development in all relevant areas and to the rise in metal prices. When looking at the pure finishing business, positive growth was also achieved in all business areas.

The pressed and drawn products business area - manufacturer of high-quality semi-finished metal products at the Röthenbach location - produces standard brass as well as new innovative alloys for demanding applications, for example in electrical engineering and the automotive industry. A volume increase in new products for the automotive and sanitary sectors was recorded here as well as a gratifying sales success in the conventional product area of bars, primarily also for applications in the automotive industry. The major investment in a new pipe press in Röthenbach - an important future decision for the subgroup in Germany - is in the implementation phase.

The forged parts business area - a recognized supplier for the international automotive industry with synchronizer rings made of brass and steel as well as drop forged parts - was able to increase its sales in Europe again by ramping up further steel synchronizer ring projects. In China, we continue to see increasing sales in business with domestic customers. This improves the chances of being able to participate more in the growth of the Chinese automotive market. Positive expectations are also associated with the economic development in Brazil after years of decline and with the ramp-up of some customer projects at Diehl Metal India.

The cooperation with Schaeffler for the manufacture of synchronization systems in China is also developing positively. After the joint development of a synchronization system, the first acquisitions at system and component level were successfully completed. The investment focus of the business area continues to be on automation and capacity expansion in the area of steel synchronizer ring production in order to further secure the position as global market leader in the area of synchronizer rings and as a high-performance component manufacturer with system competence for the optimization and development of tailor-made solutions in automotive transmissions.

Diehl Metal Applications (DMA) with capabilities for electroplating and stamping production in Germany and France, a rolling mill in Germany and sales and service centers in the USA and China covers the fully integrated value chain from alloy development to future-oriented metal-plastic composite

systems for electronic and electrotechnical applications. The good economic activity in the automotive industry in the year under review led to a broad utilization of the company's capacity along the entire value chain, especially in the areas of punching and coating. The growing demand for driver assistance systems and thus the increasing electrification of the automobile are responsible for the growth. In order to take this growth into account, the focus of our investment activities was again on building capacity in the areas of punching and coating as well as on further automating the production of cell contact systems.

In the rolled products sector, which includes the Sundwiger Messingwerk companies and the sales and service center at The Miller Company in the USA, Diehl Metall was also able to benefit from the increasing demand for strip material for the electrification of automobiles. The corresponding market was stable at a high level all year round.

In accordance with the economic forecasts for the economic development in the current financial year, continued growth is expected in the markets relevant for Diehl in 2018. The South American market should soon bottom out. The focus for further growth lies in the marketing of steel synchronizer rings and increasingly on parts for the advancing electrification and alternative drive systems for automobiles. The incipient change in the automotive sector towards e-mobility and autonomous driving represents a challenge for suppliers to the automotive industry and is both an opportunity and a risk.

Controls

Supported by an unchanged positive consumer climate in America, Europe and Asia, the subgroup was able to continue on its growth path in traditional business with the household appliance industry. This was made possible in particular by the increased demand from the household appliance industry for better equipment of their devices with function-enhanced display and control systems and the resulting use of high-quality electronic assemblies. Further series start-ups also made a positive contribution to the significant increase in sales in the reporting year.

The Appliance Europe business unit with the companies Diehl AKO and Diehl Polska was able to continue the positive development of the previous years. In order to take account of the growth and to be prepared for further growth, a structural expansion of the Namysłów production site in Poland was carried out in the reporting year. Since spring 2017, a significantly larger production area has been available there for new start-ups. Diehl Controls' business is in particular customer-specific application developments and the production of electronic controls in stoves, washing machines, dryers, dishwashers and refrigerators for the latest generations of equipment in the international white goods industry.

The business was negatively influenced by the massive shortage of electronic components on the world markets as a result of the favorable consumer climate, which at Controls led to noticeable additional costs in procurement and, in some cases, to delivery bottlenecks. Close monitoring of the supply chain and regular coordination with customers and suppliers worldwide ensure that the required delivery capability of all Diehl Controls locations is guaranteed. However, the shortage of some components will also affect the current financial year.

The Appliance Asia business unit (Diehl Controls Nanjing) also recorded strong growth. The Asian market continues to grow and the OEMs are constantly expanding their orders. Appliance Americas with the companies Diehl Controls North America and Diehl Controls Mexico recorded stable business. The collaboration that began at the Querétaro site in Mexico with a well-known manufacturer of power tools was further expanded in the reporting year. Production is now at the limit of its capacity. The aim is to further expand the customer base beyond the traditional core business with household appliance manufacturers.

In the course of the increasing demand for air-water heat pumps on the European market, the business with drive controls for brushless motors in these systems is picking up speed as planned. In order to be able to serve this group of customers in a focused manner, the sales and development activities in Europe were combined in the strategic business area "Drive Solutions" at the beginning of the reporting year.

Business with innovative solutions for optimizing solar power consumption has so far been subdued and has remained well below expectations. After Diehl Connectivity Solutions (DCS) was again unable to achieve its desired goals, activities will be realigned in the current year. The strategic focus of the realignment is the networking of devices for medium-sized companies.

The price pressure on the suppliers of home appliance manufacturers remains high. For Diehl Controls, this means continuing to ensure competitiveness through continuous improvement programs at all locations. This goes hand in hand with high investments and the expansion of activities beyond the core business.

Defense

The global threat situation is still characterized by a large number of international hot spots and conflicts. Now that hybrid forms of conflict management (cyber attacks) are also increasingly appearing in addition to asymmetrical conflicts, the security policy environment is becoming even more complex and unstable. Politicians have enormous expectations of the armed forces, especially if their capabilities are to cover the entire spectrum of military conflict management. In contrast, despite the increasing budget, the general conditions for defense technology companies in Germany have not improved so far. The federal government's restrictive export practice will continue unchanged; national development projects remain the exception and purchase solutions dominate in procurement. Initiatives for German armaments cooperation (e.g. with France or Norway) could offer new perspectives for industry, but the domestic political debate not only threatens exports to third countries, but also the reputation of German companies as reliable suppliers to NATO partners and their defense industry. Despite this persistently challenging scenario, Diehl Defense again succeeded in increasing sales and also increasing the number of employees. Initiatives for German armaments cooperation (e.g. with France or Norway) could offer new perspectives for industry, but the domestic political debate not only threatens exports to third countries, but also the reputation of German companies as reliable suppliers to NATO partners and their defense industry. Despite this persistently challenging scenario, Diehl Defense again succeeded in increasing sales and also increasing the number of employees. Initiatives for German armaments cooperation (e.g. with France or Norway) could offer new perspectives for industry, but the domestic political debate not only threatens exports to third countries, but also the reputation of German companies as reliable suppliers to NATO partners and their defense industry. Despite this persistently challenging scenario, Diehl Defense has once again succeeded in increasing sales and also increasing the number of employees. but also the reputation of German companies as reliable suppliers to NATO partners and their defense industry. Despite this persistently challenging scenario, Diehl Defense again succeeded in increasing sales and also increasing the number of employees. but also the reputation of German companies as reliable suppliers to NATO partners and their defense industry. Despite this persistently challenging scenario, Diehl Defense again succeeded in increasing sales and also increasing the number of employees.

Diehl Defense GmbH & Co. KG, as a high-tech equipment company in the areas of ground-based air defense, guided missiles, ammunition, training and protection systems, had a record year of incoming orders, which is many times higher than the previous year's level. The main revenue drivers here are the RBS15 heavy anti-ship missile, the transatlantic cooperation program RAM (Rolling Airframe Missile) for the defense of naval ships, the license production of the Spike guided missile for the European NATO countries and the traditional Sidewinder business. The development of the next generation of anti-ship missiles started together with Saab and the continued increase in RAM combat value as part of the long-term transatlantic cooperation with Raytheon form the basis for maintaining technological leadership in the guided missile sector. With the planned participation in the national air defense system TLVS and successes in export, Diehl Defense also took another step as a system provider in the field of ground-based air defense. The loss of sales in 2017 resulted solely from national program delays and export failures.

Junghans Microtec GmbH - together with the French subsidiary JUNGHANS T2M SAS, a leading supplier of ammunition fuses and safety devices for rockets, guided missiles, ammunition and torpedoes - was able to record stable development at the previous year's level thanks to the good export business and even increase it at the French subsidiary. Sustainable business security was achieved through the conclusion of multi-year framework agreements with NATO and equivalent countries. Both companies concentrated their self-financed research and development on expanding the product portfolio with a focus on mortar and artillery fuses.

In order to secure the international competitive position in the top group of component suppliers for thermal imaging devices and missile seekers, AIM Infrared-Module GmbH consistently continued its development activities in all product areas. The company's own expenditure on research and development was at the previous year's level, while research and development projects financed by third parties experienced a significant increase. In addition to expanding its presence in the traditional markets in Europe and the USA and intensifying efforts in Asia, AIM is focusing in particular on the relatively new pillar of space-based applications of infrared technology for further growth. In the year under review, the company's sales increased; the number of employees remained constant.

Overall, the subgroup's strategy of reacting flexibly to current market conditions through numerous product-specific collaborations with various partners has proven itself. As part of a digitization campaign, both potentials for optimization in existing business areas and those for the development of new business models are to be analyzed.

Aviation

The Aerosystems subgroup - operating under the name Diehl Aviation since the spring of this year - was able to continue its positive growth path in the year under review, as expected. The reason for this is the continuing growth course of the aviation industry as a whole - the two large customers Airbus and Boeing alone had an order backlog of more than 13,000 units at the end of 2017.

The growth course of the subgroup in the year under review was shaped by the further ramp-up of production of the A350 XWB wide-body aircraft, of which Airbus was able to deliver a total of 78 units in the year under review. Diehl is one of the largest suppliers of the series with a total of 15 work packages. At Airbus, the A320 family and the A330 and A350 XWB are in great demand from customers, while Boeing's 737, 787 and 777 series have fallen short of expectations for a number of years. The world's airliner, the A380, where Diehl is also involved with various work packages. In the year under review, only 15 aircraft were delivered here by Airbus. On the positive side, however, there are further purchase commitments from key customer Emirates recently, which will ensure the continuation of the program for a few more years. The current weak demand in this market segment is overcompensated by the business development in the standard fuselage segment for up to 200 passengers and for the A350 XWB.

Regardless of the high order backlog among manufacturers, a cooling of the market in other segments can currently be observed. There is thus a growing tendency that no fundamentally new programs will be started in the area of civil aircraft construction in the near future. The only exception to this is the possible launch of a new medium-haul aircraft from Boeing. Overall, this will severely limit Diehl Aviation's chances of new business with aircraft manufacturers in the next few years.

This development underscores the importance of the new business field cabin retrofit with direct sales to airlines. In 2017 Diehl Aviation was able to further expand its network with partners for this business, for example with the French company Sabena Technics. In the future, the competencies of both companies will be combined in an alliance in order to be able to offer joint retrofit solutions for cabins on board A350 XWB aircraft.

The market for Diehl Aviation's military products continues to provide little impetus. Two American manufacturers are currently being considered for a still less specific procurement program for the federal government for a heavy transport helicopter. A possible participation of the German aviation industry in this is currently still open.

After the major construction activities in recent years at the Hamburg, Laupheim and Hungarian Nýrbátor locations, the focus of activities in the subgroup was increasingly on further reducing complexity and improving processes in the company. The Hungarian subsidiary at the Nýrbátor location recorded further growth as part of the capacity expansion. Since September 2017, this has also included a service center in Debrecen, which is currently being set up. Diehl Aviation currently employs over 600 people in Hungary. The aim of the rebranding of the subgroup under the new Diehl Aviation brand, which was decided in the year under review, is aimed at growing the subgroup closer together and bundling the market presence. The new appearance was presented to the public in April 2018 on the occasion of the Aircraft Interiors Expo in Hamburg.

For the current financial year, Diehl Aviation expects the high production level of the A350 XWB, the main driver of growth in previous years, to stabilize. This leads - also in view of the forecast development in other market segments - to the forecast that a slowdown in growth in the subgroup is to be expected for 2018.

Metering

In the year under review, the Metering subgroup was unable to match the growth path of previous years. Despite positive market signals and the medium to long-term trend towards remote reading of consumption data, this is due, among other things, to important key customers whose orders once again fell well short of expectations. Business in China as a whole has not yet met expectations either. On the other hand, there was again higher demand in the markets of the Middle East, as well as in France. Regardless of the adverse effects of adverse environmental influences, a major order was secured in the Caribbean at the end of the reporting period,

In order to improve the competitive situation and achieve growth again, the subgroup is vigorously continuing its innovation and technology offensive. In addition to the further organizational consolidation of the German locations, this also includes the development of new production processes and the consistent expansion of strategically important locations in China and Poland. Within the scope of these activities, among other things, operative sales activities in the USA were taken up in the reporting year, the position in the Scandinavian markets was reorganized and a new sales office was opened in southern China.

In terms of customer segments, growth in the reporting year was concentrated in the gas segment. Above all, the delivery for the major French order for gas meters with radio readings started last year is clearly noticeable here. In addition to mechanical gas meters, which can be read out remotely using their own radio technology, the AERIUS static gas meter is available for special requirements. The underlying microthermal measuring principle is independent of air pressure and temperature and transmits precise measuring results over the long term. Integrated communication makes it possible to read out data via radio or M-Bus. Through the standardized data exchange, the consumption of water, heating / cooling,

In the water utility segment, sales fell short of expectations, despite market successes in France and Austria and increasing demand in southern China, given the reduced number of calls from key customers. In addition to high-quality mechanical water meters, which can be read remotely using a radio attachment, especially from customers in the Middle East and the Caribbean, there was also demand for innovative measuring devices based on ultrasound technology with integrated radio technology. In France, a new, interesting major order was realized, which in addition to the delivery of the most modern radio modules also requires the development and integration of communication standards.

In development, the focus remained on the further development of ultrasound technology and the associated improvement in measurement technology as well as the expansion of the radio system and the software and service offering. One example of the success of these efforts is the new generation of the HYDRUS ultrasonic water meter, which sets new standards in dynamics and accuracy thanks to improved measurement technology. In the context of digitization and the resulting market potential, work is being carried out in particular on improvements in the area of data transmission options and the associated applications. The foundation stone for a new generation of two-way radio technology was laid here, which enables the integration of further wireless technologies from external third parties and thus completely new platform concepts. In order to further strengthen the innovative strength in the subgroup and implement good ideas more quickly, Diehl Metering NEO has created an organizational unit that consistently keeps an eye on the benefits of an innovation and thus the value for the customer.

Thanks to its strong international positioning, its high level of innovation and technological strength, and the visible successes that have been achieved as part of the innovation and technology offensive, the Metering subgroup sees itself as a means of successfully developing further market potential, also against the background of sustainable handling Scarce resources, digitization and urbanization, excellently positioned. An increase in sales is therefore expected for the current year.

Opportunities, risks and outlook

According to all relevant assessments, the economic situation continues to be promising, but this should not hide the fact that the Diehl Group's business is also confronted with numerous risks. It is currently impossible to predict what measures the US government could take to protect American trade interests and what effects these will have on the respective trading partners. In addition, there is the difficult situation in the EU, which has been in permanent crisis mode for years - from the euro and refugee crisis to dealing with Russia in Ukraine and Syria to the Brexit vote. The further deepening of the EU sought by France and Germany does not seem to be vigorously pursued in view of the division of the member states. The ever closer cooperation of individual EU states in interest groups even calls into question the political and economic cohesion of the EU in the medium term. Should the positive economic development come to an abrupt end in this context, the Diehl Group would not be spared. The orientation of the company as a conglomerate has a stabilizing effect, but Diehl is also affected by economic fluctuations.

The areas of activity also show a number of special features:

In the metal subgroup, around half of the business volume depends on the market prices for copper and zinc. The high volatility that we have faced in recent years leads to fluctuations in sales, which, however, have no effect on the employment situation. Therefore, it is generally difficult to make sales forecasts here. The electricity price has a significant influence on the competitive situation. Here, the subgroup depends on the government, when securing Germany as an industrial location, also and especially keeping an eye on energy-intensive companies. Diehl continues to rely on metal alloys,

Business with the white goods industry in the controls area continues to be characterized by high price pressure. The number of customers is steadily declining due to the ongoing process of consolidation, which increases the pressure on suppliers. However, a high level of expertise in the development of new controls and fast response times thanks to the international manufacturing network enable Diehl to remain a sought-after and competitive partner for OEMs in the future. The Chinese market remains interesting, although it can no longer come up with the growth rates of previous years, but still allows for strong growth.

In view of the global increase in tensions and the resulting demand to top up the defense budget, which has been sluggish for years, the German defense technology business has moved. Since the primacy of politics exclusively applies here, Diehl is dependent on the federal government for national procurement as well as for the approval of military exports. Diehl has been a reliable and successful partner of the Bundeswehr from the very beginning. The range of capabilities has been geared towards modern operational scenarios for years, which is why Diehl Defense is well positioned for future procurement projects - nationally and internationally.

The aviation business remains interesting due to the increasing number of passengers. However, the increasing consolidation in the area of manufacturers and suppliers is increasing the pressure on medium-sized and small providers, including Diehl Aviation. Competition on the supplier side will increase significantly and influence price developments accordingly. In addition, the supply business for the international aviation industry is invoiced almost exclusively in dollars. Since the dollar exchange rate has a significant impact on sales volume and earnings, Diehl attaches great importance to dollar hedging.

Intelligent measuring systems and modern measuring devices create the conditions under which the fluctuating availability of renewable energies can be integrated into the power grid. Diehl Metering therefore sees itself in a growing market, which is characterized by an unchanged high level of attractiveness. The accurate measurement of energy consumption with the automatic reading and transmission of the measurement results by intelligent measuring devices (smart meters) is enjoying increasing popularity around the world. Diehl Metering is currently working on a number of optimizations in terms of both the spatial and the technological structure, which, in total, further increase the company's effectiveness and ensure competitiveness. Business in the Middle East, the Caribbean and Asia is currently of particular interest to Diehl Metering. And Diehl continues to have high hopes that the market in Germany will develop in line with the requirements of the energy transition. Diehl Metering sees itself as well prepared for this.

The digital transformation is omnipresent, also in the Diehl Group. The "digital transformation" process started by the board of directors has initiated a paradigm shift in the company that is intended to lead to the next generation of products and business processes. Diehl sees digital transformation as an opportunity to align current and future business even more closely with customers 'and partners' needs. To this end, Diehl has established an organization in the group and in the subgroups that controls and drives this process.

When weighing up the opportunities and risks, there are some indications that the Diehl Group will continue the positive development of recent years. Based on our risk management system, we classify the risks existing in the subgroups as manageable. The Diehl Group will therefore remain stable in its markets in 2018 and is aiming for consolidated sales of € 3.8 billion with almost the same earnings level.

Nuremberg, April 10, 2018

Diehl Stiftung & Co. KG
The management
Diehl Verwaltungs-Stiftung
Wolfgang Weggen
Dr. Martin Sommer

Consolidated balance sheet as of December 31, 2017**THE DIEHL STIFTUNG & Co. KG****assets**

	December 31, 2017	December 31, 2016
	T €	T €
A. Fixed assets		
I. Intangible Assets	18,560	22,898
II. Tangible assets	528.717	513.931
III. Financial assets	13,546	12,603
	560.823	549,432
B. Current Assets		
I. Inventories		
1. Raw materials and supplies	278.071	267,480
2. Work in progress, work in progress	436,447	488.461
3. Finished products and merchandise	133,685	128,518
4. Advance payments made	2,379	7.187
5. Advance payments received on orders	-105,952	-121,562
	744.630	770.084
II. Receivables and other assets		
1. Accounts receivable from deliveries and services	421.364	429.049
2. Receivables from affiliated companies	120	22nd

	December 31, 2017	December 31, 2016
	T €	T €
3. Claims against companies with which there is a participation relationship	86,424	44,253
4. Other assets	99.227	86,381
	607.135	559.705
III. Securities		
Other securities	1,255	1,221
IV. Cash in hand, bank balances and checks	329.995	320.342
	1,683,015	1,651,352
C. Prepaid expenses	6,755	7,189
D. Deferred Tax Assets	106.127	106,894
E. Active difference from asset offsetting	643	872
	2,357,363	2,315,739
liabilities		
	December 31, 2017	December 31, 2016
	T €	T €
A. Equity		
I. Capital shares		
1. General partner capital	0	0
2. Limited partnership capital	103,000	103,000
	103,000	103,000
II. Diehl Stiftung & Co. KG reserves	211,973	204.781
III. Other reserves of the group	369.701	278.068
IV. Difference in equity from currency conversion	-12,112	-5,375
V. Non-controlling interests	61,042	49,458
	733.604	629.932
B. Provisions		
1. Provisions for pensions and similar obligations	554.130	530.476
	16,105	22,311
2. Tax provisions	417.858	425.849
3. Other provisions	988.093	978.636
C. Liabilities		
1. Liabilities to banks	119,877	153.386
2. Trade accounts payable	312,775	332.059
3. Liabilities to affiliated companies	2,090	2,087
4. Liabilities to companies with which a participation relationship exists	40.025	44,423
	144,730	156.617
5. Other Liabilities	619.497	688.572
D. Prepaid expenses	4.136	4,724
E. Deferred Tax Liabilities	12,033	13,875
	2,357,363	2,315,739

Consolidated income statement for the period from 1.1. until December 31, 2017

THE DIEHL STIFTUNG & Co. KG

	2017	2016
	T €	T €
1. Sales	3,749,206	3.410.170
2. Reduction / increase in stocks of finished and unfinished products	-49,776	12,103
3. Other own work capitalized	8,726	9,966
4. Other operating income	125,965	120,764
5. Cost of materials		
a) Expenses for raw materials, consumables and supplies and for purchased goods	-1,777,957	-1,638,102
b) Expenses for purchased services	-239.176	-240.133
	-2,017,133	-1,878,235
6. Personnel expenses		
a) Wages and salaries	-822,583	-773,360
b) Social security and pension and support expenses	-159,978	-155,212
- of that for pensions :	-8,426	-10,841
	-982,561	-928,572
7. Depreciation on intangible assets and property, plant and equipment	-85.009	-85,691
8. Other operating expenses	-476,612	-488,302
9. Income from participations	357	278
- of which from affiliated companies:	155	83
10. Result from investments in associated companies	1,190	2.172
11. Other Interest and Similar Income	3,246	31,136
- of which from affiliated companies:	20th	78
12. Depreciation on financial assets and securities held as current assets	-69	-1
13. Interest and Similar Expenses	-69,276	-69,633
- of which to affiliated companies:	-5	-5
14. Taxes on income and earnings	-72,705	-30,666
- of which deferred income taxes:	1,510	29,040
15. Profit after tax	135,549	105,489
16. Annual net income	135,549	105,489
- of which non-controlling interests:	20,670	9,885

**2017 financial year Notes to the consolidated financial statements
of the Diehl Foundation & Co. KG**

I. General explanations

Diehl Stiftung & Co. KG, based in Nuremberg, is entered in the commercial register of the Nuremberg Local Court under number HRA 552.

The consolidated financial statements of Diehl Stiftung & Co. KG are prepared in accordance with the accounting regulations of the German Commercial Code.

The annual financial statements of the companies included in the consolidated financial statements are drawn up in accordance with the accounting and valuation methods applicable in the Diehl Group. In the case of foreign companies, the accounting is adjusted to the uniform accounting and valuation principles insofar as this is important for the presentation of the asset, financial and earnings position.

II. Scope of consolidation and associated companies

In addition to Diehl Stiftung & Co. KG, 45 domestic and 28 foreign companies are included in the consolidated financial statements, over which Diehl Stiftung & Co. KG can exercise direct or indirect controlling influence.

The group of fully consolidated group companies will be expanded from the 2017 financial year through the inclusion of Diehl Retrofit Missile Systeme GmbH, which was previously an associated company. This ran as an associated company under the name Diehl Raytheon Missile Systeme GmbH and was renamed in the 2017 financial year. Diehl Hellas Monoprosopi Eteria Periorismenis Efthinis was liquidated during the 2017 financial year.

6 domestic holdings were included in the consolidated financial statements as associated companies.

Due to their subordinate importance for conveying a true and fair view of the Group's asset, financial and earnings position, 8 companies were not consolidated. Two companies are not included in the consolidated financial statements in accordance with Section 296, Paragraph 1, No. 1 of the German Commercial Code (HGB), as the assets are limited to the respective corporate purpose.

An overview of the shareholdings and the scope of consolidation can be found in an appendix to the notes.

III. Consolidation principles

For companies that were included in the consolidated financial statements as fully consolidated companies as of December 31, 2009, capital consolidation is based on the book value method.

For subsidiaries that were included in the consolidated financial statements for the first time as of January 1, 2010, capital consolidation is based on the revaluation method. The assets and debts are stated at their full fair value and the acquisition value of the investment is offset against the proportional fair value of the equity capital at the time of acquisition. Any difference remaining after offsetting on the assets side is shown as goodwill.

The shares in associated companies are developed in accordance with the equity accounting rules. They are included at the time of acquisition using the book value method.

Intercompany results, sales, expenses and income as well as receivables and liabilities between fully consolidated companies are eliminated. The elimination of interim results in relation to associated companies was dispensed with, as the influence on the overall picture of the situation is of subordinate importance.

Tax deferrals are made on the consolidation processes that affect income, provided that the differing tax expenses are expected to be balanced out in later financial years.

IV. Accounting and valuation principles, currency conversion

To improve clarity and clarity, also in an international comparison, the advance payments received for orders amounting to € 106.0 million will be deducted from the inventories for the first time from the 2017 financial year. The previous year's figures (€ 121.6 million) have been adjusted accordingly. In addition, the following accounting and valuation methods were still decisive for the preparation of the annual financial statements.

1. Fixed assets

The **intangible assets acquired** against payment are shown at acquisition cost, less scheduled or unscheduled depreciation. The useful life is generally based on 3 years, unless a different period, e.g. B. due to the duration of usage rights. The amortization period for goodwill is a maximum of 15 years. An amortization of goodwill over 5 years is justified in the respective product life cycles as well as in the expected market development.

The **tangible assets** is valued at acquisition or production cost, reduced by scheduled or unscheduled depreciation. Production costs of self-constructed plants include not only the directly attributable costs but also a proportion of overheads and depreciation. From 2010, new investments are depreciated on a straight-line basis. Investments before 2010 are depreciated according to the tax options using the degressive or linear method. The transition to the straight-line method takes place as soon as this leads to higher depreciation. Scheduled depreciation for buildings and parts of buildings is based on useful lives of between 2 and 50 years, depending on the load. For technical systems and machines as well as other systems and items of operating and office equipment, the useful lives are in the range from 1 to 25 years. Low-value assets with acquisition costs of up to € 410 are fully written off in Germany in the year of acquisition. A fixed value is sometimes formed for tools and devices. Extraordinary depreciation is taken into account through unscheduled depreciation. A fixed value is sometimes formed for tools and devices. Extraordinary depreciation is taken into account through unscheduled depreciation.

Shares in affiliated companies and participations are valued at acquisition cost or the lower applicable value.

The valuation of the **shares in associated companies** is further developed in accordance with the principles of equity accounting, based on the book value. This is based on the most recent annual financial statements of these companies.

Interest-bearing **loans** are reported at their nominal value, non- interest-bearing **loans** at their present value.

Securities held as fixed assets are generally stated at acquisition cost or the lower applicable value.

2. Current Assets

In the case of **inventories**, raw materials, consumables and supplies as well as merchandise are valued at acquisition cost or the lower stock exchange or market price.

In the case of valuation of metal inventories according to the lower of cost or market principle, the contractually agreed sales prices for the metal portion are taken into account, provided that corresponding sales contracts are already in place on the balance sheet date.

The unfinished and finished products are valued at production costs. In addition to the directly attributable costs for material and production wages, they also include a proportion of overheads.

Devaluations for inventory and usability risks are made to an appropriate extent.

If, at the time the balance sheet is drawn up, write-downs are recognizable due to costs not being fully covered in the proceeds, appropriate deductions are made for loss-free valuation.

Payments on account are shown at their nominal value.

Receivables, other assets and cash and cash equivalents are generally stated at their nominal values. In addition, recognizable individual risks through individual value adjustments and general credit risks as well as the costs of collecting receivables through general value adjustments are taken into account to a reasonable extent. Interest-free receivables that are expected to be received after a period of 12 months are shown at their present value. **Marketable securities** are **stated** at acquisition cost, the lower stock exchange price or at redemption value.

3. Provisions / Liabilities

The **provisions for pensions and similar obligations** are valued using the actuarially modified entry age method. The 2005 G mortality tables by Prof. Dr. Klaus Heubeck is based. The valuation takes into account assumptions about the future development of certain parameters. An increase of 2.80% pa is used as the wage and salary trend, the pension dynamic is assumed to be 1.65% pa. The discounting is based on the interest rate of 3.68% pa set by the Bundesbank for a remaining term of 15 years

The **tax provisions and other provisions** take into account all uncertain obligations and all discernible risks. They are set in the amount of the settlement amount necessary according to a reasonable commercial assessment including future price and cost increases. Provisions with a remaining term of more than one year are discounted. The discount is based on the remaining term of the provision using the average market interest rate determined by the Bundesbank for the past 7 financial years.

If no valuation units are formed between metal purchase contracts and the metal portion of sales contracts, these positions are subject to a review with regard to impending losses.

All **liabilities** are **stated** with their settlement amount.

4. Currency Conversion

The valuation date for the conversion of foreign currencies is generally the date of acquisition for fixed assets and the date of origin for receivables and liabilities. Short-term assets and liabilities with a term of less than one year are converted using the mean spot exchange rate on the reporting date. Receivables and liabilities with a remaining term of more than one year are valued at the mean spot exchange rate on the reporting date, taking into account the imparity principle.

Balance sheet items in foreign currency financial statements are converted at the rate on the balance sheet date. The individual equity items are converted at historical rates; the annual result is converted at the average rate for the year.

The items in the income statement are converted at the average rate for the year. Differences between the closing rate, historical rates and average rates are shown in the capital of the Diehl Stiftung & Co. KG subgroup or in the shares of other outside shareholders with no effect on income. Differences compared to the previous year's translation are taken into account without affecting income.

Currency risks are generally hedged as part of a group-wide risk management strategy. Valuation units are formed and documented in accordance with Section 254 of the German Commercial Code. When covering with forward transactions, the valuation is carried out using the corresponding hedging rates.

Receivables and liabilities in the same currency and with approximately the same term are combined into valuation units, provided they correspond in terms of amount.

The freezing method (compensatory valuation) is used to account for the effective parts of the valuation units formed. The ineffective part is accounted for according to the imparity principle. As a result, positive market values are not shown in the balance sheet and a provision for impending losses is only formed for negative market values if the valuation unit created results in a negative surplus or a loss occurs in an open position.

V. Notes on the balance sheet

1. Fixed assets

The development of fixed assets and depreciation is shown in an appendix to the notes. In the "Changes" column, all changes in the opening balance due to additions and disposals in the scope of consolidation and due to currency translation differences are shown.

2. Receivables and other assets

The following amounts of the respective items have a remaining term of more than one year:

	T € 31.12.2017	T € 31.12.2016
Requests from deliveries and services	688	464
Claims against companies with which there is a participation relationship	231	293
Other assets	516	2,278

3. Deferred tax assets and liabilities

Deferred taxes (active and passive) arise from valuation differences in the commercial and tax balance sheets, tax loss carryforwards and consolidation measures, provided that the differences will be balanced out in the future. Active and passive tax deferrals are not netted.

The valuation is carried out for domestic companies with tax rates of 12% - 16% (partnerships) or 27% - 31% (corporations). In the case of foreign subsidiaries, the individual national tax rates (9% - 34%) are used.

The deferred tax assets of € 106,127 thousand result mainly from the formation of deferred taxes on different valuation approaches in the commercial and tax balance sheet (pension and anniversary provisions, tax loss carryforwards, warranty provisions and other provisions, provisions for pending losses, different valuation approaches and depreciation methods or - last), as well as by eliminating the interim results in fixed assets and inventories.

The deferred tax liabilities in the amount of T € 12,033 mainly result from special tax depreciation, the only tax-admissible use of reserves (eg § 6b EStG), as well as different valuation approaches in the commercial and tax balance sheet.

	As of December 31, 2017 T €	As of December 31, 2016 T €	Change in T €
Deferred tax assets	106,127	106,894	-767
Deferred tax liabilities	12,033	13,875	- 1,842

4. Equity

The changes in equity are shown in the statement of changes in equity. The equity statement is drawn up in accordance with the principles of DRS 22.

5. Provisions

Securities held as fixed assets, which are used to finance working life accounts, were valued at fair value and offset against the corresponding provisions in the amount of € 10,420 thousand (offsetting of plan assets). The acquisition costs amounted to € 8,936 thousand. Expenses and income were offset in the amount of € 759 thousand each.

Receivables from reinsurance policies for deferred compensation were offset against the corresponding pension provisions for reinsured deferred compensation (offsetting of plan assets). The historical acquisition costs and the fair value of the offset receivables from reinsurance policies amount to € 9,646 thousand. The settlement amount of the offset pension provision for reinsured deferred compensation corresponds to the asset value from the reinsurance (€ 9,646 thousand). Expenses and income were offset in the amount of € 340 thousand.

Cover capital for insolvency protection of lifetime working time accounts in the amount of € 4,685 thousand was offset against the corresponding provisions of € 4,094 thousand. There remained cover capital of € 592 thousand, which is shown as an active difference from the offsetting of plan assets. Expenses and income were offset in the amount of € 256 thousand.

In addition, cover capital for insolvency protection of working time accounts in the amount of € 10,692 thousand was offset against provisions. Expenses and income were offset in the amount of € 841 thousand.

In addition, receivables from reinsurance policies to secure partial retirement credits with a fair value and historical cost of € 274 thousand were offset against the associated obligations from the settlement arrears amounting to € 223 thousand. The excess of the plan assets in the amount of € 51 thousand is shown as an active difference.

In addition, other assets in the amount of € 12,594 thousand were offset against provisions for pensions.

The other provisions mainly include provisions for warranties, outstanding invoices, royalties and bonuses, contractual penalties, long-term accounts, flextime surpluses, severance payments, time off and employment companies (excluding partial retirement), for vacation arrears as well as for anniversaries and educational leave.

6. Liabilities

The total amount of liabilities and the breakdown of the individual liability items according to their remaining term are shown in an appendix to the notes.

The total amount of collateral granted for own **liabilities to banks** is € 7,817 thousand, in the form of pledged accounts and land charges.

The **other liabilities** relate to:

	T € 31.12.2017	T € 31.12.2016
Social security liabilities	6,824	5,423
Tax liabilities	37,794	30,129

7. Derivative financial instruments and valuation units

The Diehl Group uses futures contracts for its business activities in order to manage risks in connection with currency and metal price fluctuations that arise between the date of the conclusion and the settlement date.

The companies conclude currency forwards with Diehl Stiftung & Co. KG. This in turn concludes suitable contracts with banks, essentially of the same amount and time. These contracts are used in accordance with uniform guidelines, are subject to internal controls and are limited to hedging business transactions in foreign currencies.

The nominal volume and the market values of the derivative financial instruments existing on the balance sheet date are as follows:

in € m	Market values		Nominal volume
	positive	negative	
Art			
Forward foreign exchange transactions	85	3	1964
USD	1	0	32
PLN	0	0	13th
HOOOF	0	0	8th
GBP	0	0	6th
MXN	0	1	3
Other currencies			
Commodity futures exchange for non-ferrous metals	4th	3	66

The nominal volume is the sum of all buying and selling amounts of derivative financial transactions.

The market value of currency and commodity futures is calculated on the basis of the forward value applicable on the balance sheet date for the respective remaining term of the contract compared to the contracted forward value (mark-to-market method).

Forward exchange contracts are used to hedge business transactions in foreign currencies and valuation units are formed that cover risks of € 86 million as of the balance sheet date. Foreign currency positions are valued within the framework of micro, macro and portfolio hedges. Foreign currency receivables (€ 181.2 million), cash and cash equivalents (€ 37.8 million), foreign currency liabilities (€ 30.0 million), firm contracts not yet included in the balance sheet (€ 1,485.2 million) and with Transactions expected with a high degree of probability (€ 292.2 million) included. The transactions expected with a high degree of probability relate mainly to expected orders or procurement processes.

The transactions combined in the valuation units are subject to the same risk. Accordingly, it is to be expected that the opposing changes in value of the underlying and hedging transactions will fully offset each other in the future for the respective hedged risk. The prospective effectiveness of the hedging relationships is determined on each balance sheet date using the critical terms match method. This ensures that the value-determining factors (nominal value, term, currency) match the underlying transaction and the hedging instrument. The individual hedging relationships are therefore classified as effective over the entire hedging period. The same applies to the retrospective determination of the previous effectiveness; here, too, a critical terms match is used to prove that all value-determining factors between the hedged part of the underlying transaction and the hedging part of the hedging instruments match. In these cases, there can be no accounting-relevant ineffectiveness related to the valuation units.

The metal price risks from metal procurement and metal sales contracts (pending transactions) result from changes in prices for primary metals, scrap and semi-finished products between the time of the contract and the time of fulfillment. Buy and sell contracts that are not covered by physical counter-trades are hedged with corresponding stock exchange positions.

To hedge metal price risks (pending transactions), commodity futures and forwards are concluded. Both micro and portfolio hedges are formed as part of the assessment.

The underlying transactions summarized in the portfolio hedges exhibit extremely homogeneous risks. In the case of the hedging transactions, the contract volume is selected in such a way that it corresponds to the contract volume of the underlying transactions - based on the respective primary metal content.

Underlying and hedging transactions are included in the valuation units with the following market values (forward value on the balance sheet date compared to the contracted forward value):

	Pending procurement transactions	Secured by means of commodity futures	Pending sales transactions	Secured by means of commodity futures
Metals December 31, 2017				
Market value in € m	-0.7	1.5	-2.7	2.7

For the valuation units, the changes in value of the pending sales and procurement transactions are secured over a period of up to 2 years.

The opposite changes in the value of these underlying and hedging transactions are expected to balance each other out in full over the next 2 years.

The measurement of the effectiveness of the valuation units created is carried out with the help of the "dollar offset method" in cumulative form, taking

into account specified risk limits. With the "dollar offset method", the cumulative changes in market value of the underlying transactions are compared with the cumulative changes in market value of the hedging transactions from the time of designation in absolute monetary amounts. The "dollar offset test" is carried out on each closing date.

As of the balance sheet date, provisions of € 0.2 million were set up. The amount of the risks hedged with micro or portfolio hedges is € 5.5 million, ie negative changes in value were avoided at this level as of the reporting date. Transactions with a volume of € 5.2 million expected with a high degree of probability were included in the valuation units.

8. Contingent Liabilities

As of the reporting date, there were liabilities from guarantees in the amount of € 17.3 million (PY: € 10.5 million) and from warranty contracts in the amount of € 20 million (PY: € 39 million).

Contingent liabilities to associated companies amounted to € 31.2 million as of the reporting date (PY: € 40 million).

Due to the previous business development of the individual companies in favor of which the contingent liabilities exist, no claims are expected from the stated contingent liabilities.

Indirect pension obligations are not shown in the consolidated balance sheet. The corresponding deficit to affiliated, non-consolidated companies is included in the contingent liabilities (liabilities from warranty agreements) in the amount of € 4.6 million (PY: € 6.3 million).

9. Other Financial Obligations

There are financial obligations of € 815 million from long-term contracts. These mainly relate to obligations arising from purchase commitments and quantity contracts for metal (purchasing) that have not yet been fixed in terms of price, obligations from rental and leasing agreements, offset obligations, repayment obligations for development cost subsidies and obligations from commodity futures (metal).

As of the reporting date, there were other financial obligations to associated companies in the amount of € 40 million (PY: € 42 million).

VI. Notes on the income statement

1. Sales

The sales are broken down as follows:

	Total	Domestic	Abroad
	€ million	€ m	€ million
2017			
Metal subgroup	917	425	492
Subgroup Controls	558	95	463
Defense subgroup	456	248	208
Aviation subgroup	1,532	663	869
Metering subgroup	275	52	223
Services / other	11	11	0
total	3,749	1,494	2,255
	Total	Domestic	Abroad
	€ million	€ m	€ million
2016			
Metal subgroup	829	391	438
Subgroup Controls	517	88	429
Defense subgroup	435	301	134
Aviation subgroup	1,322	652	670
Metering subgroup	292	58	234
Services / other	15th	12th	3
total	3,410	1,502	1,908

The foreign sales are mainly achieved in other European countries, in China and in North America.

2. Other operating income

This includes income from currency translation in the amount of € 8.8 million (PY: € 11.7 million).

3. Depreciation

Extraordinary depreciation due to permanent impairment occurred in the amount of € 1.2 million. This affects the items amortization of intangible assets and property, plant and equipment in the income statement and earnings from associated companies.

4. Other operating expenses

The other operating expenses include other taxes in the amount of € 6.7 million (previous year: € 7.4 million) and expenses from currency translation in the amount of € 7.7 million (previous year: € 14.7 million).

5. Other interest and similar income / interest and similar expenses

The item other interest and similar income contains income from the discounting of provisions in the amount of € 2.0 million (PY: € 29.1 million).

Interest and similar expenses includes expenses from the compounding of provisions in the amount of € 46.6 million (PY: € 45.8 million).

6. Taxes on income and earnings

This includes corporate income tax, trade income tax, deferred income taxes and comparable foreign income taxes.

7. Income / expenses relating to other periods

Other operating income includes income not relating to the accounting period in the amount of € 64.3 million. These result mainly from income from the use of certain provisions and the reversal of unused provisions.

Out of period expenses arose in the amount of € 6.3 million.

8. Income and expenses of exceptional magnitude and importance

Larger individual incidents result on the one hand from the sale of fixed assets in the amount of € 8.5 million in other operating income and on the other hand from structural adjustments in the amount of € 12.4 million in other operating expenses.

VII. Other information

1. Notes on the cash flow statement

The cash flow statement is prepared in accordance with the principles of DRS 21 using the indirect method. Cash and cash equivalents consist of cash on hand and bank balances after deducting liabilities due at any time.

The payments to shareholders include distributions to third-party shareholders as well as the withdrawals that were made primarily as part of the tax assessment of the shareholders of Diehl Stiftung & Co. KG.

2 co-workers

	Annual average	
	2017	2016
Metal subgroup	3,334	3,284
Subgroup Controls	3,747	3,343
Defense subgroup	2,245	2,226
Aviation subgroup	5,116	4,662
Metering subgroup	1,686	1,705
Services / other	410	392
Workers	16,538	15,612
trainee	425	434
total	16,963	16,046

3. Information on auditor fees

in T € Art	Group auditor	Other auditors
Audit services	1,403	84
Other certification services	54	5
Tax advisory services	178	25th
Other services	127	0
total	1,762	114

4. Supplementary report

Between the balance sheet date of December 31, 2017 and April 10, 2018, no events of particular significance occurred at the companies included in the consolidated financial statements that would have had an impact on the company's asset, financial and earnings position.

5. Information in accordance with Section 314 (1) No. 6 HGB

The total remuneration of the members of the Executive Board in the year under review was € 5,916 thousand. The remuneration of former members of the Management Board and their surviving dependents is € 703 thousand, the pension provisions for this group of people amount to € 9,845 thousand.

6. Group affiliation

The annual financial statements of Diehl Stiftung & Co. KG, Nuremberg, are included in the consolidated financial statements of Diehl Verwaltungs-Stiftung, Nuremberg, which are submitted electronically to the operator of the Federal Gazette and published in the Federal Gazette.

7. Appropriation of earnings by the parent company

In accordance with the Articles of Association, the usable annual profit of € 22,376 thousand is allocated to the reserves in the amount of € 7,192 thousand and the remaining amount of € 15,184 thousand is credited to the shareholders.

8. Special regulations for commercial partnerships

By including them in the consolidated financial statements and by disclosing the consolidated financial statements, the following commercial partnerships are exempt from the obligation to disclose their annual financial statements in accordance with Section 264b HGB:

Diehl AKO Foundation & Co. KG, Wangen im Allgäu

Diehl Defense GmbH & Co. KG, Überlingen

Diehl Metall Stiftung & Co. KG, Röthenbach ad Pegnitz

Diehl Röthenbach GmbH & Co. KG, Nuremberg

Sundwiger Messingwerk GmbH & Co. KG, Hemer

In addition, the following corporations are exempt from disclosing their audited annual financial statements in accordance with Section 264 (3) HGB:

Apparatebau Gauting Limited Liability Company, Gauting

Diehl Aerosystems-Interior-Holding GmbH, Nuremberg

Diehl Assekuranz Rückversicherungs- und Vermittlungs-AG, Nuremberg

Diehl Training and Qualification GmbH, Nuremberg

Diehl Beteiligungen GmbH, Nuremberg

Diehl Connectivity Solutions GmbH, Nuremberg

Diehl Controls Nürnberg Verwaltungs GmbH, Nürnberg

Diehl Defense Holding GmbH, Überlingen

Diehl Defense Land Systems GmbH, Freisen

DIEHL Gas Metering GmbH, Ansbach

DIEHL Informatik GmbH, Nuremberg

Diehl Metering GmbH, Ansbach

Diehl Metering Systems GmbH, Nuremberg

Diehl Service Modules GmbH, Hamburg

Diehl Track Limited Liability Company, Nuremberg

Diehl Ventures GmbH, Nuremberg

Diehl Retrofit Missile Systems GmbH, Überlingen

Integra Vermögensverwaltungs- und Beteiligungsgesellschaft mbH, Nuremberg

JUNGHANS Microtec GmbH, Dunningen-Seedorf

Nuremberg, April 10, 2018

Diehl Stiftung & Co. KG
The management
Diehl Verwaltungs-Stiftung
Wolfgang Weggen
Dr. Martin Sommer

DEVELOPMENT OF FIXED ASSETS OF THE GROUP (T €)

	As of December 31, 2016	Acquisition / production costs		
		Changes	Accesses	Attribution
I. Intangible Assets				
1. Concessions, industrial property rights and licenses acquired against payment	110.284	-651	5,492	0
2. Goodwill	218.144	-1,751	6th	0
3. Advance payments made	2,791	0	1,680	0
	331.219	-2,402	7.178	0
II. Tangible assets				
1. Land, land rights and buildings, including buildings on third-party land	532,672	-2,594	7,680	0
2. Technical systems and machines	803.795	-4,767	28,354	0
3. Other equipment, factory and office equipment	492,627	145	31,911	0
4. Advance payments and assets under construction	45,039	199	29,532	0
	1,874,133	-7,017	97,477	0
III. Financial assets				
1. Shares in affiliated companies	3,679	18th	0	0
2. Shares in associated companies	6,471	-2,308	1,017	1,625
3. Other participations	2,674	0	640	0
4. Loans to companies with which there is a participation relationship	718	0	0	0
5. Securities held as fixed assets	5	0	0	0
6. Other loans	3.714	0	1,844	0
	17,261	-2,290	3,501	1,625
total	2,222,613	-11,709	108.156	1,625
		Acquisition / production costs		
		Departures	Rebooking	As of December 31, 2017
I. Intangible Assets				
1. Concessions, industrial property rights and licenses acquired against payment		983	2,844	116,986
2. Goodwill		0	0	216,399
3. Advance payments made		13th	-2,496	1,962
		996	348	335,347
II. Tangible assets				
1. Land, land rights and buildings, including buildings on third-party land		23,193	6.328	520.893
2. Technical systems and machines		13,026	19,594	833.950
3. Other equipment, factory and office equipment		9,357	6,674	522,000
4. Advance payments and assets under construction		148	-32,944	41,678
		45,724	-348	1,918,521
III. Financial assets				
1. Shares in affiliated companies		18th	0	3,679
2. Shares in associated companies		0	0	6,805
3. Other participations		640	0	2,674
4. Loans to companies with which there is a participation relationship		159	0	559
5. Securities held as fixed assets		0	0	5
6. Other loans		3	0	5,555
		820	0	19,277
total		47,540	0	2,273,145
		Depreciation		
	As of December 31, 2016	Changes	Accesses	Attribution
I. Intangible Assets				
1. Concessions, industrial property rights and licenses acquired against payment	94,629	-145	8,110	0
2. Goodwill	213,692	-1,751	3,290	0
3. Advance payments made	0	0	0	0
	308,321	-1,896	11,400	0
II. Tangible assets				
1. Land, land rights and buildings, including buildings on third-party land	346,869	-1,133	9.117	-1,276
2. Technical systems and machines	651.387	-3,696	38,571	0
3. Other equipment, factory and office equipment	361,946	-165	25,921	-33
4. Advance payments and assets under construction	0	0	0	0
	1.360.202	-4,994	73,609	-1,309

Depreciation

	As of December 31, 2016	Depreciation		
		Changes	Accesses	Attribution
III. Financial assets				
1. Shares in affiliated companies	2,701	18th	0	0
2. Shares in associated companies	0	0	1.007	0
3. Other participations	1,955	0	0	0
4. Loans to companies with which there is a participation relationship	0	0	0	0
5. Securities held as fixed assets	2	0	0	-1
6. Other loans	0	0	68	0
	4,658	18th	1,075	-1
total	1,673,181	-6,872	86.084	-1,310

Depreciation

	Departures	Difference between average and closing As of December 31, 2017		
		Rebooking	rate	
I. Intangible Assets				
1. Concessions, industrial property rights and licenses acquired against payment	941	0	-97	101,556
2. Goodwill	0	0	0	215.231
3. Advance payments made	0	0	0	0
	941	0	-97	316,787
II. Tangible assets				
1. Land, land rights and buildings, including buildings on third-party land	16,018	0	-32	337,527
2. Technical systems and machines	12,482	203	-262	673.721
3. Other equipment, factory and office equipment	8,890	-203	-20	378,556
4. Advance payments and assets under construction	0	0	0	0
	37,390	0	-314	1,389,804
III. Financial assets				
1. Shares in affiliated companies	18th	0	0	2,701
2. Shares in associated companies	0	0	0	1.007
3. Other participations	0	0	0	1,955
4. Loans to companies with which there is a participation relationship	0	0	0	0
5. Securities held as fixed assets	0	0	0	1
6. Other loans	0	0	-1	67
	18th	0	-1	5,731
total	38,349	0	-412	1,712,322

Residual book values

	As of December 31, As of December 31, 2017 2016	
	I. Intangible Assets	
1. Concessions, industrial property rights and licenses acquired against payment	15,430	15,655
2. Goodwill	1,168	4,452
3. Advance payments made	1,962	2,791
	18,560	22,898
II. Tangible assets		
1. Land, land rights and buildings, including buildings on third-party land	183,366	185,803
2. Technical systems and machines	160.229	152,408
3. Other equipment, factory and office equipment	143,444	130,681
4. Advance payments and assets under construction	41,678	45,039
	528.717	513.931
III. Financial assets		
1. Shares in affiliated companies	978	978
2. Shares in associated companies	5,798	6,471
3. Other participations	719	719
4. Loans to companies with which there is a participation relationship	559	718
5. Securities held as fixed assets	4th	3
6. Other loans	5,488	3.714
	13,546	12,603
total	560.823	549,432

SHARES AS OF DECEMBER 31, 2017

DES TK DIEHL FOUNDATION

Name and seat of the company	Capital share %
1) Affiliated companies within the scope of consolidation	
Production and sales companies	
inland	
AIM Infrared Module GmbH, Heilbronn	50.0
Apparatebau Gauting Limited Liability Company, Gauting	100.0
Diehl Aerospace GmbH, Überlingen	51.0
Diehl Aircabin GmbH, Laupheim	94.0
Diehl AKO Foundation & Co. KG, Wangen im Allgäu	100.0
Diehl Defense GmbH & Co. KG, Überlingen	100.0
Diehl Comfort Modules GmbH, Hamburg	100.0
Diehl Connectivity Solutions GmbH, Nuremberg	100.0
Diehl & Eagle-Picher limited liability company, Röthenbach	55.0

Name and seat of the company	Capital share %
DIEHL Gas Metering GmbH, Ansbach	100.0
Diehl Metal Applications GmbH, Röthenbach ad Pegnitz	100.0
Diehl Metall Stiftung & Co. KG, Röthenbach ad Pegnitz	100.0
Diehl Metering GmbH, Ansbach	98.8
Diehl Metering Systems GmbH, Nuremberg	100.0
Diehl Retrofit Missile Systems GmbH, Überlingen	100.0
Diehl Service Modules GmbH, Hamburg	100.0
Diehl Werkzeugbau Seebach GmbH, Seebach	100.0
DynITEC GmbH, Troisdorf	58.8
JUNGHANS Microtec GmbH, Dunningen	55.0
SMH Süddeutsche Metallhandelsgesellschaft with limited liability, Nuremberg	100.0
Sundwiger Messingwerk GmbH & Co. KG, Hemer	100.0
Zehdenick Innovative Metall- und Kunststofftechnik GmbH, Zehdenick	100.0
foreign countries	
Diehl Aerospace, Inc., Birmingham / Alabama, USA	100.0
Diehl Aerospace Pte. Ltd., Singapore	100.0
Diehl Aircabin Hungary Kft., Nyírbátor, Hungary	100.0
Diehl Augé Découpage SAS, Besançon, France	100.0
Diehl Controls (Nanjing) Co., Ltd., Nanjing, China	100.0
Diehl Controls México SA de CV, El Marqués / Querétaro, Mexico	100.0
Diehl Controls North America Inc., Wilmington, Delaware, USA	100.0
Diehl Controls Polska Sp. Z oo, Namysłów, Poland	100.0
Diehl do Brasil Metalúrgica Limitada, São Paulo, Brazil	100.0
Diehl Metal India Private Limited, Pune, Maharashtra, India	100.0
Diehl Metall (Shenzhen) Co. Ltd., Shenzhen, China	100.0
Diehl Metering ApS, Esbjerg, Denmark	100.0
Diehl Metering GesmbH, Vienna, Austria	100.0
Diehl Metering (Jinan) Co., Ltd., Jinan, China	100.0
Diehl Metering LLC, Wilmington / Delaware, USA	100.0
Diehl Metering SAS, Saint-Louis, France	100.0
Diehl Metering Sp. Z oo, Bażanowice, Poland	100.0
DIEHL POWER ELECTRONIC SAS, Siaugues Sainte Marie, France	100.0
Diehl SynchroTec Manufacturing (Wuxi) Co., Ltd., Wuxi, Jiangsu, China	100.0
Franconia Industries, Inc., Albany / New York, USA	100.0
Junghans T2M SAS, La Ferté Saint-Aubin, France	100.0
The Miller Company, Meriden / Connecticut, USA	100.0
Administrative, real estate and other companies inland	
Afelixa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	94.0
Diehl Aerosystems-Holding GmbH, Nuremberg	100.0
Diehl Aerosystems-Interior-Holding GmbH, Nuremberg	100.0
Diehl Assekuranz Rückversicherungs- und Vermittlungs-AG, Nuremberg	100.0
Diehl Training and Qualification GmbH, Nuremberg	100.0
Diehl Beteiligungen GmbH, Nuremberg	100.0
Diehl Controls Nürnberg Verwaltungs GmbH, Nürnberg	100.0
Diehl Defense Land Systems GmbH, Röthenbach ad Pegnitz	100.0
Diehl Defense Holding GmbH, Überlingen	100.0
Diehl Defense Verwaltungs-GmbH, Überlingen	100.0
DIEHL Informatik GmbH, Nuremberg	100.0
Diehl Röthenbach GmbH & Co. KG, Nuremberg	100.0
Diehl Röthenbach Verwaltungs GmbH, Nuremberg	100.0
Diehl Track Limited Liability Company, Nuremberg	100.0
Diehl Ventures GmbH, Nuremberg	100.0
GEBRÜDER JUNGHANS GESELLSCHAFT WITH LIMITED LIABILITY, Röthenbach ad Pegnitz	95.8
GMD Beteiligungs GmbH, Nuremberg	100.0
Goma GmbH, Röthenbach ad Pegnitz	100.0
Gummiwerk Blankenheim GmbH, Nuremberg	100.0
Integra Vermögensverwaltungs- und Beteiligungsgesellschaft mbH, Nuremberg	100.0
Neubrandenburger Fahrzeugwerke GmbH, Nuremberg	100.0
Pyrotechnische Fabrik (PYF) GmbH, Röthenbach ad Pegnitz	100.0
Sundwiger Messingwerk Verwaltungs GmbH, Hemer	100.0
foreign countries	
Diehl Americas, Inc., Wilmington / Delaware, USA	100.0
Diehl Iberia Sistemas, SA, Seville, Spain	100.0
Diehl Metal Applications France SAS, Besançon, France	100.0
DIEHL METERING INDUSTRIA DE SISTEMA DE MEDICAO LTDA, Recife, Brazil	100.0
Hydrometer Verwaltungsgesellschaft mbH, Vienna, Austria	100.0
Metares SAS iL, Saint-Louis, France	100.0
2) Affiliated companies outside the scope of consolidation	
Diehl Metering AB, Stockholm, Sweden	100.0
Diehl Metering FZE, Dubai, United Arab Emirates	100.0
Diehl Metering Limited, Halifax / West Yorkshire, Great Britain	100.0
Diehl Metering Pte. Ltd., Singapore	100.0
Diehl Metering SL, Madrid, Spain	100.0
Diehl Metering SRL, Milano, Italy	100.0
Diehl Middle East GmbH, Nuremberg	100.0
FFT Fahrzeugbau und Fahrzeugtechnik GmbH, Nuremberg	100.0
Heinrich Diehl Memorial Fund Limited Liability Company, Nuremberg	100.0
Mauser-Werke Oberndorf support fund company with limited liability, Oberndorf am Neckar	100.0
3) Associated companies (equity accounting)	

Name and seat of the company	Capital share %
EuroSpike GmbH, Röthenbach ad Peg.	40.0
GIWS Society for Intelligent Active Systems mbH, Nuremberg	50.0
LOG GmbH, Bonn	25.0
PARSYS GmbH, Schrobenhausen	50.0
RAM-SYSTEM limited liability company, Ottobrunn	50.0
ROCKETHOME GmbH, Cologne	25.1
4) Participations (shareholdings from 20%)	
Diehl Kuwait General Trade & Contracting WLL, Dasman, Kuwait	49.0
HIL Industrie-Holding GmbH iL, Bonn	33.3
OEM Defense Services SAS, Elancourt, France	20.0
OEMServices SAS, Tremblay en France, France	25.0
Schramberger Housing, Limited Liability Company, Schramberg	24.1
Troisdorf permission holder company mbH, Troisdorf	20.0

RESIDUAL TERMS OF LIABILITIES OF THE GROUP AS OF DECEMBER 31, 2017

	Total amount as of December 31, 2017 T €	December 31, 2017 thereof with a remaining maturity		
		up to 1 year	more than 1 year	more than 5 years
		T €	T €	T €
LIABILITIES:				
1. Liabilities to banks	119,877	60,652	59,225	7,326
2. Trade accounts payable	312,775	312,772	3	0
3. Liabilities to affiliated companies	2,090	2,090	0	0
4. Liabilities to companies with which a participation relationship exists	40,025	22,686	17,339	0
5. Other Liabilities	144,730	136,873	7,857	4,052
TOTAL	619.497	535.073	84,424	11,378
		December 31, 2016 thereof with a remaining maturity		
	Total amount as of December 31, 2016 T €	up to 1 year T €	more than 1 year T €	more than 5 years T €
LIABILITIES:				
1. Liabilities to banks	153.386	63,437	89,949	11,400
2. Trade accounts payable	332.059	332.059	0	0
3. Liabilities to affiliated companies	2,087	2,087	0	0
4. Liabilities to companies with which a participation relationship exists	44,423	28,459	15,964	0
5. Other Liabilities	156.617	148.073	8,544	5,355
TOTAL	688.572	574.115	114,457	16,755

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 2017 FISCAL YEAR

THE DIEHL FOUNDATION & CO. KG

[T €]	2017	2016
Annual surplus	135,549	105,489
Adjustment of the difference on the closing rate / average rate	-453	477
Depreciation / write-ups on fixed assets	84,362	83,924
Decrease / increase in provisions	-29,109	59,281
Other non-cash expenses / income	3,251	-29,026
Profit from the disposal of fixed assets	-7,942	-2,613
Decrease / increase in inventories, trade accounts receivable and other assets	5,974	-127,725
Increase in trade payables and other liabilities	-35,366	21,710
Interest expenses / interest income	66,030	38,497
Other investment income	-930	-1,198
Income tax expense	74,215	59,756
Income tax payments	-81,725	-74,557
Income from grants	-8,676	-8,473
Cash generated from operations	205,180	125,542
Payments received from the disposal of items of property, plant and equipment and intangible assets	16,331	7,405
Payments for investments in property, plant and equipment and intangible assets	-108,100	-111,812
Payments from disposals of financial assets / for financial assets	-2,699	-2,317
Payments from the sale of consolidated companies	0	1,500
Payments due to financial investments in the context of short-term financial management		
Payments due to financial investments in the context of short-term financial management	-33	-37
Interest received	1,147	1,207
Dividends received	930	1,198
Cash flow from investing activities	-92,424	-102,856
Payouts from capital increases and changes in shareholder loans	-4,900	-7,434
Payouts to shareholders	-39,776	-25,413
Payments from the repayment of bank and other financing liabilities	-63,223	-82,816
Payments received from taking on bank and other financial liabilities	5,648	383
Payments from grants / donations received	8,676	8,473
Interest Paid	-14,879	-15,739
Cash flow from financing activities	-108,454	-122,546
Cash changes in cash and cash equivalents	4,302	-99,860

[T €]	2017	2016
Changes in cash and cash equivalents due to exchange rates, the scope of consolidation and valuation	8,568	1,472
Cash and cash equivalents at the beginning of the period	289.781	388.169
Cash and cash equivalents at the end of the period	302.651	289.781

Cash and cash equivalents were reduced by € 27.4 million (December 31, previous year: € 30.6 million) of liabilities due to banks and other short-term financial liabilities.

Development of group equity

of the Diehl Foundation & Co. KG

in T €	Limited partnership capital	Capital shares (total)	Parent Company Equity			
			Diehl Stiftung & Co. KG reserves	Other reserves of the group	Difference in equity from currency conversion	Equity parent company
As of December 31, 2016	103,000	103,000	204.781	278.068	-5,375	580.474
Credit to shareholder accounts in debt				-15,184		-15,184
Distributions to non-controlling shareholders						
Allocation to reserves		0	7,192	-7,192		0
Currency conversion		0			-6,737	-6,737
Other changes		0		-864		-864
Changes in the scope of consolidation		0		-6		-6
Consolidated net income		0		114,879		114,879
As of December 31, 2017	103,000	103,000	211,973	369.701	-12,112	672,562
			Non-controlling interests			Group
			Non-controlling interests before net attributable to non-controlling interests	Profits / losses of controlling interests	Shares of other shareholders	Equity
in T €						
As of December 31, 2016			49,458		49,458	629.932
Credit to shareholder accounts in debt					0	-15,184
Distributions to non-controlling shareholders			-8,699		-8,699	-8,699
Allocation to reserves					0	0
Currency conversion			-389		-389	-7,126
Other changes			2		2	-862
Changes in the scope of consolidation					0	-6
Consolidated net income				20,670	20,670	135,549
As of December 31, 2017			40,372	20,670	61,042	733.604

Independent auditor's report

To the Diehl Foundation & Co. KG, Nuremberg

Examination Opinions

We have prepared the consolidated financial statements of Diehl Stiftung & Co.KG, Nuremberg, and its subsidiaries (the Group) - consisting of the consolidated balance sheet as of December 31, 2017, the consolidated income statement, the consolidated equity statement and the consolidated cash flow statement for the financial year from December 1, 2017 January to December 31, 2017 as well as the notes to the consolidated financial statements, including the presentation of the accounting and valuation methods. In addition, we have audited the group management report of Diehl Stiftung & Co. KG for the financial year from January 1 to December 31, 2017.

According to our assessment based on the knowledge gained during the audit

- The attached consolidated financial statements comply in all material respects with German commercial law regulations and, in compliance with German generally accepted accounting principles, give a true and fair view of the Group's assets and financial position as of December 31, 2017 and its earnings position for the financial year from January 1 to as of December 31, 2017 and
- the attached group management report gives an overall accurate picture of the group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and accurately presents the opportunities and risks of future development.

In accordance with section 322 (3) sentence 1 of the German Commercial Code (HGB), we declare that our audit has not led to any objections to the correctness of the consolidated financial statements and the group management report.

Basis for the examination results

We carried out our audit of the consolidated financial statements and the group management report in accordance with Section 317 of the German Commercial Code (HGB), taking into account the generally accepted German auditing principles established by the Institut der Wirtschaftsprüfer (IDW). Our responsibility in accordance with these regulations and principles is described in more detail in the section "Auditor's responsibility for the audit of the consolidated financial statements and the group management report" of our auditor's report. We are independent of the group companies in accordance with German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements.

Responsibility of the legal representatives for the consolidated financial statements and the group management report

The legal representatives are responsible for the preparation of the consolidated financial statements, which comply with the German commercial law in all essential respects, and for ensuring that the consolidated financial statements provide a true and fair view of the assets, financial and earnings position of the company in accordance with German principles of proper accounting Group mediated. In addition, the legal representatives are

responsible for the internal controls that they have determined to be necessary in accordance with the German principles of proper accounting to enable the preparation of consolidated financial statements.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They are also responsible for disclosing issues relating to the going concern of the company, if relevant. In addition, they are responsible for accounting for the going concern basis of accounting, unless actual or legal circumstances conflict with this.

In addition, the legal representatives are responsible for the preparation of the group management report, which as a whole provides an accurate picture of the group's position, is consistent with the consolidated financial statements in all material respects, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for the precautions and measures (systems) that they have deemed necessary to enable the preparation of a group management report in accordance with the applicable German legal regulations,

Auditor's responsibility for the audit of the consolidated financial statements and the group management report

Our objective is to obtain sufficient certainty as to whether the consolidated financial statements as a whole are free of material - intentional or unintentional - misrepresentation, and whether the group management report as a whole gives an accurate picture of the Group's position and, in all material matters, with the consolidated financial statements as well is consistent with the knowledge gained during the audit, complies with German legal requirements and correctly presents the opportunities and risks of future development, and issues an auditor's report that includes our audit opinions on the consolidated financial statements and the group management report.

Adequate security is a high level of security, but no guarantee that an audit carried out in accordance with Section 317 of the German Commercial Code (HGB) in accordance with the German principles of proper auditing established by the Institute of Auditors (IDW) will always reveal a material misrepresentation. Misrepresentations can result from violations or inaccuracies and are regarded as material if it could reasonably be expected that they individually or collectively influence the economic decisions of the addressees made on the basis of these consolidated financial statements and group management report.

During the examination, we exercise due discretion and maintain a critical attitude. Furthermore

- we identify and assess the risks of material - intentional or unintentional - misrepresentations in the consolidated financial statements and the group management report, plan and carry out audit procedures in response to these risks and obtain audit evidence that is sufficient and suitable to serve as a basis for our audit opinions. The risk that material misrepresentations are not detected is higher in the case of violations than inaccuracies, since violations result in fraudulent cooperation, forgeries, intentional incompleteness, misleading representations or
- We gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and the provisions and measures relevant to the audit of the group management report in order to plan audit procedures that are appropriate under the given circumstances, but not with the aim of providing an audit opinion on the effectiveness of these Systems.
- we assess the appropriateness of the accounting methods used by the legal representatives as well as the acceptability of the estimated values presented by the legal representatives and related information.
- we draw conclusions about the appropriateness of the going concern accounting principle applied by the legal representatives and, on the basis of the audit evidence obtained, whether there is any material uncertainty in connection with events or circumstances, the significant doubts about the Group's ability to continue as a going concern can raise. If we come to the conclusion that there is material uncertainty, we are obliged to draw attention to the relevant information in the consolidated financial statements and in the group management report in the auditor's report, or if this information is inappropriate, to modify our respective audit opinion. We draw our conclusions based on the audit evidence obtained up to the date of our auditor's report. Future events or circumstances can, however, mean that the group can no longer continue its business activities.
- we assess the overall presentation, structure and content of the consolidated financial statements, including the information, and whether the consolidated financial statements present the underlying business transactions and events in such a way that the consolidated financial statements provide a true and fair view of the assets, financial and earnings position of the group.
- We obtain sufficient suitable audit evidence for the accounting information of the companies or business activities within the group in order to issue audit opinions on the consolidated financial statements and the group management report. We are responsible for the direction, supervision and execution of the group audit. We are solely responsible for our audit opinions.
- We assess the consistency of the group management report with the consolidated financial statements, its compliance with the law and the picture it provides of the group's position.
- we perform audit procedures on the future-oriented information presented by the legal representatives in the group management report. On the basis of sufficient, suitable audit evidence, we particularly review the significant assumptions underlying the future-oriented information from the legal representatives and assess the appropriate derivation of the future-oriented information from these assumptions. We do not issue an independent audit opinion on the future-oriented information or the underlying assumptions. There is a significant unavoidable risk

Among other things, we discuss with those responsible for monitoring the planned scope and timing of the audit as well as significant audit findings, including any deficiencies in the internal control system that we discover during our audit.

Munich, May 8, 2018

PricewaterhouseCoopers GmbH
auditing company

Dr. Peter Bartels, auditor

Thorsten Dzulko, auditor

The consolidated financial statements as of December 31, 2017 were adopted on May 8, 2018.