

2018

ANNUAL REPORT OF HÖRMANN INDUSTRIES GMBH



Key figures at a glance

Financial position and results of operations

(in EUR million)

	2018	2017
Sales	624.1	521.9
Total output	675.1	549.3
Gross profit	322.3	269.5
EBITDA *	41.8	27.4
Operating EBIT **	30.5	21.1
Adjusted EBIT ***	25.1	14.9
Cash flow from operating activities	16.2	37.4
Cash flow from investing activities	-10.8	-29.4

Net assets

(in EUR million)

	31.12.2018	31.12.2017
Total assets	294.7	283.4
Equity	112.8	99.6
Equity ratio ****	38.3 %	35.1 %
Working Capital *****	77.4	64.5
Net cash and cash equivalents *****	77.3	75.2
Employees *****	3,175	2,825

* Operating result before depreciation and amortisation, financial result and income taxes
 ** Operating result before financial result and income taxes, adjusted for non-recurring effects
 *** Operating result before financial result and income taxes, including non-recurring effects
 **** Equity plus goodwill / total assets
 ***** Inventories plus trade receivables minus trade payables
 ***** Net cash and cash equivalents incl. securities classified as current assets
 ***** Average number for the year excluding trainees

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HÖRMANN GROUP ON GROWTH TRACK

INTERVIEW WITH THE MANAGEMENT BOARD

HÖRMANN Group looks back on a good financial year 2018. The issued strategy is already leading to initial successes. The company is in a better position than it has been for ten years. We spoke to the Management Board about the past development and what is still to come. Eye-to-eye with Michael Radke and Johann Schmid-Davis ...



Michael Radke, CEO (left) in conversation with Johann Schmid-Davis, CFO (right)

Let us start by asking how the Management Board views the financial year 2018 ...

Michael Radke: We can feel satisfied and confident about the past year and the challenges heading our way. The HÖRMANN Group continued to perform well. Our strategic approach of diversification while at the same time concentrating on our core competences has proven its worth. We are growing organically in all business divisions and very pointedly inorganically in our Engineering and Services divisions. Our competitive position is extremely good. Through new strategic approaches and high innovativeness, we are actively and dynamically helping to define the future in our business areas.

Johann Schmid-Davis: An increase in sales of around 20 % is an impressive feat even in a generally good economic environment. This is what the HÖRMANN Group achieved in 2018 – our best financial year since the financial crisis of 2008. Our operating EBIT climbed by 32 % and our equity ratio – at around 36 % as at 31 December 2018 – is at an eminently acceptable level for an SME of our size. Our sales growth in the past year was 50 % organic, 30 % inorganic and

20 % steel price-related and consequently, it does not have any impact on earnings. A healthy mix. We are well diversified both operationally and financially.

Sales growth of almost 20 % and an increase in EBIT of 32 % are impressive figures. You had originally forecast that 2018's results would be in line with the previous year's level. What are the main factors that enabled this strong earnings performance?

Michael Radke: On the one hand, the economic environment and in particular the demand in Europe developed better than expected in the past financial year. Thanks to the good position of the HÖRMANN companies in their specific markets, all divisions were able to benefit from this positive development. On the other hand, we initiated a strategic realignment of the HÖRMANN Group in 2017, which is already showing initial success. With the establishment of the new Services division, which builds on the decades-long tradition of HÖRMANN Industrial Services, we have taken a further step towards diversifying the HÖRMANN Group into the future-oriented services sector. We have significantly

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JOHANN SCHMID-DAVIS, CFO

strengthened our Engineering division by establishing a high-performance unit for vehicle development, HÖRMANN Vehicle Engineering. In the Automotive division, we have consistently and energetically done our homework to improve our cost position. The consolidation of the Automotive plants that has been initiated and the various investments to further strengthen the technological performance will considerably strengthen the competitiveness and earning power of the Automotive division in the coming years. The production site in Slovakia, which started operations only in 2017, will play a special role in this, having already made a successful contribution to business success in 2018. In addition, we further optimised our commercial processes in the area of administration and pushed ahead with the renewal and standardisation of our internal IT systems. In summary, we can be satisfied that the dynamic change in the HÖRMANN Group and the many steps we have taken to strengthen our future viability have already begun to bear fruit in 2018. We are on the right track!

The forecasts for global economic development in general and for economic dynamics in Germany and Europe in particular have been constantly revised downwards by experts in recent months. To what extent is the HÖRMANN Group affected by this anticipated downturn?

Johann Schmid-Davis: We are watching general developments very closely. Certainly, trade barriers and the problems within the automotive industry do not help our business. Despite these difficulties, there are enough tasks for the broadly diversified product portfolio held by HÖRMANN's business divisions that need to be solved and for which we have the necessary concepts and competencies. Our order books are well filled. According to our conservative estimate, we are assuming a moderate sales decline in 2019, but expect EBIT to remain stable at the level of the previous financial year thanks to effective structural adjustments. The decline in sales is largely attributable to the deconsolidation of the Penzberg plant.

Since you raise the subject: HÖRMANN Automotive Penzberg GmbH is no longer operating under the umbrella of HÖRMANN Industries GmbH ...

Michael Radke: HÖRMANN is anxious to further strengthen the Automotive division, which currently generates the highest sales, in order to successfully lead the entire company into the future – and not to weaken it through individual companies that have

turned into losses. In this context, HÖRMANN Automotive Penzberg GmbH (HAP) was spun off from the HÖRMANN Industries Group and transferred to the external HÖRMANN holding company FTH Fahrzeugteileholding GmbH, Chemnitz, with economic effect from 1 January 2019 for the purpose of an orderly closure of the plant. Production at the Penzberg plant is being progressively transferred to other plants, in particular to the Bánovce plant (Slovakia). This relocation is not expected to affect customer deliveries. We greatly regret having the closure of the Penzberg plant. In view of the high personnel costs, the rapid increase in losses since the beginning of the year and the high financial requirements, we unfortunately do not see any possibility of a sustainable continuation of the company.

Johann Schmid-Davis: In 2018, HAP entered into a loss situation and reported a deficit of EUR 4.6 million – despite high cyclical demand and high capacity utilisation. This deficient development has continued in the current financial year: The company anticipates another loss of more than EUR 8 million in 2019. The Penzberg plant is to be closed by no later than 30 June 2020, though the majority of the relocation activities is to be completed by the end of 2019. HÖRMANN Industries GmbH is committed to its social responsibilities and will provide a social package to alleviate the social consequences for the approximately 630 employees affected and will offer them all the vacant positions at other HÖRMANN Group locations. HÖRMANN Industries GmbH intends to provide HÖRMANN Automotive Penzberg GmbH with secured funding of around EUR 20 million to finance this social plan.

Will there be further restructurings in the Automotive division or is the HÖRMANN Group now finally positioned in this sector?

Michael Radke: Continuous development and adaptation to rapidly changing market conditions is one of the most important tasks of any company. In today's rapidly changing world, there is no 100 % certainty, only constant dynamic change is guaranteed. This is why we launched our company-wide strategic program "Shaping the Future Together" in 2018. All HÖRMANN Automotive plants must repeatedly face new challenges and constantly work to maintain their competitiveness, further improve their profitability and the best possible resilience against economic downturns. This also applies to all



other companies in the HÖRMANN Group, which are in a process of continuous improvement and optimisation. We constantly work under the premises of responsible, value-oriented and sustainable corporate management. Only dynamic and innovative companies can shape the future and offer good, interesting jobs. And that's exactly what we see as our mission.

Speaking of Shaping the Future together the HÖRMANN Group has four divisions. Automotive contributes more than two thirds of sales and the automotive sector will be undergoing massive transformation in the coming years. I am thinking of diesel, electromobility and autonomous driving. How is HÖRMANN prepared for this?

Michael Radke: Automotive was and will continue to be important to us. Thanks to our innovative spirit, we will also be able to compete in a technologically changing world. In close cooperation with universities, research institutions and other companies, for example, we have developed a highly stable lightweight chassis for transporters up to 7.5 tons, which is ideally suited for the technological requirements of electric drives. This is our first contribution to the emission-free transport of goods in cities and

conurbations. We will develop such solutions over the next few years until they reach market maturity. Here we have the big advantage "experience".

Johann Schmid-Davis: What's always the best dosage? Fifty-fifty. That's what we think, that's how we act. Diversification is our path to success. For HÖRMANN fifty-fifty means that Automotive generates 50 % of sales while the other three divisions generate the other 50 %. In terms of profitability, however, we want to stand on four equal pillars. This would be an optimal constellation for our company in terms of margins and risk. We aim to achieve this target by 2022.

How is the HÖRMANN Group dealing with the topic of Industry 4.0?

Michael Radke: We're not just dealing with this topic, we're actively shaping it. The comprehensive measurement and control of production processes and the networking of the entire production automation is a key to the future of HÖRMANN Automotive. In the automation technology sector, our company already offers highly qualified service competence in Germany.

» Only dynamic and innovative companies can shape the future and offer good, interesting jobs. And that's exactly what we see as our mission. «

MICHAEL RADKE, CEO

What does HÖRMANN's strategy look like – in an increasingly disruptive competition?

Michael Radke: In recent years, we have systematically expanded our engineering expertise and adapted our Group structure to the current challenges. In this respect, disruptive is relative for us. We are in a position to support the automotive industry with future-oriented business processes, and in the communications sector we have the opportunity to provide the market with new impulses. With the newly established Services division, we will shape the future in the industrial services sector and prove ourselves in the engineering sector as an ambitious all-rounder for all engineering challenges. HÖRMANN thinks integratively. Through the unique networking of a wide range of knowledge areas and the close connection of knowledge-based, service-oriented and product-oriented business processes within the Hörmann Group, we will be able to remain successful in the long term, even in a disruptive competitive environment. With our values "innovative spirit, drive, responsibility and eye level", a team of more than 3,000 employees is doing the best it can to meet tomorrow's customer requirements.

Was this integrative thinking also a motivating factor behind the acquisition of the Austrian Klatt Fördertechnik GmbH?

Johann Schmid-Davis: Certainly. In the field of engineering, we have acquired the know-how in industrial design as well as plant and building planning with groundbreaking logistics concepts and the necessary software solutions. Klatt produces the conveyor technology for the concepts we have created, which we have so far purchased from third parties in order to be able to offer our customers a complete package. The vertical expansion of our service portfolio in the

Engineering division and the opening up of new divisions such as goods dispatch centres, hospitals or airports, which we have previously not served but Klatt does, is an important step for HÖRMANN. The deal is a "perfect fit" for both companies, complementing each other in terms of industry expertise and solution portfolio. We initially acquired a 51 percent stake in Klatt and will gradually increase our stake over the next few years. Founder Peter Klatt will continue the business, which we are very pleased about.

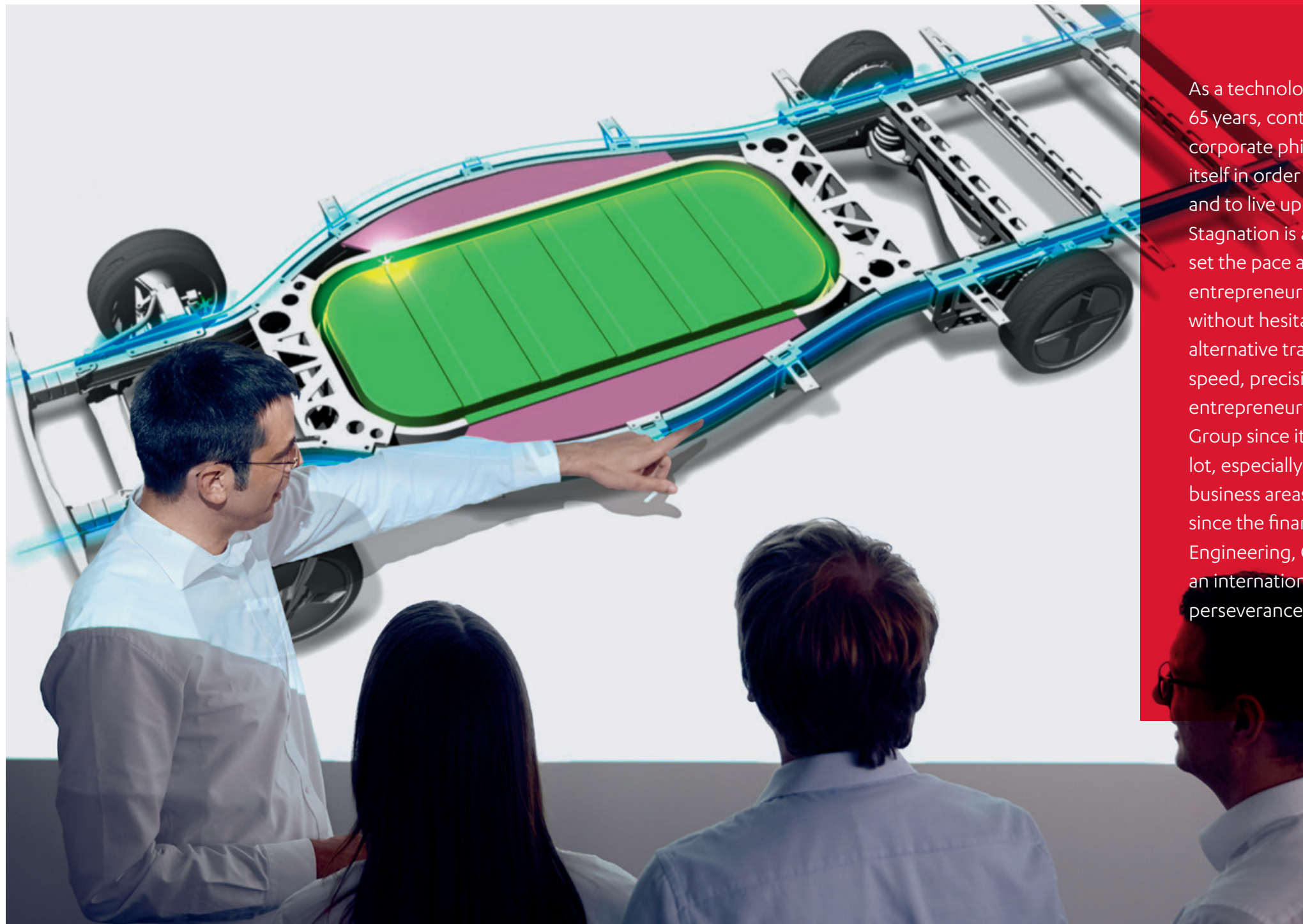
Short question, short answer, please. Which of HÖRMANN's four divisions is the most important?

Johann Schmid-Davis: All our divisions are equally important. Diversification is an elementary part of our company philosophy. And HÖRMANN is a family business. As a family business, we do not only think in figures, but also in future, responsibility, solidity and integrity.

What is the HÖRMANN Group's outstanding goal for 2019?

Michael Radke: The outstanding goal is undoubtedly the optimisation and expansion of our business model and the further strengthening of the profitability of all four divisions. We will continue to grow, but in a controlled and sustainable manner. We are an attractive employer for committed and performance-oriented employees - and we intend to remain so. ♦

Diversified in the market with four future technology business areas



PRESENTATION OF HÖRMANN GROUP

As a technology company that has been shaping the future for almost 65 years, continuous change is an integral part of HÖRMANN's corporate philosophy. The Hörmann Group is constantly reinventing itself in order to be the best partner for its customers on the one hand and to live up to its responsibility towards all employees on the other. Stagnation is a step backwards. For this reason, HÖRMANN is anxious to set the pace and promote corporate development, make timely entrepreneurial decisions and implement necessary course corrections without hesitation. In a global competition, in a world of tomorrow with alternative transport systems, digitalisation and artificial intelligence, speed, precision and innovation are the demanded attributes of our entrepreneurial activity – attributes that have always been lived in the Group since its foundation by Hans Hörmann. This experience is worth a lot, especially today. Diversified and operating in four future technology business areas, the HÖRMANN Group presented its best financial year since the financial crisis of 2008. With the divisions Automotive, Engineering, Communication and Services, the Group has earned itself an international reputation on the foundations of which "future with perseverance" can be built.

Automotive division

The Automotive division, which accounts for more than two thirds of the HÖRMANN Group's total sales, is divided into seven fully consolidated companies. HÖRMANN Automotive is a leading systems supplier primarily to the commercial vehicle industry, but also for the construction and agricultural machinery industries, supplying almost all major vehicle manufacturers with metallic components and modules. These include, for example, chassis parts such as side members and frame attachments for heavy trucks or all-in systems that are delivered just-in-sequence to the assembly plants. With its range of industrial engineering, production and logistics services, the division covers the entire value chain. By far the biggest location in terms of sales is HÖRMANN Automotive Gustavsburg GmbH, one of Europe's leading manufacturers of side members and large body parts.

As an established systems supplier for the commercial vehicle industry, HÖRMANN Automotive offers ideas and solutions for tomorrow. These relate to both light commercial vehicles for future urban delivery systems and heavy commercial vehicles. According to expert forecasts, the "light commercial vehicles" sector in particular will grow steadily in the years ahead as a result of the continuous increase in freight transport in urban areas, which will not only be driven by a general increase in the number of vehicles but also by cyclical replacement investments.

Hörmann Automotive stands for innovation, which is also due to the synergies arising from the interaction between the four divisions. For example, at the 2018 IAA in Hanover, HÖRMANN Automotive presented an innovative integral chassis concept designed for the use of alternative drive systems. The concept pursues a systematic lightweight structural design approach that takes particular consideration of sensitivity in the transport industry and the vehicle design

requirements of electrified, lightweight commercial vehicles. The HÖRMANN integral chassis combines the use of innovative technologies suitable for series production and cost-attractive materials with an intelligent structural construction approach based on an optimised overall and component structure. The performance of the overall system is enhanced by the use of high-performance composite lightweight construction materials.

In 2018, The Automotive division grew by around 12 % in terms of the number of system deliveries. Nonetheless, the Group still aims to further strengthen the competitiveness and profitability of what is currently its strongest division in terms of sales. In this context, HÖRMANN Automotive Penzberg GmbH (HAP) was spun off from the HÖRMANN Group in April 2019 and transferred to the external HÖRMANN holding company FTH Fahrzeugteileholding GmbH, Chemnitz, with economic effect from 1 January 2019. The Penzberg location was characterised by a very wage-intensive production that was no longer economically viable for the Group as a whole given the circumstances prevailing in Germany. HAP began making losses and reported a deficit of EUR 4.6 million in 2018 – despite high cyclical demand and high capacity utilisation. Large parts of production are being relocated to the Group's Slovakian Automotive plant in Bánovce. The Penzberg plant is to be closed by 30 June 2020, and most of the relocation being completed by the end of 2019.

The automotive industry is currently facing special challenges of this kind. Alternative drives and lightweight construction are a central topic and will change future vehicle generations. Hörmann Automotive has the experience, innovative strength and perseverance to master these challenges together with its customers and development partners.

- ♦ HÖRMANN Automotive GmbH, Kirchseeon
- ♦ HÖRMANN Automotive Gustavsburg GmbH, Ginsheim-Gustavsburg
- ♦ HÖRMANN Automotive Slovakia s.r.o., Bánovce
- ♦ HÖRMANN Automotive St. Wendel GmbH, St. Wendel
- ♦ HÖRMANN Automotive Saarbrücken GmbH, Saarbrücken
- ♦ Hörmann Automotive Wackersdorf GmbH, Wackersdorf
- ♦ Hörmann Automotive Eislingen GmbH, Ebersbach



» We are flexible and innovative. This will enable us to help shape the developments in the commercial vehicle sector. «

MICHAEL RADKE, CEO

As an established systems supplier for the commercial vehicle industry, HÖRMANN Automotive offers ideas and solutions for tomorrow. These relate to both light commercial vehicles for future urban delivery systems and heavy commercial vehicles. The "light commercial vehicles" sector in particular will grow steadily in the years ahead.

Engineering division

The objective of the division summarised succinctly: HÖRMANN Engineering develops and implements solutions for its customers that profitably support their further business development. HÖRMANN Engineering stands for technologically leading engineering services. For decades, the division has been providing pioneering concepts across multiple industries, it has been a reliable and valued address for customers and research and development partners, and is also an exciting and attractive employer.

The industrial transformation has experienced an unprecedented acceleration. And this velocity will continue to increase vehemently – a major challenge for all technical industries. Automation, robotics and digital networking in the Internet of Things demand a new way of thinking. HÖRMANN Engineering is shaping this process together with its customers. The ability to consistently and quickly adapt to changing market requirements is one of Hörmann's exceptional strengths as a family business and – especially in the Engineering division – a crucial advantage for the company per se and for its customers. To position up-to-date expert knowledge and adequate resources promptly at a given location defines the decisive advantage and customer benefit for HÖRMANN Engineering's customers.

In the Engineering division, HÖRMANN Industries GmbH operates in the fields of industrial design and vehicle development, in plant, building and factory planning, through to provision of complex logistics

concepts. The development and production of detectors for the detection of ionizing radiation further expands this range of services. As a strongly knowledge-based competence centre, the Engineering division also acts as a synergetic link within the Hörmann Group between the three other divisions.

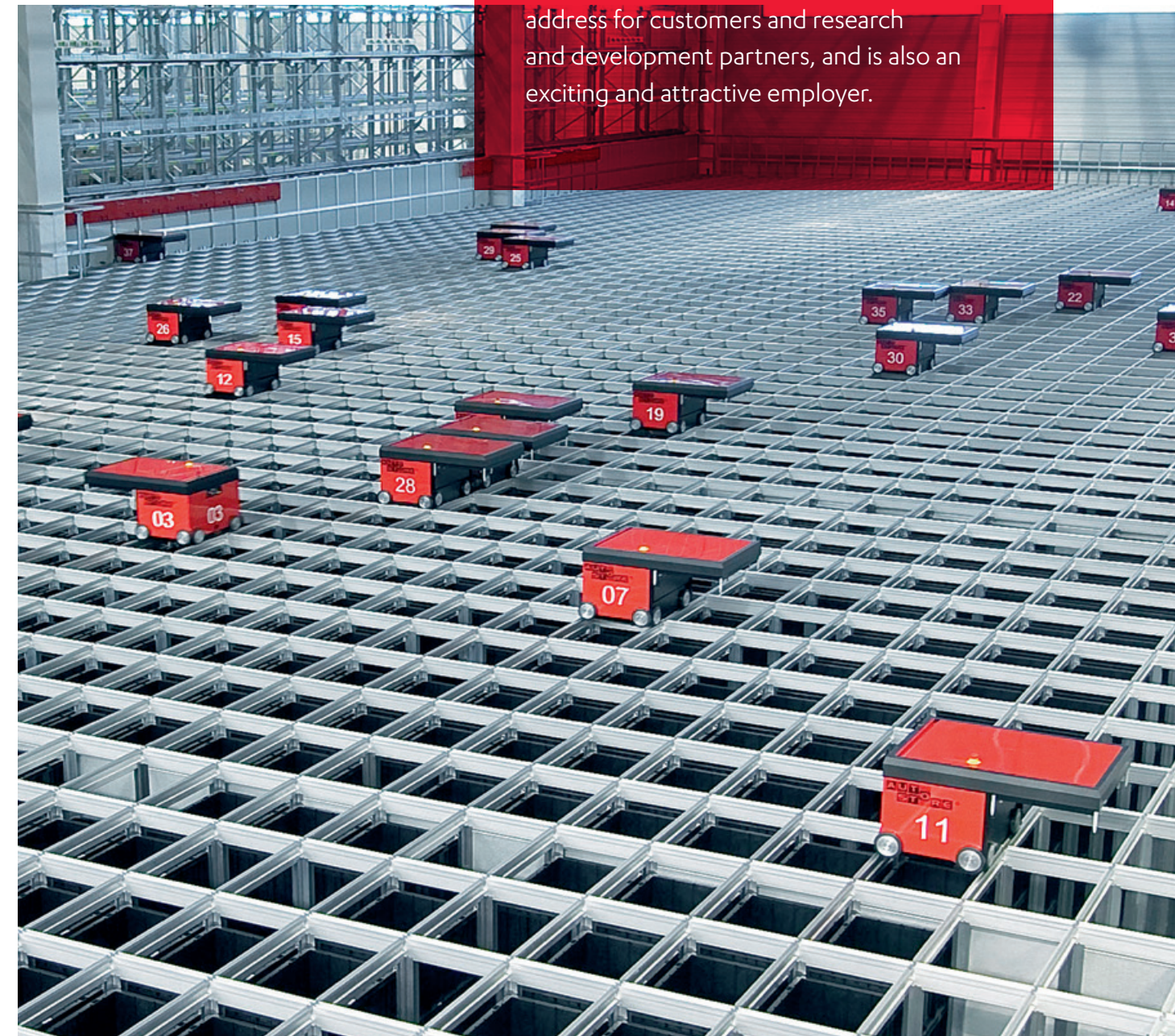
HÖRMANN Vehicle Engineering GmbH concentrates on design engineering, in particular the development of rail and road vehicles. AIC Ingenieurgesellschaft für Bauplanung GmbH offers all engineering services required within the construction industry, with a particular focus on technically demanding industrial construction. HÖRMANN Rawema Engineering & Consulting GmbH focuses on the planning and implementation of new factories and the re-engineering existing ones. HÖRMANN Logistik GmbH is the general contractor for turnkey material flow systems. With intelligent workflow concepts and complex warehouse strategies, intralogistics solutions are implemented for the customers that mean significant increases in productivity and efficiency. In April 2019, Klatt Fördertechnik GmbH, based in Austria, was acquired for the Logistics division. Klatt produces conveyor technology, which the Engineering division has purchased so far. This vertical expansion of the range of services and the development of new industrial sectors is an important step for the HÖRMANN Group. VacuTec Meßtechnik GmbH develops, produces and distributes a broad range of detectors for measuring ionising radiation for use in medicine, industrial metrology and environmental monitoring. SITEC Industrietechnologie GmbH operates in the field of special mechanical engineering and specifically fully automated assembly units and laser technology.

» Our Engineering division is a broad-based partner to the industry and will continue to gain in importance within the HÖRMANN Group. «

JOHANN SCHMID-DAVIS, CFO

- ♦ AIC Ingenieurgesellschaft für Bauplanung GmbH, Chemnitz
- ♦ HÖRMANN Rawema Engineering & Consulting GmbH, Chemnitz
- ♦ HÖRMANN Logistik GmbH, Munich
- ♦ HÖRMANN Vehicle Engineering GmbH, Chemnitz
- ♦ VacuTec Meßtechnik GmbH, Dresden
- ♦ Sitec Industrietechnologie GmbH, Chemnitz

HÖRMANN Engineering stands for technologically leading engineering services. For decades, the division has been providing pioneering concepts across multiple industries, it has been a reliable and valued address for customers and research and development partners, and is also an exciting and attractive employer.



Communication division

Communication and networking have always been and will remain a key to progress. HÖRMANN's Communication division is a provider of system-relevant communication, information and security systems. It focuses on professional hardware and software concepts for railway companies, local public transport, inland navigation and airports as well as on intelligent electronic security systems to protect buildings, public spaces, industrial objects, traffic and people. As the market leader, the Communication division offers tailor-made and certified solutions for voice and data communication via analogue and digital mobile radio networks on railways.

The focus is on market niches with high entry barriers and clearly defined target groups. The specialisation in user knowledge creates customer orientation and competitive advantages. Changes in technology are actively leveraged in order to enter newly emerging markets. With technologically leading system solutions, we help our customers to streamline their operational processes, to protect employees and operational functions and thus create added value.

Thanks to its historical development, the Communications division is strategically well positioned throughout Europe in future markets. This is a key requirement for generating a deep understanding of customers' different needs and driving innovation. Flexibility and fast response times when translating ideas into marketable products in close cooperation with customers are key success factors for the continuous optimisation of value creation – both for customers and for HÖRMANN Communication. This customer-oriented approach, a special HÖRMANN competence, is highly valued in the market.

HÖRMANN Communication operates in a growing market that offers many opportunities but also holds risks. The division has to assert itself against established competitors and at the same time stand up to globally disruptive suppliers in order to continuously develop this business area further. The primary objective is to generate further growth on the basis of the established, consolidated operative competitive position.

Against the background of current industrial trends, the Communication division offers a wide range of additional opportunities for expanding its product and service portfolio without cannibalising existing fields of activity. In this respect, this division of HÖRMANN GROUP will gain sustained importance in the mix of business areas. With its extensive experience, HÖRMANN Communication is "on track" in all decisive fields of industrial communication with great experience. One of the greatest challenges in the coming years will be to attract qualified employees to work for the company and to convince them that technology "made by Hörmann" enjoys a special place in the industrial landscape.

» The HÖRMANN Group will also continue to diversify in terms of margins and risk in the medium term. This project will be largely determined by the Communication division ... «

JOHANN SCHMID-DAVIS, CFO

HÖRMANN's Communication division is a provider of system-relevant communication, information and security systems. It focuses on professional hardware and software concepts for railway companies, local public transport, inland navigation and airports as well as on intelligent electronic security systems to protect buildings, public spaces, industrial objects, traffic and people. As the market leader, the Communication division offers tailor-made and certified solutions for voice and data communication via analogue and digital mobile radio networks on railways.

- ♦ Funkwerk AG, Kölleda
- ♦ Funktech GmbH, Kölleda
- ♦ Funkwerk Systems GmbH, Kölleda
- ♦ Funkwerk video systeme GmbH, Nuremberg
- ♦ Funkwerk IoT GmbH, Bremen
- ♦ Funkwerk Statkom GmbH, Kölleda
- ♦ Funkwerk Systems Austria GmbH, Vienna, Austria
- ♦ HÖRMANN GmbH, Kirchseeon
- ♦ HÖRMANN KMT Kommunikations- und Meldetechnik GmbH, Salzburg, Austria



Services division

Services is the newest division within the HÖRMANN Group. Founded in May 2017, the division combines the Group-wide service activities by incorporating HÖRMANN Industrieservice GmbH and Hörmann Kommunikation & Netze GmbH. On the other hand, the service portfolio was enhanced and expanded by the acquisition of the MAT Group, Salzgitter, in the fourth quarter of 2017 and the associated majority takeover of MAT Industrieservice GmbH, MAT Automationstechnik GmbH and MAT Maschinentechnik GmbH. Modern companies require highly specialised industrial services. The knowledge of HÖRMANN Group gives customers the freedom to concentrate fully on their core business in an increasingly competitive environment.

» HÖRMANN OFFERS A HIGHLY QUALIFIED SERVICE TEAM – THROUGHOUT GERMANY. «

MICHAEL RADKE, CEO

The Services division focuses on high-quality, reliable and technologically sophisticated services. Customer proximity is a crucial factor for this holistic approach, and is guaranteed by 18 locations and around 320 employees throughout Germany. The activities of the Services division are divided into the “Industrial Sector” (automotive/supplier industry, metal processing industry, mechanical and plant engineering) and the “Public Sector” (traffic engineering, infrastructure projects). Renowned customers in the automotive industry, mechanical engineering and traffic engineering rely on the experience gained in hundreds of projects, the flexibility, expertise and reliability of Hörmann Services. The division is a reliable partner for its customers, ranging from plant maintenance related to electrical, mechanical, control, robot, welding, conveyor, pneumatic and hydraulic systems to shift-accompanying maintenance of process

technology or the assembly and commissioning of machining centres to the relocation of complete production plants.

The HÖRMANN Group plans to continuously expand the relatively young Services division over the coming years. It is the ideal complement to the company’s other three areas of activity, allowing it to offer customers “everything from a single source” – something that they value greatly. Particularly in times of disruptive change in the automotive industry, ever shorter cycle times in the individual industrial sectors and against the background of progressive automation and the networking of machines, plants and entire plants (Industry 4.0), the services of the HÖRMANN Services division are more in demand than ever. The high need for modernisation in the public digital infrastructure and rail transport technology, but also new disruptive technologies such as autonomous driving on the road, offer many additional opportunities in the public sector in the future. HÖRMANN Services sees itself very well positioned in an environment that offers numerous opportunities. These opportunities must be exploited, especially in close cooperation with the company’s other divisions. Synergy options are available and are already being used, but will be focused much more intensively in the future.

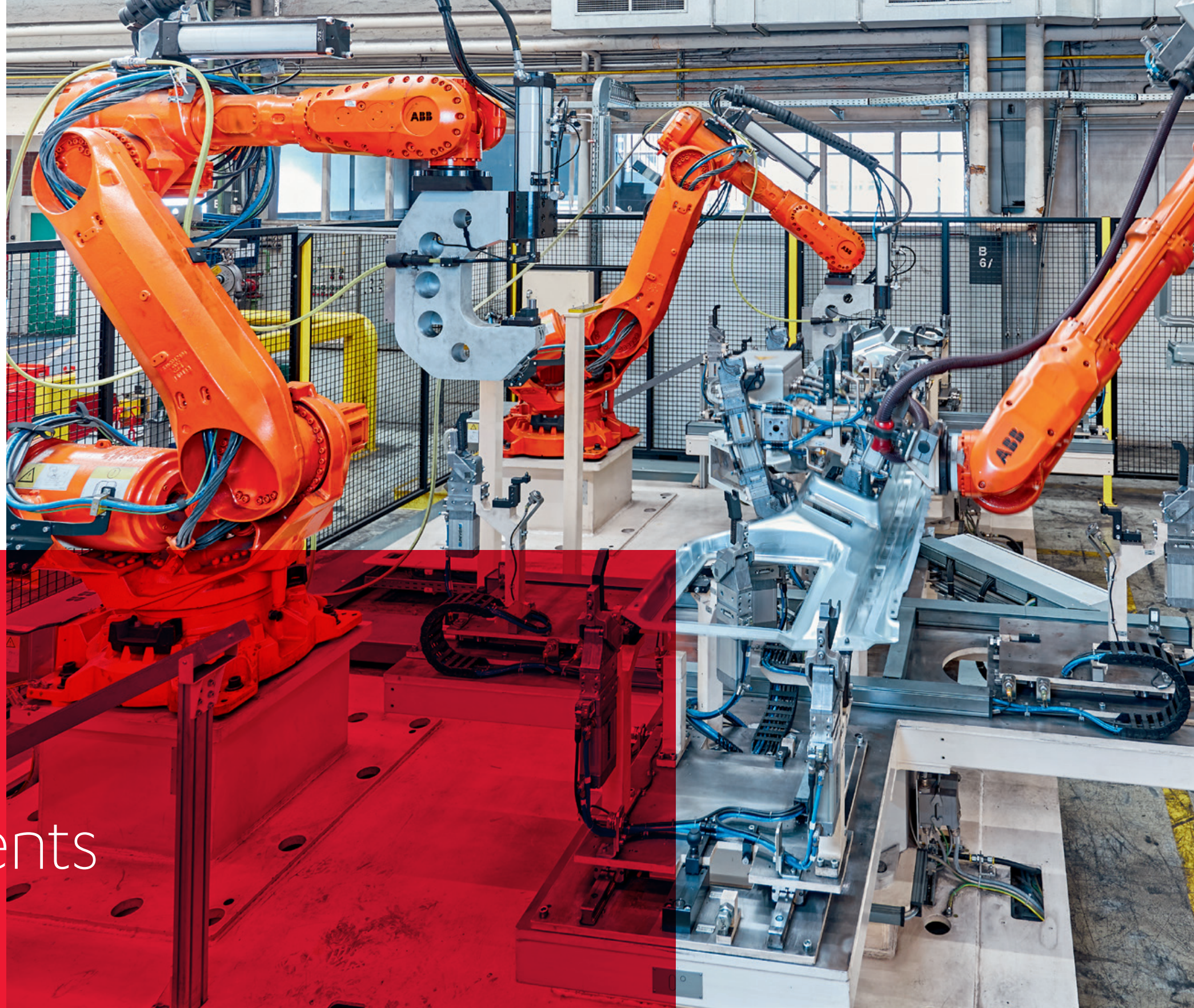
- ♦ HÖRMANN Services GmbH, Kirchseeon
- ♦ HÖRMANN Kommunikation & Netze GmbH, Kirchseeon
- ♦ HÖRMANN Industrieservice GmbH, Chemnitz
- ♦ MAT Industrieservice GmbH, Salzgitter
- ♦ MAT Automationstechnik GmbH, Salzgitter
- ♦ MAT Maschinentechnik GmbH, Salzgitter

Founded in May 2017, HÖRMANN’s youngest division, Services, combines the Group-wide service activities in the industrial sector with high-quality, reliable and technologically sophisticated services.



» We are active in
all business segments
in order to shape
the future together. «

MICHAEL RADKE, CEO



Management report

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Basic information on the Group

The Group, comprising HÖRMANN Industries GmbH and its direct and indirect subsidiaries, constitutes the industrial subgroup of the HÖRMANN Group.

The Group is broken down into four strategic divisions to which the individual companies are allocated.

The information on the course of business in the management report is presented in line with the strategic Group structure.

The material equity investments are allocated to the divisions as follows:

AUTOMOTIVE

- ♦ HÖRMANN Automotive GmbH, Kirchseeon
- ♦ HÖRMANN Automotive Gustavsborg GmbH, Ginsheim-Gustavsborg
- ♦ HÖRMANN Automotive Penzberg GmbH, Penzberg
- ♦ HÖRMANN Automotive Slovakia s.r.o., Bánovce, Slovakia
- ♦ HÖRMANN Automotive St. Wendel GmbH, St. Wendel
- ♦ HÖRMANN Automotive Saarbrücken GmbH, Saarbrücken
- ♦ HÖRMANN Automotive Wackersdorf GmbH, Wackersdorf
- ♦ HÖRMANN Automotive Eislingen GmbH, Ebersbach

The companies in the Automotive division are among the leading suppliers of metal components, modules and systems for the European commercial vehicle, construction and agricultural machinery industries.

The division covers the entire value chain with its engineering, production and logistics services.

The location with the highest sales is HÖRMANN Automotive Gustavsborg GmbH, which specialises in the production of premium chassis and body parts and attachments for commercial vehicles and is one of Europe's leading manufacturers of longitudinal frame members.

The next-largest location in 2018 was HÖRMANN Automotive Penzberg GmbH, which produces media-carrying pipes, metal components and chassis attachments for the commercial vehicle industry, agricultural machinery and forklift truck manufacturers.

The other locations include HÖRMANN Automotive St. Wendel GmbH, a manufacturer of components and modules for the agricultural machinery industry in particular; HÖRMANN Automotive Saarbrücken GmbH, a developer and manufacturer of vehicle systems such as interior ceilings for buses, air conditioning and fuel pipes for buses and trucks and complete chassis for agricultural machinery; HÖRMANN Automotive Wackersdorf GmbH, which performs module assembly, packaging and logistics for customers including premium German car manufacturers; HÖRMANN Automotive Eislingen GmbH, a manufacturer of luggage compartment flaps, interior covers, fuel tanks and hydraulic tanks for commercial vehicles and agricultural and construction machinery; and HÖRMANN Automotive Slovakia s.r.o., which produces labour-intensive metal components and chassis attachments for the commercial vehicle industry.

ENGINEERING

- ♦ AIC Ingenieurgesellschaft für Bauplanung Chemnitz GmbH, Chemnitz
- ♦ HÖRMANN Rawema Engineering & Consulting GmbH, Chemnitz
- ♦ HÖRMANN Logistik GmbH, Munich
- ♦ HÖRMANN Vehicle Engineering GmbH, Chemnitz
- ♦ VacuTec Meßtechnik GmbH, Dresden

In the Engineering division, HÖRMANN Industries GmbH is active in the fields of industrial design, vehicle development and facility, building and factory planning, as well as the provision of innovative solutions for intralogistics and complex logistics concepts. This service range is supplemented by the development and production of detectors for measuring ionising radiation. The division focuses on its customers' requirements.

AIC Ingenieurgesellschaft für Bauplanung Chemnitz GmbH is a general contractor that offers all the necessary engineering services within the construction industry, with a particular focus on high-tech and complex industrial facility engineering.

HÖRMANN Rawema Engineering & Consulting GmbH supplements the engineering services with general planning and realisation of new factories and the re-engineering and/or relocation of existing factories and facilities.

HÖRMANN Logistik GmbH is a general contractor that builds turnkey material flow systems. With intelligent workflow concepts and complex storage strategies, HÖRMANN Logistik GmbH realises the most economical intralogistics solutions for individual requirements, thereby enabling its international customers from a wide range of industries to generate significant productivity and efficiency improvements.

The HÖRMANN Group has also established targeted expertise and resources for the development of rail and road vehicles at HÖRMANN Vehicle Engineering GmbH. Following the acquisition of et-parts GmbH in 2016, HÖRMANN Industries GmbH acquired the "Development Road & Rail" division of Leadec Engineering GmbH in 2017 and integrated it into HÖRMANN Rail & Road Engineering GmbH, Chemnitz. With this move, HÖRMANN Industries significantly strengthened its expertise in the area of design engineering, and particularly vehicle development. HÖRMANN Rail & Road Engineering GmbH and et-parts GmbH were merged into HÖRMANN Vehicle Engineering GmbH with retrospective effect from 1 January 2018.

VacuTec Meßtechnik GmbH develops, produces and markets a broad range of detectors for measuring ionising radiation for use in medicine, industrial metrology and environmental monitoring.

COMMUNICATION

- ♦ Funkwerk AG, Köllda
- ♦ Funktech GmbH, Köllda
- ♦ Funkwerk Systems GmbH, Köllda
- ♦ Funkwerk Systems Austria GmbH, Wien, Austria
- ♦ Funkwerk video systeme GmbH, Nürnberg
- ♦ Funkwerk IoT GmbH, Bremen
- ♦ HÖRMANN GmbH, Kirchseeon
- ♦ HÖRMANN KMT Kommunikations- und Melde-technik GmbH, Salzburg, Austria

Funkwerk is a technologically leading provider of innovative communication, information and security systems focusing on professional hardware and software concepts for railway companies, public transportation, inland shipping and airports as well as intelligent electronic security systems for the protection of buildings, public spaces, industrial properties, transport and people. As the market leader for railway communication, Funkwerk offers tailored solutions for voice and data communication using analogue and digital (LTE, GSM-R) mobile networks on the railways.

HÖRMANN GmbH and HÖRMANN KMT Kommunikations- und Meldetechnik GmbH, Salzburg, Austria, bundle the state-of-the-art siren warning systems for alerting the fire brigade or warning the population about disasters. The project-specific solutions are performed from a single source, from planning, development and realisation to long-term maintenance. Roland Sirenentechnik GmbH, Keltern-Dietlingen, was merged into HÖRMANN GmbH with retrospective effect from 1 January 2018.

SERVICES

- ♦ HÖRMANN Services GmbH, Kirchseeon
- ♦ HÖRMANN Kommunikation & Netze GmbH, Kirchseeon
- ♦ HÖRMANN Industrieservice GmbH, Chemnitz
- ♦ MAT Industrieservice GmbH, Salzgitter
- ♦ MAT Automationstechnik GmbH, Salzgitter
- ♦ MAT Maschinentechnik GmbH, Salzgitter

In the Services division, HÖRMANN Industries offers its customers a range of high-tech services in the industrial environment of automation, digitisation, energy and transport.

The consolidated group is presented in detail in the notes to the consolidated financial statements.

Economic report

ECONOMIC ENVIRONMENT

According to estimates by the International Monetary Fund (IMF) in January 2019, the world economy grew by 3.7 % overall in 2018 despite the slowdown in the second half of the year. The emerging and developing economies remained the growth drivers according to the IMF, with economic output rising by 4.6 % in the past year. The industrialised nations also saw substantial growth of 2.3 %. Gross domestic product in the euro zone increased by 1.8 % in 2018, while the US economy expanded by 2.9 %. Economic growth amounted to 1.5 % in both Germany and France according to the IMF.

The figures released by the German Federal Statistical Office (Destatis) in January 2019 also show growth in the German economy in the past year. Domestic demand was a particular driver of growth momentum in 2018, with private (+1.0 %) and public consumer spending (+1.1 %) both making a positive contribution to growth. The information and communication industry (+3.7 %) and the construction industry (+3.6 %) recorded above-average growth rates.

INDUSTRY ENVIRONMENT

The industry environment is discussed in the information on the course of business in the individual divisions.

RESULTS OF OPERATIONS

The HÖRMANN Industries GmbH subgroup generated **sales** of EUR 624 million in the 2018 financial year, up EUR 102.2 million or 19.6 % on the previous year (EUR 521.9 million). Of this figure, EUR 424 million was attributable to the Automotive division, EUR 96 million to the Communication division, EUR 66 million to the Engineering division and EUR 39 million to the Services division.

Other operating income in the amount of EUR 18.4 million (previous year: EUR 11.6 million) included EUR 8.8 million in income from the reversal of provisions, of which around EUR 5.2 million was attributable to the reversal of provisions for onerous losses, warranties and project follow-up costs,

EUR 0.4 million to book gains on the disposal of tangible assets, EUR 0.7 million to investment grants and subsidies and EUR 5.2 million to insurance recoveries. The unusually high level of insurance recoveries was due to flood damage at our automotive plant in Saarbrücken and was offset by expenses for damage repair of more than EUR 3.1 million and replacement investments of over EUR 2.0 million.

Total output increased by EUR 125.8 million or 22.9 %, from EUR 549.3 million in 2017 to EUR 675.1 million.

The **cost of materials** in the amount of EUR 352.8 million contained expenses for raw materials, consumables and supplies and purchased goods totalling EUR 287.5 million (previous year: EUR 233.3 million) as well as the cost of purchased services in the amount of EUR 65.4 million (previous year: EUR 46.5 million). The cost of materials corresponded to 52.3 % of total output (previous year: 50.9 %). This ratio was affected by higher prices for industrial metals in the Automotive division in the year under review.

At EUR 322.3 million, **gross profit** was up EUR 52.8 million or 19.6 % on the prior-year figure of EUR 269.5 million. This corresponded to 47.7 % of total output (previous year: 49.1 %).

Personnel expenses increased by EUR 24.5 million year-on-year to EUR 199.8 million (previous year: EUR 175.3 million). Of this figure, around EUR 3.1 million related to additions to provisions for staff restructuring and closure costs. Adjusted for these non-operating expenses for staff restructuring at the Gustavsburg and Bielefeld locations, operating personnel expenses amounted to around EUR 196.7 million in the year under review (previous year: around EUR 170.5 million). Operating personnel expenses corresponded to 29.1 % of total output after 31.0 % in 2017. Excluding managing directors and trainees, HÖRMANN Industries GmbH employed an average of 3,175 people across the year as a whole (previous year: 2,825).

Depreciation and amortisation was higher than in the previous year at EUR 16.7 million due to an extraordinary write-down of EUR 3.7 million on the assets of HÖRMANN Automotive Penzberg GmbH (previous year: EUR 12.4 million). This item includes goodwill amortisation of EUR 2.4 million (previous year: EUR 2.0 million).

At EUR 79.4 million, **other operating expenses** were up EUR 13.9 million on the prior-year figure (EUR 65.5 million). Of this figure, EUR 13.8 million related to the cost of buildings and premises, EUR 16.3 million to administrative expenses and EUR 29.2 million to operating and selling costs. Other operating expenses included around EUR 3.1 million for flood damage repair at the automotive plant in Saarbrücken. Other operating expenses corresponded to 11.8 % of total output (previous year: 11.9 %).

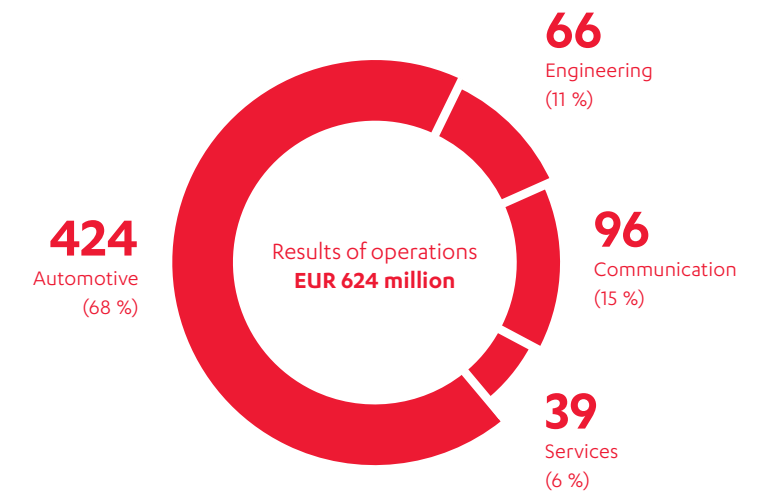
The 2018 financial year closed with an **operating result** of EUR 26.4 million (previous year: EUR 16.2 million). After deducting other taxes of EUR 1.3 million, **EBIT** including non-recurring effects amounted to EUR 25.1 million in 2018. As in the previous financial years, all four strategic divisions again made positive earnings contributions.

The **financial result** improved by around EUR 0.6 million or 17.8 % year-on-year to EUR -2.7 million, largely as a result of the lower interest expense on pension provisions. Despite the application of new valuation assumptions for pension provisions in the financial year, interest expenses were lower than in the previous year due to non-recurring effects in the previous year. The financial result was characterised by interest expense of around EUR 1.4 million for the bond issued in 2016 as well as by pension obligations. This was offset by income from equity investments in associated companies and interest income of EUR 0.3 million.

The **income tax expense** for trade tax and corporation tax amounted to EUR 5.6 million in 2018. Deferred tax expenses amounted to EUR 2.2 million in the year under review (previous year: EUR -0.1 million).

The 2018 financial year closed with **consolidated net income** of EUR 14.6 million, up EUR 5.5 million or 60.4 % on the previous year (EUR 9.1 million).

Sales distribution in 2018
in EUR million



HÖRMANN Industries GmbH developed extremely positively in the year under review and fully achieved or exceeded its growth targets in all four divisions. Thanks to the good macroeconomic conditions and the resulting order situation, the forecast of consolidated sales of EUR 560 million and EBIT of EUR 15 million was exceeded by some distance, with sales of EUR 624.1 million and earnings of EUR 25.1 million. All in all, the management considers the position of the Group in the 2018 financial year to be positive at the time at which the Group management report was prepared.

FINANCIAL POSITION

Capital structure

The Group's **equity base** including non-controlling interests improved from EUR 99.6 million at the end of the previous year to EUR 112.8 million at 31 December 2018 thanks to the positive results of operations. The **equity ratio** increased from 35.1 % (31 December 2017) to 38.3 % at the reporting date.

The first-time consolidation of HÖRMANN Logistik GmbH as at 31 December 2013 and Funkwerk AG as at 1 October 2016 resulted in **goodwill** of EUR 7 million (previous year: EUR 9 million), which was subject to pro rata amortisation of EUR 2.0 million as at the end of the 2018 financial year. The acquisitions of MAT Automationstechnik GmbH, MAT Industrieservice GmbH and MAT Maschinentechnik GmbH at the end of the 2017 financial year resulted in goodwill on first-time consolidation in the amount of EUR 2.2 million (previous year: EUR 2.4 million), which was subject to pro rata amortisation of EUR 0.2 million in the past financial year.

Total assets rose by EUR 11.3 million as a result of the higher level of current assets, increasing from EUR 283.4 million to EUR 294.7 million.

Including inventories of EUR 55.0 million and trade receivables of EUR 63.6 million and less trade payables of EUR 41.2 million, **working capital** increased from EUR 64.5 million as at 31 December 2017 to EUR 77.4 million at the end of the year under review. This was primarily due to the increase in work in progress to EUR 55.0 million compared with EUR 36.4 million at the end of the previous year. By contrast, trade receivables decreased by EUR 7.6 million to EUR 63.6 million, while trade payables fell by EUR 1.9 million to EUR 41.2 million.

Liabilities in connection with a **bond** amounted to EUR 30.0 million as at 31 December 2018 (previous year: EUR 30.0 million). The bond was issued by HÖRMANN Industries GmbH in November 2016 with a coupon of 4.5 % p. a. and a term of five years until November 2021.

Liabilities to banks were reduced further from EUR 0.5 million to EUR 0.3 million in the 2018 financial year. As at the end of 2018, there were no drawdowns on the revolving syndicated facility with a volume of up to EUR 30.0 million (term until November 2021) concluded at the level of HÖRMANN Industries GmbH with a banking syndicate headed by SaarLB.

Information on the term and collateralisation of the other liabilities can be found in the notes to the consolidated financial statements. Any changes in conditions compared with the previous year were in line with standard market developments.

Liquidity

Bank balances including securities classified as current assets amounted to EUR 77.6 million at the reporting date (previous year: EUR 75.7 million). EUR 0.2 million of the bank balances are restricted as collateral.

There were no drawdowns on overdrafts or global syndicated loans at the end of 2018, meaning that the credit facilities extended in the amount of EUR 33.0 million (previous year: EUR 33.0 million) are available in full.

As at 31 December 2018, HÖRMANN Industries had **net cash and cash equivalents** of EUR 77.3 million (previous year: EUR 75.2 million). After deducting liabilities in connection with the bond, the company had liquidity of EUR 47.3 million (previous year: EUR 45.2 million). Net cash and cash equivalents is calculated as cash in hand and bank balances plus securities classified as current assets, less liabilities to banks.

Cash flow statement

The cash flow statement is structured in accordance with DRS 21. **Cash flow from operating activities** decreased by EUR 21.2 million in the 2018 financial year, from EUR 37.4 million in the previous year to EUR 16.2 million. This was mainly due to the increase in inventories and the decrease in trade receivables. **Cash flow from investing activities** declined from EUR –29.4 million to EUR –10.8 million as a result of less investment. In 2018, investments in intangible and tangible assets fell by around 45.8 % to EUR 11.5 million (previous year: EUR 21.1 million). This was offset by disposal of tangible assets, which generated cash receipts of EUR 0.7 million in the 2018 financial year. **Cash flow from financing activities** amounted to EUR –3.5 million compared with EUR –2.5 million in the previous year. Repayments of (financial) loans amounted to EUR 0.2 million (previous year: EUR 0.3 million), interest amounted to EUR 1.9 million (previous year: EUR 1.9 million) and distributions to other shareholders amounted to EUR 1.4 million.

The Group companies were able to meet their payment obligations at all times.

NET ASSETS

At EUR 11.7 million (previous year: EUR 23.7 million), additions to **tangible assets** and **intangible assets** were lower than depreciation and amortisation (EUR 16.7 million).

Total **inventories** increased from EUR 36.4 million to EUR 55.0 million at the reporting date. The higher level of payments received on account of orders (EUR 70.7 million; previous year: EUR 51.4 million) was not sufficient to compensate for the increase in work in progress. The ratio of days of inventories to sales was 31.7 days (previous year: 25.1 days). Daily turnover is calculated by dividing the inventories as at 31 December 2018 by the average sales per day in the year under review.

Trade receivables declined from EUR 71.2 million to EUR 63.6 million at the reporting date, corresponding to turnover of 36.7 days (previous year: 49.2 days). Daily turnover is calculated by dividing the receivables as at 31 December 2018 by the average sales per day in the year under review.

Other assets rose from EUR 9.4 million to EUR 13.7 million as a result of a significant increase in tax assets.

Deferred taxes are taken over from the single-entity financial statements. Deferred tax assets primarily result from differences between the amounts recognised for provisions in the financial accounts and the tax accounts, as well as from utilisable tax loss carry-forwards. In the 2018 financial year, deferred tax assets declined by EUR 2.1 million to EUR 12.4 million.

Pension provisions were essentially unchanged year-on-year at EUR 27.5 million as at 31 December 2018 (previous year: EUR 27.4 million).

Tax provisions amounted to EUR 1.9 million as at 31 December 2018 after EUR 3.2 million in the previous year.

Trade payables declined slightly from EUR 43.1 million to EUR 41.2 million at the reporting date. The utilisation of supplier credits for the cost of materials and other operating expenses decreased from an average of 45.8 days to 34.5 days. The average duration of credit utilisation is calculated by dividing the trade payables as at 31 December 2018 by the sum of the average cost of materials and the average other operating expenses per day in the year under review.

COURSE OF BUSINESS IN THE DIVISIONS

All the divisions of HÖRMANN Industries enjoyed positive development in the 2018 financial year.

The course of business is presented in the form of a multi-year comparison of sales and EBIT. Sales are adjusted for intragroup sales and therefore only include sales with third parties and sales with companies that are not fully consolidated due to immateriality.

EBIT includes the operating result (section 275 (2) no. 1–8 of the German Commercial Code (HGB)) minus/plus other taxes (section 275 (2) no. 16 HGB) unless expressly stated otherwise. The EBIT percentages relate to sales unless expressly stated otherwise.

The development of the individual divisions is presented in the following sections.

Automotive division

The Automotive division of HÖRMANN Industries GmbH is one of the leading suppliers of European commercial vehicle manufacturers. According to the European Automobile Manufacturers’ Association (ACEA), the number of newly registered commercial vehicles in Europe increased for the sixth year in succession in 2018. Growth of 3.2 % to 2.5 million new registrations was recorded in the year under review. Registrations in the high-volume division of light commercial vehicles up to 3.5 tonnes enjoyed particularly strong development, rising by 3.1 % to break the two million barrier for the first time at 2.1 million. Among the European nations, Spain (+7.8 %), Germany (+5.4 %) and France (+4.6 %) were the outperformers in terms of growth according to the ACEA statistics.

This corresponds to the figures released by Germany’s Association of International Motor Vehicle Manufacturers (VDIK), which showed the commercial vehicle market continuing the positive trend from 2017 in the year under review and setting another new record in the process. All weight classes of the domestic commercial vehicle market contributed to the growth in sales figures (+4.6 %). Once again, the growth driver was the high-volume light commercial vehicle division, which saw new registrations rising by 5.5 % to 285,500 in 2018 on the back of the continued boom in the logistics industry. However, the number of newly registered heavy vehicles (over 16 tonnes) also enjoyed solid growth of 3.0 %.

Multi-year comparison for the Automotive division

	2018	2017	2016	2015
Sales (in EUR million)	423.9	375.4	343.4	344.9
Change (absolute) (in EUR million)	48.5	32.0	–1.5	–3.5
Change (relative)	12.9 %	9.3 %	–0.4 %	1.0 %
EBIT (in EUR million)	3.8	1.7	6.0	7.3
EBIT margin	0.9 %	0.5 %	1.7 %	2.1 %
Non-recurring and prior-period effects* (in EUR million)	6.3	5.4	4.0	0.9
Adjusted EBIT (in EUR million)	10.1	7.1	10.0	8.2
Adjusted EBIT margin	2.4 %	1.9 %	2.9 %	2.4 %

* In 2016, 2017 and 2018, HÖRMANN Industries GmbH recognised provisions and write-downs in connection with the adjustment of domestic staff capacities as a result of the expansion of automation and the relocation of labour-intensive products to the new plant in Slovakia, as well as the relocation of its operations in Bielefeld; these amounted to around EUR 4.5 million in 2016, EUR 5.4 million in 2017 and EUR 6.3 million in 2018.

In the 2018 financial year, the Automotive division generated sales of EUR 423.9 million (previous year: EUR 375.4 million), thereby significantly exceeding the forecast of EUR 375 million. In addition to the positive order situation, this was due to increased commodity prices that were passed on to customers as well as high trading sales at the Penzberg plant. The latter are due to the fact that direct delivery to customers from the plant in Bánovce, Slovakia, was delayed and the products were, contrary to expectations, delivered and invoiced via Penzberg. The two largest plants in terms of sales, Gustavsburg and Penzberg, contributed EUR 230.2 million and EUR 110.3 million respectively.

Adjusted EBIT (before non-recurring and prior-period effects of EUR 6.3 million) amounted to EUR 10.1 million (previous year: EUR 7.1 million). This is primarily due to the positive performance of the plants in Gustavsburg, Banovce/Slovakia and Saarbrücken. By contrast, significant additional costs at the Penzberg plant due to high capacity utilisation, substantial start-up costs for new orders and higher personnel expenses as a result of collective wage increases resulted in negative EBIT of EUR –2.0 million.

The HÖRMANN Automotive division enjoyed a successful première at the IAA commercial vehicle trade fair in Hanover in the past financial year with the presentation of an innovative integral chassis

concept. Designed specifically for the use of alternative drive systems, the chassis pursues a consistent lightweight approach that takes particular account of cost sensitivity in the transport industry and the design requirements of battery electric vehicles. For the first time, the results of the Automotive division accordingly included significant trade fair costs.

The reorientation that began in July 2017 with the full unbundling of the joint shareholder relationship between HÖRMANN Automotive GmbH and MAN Truck & Bus AG (MAN) continued to bear fruit in the year under review. The truck manufacturer DAF came on board as a new customer, having selected HÖRMANN Automotive as its system partner for the production of a new vehicle cab for various model series. The order represents an important milestone in the expansion of HÖRMANN Automotive’s customer portfolio. It encompasses the development, toolmaking, industrialisation and series production of body-in-white (BiW) components with a total value in excess of EUR 180 million. This serves to underline the division’s new role as a manufacturer-independent supplier. However, MAN remains one of the company’s most important customers. The long-standing business relationship is secured through multi-year master supply agreements that ensure the economic success of both partners.

The production of additional labour-intensive product components was relocated to the plant in Banovce, Slovakia, in 2018. Production orders for additional parts for commercial vehicles were also won on account of the favourable cost situation in Slovakia. The further relocation of labour-intensive products is being accompanied by targeted investments in automation at the German locations over a period of two to three years in order to make them even more efficient and more competitive. The internationalisation of the value chain and growth in the degree of automation means staff requirements at the plants in Germany will decline in the medium term. This development was again provided for in 2018 to the extent permitted with the recognition of additional provisions for staff capacity adjustments in the amount of EUR 3.1 million. In addition, production at the Bielefeld location was internally relocated to the Saarbrücken and St. Wendel plants in the past financial year as part of the decision to focus and consolidate the production locations in terms of technology, thereby strengthening the latter locations in a targeted manner.

Communication division

Including Funkwerk AG and its subsidiaries, the Communication division is a technologically leading provider of innovative communication, information, warning and security systems. In 2018, the division again benefited from the positive development of the communication and security technology industry. According to the German Federal Security Technology Association (BHE), sales growth for 2018 as a whole is expected to have amounted to 5.0 %. The BHE attributes particularly strong growth to access control (+6.7 %) and, as previously, video surveillance technology (+6.0 %), an area whose wide range of applications and preventive effect in particular allowed it to benefit from the upturn in interest in the private, industrial and public sectors.

The German rail industry can also look back on a successful 2018. According to the German Railway Industry Association (VDB), sales in the industry rose by 8 % to EUR 5.4 billion in the first half of 2018. This positive development is not least thanks to strong growth in domestic sales, which rose by 36 % to EUR 3.4 billion. By contrast, income from exports fell by 20 %, although incoming orders from abroad remained strong with a volume of EUR 6.5 billion across 2018 as a whole.

Funkwerk AG enjoyed extremely positive development in the 2018 financial year, achieving its growth targets in full and exceeding them in some cases. Funkwerk AG recorded consolidated sales of EUR 82.7 million (previous year: EUR 77.5 million), thereby falling within the increased forecast range of EUR 80–85 million as announced in August 2018. In particular, the company benefited from a tangible increase in capacity utilisation and a favourable product mix. Total output rose by 8.5 %, from EUR 80.8 million in 2017 to EUR 87.7 million in the year under review.

EBIT enjoyed even more dynamic growth of EUR 4,3 million or 59.2 % to EUR 11.4 million, thereby exceeding both the prior-year figure of EUR 7.1 million and the forecast range of EUR 8.5–9.0 million. In addition to growth in underlying business and high capacity utilisation, the margin primarily improved thanks to continuous improvements to cost structures, quality and processes within the Funkwerk Group.

In the train radio product sector, Funkwerk AG increased its sales with long-standing vehicle manufacturing customers in 2018 and gained a new vehicle manufacturer from outside Germany that will contribute to sales from the 2019 financial year onwards. As more and more lines will be fitted with the new European Train Control System (ETCS) in the long

term, train systems are also having to be successively ETCS-enabled. This had a positive impact on sales of Funkwerk’s wireless data systems for ETCS applications in 2018. The retrofitting of Funkwerk’s interference-free radio module, which uses special filter technology to protect railway communication from outside influences, also continued to enjoy encouraging development. In 2018, the global market leader Funkwerk received new orders for GSM-R train radio systems for vehicle fleets in countries including Israel, Australia and Slovenia.

In the area of passenger information systems, several large-scale master agreements were realised in 2018 – including in Switzerland, Austria and Luxembourg, where the entire rail network will be switched over to Funkwerk’s automatic passenger information system, AURIS, over the next three years.

In the area of video systems, the innovative management system “posa palleon” was developed to maturity and the marketing of this software began. Sales initially focused on small systems, with medium-sized and large systems set to follow from 2019 onwards.

The Communication division also includes HÖRMANN GmbH and its subsidiary in Austria. HÖRMANN GmbH produces and installs warning systems for civil protection around the world. In the 2018 financial year, warning systems business enjoyed extremely good development both on the German market and internationally. However, delays in project realisation meant that sales declined slightly from EUR 14.5 million to EUR 12.7 million.

The Communication division with the first-time consolidation of Funkwerk AG in 2016 in a multi-year comparison:

Multi-year comparison for the Communication division

	2018	2017	2016	2015
Sales (in EUR million)	96.1	92.0	69.8	28.5
Change (absolute) (in EUR million)	4.2	22.2	41.3	1.0
Change (relative)	4.5 %	31.9 %	144.9 %	3.4 %
EBIT (in EUR million)	12.1	7.6	6.9	2.2
EBIT margin	12.6 %	8.3 %	9.9 %	7.7 %

All in all, the Communication division has enjoyed stable sales development for a number of years.

Engineering division

HÖRMANN Industries and its subsidiaries offer a broad range of products in the Engineering division. A detailed description of these activities can be found in the section Basic information on the Group. The division’s business development primarily depends on the economic performance of the construction and logistics industries.

In 2018, the construction industry was one of the drivers of Germany’s economic growth. According to the Federation of the German Construction Industry (HDB) and the Central Association of the German Construction Industry (ZDB), sales in commercial (+7 %) and public construction (+5 %) returned to strong growth across 2018 as a whole following years of restrained investment, thereby contributing to the positive development and high capacity utilisation in the construction industry.

The logistics industry also enjoyed solid growth in the past year. According to the German Logistics Association (BVL), sales generated across all industries increased by around 2.6 % to EUR 274 billion in 2018. This estimate is supported by the logistics consulting firm Logivest, which recorded the annual new construction volume in the German logistics property market. Following a record year in 2017, a sharp upturn in new construction led to a significant rise of almost 13 % to a total volume of around 4.4 million square metres of new logistics space in 2018.

As expected, sales in the Engineering division increased sharply, from EUR 33.3 million in the previous year to EUR 65.6 million in the period under review, due to the multi-year project orders that are currently being processed. The strong order and project situation resulted in EBIT of EUR 8.6 million, up EUR 3.5 million or 68.6 % on the previous year. All the subsidiaries in the Engineering division made positive contributions to this encouraging earnings performance.

Multi-year comparison for the Engineering division

	2018	2017	2016	2015
Sales (in EUR million)	65.6	33.3	51.8	61.9
Change (absolute) (in EUR million)	32.3	–18.5	–10.1	23.7
Change (relative)	97.0 %	–35.7 %	–16.4 %	62.9 %
EBIT (in EUR million)	8.6	5.1	3.9	3.5
EBIT margin	13.1 %	15.3 %	7.5 %	5.7 %

The strongest company in the Engineering division in terms of sales, HÖRMANN Logistik GmbH, received an order for a high-bay warehouse for a company from the pharmaceutical/medical technology industry for the first time in 2018. The subsidiary also saw a sharp rise in the number of incoming orders for the storage and picking of small parts in the e-commerce sector, with orders on hand increasing to EUR 53 million at year-end (previous year: EUR 45 million).

In the area of vehicle development, HÖRMANN Vehicle Engineering GmbH gained the Swiss Federal Railways (SBB) as a new customer. In this context, the company developed a carrying wagon concept whose innovative chassis means a weight reduction of around 40 % compared with the current wagon. In addition to optimising individual areas, this involved leveraging synergies within the Group using production methods from the commercial vehicle division, with components for the construction of a prototype being supplied by HÖRMANN Automotive Gustavsburg GmbH.

AIC Ingenieurgesellschaft für Bauplanung Chemnitz GmbH, which specializes in general planning and technical building equipment, continued to benefit from the sustained high level of industrial construction output in 2018. Therefore, among others the new casino building at the Porsche plant in Stuttgart-Zuffenhausen and the quartz glass production of Heraeus Quarzglas GmbH & Co. KG, two remarkable industrial projects, are currently being implemented.

Services division

The Services division bundles the industrial service offering of the HÖRMANN Industries Group, which the company intends to use to leverage the growth potential of the technological megatrends of Industry 4.0, digitisation, automation and electric mobility. According to the digital association Bitkom, all signs pointed to growth in digitisation in Germany in 2018. In the markets for IT, telecommunications and entertainment electronics, sales increased by 2.0 % to EUR 166.0 billion in the period under review, thereby exceeding the association’s growth forecast by 0.3 percentage points. The main growth driver remains information technology with sales of around EUR 90.0 billion in 2018 compared with EUR 86.2 billion in 2017. However, telecommunications also saw an upturn in sales of 1.6 % to EUR 66.6 billion.

The Services division generated strong sales growth of 81.6 % in the 2018 financial year, from EUR 21.2 million to EUR 38.5 million. EBIT, which was already slightly positive at EUR 0.5 million in 2017, also improved further to EUR 1.2 million.

HÖRMANN Kommunikation & Netze GmbH and HÖRMANN Industrieservice GmbH, which were still allocated to other divisions in 2016, are shown on a pro forma basis in the multi-year comparison below.

Multi-year comparison for the Services division

	2018	2017	2016
Sales (in EUR million)	38.5	21.2	23.8
Change (absolute) (in EUR million)	17.3	–2.6	23.8
Change (relative)	81.6 %	–10.9 %	–
EBIT (in EUR million)	1.2	0.5	0.2
EBIT margin	3.1 %	2.4 %	0.8 %

In the 2018 financial year, new and strategically important contracts were concluded or extended with several prominent existing customers and master agreements were entered into with major new customers.

In addition, the relatively new division pressed ahead with the streamlining and optimisation of its subsidiaries, including the establishment of management teams, bringing together different corporate cultures and harmonising administrative processes. The progress in the division is also reflected in its growing workforce. 43 new employees were recruited in the past financial year, including eight new colleagues from the “Employees recruit employees” programme.

HÖRMANN Kommunikation & Netze GmbH, the strongest subsidiary in the Services division in terms of sales, secured key orders in the 2018 financial year. Firstly, it was commissioned to install the communications technology for the “Stuttgart 21 – Wendlingen-Ulm new line” project. Secondly, it gained Ströer SE & Co. KGaA, the leading German provider of out-of-home digital advertising, as a major new customer, with the initial projects already realised successfully in 2018.

Cooperation between the companies that were combined in 2017 to form the MAT Group also developed positively. The first joint projects were realised in the year under review and the commercial processes of all the stock corporations were combined, resulting in a significant reduction in administrative expenses.

Report on opportunities, risks and expected developments

REPORT ON EXPECTED DEVELOPMENTS

Economic environment

According to the forecast issued by the IMF in January 2019, the world economy will continue on its growth path in the current year and expand by 3.5 %. However, the IMF has downwardly revised its forecasts for most countries compared with its October 2018 forecast, albeit moderately for the most part. The emerging and developing economies are now expected to see growth in economic output of 4.5 % in 2019 (-0.2 percentage points), while growth of 2.0 % is forecast for the industrialised nations (-0.1 percentage points). The euro zone economy is expected to expand by 1.6 %, with growth of 1.3 % forecast for Germany (-0.6 percentage points).

The IMF's more cautious forecast is supported by the latest ifo business climate index from January 2019. At a seasonally adjusted 99.1 points, the index is currently at its lowest level since February 2016. Expectations with regard to future business have deteriorated considerably and are pessimistic for the first time since December 2012.

Development of the HÖRMANN Group Forecast for the Automotive division

The Association of International Motor Vehicle Manufacturers (VDI) expects the positive trend in the German commercial vehicle industry to continue in the current year, particularly on the back of growing transport volumes. This tallies with the forecasts set out in a study by the consulting firm McKinsey in December 2018, which anticipate an annual growth rate for commercial vehicle manufacturers of 2.9 % between now and 2030. The experts also expect Western Europe to see moderate annual growth of 0.7 % in the same period.

In light of the sales forecasts for the commercial vehicle market, HÖRMANN Industries GmbH expects the Automotive division to see similar or slightly lower demand to the previous year in 2019. However, the sale of HÖRMANN Automotive Penzberg GmbH (HAP) and the resulting deconsolidation of what was the second-largest plant in terms of sales will lead to a reduction of some EUR 50–70 million as the relocation of production to other HÖRMANN plants continues beyond 2019, while certain parts groups are being discontinued. With a sales contribution of around EUR 110.3 million in 2018, HAP, the second-largest location in the Automotive division, had seen growing losses for some time due to the labour-intensive nature of production. In light of the product range at the plant, high unit labour costs and the necessary investments at the Penzberg location, there was no objective possibility of a return to profitability in the foreseeable future. Accordingly, the majority of production at the location is being relocated to the Group's plant in Banovce, Slovakia, including as part of the technological and product-related focusing of our plants that began in 2017, while other production activities are being divided between other plants of HÖRMANN Automotive.

At the same time, the company is planning to further increase the degree of automation at its plants in Germany through targeted investments in 2019. This will lead to a renewed adjustment of staff capacities in the Automotive division by the end of 2020. Among other things, some of the fixed labour costs at the Gustavsburg plant will be replaced by flexible business models such as outsourcing as part of the "Fit for Future" programme. By pursuing this strategy, the Group intends to continue to meet its customers' expectations in future while also improving its competitiveness and systematically expanding its product range to include new manufacturing technologies, new materials and, ultimately, new products.

HÖRMANN Industries is forecasting sales in the Automotive division of around EUR 350 million in the 2019 financial year (previous year: EUR 423.9 million). The restructuring and deconsolidation costs described above will also have an impact on earnings. Adjusted EBIT before non-recurring costs for the "Fit for Future" measures is forecast at around EUR 7 million (previous year: EUR 10.1 million). HÖRMANN Industries expects the cost impact of the restructuring measures to conclude in 2019, meaning that earnings will no longer be impacted by non-recurring effects from 2020 onwards. The realisation of the ambitious medium-term forecasts for the division will depend on continued stable economic development and the achievement of the OEM sales forecasts that form the basis of planning.

Forecast for the Communication division

The German Railway Industry Association (VDB) expects the rail industry to benefit from some major global trends over the coming years. This will also have consequences for the rail industry in Western Europe, which is expected to achieve annual market growth of around 3.6 % and hence a forecast market volume of EUR 40.2 billion by 2021 on the back of factors such as increasingly stringent climate and environmental protection requirements, the advance of digitisation ("Schiene 4.0") and the continued growth in conurbations.

In the performance and financing agreement (LuFV II) concluded in 2015, the German Federal Government and Deutsche Bahn also agreed that the former would provide EUR 3.5 billion in rail infrastructure funding in 2019. Including Deutsche Bahn's contributions, the amount available for infrastructure investments in 2019 is EUR 4.3 billion. In addition, Deutsche Bahn presented its "Digital Rail for Germany" programme in mid-January 2018. Among other things, this involves replacing physical signal boxes with digital signalling. Between now and 2030, experts expect Deutsche Bahn alone to invest up to EUR 30 billion in this upgrade in order to increase rail traffic capacity by up to 20 %.

HÖRMANN Industries expects the Communication division to benefit from the high level of global investment in rail traffic and security technology over the coming years. Funkwerk AG will again play a strong part in this development, but HÖRMANN GmbH's civil warning systems are also enjoying a renaissance at present – a fact that is reflected in similarly well-filled order books of almost EUR 7 million. The Communications division is anticipating sales growth to around EUR 104 million in the 2019 financial year (previous year: EUR 96.1 million). EBIT is expected to remain at the prior-year level.

Forecast for the Engineering division

According to the Federation of the German Construction Industry (HDB) and the Central Association of the German Construction Industry (ZDB), the stable economic development in Germany means growth in construction activity will continue at a high level in the current year. The associations expect sales in the main construction industry to increase by 6 % to EUR 128 billion. This growth will be attributable to public (+6 %), residential (+5.5 %) and commercial construction (+6 %) in equal measure. The HDB and ZDB forecasts show that commercial construction will be affected by the lower growth outlook for the German economy only if companies scale back their investments, which does not appear to be the case according to the latest investment surveys.

The logistics industry is also optimistic with regard to the coming months. The German Logistics Association (BVL) is forecasting sales growth of 1.7 % to a new record of EUR 279 billion in the current year.

Employment is also expected to increase once again to well over 3.2 million. According to Logivest, however, new construction projects in the logistics sector will depend to a large extent on the growth prospects for the automotive industry and e-commerce. While the outlook for the automotive industry is less certain on account of the development of global trade relations and the outcome of the diesel scandal, online retail is set to see further growth in 2019.

HÖRMANN Industries has strengthened the Engineering division in a targeted manner and is pressing ahead with the diversification of the Group with the acquisition of a majority interest in Klatt Förder-technik GmbH, which will be fully consolidated with effect from 1 April 2019. Klatt will be integrated into HÖRMANN Logistik GmbH. For HÖRMANN Logistik GmbH, the acquisition represents a vertical expansion of the existing internal product range and the strengthening of the value chain, as well as a horizontal business expansion into the Austrian market and new sectors. In the area of logistics, HÖRMANN specialises in facility project planning, project management, automation technology and software, and warehouse management systems. As a full-range provider for conveyor technology, Klatt will add constructive solutions to the product range that HÖRMANN Logistik GmbH previously had to purchase from various manufacturers as a general contractor.

In light of this acquisition, the good order situation and the positive outlook for the industry, HÖRMANN Industries expects the Engineering division to increase its sales by around EUR 8.6 million to approximately EUR 74 million in the 2019 financial year, accompanied by a slight year-on-year rise in EBIT to EUR 9–10 million (previous year: EUR 8.6 million).

Forecast for the Services division

The industry association Bitkom expects digitisation to result in rising sales and employment in the current year. Annual sales in the market for IT, telecommunications and consumer electronics are forecast to rise by 1.5 % to EUR 168.5 billion in 2019, while employment is set to increase by 3.5 % year-on-year to just under 1.2 million employees according to the experts.

The good outlook for the Services division is supported by the Institute for Industrial Management (FIR) at RWTH Aachen University. FIR records the sentiment in terms of economic development in the maintenance industry in Germany in its quarterly indicator, “Maintenance”. Following a downturn in the

third quarter of 2018, maintenance service providers in particular are now significantly more positive about the economic climate. Most notably, sentiment in terms of the expected economic situation and the expected order situation have both recovered considerably.

HÖRMANN Industries plans to continuously expand the Services division over the coming years. For the 2019 financial year, the Group is forecasting sales growth of around EUR 12 million to approximately EUR 50 million. EBIT is expected to amount to EUR 1.5 million.

Forecast for the HÖRMANN Industries Group

All in all, the four divisions of HÖRMANN Industries are continuing to place close cooperation with the customer at the heart of all their activities. This strong customer orientation, combined with targeted innovation and technology management and the future-oriented development of the staff structure, will allow the company to further strengthen its market and competitive position.

At Group level, HÖRMANN Industries is forecasting total sales of around EUR 580 million in the 2019 financial year (previous year: EUR 624.1 million), largely as a result of the sale of HÖRMANN Automotive Penzberg GmbH. Operating EBIT is expected to amount to around EUR 25 million and will again be impacted by restructuring and deconsolidation costs in connection with the reorientation of the automotive plants. The company reserves the right to harness opportunities for inorganic growth by making targeted acquisitions that will allow it to press ahead with the diversification of the Group and strengthen the positive development of the individual divisions.

HÖRMANN Industries GmbH notes that the actual results may differ from the forecast results.

RISK REPORT

General business risks

The global economy is subject to fluctuations that could adversely affect the business activities and results of operations of HÖRMANN Industries.

HÖRMANN Industries is dependent on global economic development. The past financial and economic crisis led to a significant downturn in sales, particularly in the commercial vehicle industry, that substantially impacted HÖRMANN Industries’ business activities. A renewed crisis scenario, the debt situation in many industrialised nations, political instability and the accompanying economic deterioration could have pronounced negative consequences for HÖRMANN Industries’ business activities once again, with a corresponding adverse effect on its net assets, financial position and results of operations.

HÖRMANN Industries’ business development fundamentally depends on its success in maintaining or expanding its market position and – where applicable – technology leadership and responding to the emergence of new competitors or the intensification of the competitive situation. To prevent the loss of market share, the company offers a high level of product and service quality, maintains close, trust-based contact with its customers and pursues systematic innovation, price and cost management. The Group also regularly observes market developments and the business policy of other market participants and adjusts its activities to reflect changes in requirements. These countermeasures also create opportunities for HÖRMANN Industries to gain market share.

HÖRMANN Industries’ future results also depend on the extent to which it is able to anticipate or respond to technological changes by improving its products and adapting them to reflect new conditions or by developing new products. If HÖRMANN Industries fails to respond adequately to technological changes, this could have an adverse effect on the net assets, financial position and results of operations of HÖRMANN Industries.

HÖRMANN Industries’ business activities, particularly in the Automotive and Communication divisions, always come up against a large number of existing competitors as well as new competitors entering the market division and seeking to expand their business at HÖRMANN Industries’ expense. Sustained or intensified price pressure and a deterioration or loss of competitiveness could have an adverse effect on the company’s net assets, financial position and results of operations.

HÖRMANN Industries generates the majority of its sales with multiple individual customers, particularly major automotive and commercial vehicle manufacturers and Deutsche Bahn and its suppliers. HÖRMANN Industries generated over 40 % of its sales with MAN Trucks & Bus AG in the 2018 financial year. If it is not possible to retain these key customers or to offset a significant downturn in sales with them by gaining new customers or expanding business with other customers, this could have an adverse effect on the net assets, financial position and results of operations of HÖRMANN Industries.

Some of HÖRMANN Industries’ business activities are dependent on political decisions that dictate the provision of funding for public investment in railway systems, personal security, property protection systems, motorways and infrastructure projects. In light of the consolidation pressure on public budgets in many European nations at present, delayed or cancelled investment projects and public funds could have an adverse effect on public-sector contract awards, and hence on business development in the affected areas.

General operational risks

HÖRMANN Industries is exposed to general operational risks. These include risks in connection with business expansion and the risk of business disruption and other interruptions, such as strikes or other industrial action. This could have an adverse effect on the earnings and financial position of HÖRMANN Industries.

Presentation of individual risks

As in the previous year, the following section contains a summary description of the material risks that could have an adverse effect on the net assets, financial position and results of operations of HÖRMANN Industries.

Dependence on industry-specific permits and certifications

Among other things, HÖRMANN Industries’ business success depends on its ability to obtain industry-specific permits and certifications and its compliance with the prevailing standards and technical guidelines that govern the introduction of new products and technologies. If HÖRMANN Industries is unable to develop products that meet these requirements or to obtain the necessary permits in the respective country, this could be detrimental to its business activities. This could have an adverse effect on the net assets, financial position and results of operations of HÖRMANN Industries.

Dependence on international markets

To date, HÖRMANN Industries has focused on Germany and the rest of Europe. However, the Group's main customers are reliant on the sales markets in European and non-European countries. The increased internationalisation of business activities to include non-European countries is planned for the Communication and Engineering divisions in particular. This also involves risks for HÖRMANN Industries. In particular, this includes imponderables due to the prevailing economic and tax conditions in different countries, exchange rate risks and the need to comply with the respective local technical standards. This could have a negative effect on the net assets, financial position and results of operations of HÖRMANN Industries.

Currency risks

HÖRMANN Industries generates the vast majority of its sales in euro. Where invoices are issued in other currencies, exchange rate hedging is performed to the extent that this is possible and appropriate. By contrast, purchases of parts, components and raw materials are also made in foreign currency to a significant degree. As such, there is a not inconsiderable exchange rate risk that could have an adverse effect on the net assets, financial position and results of operations of HÖRMANN Industries.

Dependence on commodity and energy prices

A rise in commodity and energy prices could lead to higher production costs, particularly in the Automotive division, and hence to falling income at HÖRMANN Industries. This could have a negative effect on the net assets, financial and earnings position of HÖRMANN Industries.

IT risks

The HÖRMANN Industries companies can be controlled only with the help of complex IT systems. The companies' ability to deliver at all times also depends on the permanent availability of the corresponding systems and data. Serious disruptions such as system outages, network attacks and data loss or manipulation could jeopardise their ability to deliver and give rise to claims for damages. Accordingly, HÖRMANN Industries works to permanently optimise its IT environment, including with the support of external experts.

Project organisation and management risks

HÖRMANN Industries is active in project business. When orders are awarded, there is a possibility that the contractual partners will expect different conditions, thereby jeopardising the realisation of the respective project. As remuneration is based on the completion of defined performance phases, cancellation may mean that preliminary work done and costs and expenses incurred are not settled in full. In addition, the risk assessment of the specific project may be erroneous or incomplete, meaning that the agreed remuneration is not proportionate to the expenses incurred.

Risk in connection with outstanding project receivables in Algeria

The direct subsidiary Funkwerk video systeme GmbH (FVS) has an investment in a consortium under Algerian law (Groupement Funkwerk Contel plettac). As a result of domestic political developments in Algeria, an investigation into alleged suspicions of corruption and illegal overcharging against several companies and individuals was initiated in early 2010. The affected parties included this consortium, the Algerian partner and FVS, but not its managing directors or other employees of the Funkwerk Group. The proceedings are still ongoing. Shortly after the initiation of the investigation in 2010, bank accounts of the consortium were temporarily blocked, among other things. These accounts contained amounts paid for properly performed work in the equivalent amount of around EUR 2.8 million that cannot currently be transferred to Germany, and that have therefore been written off in full. Within the Group, the bank balances are attributable to Funkwerk Videosysteme GmbH (FVS). An internal investigation by Funkwerk AG found no evidence to suggest that the corruption allegations are accurate.

An oral ruling was issued at the Algerian criminal court in Algiers in February 2016, but FVS had not received a written ruling in the form required by law as at the preparation of the consolidated financial statements. The oral ruling includes the conviction of Funkwerk video systeme GmbH and other companies for corruption and overcharging in Algeria and a fine of around EUR 40,000. An appeal was lodged against the ruling ahead of the deadline, meaning the bank accounts that were released under the oral ruling are still unavailable.

In connection with the projects realised, Funkwerk AG provided bank guarantees issued by Algerian banks on the basis of corresponding counter-guarantee agreements with some German banks. All the bank guarantees from German banks were derecognised at the reporting date. Of the derecognised bank guarantees, the principal has yet to return

original guarantees in the amount of around EUR 8.4 million. Under the terms of the contracts with the principal, it should no longer be possible to assert claims against FVS due to the latter having met the underlying delivery and performance obligations, the expiry of the contractual warranties and the expiry of the bank guarantees, which is why the guarantees have also already been derecognised by the German banks. However, there is a residual risk with regard to the original bank guarantees that have not yet been returned, as the German banks issued the Algerian banks with "real" counter-guarantees on first demand.

Staff recruitment and selection risks

HÖRMANN Industries is dependent on qualified staff. If it is unable to attract and retain qualified staff to a sufficient extent and at salaries that are in line with market conditions, this could diminish the company's ability to successfully implement and adapt the business models of the divisions. This could have an adverse effect on the net assets, financial position and results of operations of HÖRMANN Industries.

Procurement and production risks

HÖRMANN Industries' production depends on the supply of parts, products and services in perfect condition. Fluctuation in demand could lead to long response times on the part of suppliers. In addition, HÖRMANN Industries' requirement and capacity planning could be inadequate.

Defective finished parts or raw materials could lead to production delays or stoppages. This would have negative consequences for the sales and net assets, financial position and results of operations of the HÖRMANN Group.

HÖRMANN Industries primarily operates production sites in Germany. In the worst case, the extensive destruction of one or more factory premises, e. g. as a result of fire, explosion, sabotage or other misfortunes, could lead to permanent production stoppages.

Key suppliers and other business partners could find themselves in economic difficulties, thereby impairing the course of business of HÖRMANN Industries. Unplanned price rises also have negative consequences for the results of operations. To prevent this, HÖRMANN Industries regularly reviews its business partners' performance and selects suppliers carefully. In addition, long-term supply agreements are concluded where possible in order to offset fluctuations and prevent bottlenecks.

Logistics risks

HÖRMANN Industries does not have its own logistics infrastructure. It therefore uses external logistics companies for transportation between its production sites and warehouses as well as for supplying its production sites and its customers. As such, HÖRMANN Industries is dependent on the smooth operation of the logistics services provided by these third parties.

Warranty risks

Products and systems may be faulty, thereby exposing HÖRMANN Industries to warranty claims and/or claims for damages. Furthermore, there are liability risks arising from supply agreements (liability clauses in contracts with customers), contractual risks due to liability for delays in the start of production, and production processing risks. If our companies are unable to ensure on-time delivery in line with customer requirements and HÖRMANN Industries jeopardises production at the customer as a result, this could lead to increased costs and recourse claims against HÖRMANN Industries or the loss of orders, which would have an adverse effect on the net assets, financial position and results of operations of HÖRMANN Industries.

Risks in connection with receivables

If customers and other business partners default on receivables, either in full or in part, or there are significant and wide-scale delays in payment, this could lead to liquidity bottlenecks and hence restrict HÖRMANN Industries' business activities.

Risks in connection with the repayment of subsidies, tax audits and social security contributions

HÖRMANN Industries has been and continues to be granted or promised public government investment subsidies for individual development projects and business measures. The use of such funds is typically earmarked for a specific purpose and tied to corresponding requirements and conditions. If HÖRMANN Industries is unable to ensure and demonstrate that these requirements and conditions have been met, it could have to repay the respective investment subsidies.

HÖRMANN Industries is of the opinion that the tax returns prepared by its companies have been submitted correctly and in full. However, differing views of the respective matters could give rise to demands for the backpayment of taxes. Changes in tax law or the interpretation of existing tax law could have a negative influence on the business activities of HÖRMANN Industries and its commercial and tax law structures. HÖRMANN Industries companies could be required to make backpayments of taxes for the periods for which tax audits have not yet been conducted. The same applies for any demands to make additional social security contributions.

Risks in connection with inadequate insurance

Despite concluding extensive insurance cover, HÖRMANN Industries cannot guarantee that either it or its subsidiaries will be compensated in full for any losses incurred.

If losses occur that are not covered by the insurance concluded either in part or in full, particularly in the area of product liability or as a result of interruptions to production as well as other material damage, this could have a negative effect on the net assets, financial position and results of operations of HÖRMANN Industries.

Risks in connection with compliance violations

Potential compliance violations could lead to future regulatory investigations, backpayments of taxes, claims for damages and the termination of supplier relationships by customers.

HÖRMANN Industries comprises a number of companies that bid for large-scale orders in the automotive, rail, service and construction sectors. This involves the risk that the applicable statutory provisions will be violated in order to gain an advantage over the competition when competing for and initiating orders.

Risks in connection with financial obligations

HÖRMANN Industries has considerable pension, lease and rental obligations that could impair its liquidity situation.

These obligations must be met from cash flow from operating activities. The rental and lease obligations for buildings, facilities, office space and vehicles are significant and constitute substantial fixed costs. These costs cannot be adjusted in response to a sharp downturn in sales and earnings. This could have an adverse effect on the net assets, financial position and results of operations of HÖRMANN Industries.

Litigation risks

HÖRMANN Industries companies are parties to various judicial and extrajudicial disputes. The outcome of these proceedings is unclear and each case involves the risk that the plaintiff/claimant could prevail, either in part or in full. Adequate provisions are recognised to the greatest possible extent where this is considered to be necessary.

However, the possibility that these provisions will be insufficient cannot be ruled out. This could have an adverse effect on the net assets, financial position and results of operations of HÖRMANN Industries.

Risks in connection with acquisitions and joint ventures

Risks could arise in connection with acquisitions or joint ventures if the expectations in terms of income potential, profitability and growth opportunities fail to materialise.

Risks in connection with violations of environmental law

HÖRMANN Industries could violate existing provisions of environmental law or its production activities could pollute the environment. This could have an adverse effect on the net assets, financial position and results of operations of HÖRMANN Industries.

Risks in connection with violations of industrial property rights

Competitors could copy HÖRMANN Industries' products and techniques or HÖRMANN Industries could unknowingly infringe upon competitors' patents. Furthermore, the possibility of HÖRMANN Industries unknowingly infringing upon its competitors' patents due to a different understanding of the content of the intellectual property protected by the patent in particular cannot be ruled out. This could have a negative effect on the net assets, financial position and results of operations of HÖRMANN Industries.

Risks in connection with the bond issue

HÖRMANN Industries GmbH has issued a bond with a volume of EUR 30 million, a coupon of 4.5% p.a. and a term until November 2021. Interest is payable each November. There is a risk that the funds generated from the bond will not be employed profitably enough to cover the coupon payments. This would have a negative impact on the Group's net assets, financial position and results of operations. Furthermore, there is a risk that misinvestments could lead to an inability to make coupon payments and/or redeem the bond to the necessary extent and/or on schedule or at all. This would have negative consequences for the Group's position.

Interest rate risks

HÖRMANN Industries GmbH and a syndicate of banks have concluded a syndicated loan with a volume of EUR 30 million and a term to November 2021. The loan agreement sets out a variable interest rate based on EURIBOR. If EURIBOR were to rise to above 0%, this could increase the interest cost of future financing, which would have an adverse effect on HÖRMANN Industries' results of operations. This interest rate risk has been reduced through hedging in the form of so-called caps for EUR 15 million of the syndicated loan volume.

STRATEGIC ORIENTATION AND REPORT ON OPPORTUNITIES**Automotive division**

In the largest division, Automotive, HÖRMANN Industries is continuing to pursue a strategy of being a leading supplier of metal chassis products and high-end body-in-white components for the European commercial vehicle and agricultural/construction machinery industries. It intends to press ahead with increasing the competitiveness and internationalisation of the division.

Based on the forecasts of our customers and the industry association VDA, HÖRMANN Industries expects the European market excluding Russia to see a slight downturn in sales figures for commercial vehicles in 2019 compared with 2018. Industry analysts still expect demand for commercial vehicles to rise in the medium term. The main drivers for this forecast are the successive obsolescence of existing vehicle fleets and the high level of demand for light commercial vehicles, particularly vans.

If this proves to be the prevailing market development for our customers, this is expected to lead to increased call orders with a corresponding positive impact on sales forecasts. HÖRMANN Industries expects the outsourcing of in-house production activities by international commercial vehicle manufacturers to result in additional customers and orders. The continued growth in vehicle derivatives and the development of new vehicle concepts for electric mobility, particularly when it comes to light commercial vehicles, could open up additional markets.

The existing expertise in the area of forming technology, systems and machinery with sufficient capacity, combined with the strategy of significantly expanding automation at the plants in Germany while outsourcing labour-intensive production to cheaper foreign plants, provides strong foundations for obtaining additional customers and orders.

Communication division

The Communication division intends to grow while maintaining its strong earnings situation and is seeking to further expand its competitive position. The division has a high-tech product range with a number of unique selling points. Among other things, opportunities for the division result from the growing need for security around the world and the sustained

trend towards urbanisation. There are also expansion opportunities thanks to IoT applications, which add intelligent functions to products and allow customers to manage their resources far more efficiently. Examples include digital service concepts and equipment for paperless railway stations. The long product lifecycles in the rail industry also involve opportunities. Reliable services over the entire useful life and professional obsolescence management can help to secure customer investments for the long term.

In addition to software business, particular opportunities are provided by filter technology for GSM-R train radio systems. This new development has allowed the division to further expand its market position and demonstrate its technological lead.

Engineering division

With its broad portfolio of expertise along the entire engineering value chain, from design engineering through factory and building planning to the realisation of turnkey systems, Engineering is a division with a promising future and high growth potential. Knowledge management and the industrial application of engineering know-how has a long and successful tradition in Germany and will remain one of the key drivers of global technological progress and the extremely dynamic industrial development at present. Although the division is already very well positioned for the challenges of today and tomorrow, it intends to systematically expand this position with a view to the digital transformation of industry and the wide range of new requirements arising from electric mobility in order to take advantage of the resulting opportunities.

The integration of the acquired development units into HÖRMANN Vehicle Engineering GmbH and their continued organic development offer wide-ranging growth potential. One objective is to work in closer cooperation with the Automotive division in order to intensify networking with OEMs from the commercial vehicle industry and increasingly perform research and development activities for them. The dynamic development of electric mobility at present, particularly in the division of light commercial vehicles up to 3.5 tonnes, offers additional potential for developing new areas of activity.

However, all the other areas of the Engineering division will also have wide-ranging opportunities for business expansion if HÖRMANN Industries is even more successful at marketing itself as an attractive medium-sized employer and is able to recruit new employees to a sufficient extent.

Services division

The establishment of the Services division in 2017 reflected the growing trend towards the outsourcing of industrial services. In future, HÖRMANN's activities will concentrate to a greater extent on high-tech services in the industrial environment of automation, digitisation and Industry 4.0. The massive changes in the familiar industrial environment of the automotive and automotive supply industry and mechanical and plant engineering that are currently emerging will offer wide-ranging opportunities for high-quality services. HÖRMANN is laying the foundations for further organic and inorganic growth with the integration and reorientation of the service companies acquired in 2017, and intends to systematically press ahead with the growth strategy over the coming years.

Overall assessment of the future development of HÖRMANN Industries

Opportunities are systematically identified, perceived and utilised throughout the Group. In addition to observing internal and external data, this is achieved using regular reports, strategic product and project management and the establishment of a systematic innovation and strategy process.

Over the coming years, HÖRMANN Industries as a whole will continue to pursue the objective of profitable growth with a focus on the company's strengths. With the re-establishment of the traditional Services division and the continued strengthening of the Engineering and Communication divisions, HÖRMANN Industries is increasingly pursuing a strategy of positioning itself as a broadly diversified company built on four profitable pillars with strong future prospects and a high degree of resilience to economic fluctuations.

All in all, HÖRMANN Industries considers its close relationship with its customers, which it is actively intensifying, to be a key factor in the Group's success. In addition to its extensive existing customer base, it intends to press ahead with new business while also placing migration solutions and services on the market. Another important factor for future success will be the continued intensification of interdisciplinary cooperation between the various specialist units and companies within HÖRMANN Industries. This can open up new services that will benefit long-standing customers.

The opportunities at the Group's disposal also include the retention of specialist staff and the long service of its employees, which allow it to make the available expertise and specialist experience available across the various divisions in a way that is advantageous to customers. Accordingly, attractive incentive systems, interesting training and development opportunities and modern working time concepts are used as means of retaining employees.

The management expects HÖRMANN Industries to achieve its business forecasts for 2019 assuming continued stable economic development. Its net assets, financial position and results of operations will remain solid. Following the completion of the various activities forming part of the reorientation of HÖRMANN Industries, the Group is seeking to generate a sustained EBIT margin of 5%.

Other disclosures

DEVELOPMENT

In the **Automotive** division, an extremely good basic understanding of metallurgy and its requirements in terms of customer products is essential. Customer-specific expertise with regard to forming technology is required in order to gain additional market share. In addition to realising tool projects for series production orders, the division is addressing the future requirements of commercial vehicles. In particular, this includes weight reduction to improve vehicle efficiency and standardisation for the enhancement of OEMs' platform strategies.

The **Engineering** division was also developed further in 2018 and contributed to the Group's successful market presence with its consulting expertise. The targeted expansion of HÖRMANN Vehicle Engineering GmbH enabled substantial growth in the division's vehicle development expertise, thereby increasing the synergy potential with the Automotive division in particular.

The primary objective of the extensive research and development (R & D) activities in the **Communication** division is to secure and expand its technology leadership in the respective markets. These activities focus on customer-specific developments and applications and innovative new products and system solutions, as well as the continuous improvement of production processes.

Regular cooperation with external partners and universities is pursued in order to harness as much expertise for development as possible. In addition, there is a regular dialogue with suppliers of key components and customers in order to allow innovative topics and trends and individual requirements to be integrated into the development process at an early stage.

Kirchseeon, April 2019

HÖRMANN Industries GmbH

The Management



Dr.-Ing. Michael Radke



Johann Schmid-Davis



» With our values of innovation, drive, responsibility and eye level, more than 3,000 employees do their utmost to meet tomorrow's customer requirements. «

MICHAEL RADKE, CEO

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- 54 Eigenkapitalspiegel

Consolidated Balance Sheet

ASSETS (EUR thousand)	31 Dec. 2018	31 Dec. 2017
A. FIXED ASSETS	64,998	71,530
I. Intangible assets	13,012	15,943
1. Internally generated intellectual property rights and similar rights and values	0	86
2. Purchased concessions, industrial property rights and similar rights and assets and licenses in such rights and assets	2,119	2,547
3. Goodwill	10,893	13,310
II. Tangible assets	51,194	54,566
1. Land, leasehold rights and buildings	12,375	12,444
2. Technical equipment and machinery	23,426	27,798
3. Other equipment, factory and office equipment	8,921	9,498
4. Advance payments and assets under construction	6,473	4,826
III. Long-term financial assets	793	1,021
1. Shares in associates	0	198
2. Equity investments	52	52
3. Securities held as fixed assets	195	222
4. Other loans	546	549
B. SHORT-TERM ASSETS	215,816	196,369
I. Inventories	55,010	36,397
1. Raw materials, consumables and supplies	26,770	24,302
2. Work in progress	82,297	49,717
3. Finished goods and merchandise	10,269	10,007
4. Advance payments	6,399	3,802
5. Payments received on account of orders	-70,725	-51,430
II. Receivables and other assets	83,198	84,323
1. Trade receivables	63,557	71,195
2. Receivables from affiliated companies	5,938	3,758
3. Other assets, thereof to shareholders: EUR 650 thousand (previous year EUR 650 thousand)	13,703	9,369
III. Securities	182	182
IV. Cash-in-hand and bank balances	77,426	75,468
C. PREPAID EXPENSES	1,256	820
D. DEFERRED TAX ASSETS	12,433	14,545
E. EXCESS OF PLAN ASSETS OVER PENSION LIABILITIES	237	166
Total Assets	294,740	283,431

Consolidated Balance Sheet

EQUITY AND LIABILITIES (EUR thousand)	31 Dec. 2018	31 Dec. 2017
A. EQUITY	112,806	99,644
I. Subscribed capital	200	200
II. Capital reserve	43,717	43,717
III. Consolidated balance sheet profit	58,674	46,060
IV. Non-controlling interests	10,215	9,667
B. NEGATIVE GOODWILL	0	9
C. PROVISIONS	98,738	97,966
1. Pension provisions and similar obligations	27,539	27,447
2. Tax provisions	1,851	3,194
3. Other provisions	69,348	67,325
D. LIABILITIES	83,151	85,768
1. Bonds	30,000	30,000
2. Liabilities to banks	272	477
3. Trade payables	41,166	43,113
4. Liabilities to affiliated companies	1,058	987
5. Other liabilities thereof from taxes: EUR 3,746 thousand (previous year EUR 4,543 thousand) thereof for social security: EUR 3,704 thousand (previous year EUR 3,655 thousand)	10,654	11,190
E. DEFERRED INCOME	45	44
Total Equity and Liabilities	294,740	283,431

Consolidated Income Statement

(EUR thousand)	1 Jan.–31 Dec. 2018	1 Jan.–31 Dec. 2017
1. Sales revenues	624,148	521,892
2. Increase in finished goods and work in progress	32,171	15,329
3. Other internally produced and capitalised assets	344	438
4. Other operating income thereof from currency translation: EUR 161 (previous year EUR 163 thousand)	18,439	11,647
5. Cost of materials	352,846	279,848
a) Expenses for raw materials, consumables and supplies and purchased goods	287,458	233,332
b) Cost of purchased services	65,388	46,516
Gross profit	322,256	269,458
6. Personnel expenses	199,756	175,273
a) Wages and salaries	168,402	148,000
b) Social contributions and expenses for pensions and social welfare thereof pensions EUR 232 thousand (previous year EUR 196 thousand)	31,354	27,273
7. Depreciation and amortization	16,695	12,428
a) on tangible and intangible assets	16,695	11,428
b) on current assets to the extent it exceeds depreciation which is normal for the corporation	0	1,000
8. Other operating expenses thereof from currency translation: EUR 165 thousand (previous year EUR 470 thousand)	79,377	65,510
	26,428	16,247
9. Income from equity investments and associated companies	8	34
10. Other interest and similar income therof from discounting of provisions EUR 0 thousand (previous year EUR 59 thousand) thereof from associated companies EUR 106 thousand (previous year EUR 172 thousand)	311	480
11. Depreciation of financial assets and securities held as current assets	27	0
12. Interest and similar expenses thereof from compounding of provisions EUR 786 thousand (previous year EUR 1,523 thousand) thereof from associated companies EUR 161 thousand (previous year EUR 139 thousand)	2,995	3,801
13. Taxes on income	5,615	2,656
14. Deferred taxes	2,179	-138
15. Earnings after taxes	15,931	10,442
16. Other taxes	1,292	1,315
17. Consolidated net income	14,639	9,127
18. Non-controlling interests	548	966
19. Profit brought forward from the prior year	46,060	38,886
20. Distribution to non-controlling interests	-1,477	-987
21. Consolidated balance sheet profit	58,674	46,060

Consolidated Cash Flow Statement

(EUR thousand)	1 Jan.–31 Dec. 2018	1 Jan.–31 Dec. 2017
+ Consolidated income (Consolidated net income/loss including income/loss attributable to non-controlling interests)	14,639	9,127
+/- (+) Depreciation/(-) write-ups on fixed assets	12,995	11,428
+/- (+) Depreciation/(-) write-ups of extraordinary amount on fixed assets	3,700	0
+/- (+) Increase/(-) Decrease in provisions	5,701	-987
+/- Other non-cash expenses/income	-7,998	-245
+/- (+) Decrease (-) Increase in inventories, trade receivables and other assets that are not attributable to investing or financing activities ¹	-17,995	-4,054
+/- (-) Decrease (+) Increase in liabilities from trade payables and other liabilities that are not attributable to investing or financing activities	-2,182	15,781
+/- (-) Gain/(+) Loss from disposal of fixed assets	389	69
+/- Interest expenses/income	2,684	3,321
- Other investment income	-8	-34
+/- Expenses and income of extraordinary amount and importance	1,851	5,066
+/- Income tax expenses/income	7,794	2,518
+ Proceeds in conjunction with expenses of extraordinary amount and importance	5,076	0
- Payments in conjunction with expenses of extraordinary amount and importance	-3,033	0
+/- Income tax payments	-7,386	-4,542
= Cash flow from operating activities	16,227	37,447
+ Proceeds from the disposal of intangible and fixed assets	27	11
- Payments for intangible assets	-861	-2,955
+ Proceeds from sales of property, plant and equipment	707	1,339
- Payments for property, plant and equipment	-10,656	-18,190
+ Proceeds from the disposal of non-current financial assets	0	281
- Payments for investments in non-current financial assets	-129	0
- Payments for additions to the consolidated group	0	-10,256
+ Proceeds for additions to the consolidated group	0	96
+ Interests received	112	179
+ Dividends received	0	140
= Cash flow from investing activities	-10,800	-29,355
- Dividends paid to other shareholders	-1,365	-285
- Payments for redemption of (financial) loans	-205	-322
- Interests paid	-1,899	-1,904
= Cash flow from financing activities	-3,469	-2,512
Increase of cash flow	1,958	5,581
Liquid funds at the start of the period	75,468	69,887
Liquid funds at the end of the period	77,426	75,468

¹ In contrast to the previous year, the repayment/disbursement of receivables from affiliated companies is shown in this item

Consolidated Statement of Changes in Fixed Assets

(EUR thousand)

A. FIXED ASSETS	ACQUISITION OR CONSTRUCTION COSTS				
	As of 1 Jan. 2018	Addition	Disposal	Transfers	As of 31 Dec. 2018
I. Intangible assets					
1. Internally generated intellectual property rights and similar rights and values	95	9	-95	-9	0
2. Purchased concessions, industrial property rights and similar rights and assets and licenses in such rights and assets	3,139	749	-131	150	3,908
3. Goodwill	31,035	0	-2	0	31,033
Total intangible assets	34,269	759	-227	140	34,941
II. Tangible assets					
1. Land, leasehold rights and buildings	13,241	346	-394	539	13,731
2. Technical equipment and machinery	38,921	4,146	-2,574	900	41,392
3. Other equipment, factory and office equipment	15,706	2,764	-2,596	-63	15,811
4. Advance payments and assets under construction	4,826	3,501	-432	-1,423	6,473
Total tangible assets	72,694	10,758	-5,997	-47	77,406
III. Long-term financial assets					
1. Shares in associates	198	8	-206	0	0
2. Equity investments	52	0	0	0	52
3. Securities held as fixed assets	780	129	-128	0	781
4. Other loans	550	0	-4	0	546
Total long-term financial assets	1,580	137	-338	0	1,378
Total fixed assets	108,543	11,653	-6,562	93	113,727

	DEPRECIATION				BOOK VALUES	
	As of 1 Jan. 2018	Addition	Disposal	As of 31 Dec. 2018	Book value 31 Dec. 2018	Book value 31 Dec. 2017
	9	62	-71	0	0	86
	593	1,285	-127	1,789	2,119	2,547
	17,725	2,416	0	20,140	10,893	13,310
	18,327	3,763	-199	21,929	13,012	15,943
	797	726	-186	1,357	12,375	12,444
	11,123	9,212	-2,368	17,968	23,426	27,798
	6,209	2,994	-2,348	6,890	8,921	9,498
	0	0	0	0	6,473	4,826
	18,129	12,932	-4,902	26,213	51,194	54,568
	0	0	0	0	0	198
	0	0	0	0	52	52
	558	27	0	585	195	222
	0	0	0	0	546	549
	558	27	0	585	792	1,021
Total fixed assets	37,014	16,722	-5,101	48,727	64,998	71,532

Consolidated Statement of Equity Changes

(EUR thousand)	EQUITY OF THE PARENT COMPANY			EQUITY OF THE PARENT COMPANY		NON-CONTROLLING INTERESTS	EQUITY
	I. Subscribed capital	II. Capital reserve	III. Retained earnings Other retained earnings	IV. Consolidated balance sheet profit	Total	Total capital attributable to non-controlling interests	
Balance at 1 Jan. 2017	200	43,886	550	38,886	83,522	14,739	98,261
Consolidated profit				7,174	7,174	1,953	9,127
Distributions						-988	-988
Purchase of shares from third parties			-719		-719	-6,250	-6,969
Other changes		-169	169				
Changes in the consolidated group						213	213
Balance at 31 Dec. 2017	200	43,717		46,060	89,977	9,667	99,644
Balance at 1 Jan. 2018	200	43,717		46,060	89,977	9,667	99,644
Consolidated profit				12,615	12,615	2,024	14,639
Distributions						-1,476	-1,476
Balance at 31 Dec. 2018	200	43,717		58,674	102,592	10,215	112,806

A. General disclosures on the consolidated financial statements and accounting policies

1. Accounting policies applied

The consolidated financial statements of the company for the 2018 financial year were prepared in accordance with the provisions of German commercial law for corporations and the supplementary provisions of the Gesetz betreffend die Gesellschaften mit beschränkter Haftung (GmbHG – German Limited Liability Companies Act).

The consolidated income statement is structured according to the total cost (nature of expense) method (section 275(2) of the Handelsgesetzbuch (HGB – German Commercial Code)).

The presentation of the consolidated financial statements is the same as in the previous year.

2. Consolidated group

a.) Companies under the uniform control of HÖRMANN Industries GmbH, Kirchseeon, as a result of a direct or indirect majority investment or as a result of these companies being integrated into a uniform business policy were included in the consolidated financial statements in accordance with the principles of sections 300 et seq. HGB. These companies are listed below.

DIRECT AND INDIRECT SHAREHOLDINGS OF HÖRMANN INDUSTRIES GMBH as at 31 December 2018	Equity Portion HB I (EUR thousand)	Total Equity HB I (EUR thousand)	Overall annual results HB I (EUR thousand)	Interest (in %)
Automotive segment				
HÖRMANN Automotive GmbH, Kirchseeon ³	10,390.6	10,390.6	0.0	100.00 %
HÖRMANN Automotive Saarbrücken GmbH, Saarbrücken ³	2,570.6	2,570.6	0.0	100.00 %
HÖRMANN Automotive Eislingen GmbH, Ebersbach a.d. Fils ³	378.0	378.0	0.0	100.00 %
HÖRMANN Automotive St. Wendel GmbH, St. Wendel ³	4,190.8	4,190.8	0.0	100.00 %
HÖRMANN Automotive Wackersdorf GmbH, Wackersdorf ³	1,960.9	1,960.9	0.0	100.00 %
HÖRMANN Automotive Bielefeld GmbH, Bielefeld	–4,374.2	–4,374.2	–1,508.6	100.00 %
HÖRMANN Automotive Gustavsborg GmbH, Ginsheim-Gustavsborg	20,975.7	20,975.7	3,831.6	100.00 %
HÖRMANN Automotive Penzberg GmbH, Penzberg	5,071.4	5,071.4	–4,618.1	100.00 %
HÖRMANN Automotive Slovakia s.r.o., Bánovce, Slovakia	600.5	600.5	1,029.5	100.00 %
Versorgungswerk HÖRMANN Automotive Penzberg e.V., Penzberg	–684.5	–684.5	–176.6	100.00 %
Versorgungswerk HÖRMANN Automotive Gustavsborg e.V., Ginsheim-Gustavsborg	–966.7	–966.7	–314.8	100.00 %
Engineering segment				
AIC Ingenieurgesellschaft für Bauplanung Chemnitz GmbH, Chemnitz ³	2,213.2	2,327.3	0.0	95.10 %
AIC Süd GmbH, Kirchseeon	112.8	112.8	–1.4	100.00 %
HÖRMANN Rawema Engineering & Consulting GmbH, Chemnitz ³	518.4	518.4	0.0	100.00 %
HÖRMANN Logistik GmbH, Munich ³	4,965.8	5,908.8	0.0	84.04 %
AIC Zeitarbeit GmbH, Chemnitz	2.5	4.2	–1.5	60.00 %
VacuTec Meßtechnik GmbH, Dresden ³	6,766.3	7,518.1	0.0	90.00 %
HÖRMANN Vehicle Engineering GmbH, Chemnitz	1,441.0	1,441.0	1,192.2	100.00 %

DIRECT AND INDIRECT SHAREHOLDINGS OF HÖRMANN INDUSTRIES GMBH as at 31 December 2018	Equity Portion HB I (EUR thousand)	Total Equity HB I (EUR thousand)	Overall annual results HB I (EUR thousand)	Interest (in %)
Communication segment				
Funkwerk AG, Kölleda	14,898.0	19,101.0	2,430.2	78.00 %
Funkwerk Systems GmbH, Kölleda	19,233.1	19,233.1	5,196.1	100.00 %
Funkwerk StatKom GmbH, Kölleda	214.9	214.9	–6.2	100.00 %
Funkwerk Systems Austria GmbH, Wien, Austria	344.0	344.0	13.1	100.00 %
Funkwerk Technologies GmbH, Kölleda	186.5	186.5	136.5	100.00 %
Funkwerk video systeme GmbH, Nürnberg	–43,996.1	–43,996.1	–316.8	100.00 %
FunkTech GmbH, Kölleda ³	513.0	513.0	0.0	100.00 %
Funkwerk IoT GmbH, Kölleda	–252.7	–252.7	–395.7	100.00 %
HÖRMANN GmbH, Kirchseeon ³	2,360.4	3,147.7	0.0	74.99 %
HÖRMANN KMT Kommunikations– und Meldetechnik GmbH, Salzburg, Austria	482.7	482.7	193.1	100.00 %
Services segment				
HÖRMANN Services GmbH, Kirchseeon	424.7	424.7	0.0	100.00 %
HÖRMANN Kommunikation & Netze GmbH, Kirchseeon ³	3,673.4	3,673.4	0.0	100.00 %
HÖRMANN Industrieservice GmbH, Chemnitz	54.6	54.6	61.5	100.00 %
MAT Maschinentechnik GmbH, Salzgitter	690.7	1,030.9	832.6	67.00 %
MAT Automationstechnik GmbH, Salzgitter	176.7	176.7	54.5	100.00 %
MAT Industrieservice GmbH, Salzgitter	39.7	39.7	–216.5	100.00 %

The exemption provision of section 313 (2) no. 4 sentence 3 of the HGB was applied to investments which were not included in consolidation on account of their immateriality to the financial position and financial performance of the Group.

¹ Preliminary
² Annual result including currency differences
³ Annual result after profit-transfer

There were the following changes in the consolidated group in the financial year:

HÖRMANN Rail & Road GmbH (formerly: FINDUM Grundstücks-Vermietungsgesellschaft mbH), Chemnitz, and ET-Parts GmbH, Chemnitz, were merged with HÖRMANN Vehicle Engineering GmbH, Chemnitz, retroactively to 1 January 2018 in the 2018 financial year.

Also, Roland Sirenenbau + Anlagentechnik GmbH, Keltern-Dietlingen, was merged with HÖRMANN GmbH, Kirchseeon, retroactively to 1 January 2018 in the 2018 financial year.

The changes in the consolidated group do not affect comparability with the previous year.

b.) No companies were included according to the provisions on equity consolidation in accordance with sections 311 et seq. HGB as at 31 December 2018.

Changes were presented under 2. Consolidated group a).

c.) Companies not included due to immateriality.

By reference to section 296(2) HGB and section 311(2) HGB, the shares in the following companies were not included in consolidation on account of their immateriality to the financial position and financial performance of the Group.

COMPANY	Interest in %
HÖRMANN Pannon Software Kft., Budapest, Hungary	50.00
HL Mitarbeiterbeteiligungsgesellschaft mbH, Munich	80.00
Camunsa-HÖRMANN S.A., Spain	37.50
VAKS a.s., Czech Republic	31.50
HÖRMANN-Rema Praha spol.sr.o, Czech Republic	30.00
HÖRMANN ERMAFA GmbH, Chemnitz	100.00
Versorgungswerk HÖRMANN Gruppe e.V., Traunstein	100.00

The exemption of section 313(3) sentence 4 HGB was applied to equity investments of minor significance to the presentation of financial position and financial performance as the companies are either inactive or generate sales that are insignificant to the Group.

3. Reporting date of the consolidated financial statements, deviating financial years

The consolidated financial statements were prepared as at 31 December 2018. The financial years of all companies included in the consolidated financial statements end as at this date. No company has a financial year that differs from the calendar year.

4. Consolidation policies

HÖRMANN Industries GmbH, Kirchseeon, is exempt from the obligation to prepare consolidated financial statements in accordance with section 291 HGB. As at 31 December 2018, HÖRMANN Industries GmbH, Kirchseeon, has voluntarily prepared consolidated financial statements comprising a consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity, notes to the consolidated financial statements and the Group management report.

HÖRMANN GmbH, Kirchseeon, and HÖRMANN Kommunikation & Netze GmbH, Kirchseeon, were brought into HÖRMANN Industries GmbH, Kirchseeon, as at 31 October 2011, as was HÖRMANN Automotive GmbH, Kirchseeon, as at 30 November 2011. These companies were brought in at book value. The book value of EUR 5.1 million exceeded the value of the shares granted as consideration. The excess amount was transferred to the capital reserves. The companies brought in as at 31 October 2011 and 30 November 2011 were included in consolidated for the first time as at these dates. The resulting negative goodwill of EUR 31.0 million was reclassified to capital reserves in accordance with sections 301 and 309 HGB as the shares were acquired as a contribution in kind at book value in the context of a restructuring of the HÖRMANN Holding GmbH & Co. KG Group. Goodwill arising was written off immediately.

Acquisition accounting was performed in line with the revaluation method. In accordance with section 301(1) HGB, the remeasured equity is carried in the amount of the fair value of the assets, liabilities, prepaid expenses and deferred income and special reserves included in the consolidated financial statements as at the date of first-time consolidation.

Any excess remaining after offsetting the shares in the affiliated company against equity is reported as goodwill. The offsetting of goodwill against revenue reserves in equity, as was the practice until 2009, has no longer been possible since the Bilanzrechtsmodernisierungsgesetz (BilMoG – German Accounting Law Modernisation Act) became effective.

Goodwill offset against revenue reserves in previous years is no longer recognised as an expense in the consolidated income statement on deconsolidation. Any negative goodwill remaining is reported as a separate item after equity. Until 31 December 2009 this was reported as a separate item directly in consolidated equity.

Associated companies included in the consolidated financial statements after control was acquired are consolidated using the German purchase method of accounting.

Shares in capital attributable to non-controlling interests are reported separately in consolidated equity as “Non-controlling interests” in the amount of their share in equity.

Intragroup receivables, liabilities, provisions and sales, other intragroup income and expenses and inter-company profits were eliminated.

Deferred tax assets and liabilities arising as a result of consolidation adjustments are accounted for at the level of HÖRMANN Industries GmbH, Kirchseeon, using a tax rate of 28.00 % and at the level of Funkwerk AG, Kölleda, using a tax rate of 29.82 %, whereas deferred taxes from Group companies are measured using a uniform corporate income tax rate (including solidarity surcharge) of 15.82 % and an individual trade tax rate dependent on the tax rate applied of 14.00 % on average. The resulting tax expenses are offset against tax income.

There are uniform reporting, measurement and classification guidelines for accounting for the Group companies included in consolidation. Corresponding reclassifications or remeasurements were implemented in the event of deviations from the uniform classification or measurement provisions.

5. Negative goodwill

The “Goodwill” item includes the goodwill from the first-time consolidation of Funkwerk AG, Kölleda, as at 1 October 2016. Its value was EUR 7,050 thousand (previous year: EUR 7,960 thousand) as at 31 December 2018 and is written down over ten years. Goodwill was written down pro rata by EUR 910 thousand in the financial year.

The goodwill of HÖRMANN Vehicle Engineering GmbH, Chemnitz, of EUR 442 thousand from first-time consolidation as at 1 December 2016 is also being written down over ten years. Its value was EUR 350 thousand (previous year: EUR 394 thousand) as at 31 December 2018, and was written down pro rata by EUR 44 thousand in the financial year.

In the previous year, the item still included the goodwill from the first-time consolidation of HÖRMANN Logistik GmbH, Munich, in the amount of EUR 1,071 thousand. This goodwill was written off in full in the current financial year.

As at 31 December 2018, the first-time consolidation of MAT Automationstechnik GmbH, Salzgitter, resulted in qualifying goodwill of EUR 165.0 thousand (previous year: EUR 183.3 thousand). This will be written down over a period of ten years, and by EUR 18.3 thousand in the 2018 financial year.

As at 31 December 2018, the first-time consolidation of MAT Industrieservice GmbH, Salzgitter, resulted in qualifying goodwill of EUR 1,502.6 thousand (previous year: EUR 1,669.6 thousand). This will be written down over a period of ten years, and by EUR 167.0 thousand in the 2018 financial year.

As at 31 December 2018, the first-time consolidation of MAT Maschinentechnik GmbH, Salzgitter, resulted in qualifying goodwill of EUR 493.7 thousand (previous year: EUR 548.6 thousand). This will be written down over a period of ten years, and by EUR 54.9 thousand in the 2018 financial year.

The negative goodwill breaks down as follows:

	31 Dec. 2018 (EUR thousand)	31 Dec. 2017 (EUR thousand)
HÖRMANN Rail & Road GmbH, Chemnitz	0.0	8.5
	0.0	8.5

The change in negative goodwill results from the reversal as a result of the first-time consolidation of HÖRMANN Rail & Road GmbH, Chemnitz.

6. Currency translation principles

Assets and liabilities in foreign currency and foreign currency amounts in the income statement are translated at the exchange rate on the date of initial recognition. Receivables and liabilities in foreign currencies are measured at the middle spot rate depending on their maturity as at the balance sheet date.

The **annual financial statements** prepared in foreign currencies were translated as follows: Equity was translated at historical exchange rates, the balance sheet at the middle spot rate on the balance sheet date and items of the income statement at the average monthly exchange rate. Currency translation differences are shown in equity.

7. Accounting policies

The financial statements of the companies included in the consolidated financial statements are prepared using uniform accounting policies.

If the accounting methods used for the individual balance sheets differ from the Group's principles, adjustments were made – if necessary – and deferred taxes were recognised.

In the previous year, **internally generated intangible assets** were capitalised at production cost without administrative or borrowing costs, and amortised pro rata temporis on a straight-line basis over their expected useful lives. The useful life for capitalised development work is equal to the period in which proceeds are expected to be generated. For all development projects for which the conditions for the capitalisation of development costs would not be satisfied until after 31 August 2011, development costs are no longer capitalised but instead recognised in full in profit or loss. The item "Internally generated intangible assets" was derecognised from the income statement in full in the 2018 financial year.

Purchased intangible assets are capitalised at acquisition cost and amortised pro rata temporis on a straight-line basis over the expected useful life of three to five years.

Purchased **goodwill** is capitalised at acquisition cost and amortised pro rata temporis on a straight-line basis over a period of five to ten years. It is written down to fair value if necessary.

Tangible assets are measured at acquisition or production cost less straight-line depreciation over their expected useful lives. Depreciation is measured using the tax depreciation tables, essentially taking the maximum rates as a basis.

Low-value assets of up to EUR 250.00 acquired in the financial year are written off in full in their year of acquisition and treated as a disposal. An compound item is recognised in the year of acquisition for low-value assets of between EUR 400.00 and EUR 1,000.00 and written down on a straight-line basis over five years.

If the fair value of intangible assets and tangible assets is less than their book value as at the balance sheet date as a result of permanent impairment, the assets are written down to their lower fair value and the remaining useful life is adjusted if necessary.

Shares in associates, equity investments and other loans are carried at the lower of cost or fair value.

Long-term investments are initially carried at acquisition cost and subsequently at market prices or fair value, not exceeding acquisition cost, if such market prices cannot be determined.

Raw materials, consumables and supplies and merchandise are measured at average acquisition cost. They are written down to lower fair value depending on storage periods, diminished marketability, lower replacement costs and lower selling prices.

Work in progress and finished goods are carried at production cost (direct costs and appropriate amounts of material and production overheads) including appropriate amounts of administrative costs and depreciation of fixed assets if caused by production, but not including borrowing costs and in accordance with the principle of lower of cost or market. Provisions are recognised for expected losses exceeding production costs. Goods are valued at average acquisition cost.

Depreciation to the lower fair value is made depending on the length of storage, reduced marketability, lower replacement costs and lower selling prices.

Payments received on account of orders are deducted from inventories on the face of the balance sheet, if possible.

Receivables and other assets are carried at their nominal value. If necessary, the lower fair value is applied.

The principle of lower of cost or market was applied for specific risks by means of corresponding specific valuation allowances.

Global valuation allowances are recognised on **trade receivables** for general interest and credit risks.

Receivables from affiliated companies include receivables from companies that satisfy the conditions for consolidation in the consolidated financial statements of HÖRMANN Industries GmbH, Kirchseeon, but that are not consolidated for reasons of materiality.

Other securities classified as current assets are carried at the lower of acquisition cost or fair value as at the balance sheet date in accordance with section 255(4) HGB.

Cash-in-hand and bank balances are carried at nominal amount.

Disbursements before the reporting date are reported as **prepaid expenses** if they constitute an expense for a specific period after this date.

Deferred tax assets are recognised in the amount that it is probable that they will lead to tax relief in future financial years. **Deferred tax liabilities** are recognised for future tax charges. Deferred tax assets were reported as at 31 December 2018. Where possible, deferred tax assets and liabilities are offset in accordance with the option provided by section 274 HGB in conjunction with section 306 HGB.

Deferred taxes are recognised for differences between the book values of assets and liabilities in the consolidated financial statements and the corresponding tax carrying amounts in the calculation of taxable income.

Deferred tax liabilities are generally recognised for all taxable temporary differences; deferred tax assets are recognised to the extent that it is probable that there will be future taxable profits against which deductible temporary differences can be utilised.

Deferred tax liabilities and tax assets are calculated on the basis of the expected tax rates and tax laws that are expected to apply when the liability is settled or the assets are realised, or when the loss carryforward is utilised.

The amount by which the fair value of assets exceeds the liabilities arising from partial early retirement obligations or pension obligations is reported as the **excess of plan assets over pension liabilities**. These assets cannot be accessed by any other creditors and are intended solely for the satisfaction of liabilities from partial early retirement obligations or pension obligations.

Pension provisions were calculated in accordance with the projected unit credit method using the 2018G Heubeck mortality tables and taking into account the fluctuation rate and forecast wage, salary and pension increases specific to the company. The interest rates are consistent with the discount rates published by Deutsche Bundesbank in accordance with section 253(2) HGB, applying the practical expedient for an average remaining term of 15 years. The effects on profit or loss of changes in the discount rate are recognised in financial result.

Pension provisions were measured based on the following premises:

- ♦ Interest rate (10-year average): 3.20 %
- ♦ Interest rate (7-year average): 2.32 %
- ♦ Expected wage and salary increases: 0.00 % to 2.50 %
- ♦ Expected inflation rate/pension trend: 0.00 % to 1.80 %

Assets that satisfy the requirements of plan assets for pension and partial early retirement obligations are measured at fair value and offset against the respective individual obligation.

One fifteenth of the difference arising from the remeasurement of pension obligations and plan assets as a result of the adoption of the German Accounting Law Modernisation Act was added in the financial year.

Tax provisions are calculated in accordance with the principles of prudent business judgement.

Other provisions take into account all discernible risks and uncertain obligations in line with prudent business judgement. They are carried at the necessary settlement amount. Price and cost increases are taken into account accordingly where necessary when calculating the settlement amount.

Other long-term provisions are discounted using the discount rate published by Deutsche Bundesbank in accordance with their term.

The issued **bond** of EUR 30.0 million is recognised at nominal value and bears interest at 4.5 % p.a.

Liabilities and **other liabilities** are carried at their settlement amount.

Liabilities to affiliated companies include liabilities to companies that satisfy the conditions for consolidation in the consolidated financial statements of HÖRMANN Industries GmbH, Kirchseeon, but that are not consolidated for reasons of materiality.

Proceeds received before the reporting date are reported as **deferred income** if they constitute income for a specific period after this date.

8. Changes from accounting methods applied in the previous year

The accounting methods applied are the same as those applied in the previous year.

B. Balance sheet disclosures

1. Fixed assets

Assets recognised as fixed assets were written down to lower fair value if necessary. The differences from reclassifications in acquisition and production cost result from changes in reporting from fixed assets to current assets and vice versa.

Research and development costs amounted to around EUR 9.0 million in total in the past financial year (previous year: EUR 8.6 million). No internally generated intangible fixed assets or development costs were capitalised in the 2018 financial year (previous year: EUR 85.9 thousand).

The historical cost of EUR 93 thousand and historical write-downs of EUR 93 thousand were adjusted in the financial year on account of systemic deferrals in previous years.

The statement of changes in fixed assets for the financial year is shown on pages 52/53.

2. Inventories

Payments received on account of orders of EUR 70,725 thousand (previous year: EUR 51,430 thousand) were deducted from inventories on the face of the balance sheet.

3. Receivables and other assets

Trade receivables of EUR 51.0 thousand (previous year: EUR 89.9 thousand) have a remaining term of more than one year.

Other assets of EUR 0.0 thousand (previous year: EUR 42.4 thousand) have a remaining term of more than one year.

Receivables from affiliated companies include trade receivables of EUR 38.9 thousand (previous year: EUR 714.1 thousand) and loan and interest receivables of EUR 5,899.1 thousand (previous year: EUR 3,043.9 thousand).

Other assets do not include any significant anticipatory receivables that have not yet legally arisen as at the balance sheet date.

4. Prepaid expenses

These are essentially special lease payments, advance rent payments, license fees, payments for service and maintenance contracts and interest.

5. Consolidated equity

The development of consolidated equity in the financial year is shown in the consolidated statement of changes in equity on pages 54/55.

6. Provisions

The settlement amount of pension provisions is EUR 42,096 thousand. This is offset against assets of EUR 2,251 thousand that are exclusively reserved for pension obligations. Plan assets in excess of the settlement amount of EUR 89 thousand were reported on the assets side of the balance sheet as the “Excess of plan assets over pension liabilities”.

The acquisition cost of the offset assets is EUR 2,174 thousand, while their recognised fair value is EUR 2,251 thousand. The fair value of insurance policies covering the pension liabilities is equal to the acquisition cost and is measured on the basis of the actuarial reserve.

Only insignificant amounts are offset in the income statement in this regard.

One fifteenth of the addition to the direct pension provision of EUR 3,888 thousand required as at 1 January 2010 as a result of the amended provisions of the German Commercial Code (EUR 263 thousand) was made in the reporting year in accordance with Article 67(1) sentence 1 of the Einführungsgesetz zum Handelsgesetzbuch (EGHGB – Introductory Act to the German Commercial Code). EUR 2,422 thousand of the difference was already recognised by 31 December 2018. The direct pension provisions not reported in the balance sheet amount to EUR 1,466 thousand as at the balance sheet date.

In accordance with section 253(2) sentence 1 HGB, the company used a ten-year period to calculate the average interest rate for the discounting of pension obligations. This gave rise to a difference of EUR 4,145 thousand in accordance with section 253(6) HGB.

The indirect pension obligations are underfunded in accordance with Article 28(1) sentence 2 EGHGB. The underfunding amounts to EUR 9,585 thousand as at 31 December 2018 (Article 28(2) EGHGB).

The settlement amount of **partial early retirement provisions** is EUR 4,050 thousand. This is offset against assets of EUR 2,158 thousand that are exclusively reserved for partial early retirement obligations.

The acquisition cost of the offset assets is EUR 2,158 thousand, while their recognised fair value is EUR 2,158 thousand. The fair value of these assets is equal to their market value as at the balance sheet date. Plan assets in excess of the settlement amount of EUR 148 thousand were reported on the assets side of the balance sheet as the “Excess of plan assets over pension liabilities”.

Only insignificant interest expenses and interest income were offset in the consolidated income statement in this regard.

7. Liabilities

Liabilities are reported at settlement amount. Their remaining terms are shown in the consolidated maturity structure of liabilities attached below. A land charge of EUR 1,522 thousand was entered for short- and medium-term loans borrowed from banks by HÖRMANN Industries GmbH, Kirchseeon, for investments in land and buildings. This investment loan amounted to EUR 214 thousand as at 31 December 2018 (previous year: EUR 429 thousand).

There is also normal business collateral (e. g. retentions of title, global assignments and the assignment of warehouses as collateral).

Liabilities do not include any anticipatory liabilities that have not yet legally arisen as at the balance sheet date.

CONSOLIDATED MATURITY STRUCTURE OF LIABILITIES AS OF 31 DECEMBER 2018 (EUR thousand)	REMAINING TERM				
	up to one year	more than one year	more than five years	Total 31 Dec. 2018	thereof secured ¹
1. Bonds	0	30,000	0	30,000	0
previous year	0	30,000	0	30,000	0
2. Liabilities to banks	272	0	0	272	214
previous year	252	225	0	477	477
3. Trade payables	41,166	0	0	41,166	0
previous year	43,113	0	0	43,113	0
4. Liabilities to affiliated companies	1,058	0	0	1,058	0
previous year	987	0	0	987	0
5. Other liabilities	10,654	0	0	10,654	0
previous year	11,190	0	0	11,190	0
thereof from taxes	3,746	0	0	3,746	0
previous year	4,543	0	0	4,543	0
thereof for social security	3,704	0	0	3,704	0
previous year	3,655	0	0	3,655	0
Total	53,151	30,000	0	83,151	214

¹ Please refer to Section B 7 of the Notes for the type and form of collateral.

8. General disclosures

Deferred taxes

Deferred tax assets result from temporary differences between the financial accounts and the tax accounts for receivables, pension provisions, provisions for partial early retirement and other provisions.

Deferred tax liabilities result from temporary differences between the financial accounts and the tax accounts for land and buildings and inventories.

There are trade tax and corporation tax loss carryforwards at the individual companies. Based on the planning for the individual companies, management expects that trade tax and corporation tax losses can be offset against taxable profits in future.

Deferred tax assets and liabilities arising as a result of consolidation adjustments are accounted for at the level of HÖRMANN Industries GmbH, Kirchseeon, using a tax rate of 28.00 %, whereas deferred taxes from Group companies are measured using a uniform corporate income tax rate (including solidarity surcharge) of 15.82 % and an individual trade tax rate dependent on the tax rate applied of between 12.25 % and 17.15 %. The resulting tax expenses are offset against tax income.

The deferred taxes from the individual financial statements in accordance with section 274 HGB are pooled with deferred taxes at Group level in accordance with section 306 HGB.

There are derivative financial instruments in the form of interest rate options with a nominal amount of EUR 15,000 thousand as at the balance sheet date. The fair value of the interest rate options is EUR 1.6 thousand. They are measured using the mark-to-market method. Their book value is EUR 71.7 thousand and is included in prepaid expenses.

C. Consolidated income statement disclosures

1. Expenses and income in accordance with section 314(1) no. 23 HGB

The following expenses and income of an extraordinary amount were incurred in the past financial year:

Background	Amount in EUR thousand	Income statement item
Restructuring	3,094	Personnel expenses
Other costs of discontinued operations	800	Other operating expenses
Insured loss	3,033	Other operating expenses
Depreciation on fixed assets	3,700	Depreciation
Total	10,627	Total expense
Insurance refund	5,076	Other operating income

2. Sales

Breakdown of revenues by region	2018 (EUR million)	2017 (EUR million)
Sales, domestic	410.5	350.6
Sales, international	213.6	171.3
Total	624.1	521.9
Segments	2018 (EUR million)	2017 (EUR million)
Automotive	423.9	375.4
Engineering	65.6	33.3
Services	38.5	21.2
Communication	96.1	92.0
Total	624.1	521.9

3. Other operating income

Other operating income includes prior-period income of EUR 9,705.0 thousand (previous year: EUR 7,512.7 thousand), EUR 8,823.0 thousand (previous year: EUR 5,598.1 thousand) of which relates to the reversal of provisions, EUR 200.1 thousand (previous year: EUR 975.6 thousand) to the reversal of write-downs, EUR 366.2 thousand (previous year: EUR 694.4 thousand) to disposals of assets and EUR 315.8 thousand (previous year: EUR 244.7 thousand) to other prior-period income. Other operating income also includes income from currency translation of EUR 161.3 thousand (previous year: EUR 63.1 thousand).

4. Unscheduled write-downs

There were no write-downs in the reporting year. There was a write-down of EUR 1,000 thousand on Algerian bank balances in the previous year that, as in previous years, were reported under other assets and have now been written down to EUR 0.0 thousand.

5. Other operating expenses

Other operating expenses include prior-period expenses of EUR 611.2 thousand (previous year: EUR 133.9 thousand). These include maintenance expenses of EUR 484.5 thousand (previous year: EUR 0.0 thousand), expenses from social security audits of EUR 5.4 thousand (previous year: EUR 33.9 thousand), supplier invoices from the previous year of EUR 24.0 thousand (previous year: EUR 47.5 thousand) and other expenses of EUR 97.3 thousand (previous year: EUR 52.5 thousand).

6. Taxes on income

Taxes on income include prior-period tax expenses of EUR 436.0 thousand (previous year: EUR 324.3 thousand) and prior-period tax income of EUR 61.5 thousand (previous year: EUR 306.0 thousand).

By way of derogation from section 274(2) sentence 3 HGB, income from changes in recognised deferred is shown separately under “Deferred taxes” in the consolidated income statement on account of its materiality.

7. Significant events after the balance sheet date

On 5 April 2019, HÖRMANN Industries GmbH acquired a majority interest in Klatt Fördertechnik GmbH, Neumarkt am Wallersee (Austria), via its subsidiary HÖRMANN Logistik GmbH, Munich. With the strategic acquisition of an initial equity interest of 51 % in this specialist for intralogistics systems, HÖRMANN Industries GmbH is strengthening its Engineering segment and pressing ahead with the diversification of the Group.

On 11 April 2019, HÖRMANN Automotive GmbH sold 100 % of its shares in the subsidiary HÖRMANN Automotive Penzberg GmbH to the unconsolidated affiliate FTH Fahrzeugteileholding GmbH, Chemnitz.

Following the sale of the shares, the decision was made to initiate the closure of the Penzberg plant. Production will be relocated to other plants in the Automotive segment. The closure is set to be completed by mid-2020. HÖRMANN Automotive GmbH will provide as yet undefined funding with collateral for a social package for the around 600 employees.

D. Other disclosures

1. Contingent liabilities and other financial commitments

a.) Contingent liabilities

There are contingent liabilities of EUR 4.7 million in accordance with section 251 in conjunction with section 268(7) HGB from guarantees issued for liabilities, EUR 4.7 million of which to affiliated companies.

Furthermore, HÖRMANN Industries GmbH, together with HÖRMANN Automotive GmbH, are liable as co-borrowers and joint debtors for a guarantee issued by Commerzbank AG to HÖRMANN Holding GmbH & Co. KG and HÖRMANN Industries GmbH up to an amount of EUR 10,000 thousand until further notice. EUR 1,693 thousand of this guarantee facility had been utilised as at 31 December 2018. To the best of our knowledge, both HÖRMANN Holding GmbH & Co. KG and HÖRMANN Automotive GmbH conduct their business properly and in a manner that ensures that they are able to meet all their obligations on their own and that therefore recourse to HÖRMANN Industries GmbH is not expected for the contingent liabilities we have entered into.

b.) Other financial commitments

Obligations under rental and lease agreements and other longer-term contracts amount to around EUR 67.7 million. Other financial obligations of EUR 15.1 million have a remaining term of up to one year, EUR 42.8 million have a remaining term of between one and five years and EUR 9.8 million have a remaining term of more than five years.

2. Obligations subject to a condition precedent from recovery agreements under recovery and supplementary collective agreements

There are obligations subject to a condition precedent from recovery agreements under recovery and supplementary collective agreements of EUR 31.6 million that expired as at 31 December 2018.

These obligations can lead to future expenses and payments if the EBT less other taxes of HÖRMANN Automotive Penzberg GmbH, Penzberg, exceeds 3 % of its sales. In such event, 50 % of the excess net income will be paid to the company’s workforce. As a result of the sale of all shares in HÖRMANN Automotive Penzberg GmbH on April 11, 2019, any future expenses and disbursements arising from this will no longer affect HÖRMANN Holding GmbH & Co. KG.

Over the last three years, HÖRMANN Automotive Penzberg GmbH generated average EBT less other taxes of EUR 134.6 thousand with average sales of EUR 111.2 million, and therefore an average of 0.1 % of sales.

3. Related party transactions

There are no transactions with related parties that are not as at arm’s length.

4. Auditor’s fees

	2018 (EUR thousand)
Audits of financial statements	574.2
Other assurance or valuation services	49.4
Tax advisory services	125.6
Other services	105.0
Total	854.2

5. Management

- ♦ Dr.-Ing. Michael Radke, engineer
- ♦ Mr Johann Schmid-Davis, business graduate

The managing directors are exempt from the restrictions of section 181 of the Bürgerliches Gesetzbuch (BGB – German Civil Code) for transactions with the company.

The managing directors of the parent company are not employed by the company and do not receive remuneration for their work.

6. Employees

Not including trainees or managing directors, there were 3,175 employees on average in the 2018 financial year (previous year: 2,825). The average number of trainees was 121 (previous year: 111).

Average number of employees by group:

Group	2018
Production	2,330
Sales/Project Management	260
Development	327
Administration	258
Total	3,175

7. Exemption in accordance with section 264(3) HGB

The subsidiaries HÖRMANN Automotive GmbH, Kirchseeon, HÖRMANN Automotive Saarbrücken GmbH, Saarbrücken, HÖRMANN Automotive St. Wendel GmbH, St. Wendel, HÖRMANN Automotive Eislingen GmbH, Ebersbach an der Fils, HÖRMANN Automotive Wackersdorf GmbH, Wackersdorf, HÖRMANN GmbH, Kirchseeon, HÖRMANN Logistik GmbH, Munich, AIC Ingenieurgesellschaft für Bauplanung Chemnitz GmbH, Chemnitz, VacuTec Meßtechnik GmbH, Dresden, HÖRMANN Rawema Engineering & Consulting GmbH, Chemnitz, HÖRMANN Kommunikation & Netze GmbH, Kirchseeon, and HÖRMANN Services GmbH, Kirchseeon, exercise the exemption regarding the disclosure of their annual financial statements in accordance with section 325 HGB and, if necessary, the provisions regarding the preparation of notes or a management report in accordance with section 264(3) HGB.

8. Group affiliation

HÖRMANN Industries GmbH, Kirchseeon, and its equity investments are included as affiliated companies in accordance with section 271(2) HGB in conjunction with section 290 HGB in the consolidated financial statements of HÖRMANN Holding GmbH & Co. KG, Kirchseeon, the parent company with the largest consolidated group. The consolidated financial statements of HÖRMANN Holding GmbH & Co. KG, Kirchseeon, are filed with and disclosed by the electronic Federal Gazette.

9. Proposal for the appropriation of profits

The management of HÖRMANN Industries GmbH proposes to carry forward the annual result to new account.

E. Cash flow statement

The consolidated cash flow statement is structured in accordance with the German Accounting Standard DRS 21.

The **cash flow from operating activities** is an indicator of the extent to which operating activities generated cash surpluses. Incoming and outgoing payments reported in the financial year in connection with expenses and income of an extraordinary amount or extraordinary significance relate to incoming payments in connection with insured losses and outgoing payments in connection with restructuring activities and insured losses at subsidiaries.

The **cash flow from investing activities** indicates the extent to which expenses were incurred for resources expected to generate future income and cash flows.

The **cash flow from financing activities** includes the interest payments on account of the bond issued for the financing of the HÖRMANN Holding Group.

Definition of cash and cash equivalents

The **cash and cash equivalents at the end of the period** shown in the consolidated cash flow statement consisted exclusively of bank balances available at short notice and cash-in-hand. We refer to the comments in section IV. Financial position in the Group management report.

Kirchseeon, den 11 April 2019

HÖRMANN Industries GmbH



Dr.-Ing. Michael Radke



Johann Schmid-Davis

AUDITOR'S REPORT

To HÖRMANN Industries GmbH, Kirchseeon

We have audited the consolidated financial statements of Hörmann Industries GmbH, Kirchseeon, and its subsidiaries (the Group), comprising the consolidated balance sheet as at 31 December 2018, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 January to 31 December 2018, and the notes to the consolidated financial statements, including the presentation of the accounting policies and valuation principles. We have also audited the Group management report of Hörmann Industries GmbH for the financial year from 1 January 2018 to 31 December 2018. In our opinion, based on the findings of our audit,

- ♦ the attached consolidated financial statements comply in all material respects with the requirements of German commercial law and give a true and fair view of the Group's net assets and financial position as of 31 December 2018, and of its results of operations for the financial year from 1 January 2018 to 31 December 2018, in accordance with the German principles of proper accounting.
- ♦ the accompanying Group management report as a whole provides a suitable view of the Group's position. In all material respects, the Group management report is consistent with the consolidated financial statements, complies with German statutory requirements and suitably presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 of the German Commercial Code (HGB), we state that our audit has not led to any reservations with respect to compliance of the consolidated financial statements and the Group management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and the Group management report in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW].

Our responsibilities under those regulations and guidelines are further described in the 'AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT' section of our report. We are independent of the Group companies in compliance with the provisions of German commercial law and professional law and have fulfilled our other German professional obligations in compliance with these requirements. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinion on the consolidated financial statements and Group management report.

RESPONSIBILITY OF THE LEGAL REPRESENTATIVES FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The legal representatives are responsible for preparing the consolidated financial statements, which in all material respects comply with the requirements of German commercial law, and for the consolidated financial statements giving a true and fair view of the net assets, financial position and results of operations of the Group in accordance with the German principles of proper accounting. Furthermore, the legal representatives are responsible for the internal controls that, in accordance with the German principles of proper accounting, they deemed necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's status as a going concern. In addition, they have a responsibility to disclose matters related to the status as a going concern, if relevant. They are also responsible for accounting on the basis of the going concern principle, unless prevented by actual or legal circumstances.

Moreover, the legal representatives are responsible for preparing the Group management report, which as a whole provides a suitable view of the Group's position, as well as, in all material respects, is consistent with the consolidated financial statements, complies with German statutory requirements and suitably presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for such arrangements and measures (systems) as they determine are necessary to enable the preparation of the Group management report in compliance with the applicable requirements of German commercial law and for providing sufficient and appropriate evidence for the statement made in the Group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the Group management report as a whole provides a suitable view of the Group's position, as well as, in all material respects, is consistent with the consolidated financial statements and our audit findings, complies with German statutory requirements, and suitably presents the opportunities and risks of future development, and to issue an auditor's report that includes our opinion on the consolidated financial statements and the Group management report.

Reasonable assurance is a high level of assurance but not a guarantee that an audit carried out in compliance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always uncover a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this Group management report.

We exercise due discretion during the audit and maintain a critical attitude. In addition, we

- ♦ identify and assess the risks of material misstatement of the consolidated financial statements and the Group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk that material misstatements are not uncovered is higher in the case of transgressions than in the case of inaccuracies, as transgressions can entail fraudulent collaboration, falsifications, deliberate omissions, misleading depictions or the suspension of internal controls.
- ♦ obtain an understanding of internal control relevant to the audit of the consolidated financial statements, and of the arrangements and measures relevant to the audit of the Group management report, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- ♦ we evaluate the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the estimated values presented by the legal representatives and the associated disclosures.
- ♦ we draw conclusions about the appropriateness of the going concern principle applied by the legal representatives and, on the basis of the audit evidence obtained, whether there is material uncertainty regarding events or circumstances that could cause significant doubt about the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and Group management report or, if such disclosures are inadequate, to modify our opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may mean that the Group is no longer a going concern.
- ♦ we evaluate the overall presentation, the structure and the content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events such that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with the German principles of proper accounting.

- ♦ we obtain sufficient suitable audit evidence for the accounting information of the companies or the business activities within the Group, in order to provide an audit opinion on the consolidated financial statements and the Group management report. We are responsible for instructing, monitoring and implementing the audit of the consolidated financial statements. We bear sole responsibility for our audit opinion.
- ♦ evaluate consistency of the Group management report with the consolidated financial statements, its legal compliance and presentation of the Group's position.
- ♦ perform audit procedures on the prospective information presented by legal representatives in the Group management report. On the basis of sufficient appropriate audit evidence, we examine the significant assumptions underlying the legal representatives' forward-looking disclosures in particular and evaluate the appropriateness of the derivation of the forward-looking disclosures from these assumptions. We do not provide a separate audit opinion regarding the forward-looking disclosures or the underlying assumptions. There is a considerable, unavoidable risk that future events will differ significantly from the forward-looking disclosures.

Topics for discussion with those responsible for monitoring include the planned scope and scheduling of the audit as well as significant audit findings, including any deficiencies in the internal control system that we find during our audit.

Munich, 30 April 2019

BDO AG
Wirtschaftsprüfungsgesellschaft



Günter Wörl
Wirtschaftsprüfer [German Public Auditor]



Philipp Jahn
Wirtschaftsprüfer [German Public Auditor]



» Diversification is an elementary part of our company philosophy. «

JOHANN SCHMID-DAVIS, CFO

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