

FUTURE
TRENDS –
PIONEERING
SOLUTIONS

ANNUAL REPORT 2018

KEY FIGURES¹

		2018	2017	2016	2018/2017 Change in %
Incoming orders	€ million	3,930.9	3,803.0	3,701.7	3.4
Orders on hand (Dec. 31)	€ million	2,577.2	2,449.4	2,568.4	5.2
Sales revenues	€ million	3,869.8	3,713.2	3,573.5	4.2
of which abroad	%	84.3	86.9	84.8	-2.6 pp
EBIT	€ million	233.5	287.0	271.4	-18.6
EBIT before extraordinary effects ²	€ million	274.9	283.7	286.4	-3.1
EBT	€ million	219.7	267.3	258.1	-17.8
Net profit	€ million	163.5	199.6	187.8	-18.1
Cash flow from operating activities	€ million	162.3	119.8	227.4	35.5
Cash flow from investing activities	€ million	-30.1	-17.2	-116.9	
Cash flow from financing activities	€ million	-134.0	-152.2	192.5	
Free cash flow	€ million	78.4	14.3	129.9	448.4
Equity (with non-controlling interests) (Dec. 31)	€ million	992.2	900.5	831.0	10.2
Net financial status (Dec. 31)	€ million	32.3	176.3	176.5	-81.7
Net working capital (Dec. 31)	€ million	441.4	373.7	194.4	18.1
Employees (Dec. 31)		16,312	14,974	15,235	8.9
of which abroad	%	50.0	47.7	46.1	2.3 pp
Gearing (Dec. 31)	%	-3.4	-24.3	-27.0	20.9 pp
Equity ratio (Dec. 31)	%	27.4	25.6	24.8	1.8 pp
EBIT margin	%	6.0	7.7	7.6	-1.7 pp
EBIT margin before extraordinary effects ²	%	7.1	7.6	8.0	-0.5 pp
ROCE	%	24.0	38.6	41.1	-14.6 pp
EVA	€ million	76.0	142.7	142.5	-46.8
Dürr stock (ISIN: DE0005565204)					
High	€	57.18	60.28	39.98	
Low	€	27.30	37.00	24.76	
Close	€	30.53	53.28	38.18	
Number of shares		69,202,080	69,202,080	69,202,080	
Earnings per share	€	2.27	2.78	2.63	-18.3
Dividend per share	€	1.00 ³	1.10	1.05	-9.1

¹ Please note the information on page 55 concerning the figures and comparability with prior years.

² Extraordinary effects: € -41.4 million (2018), € +3.3 million (2017), € -15.0 million (2016); please see table 2.39.

³ Dividend proposal for the annual general meeting

Minor variances may occur in the computation of sums and percentages in this report due to rounding.

THE DÜRR GROUP

The Dürr Group is one of the world's leading mechanical and plant engineering firms. Business with automotive manufacturers and their suppliers accounts for 56 % of our sales of € 3.87 billion. Other customer segments include the woodworking industry and the mechanical engineering sector as well as the chemical and pharmaceutical industries.

Our five divisions

PAINT AND FINAL ASSEMBLY SYSTEMS

- Paint shops
- Final assembly systems

€ 1,235.7 M
SALES

€ 58.2 M
OPERATING EBIT

3,472
EMPLOYEES



APPLICATION TECHNOLOGY

- Paint application technology
- Glueing technology
- Sealing technology

€ 652.6 M
SALES

€ 68.2 M
OPERATING EBIT

2,246
EMPLOYEES



CLEAN TECHNOLOGY SYSTEMS

- Air pollution control
- Noise abatement systems
- Battery coating lines

€ 226.7 M
SALES

€ 5.1 M
OPERATING EBIT

1,472
EMPLOYEES



MEASURING AND PROCESS SYSTEMS

- Balancing technology
- Filling technology
- Assembly technology
- Testing technology

€ 456.5 M
SALES

€ 61.2 M
OPERATING EBIT

2,279
EMPLOYEES



WOODWORKING MACHINERY AND SYSTEMS

- Machinery and equipment for the woodworking industry

€ 1.298.3 M
SALES

€ 94.9 M
OPERATING EBIT

6,593
EMPLOYEES



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FUTURE TRENDS.

Our environment is undergoing a rapid transformation. ELECTROMOBILITY and AUTONOMOUS DRIVING are changing the automotive industry. When buying cars and furniture, consumers are asking for increasingly BESPOKE PRODUCTS and want them to be manufactured as SUSTAINABLY as possible. And all the while, the DIGITIZATION of production is advancing ever more dynamically.

More about future trends and
our solutions can be found in
the new Eco Magazine



PIONEERING SOLUTIONS.

These trends are posing new challenges for our customers – which we are helping them to overcome. Whether machines, systems or software: pioneering solutions from the Dürr, HOMAG and Schenck brands enable new products to be manufactured in a way that is faster, smarter and more customized in order to remain competitive.

The enclosed Eco Magazine will show you the solutions we are developing for future trends in production. The financial report contains all the figures and explanations you need for a comprehensive assessment of our business.

CHAIRMAN'S LETTER

Dear Readers,

There are some years when looking at the figures is far from enough to give a real insight into a company. 2018 was such a year. We achieved all-time highs in order intake and sales – and we are, of course, delighted about this. But what is more important is that we have shifted up another gear in digitization. We are all in agreement on the Board of Management: digitization is a very important topic in the Group. To remain competitive in the future, we must forge ahead with the digitization of products, services and processes – with speed and careful use of resources as well as the courage to embrace change.

If mechanical and plant engineering firms procrastinate on digital transformation, they risk not being regarded as a relevant player by customers. We, on the other hand, are making every effort to be among the winners of digitization. Our digital range already puts us in the top league for mechanical and plant engineering. We are establishing the ADAMOS IIoT platform together with partners. Our customers see us as a pioneer for applications used in smart production processes.

Since early 2018 we have been pooling our expertise in agile Digital Factories. This is streamlining development processes, while smart applications are being launched more rapidly. The Digital Factories concept is successful – we only need to look at innovations such as the **EcoScreen** Equipment Analytics smart application. Thanks to streaming analytics technology, this application enables real-time analysis of data from the painting process for the first time. Any problems can thus be identified straight away – before many cars are painted incorrectly. This is just one example of how we are making factories smart and helping our customers enhance their efficiency and competitiveness.

Within our company, too, increasing efficiency and competitiveness takes priority. This is why we initiated several optimization measures in 2018. FOCUS 2.0 was launched by Paint and Final Assembly Systems to set the course for achieving its target EBIT margin of 6 to 7% for paint systems business again as early as 2020. The HOMAG Group (Woodworking Machinery and Systems) is pulling out all the stops to introduce a new, flexible production system. This will make them stronger in the growing systems business in end-to-end furniture production lines. Incidentally, despite supplier and production bottlenecks, the HOMAG Group achieved record EBIT of € 86.2 million in 2018 (after purchase price allocation).



Ralf W. Dieter (57)

At Clean Technology Systems we have also laid the groundwork for profitable growth. By discontinuing the loss-making micro gas turbine business, the division can focus on the profitable environmental technology business. At the same time, the acquisition of MEGTEC/Universal is turning us into the highest performing supplier in environmental technology. The alliance between Dürr and MEGTEC/Universal makes for a comprehensive product range, a unique service presence as well as economies of scale and global customer access. On this basis, Clean Technology Systems is set to achieve sales of as much as € 500 million and an EBIT margin of 6 to 7 % in 2021.

In 2018 the optimization measures outlined above, in conjunction with purchase price allocation effects, led to high extraordinary expenses of € 41.4 million. The result was a temporary decline in earnings, which we were prepared to accept. We see the extraordinary expenses relating to the optimization measures as an investment in the future, which will lead to a sustained improvement in earnings from 2019 onward. We are proposing a dividend of € 1.00 per share for 2018. This is 9 % lower than in the previous year; that said, consolidated net profit decreased by 18 % due to the extraordinary expenses.

Talks with investors often revolve around the question of whether the transformation in the automotive industry – just think of e-mobility, autonomous driving and connectivity – may lead to lower equipment spending and declining business for the Dürr Group.

Our level of order intake shows the opposite: in the last two years, orders received from the automotive industry have risen; in 2018 business involving painting and assembly lines for cars grew by 14 %. There are several reasons to explain this positive development in the automotive business.

The first one relates to the industry's productivity requirements: our customers are investing in the productivity of their plants to become even more efficient. This is how they can generate the cash flows they need for the megatrends of e-mobility and autonomous driving.

Secondly, we have a broad customer base. While some automakers are curbing their spending, others are increasing their investment, for example to launch new models or to expand their production in key markets. We benefited from this broad customer base in 2018, particularly in China. Even though light-vehicle production declined there by 4 %, our consolidated order intake increased by 12 % in China, since we have business relations with many automakers, who are pursuing ambitious growth targets and – like us – believe in the huge market potential.

The third factor of growth in the automotive business is e-mobility. This is an opportunity for the Dürr Group, since building electric cars requires the purchase of new production technology, for instance for balancing electric armatures, filling drive batteries or connecting power train and car body. Many painting lines also have to be converted to enable electric models to be painted. In addition, e-mobility further expands our customer base. New car producers, who are entering the market in China in particular, require production technology and value our expertise as a long-term partner.

All of our five divisions are world market leaders. This comes from their innovative strength – both in the digital field and in terms of machine hardware. Take a look at the enclosed Eco Magazine for an entertaining overview of current innovations – from revolutionary application technology for two-tone painting and autonomous production cells in woodworking, through to testing technology for driverless cars.

Our position as technology leader requires high innovation budgets and correspondingly strong cash flows. We are therefore all the more pleased that we raised our cash flow from operating activities by 36 % in 2018. The Group is in a good financial position: despite a net outflow of € 136 million for the acquisition of MEGTEC/Universal and further HOMAG shares, the net financial status was in positive territory at the end of 2018. Our solid balance sheet and our ability to generate cash will enable us to continue on our path of innovation. We have the funds to maintain our fast pace of development and meet the innovation requirements of the digital age.

Financial strength alone is no guarantee for success. For this we need, above all, qualified and committed employees who identify with their company and deliver top performances. I am proud that our teams all over the world are stepping up to the mark. The fact that we are at the leading edge with the Dürr, HOMAG and Schenck brands is primarily down to our Group workforce of over 16,000 people. For this I would like to thank you all sincerely!

TO OUR SHAREHOLDERS

Chairman's letter



Pekka Paasivaara (57)

Dr. Jochen Weyrauch (52)

Ralf W. Dieter (57)

Carlo Crosetto (47)

We had a confident start to 2019, although the framework conditions have become more difficult. We are targeting the € 4 billion mark for order intake and sales. Thanks to our optimization measures, EBIT is set to increase more strongly than sales; we aim to raise the EBIT margin to between 6.5 and 7.0 %. We also plan to further improve our cash flow.

Together with my colleagues on the Board of Management, I would like to thank our customers, business partners and shareholders for your support in 2018. We are delighted about your continued trust in us.

Best wishes

A handwritten signature in black ink, appearing to read 'Ralf W. Dieter'.

Ralf W. Dieter
CEO

Bietigheim-Bissingen, March 21, 2019

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

The Dürr Group closed 2018 with new records for incoming orders and sales. Extraordinary expenses, which from 2019 onward will help to strengthen our profitability in the long term, were the main reason for earnings falling below the previous year's level. Examples of measures launched to increase profitability are the FOCUS 2.0 optimization program at Paint and Final Assembly Systems and the closure of the loss-making micro gas turbine business, the latter of which will have a positive effect on earnings at Clean Technology Systems. Furthermore, the acquisition of the US environmental technology businesses MEGTEC and Universal as well as the associated strategic reorientation of Clean Technology Systems are important foundations for profitable growth. The same applies to the reorganization of the HOMAG Group's production system, which commenced in 2018. This is necessary to ensure, in particular, that high-volume orders in systems business involving complete furniture production lines can be executed more efficiently. The Supervisory Board supports all of these optimization measures implemented by the Board of Management, and believes that they will lead to a value enhancement in the interest of our shareholders.

In view of the electromobility and digitization megatrends, the Supervisory Board considers the Group well positioned. The growing volume of business in e-mobility and customers' interest in our product innovations for building electric cars underline the fact that our company is a capable partner in the shift toward electromobility. The Dürr Group also has a clear strategy for the digital transformation. In 2018, a major part of the research and development budget was spent on digital solutions for production. With its digital range and its pioneering pilot projects, the Dürr Group is one of the pacesetters of digitization in mechanical and plant engineering.

The Supervisory Board provided constructive support and comprehensive advice to the Board of Management in 2018. The necessary information on business performance, strategic measures, corporate planning, and activities requiring consent was provided by the Board of Management in a prompt and comprehensive manner. All Supervisory Board resolutions were adopted following thorough reviews and discussions based on written decision-making materials.



Karl-Heinz Streibich
Chairman of the Supervisory Board

The Supervisory Board carefully monitored the Board of Management's conduct of the company's affairs and confirms that the Board of Management always acted lawfully, diligently and economically. The Board of Management used the risk management system effectively in operational, financial and legal matters; it was assisted by the Compliance and Legal departments as well as Controlling and Internal Auditing. The Supervisory Board received regular and comprehensive information on risks and opportunities, and it provided effective support to the Board of Management in further developing the risk control and monitoring system.

In 2018 the Supervisory Board held five regular meetings. In only one case, a member was unable to attend a meeting. There was also just one absence from one of the committee meetings. In my capacity as Chairman of the Supervisory Board, I had regular conversations with the Board of Management between the meetings. I informed the other members of the Supervisory Board of the outcome of these discussions in a timely manner.

KEY TOPICS OF THE MEETINGS

All Supervisory Board meetings held in 2018 featured in-depth discussions about market conditions, business performance, financial situation and outlook. Close attention was also paid to the development of incoming orders, sales, EBIT and EBIT margin as well as ROCE, cash flow and liquidity. In addition, the Supervisory Board received regular information on the largest contracts and on the pipeline of orders due to be awarded by customers, as well as on the progress of the digital@DÜRR strategy and the FOCUS 2.0 optimization program.

The first time the Supervisory Board convened in 2018 was at the meeting held on March 21 to approve the financial statements. The agenda included the review and approval of the annual and consolidated financial statements for 2017 and the discussion of the annual general meeting agenda. On the recommendation of the Personnel Committee, the Supervisory Board determined the rolling long-term-incentive tranche for the Board of Management's compensation from 2018 to 2020. The Supervisory Board decided to increase the compensation for Dr. Jochen Weyrauch, again following a proposal put forward by the Personnel Committee. This was to reflect that, on January 1, 2018, Dr. Weyrauch had additionally assumed the Board of Management responsibility for the Paint and Final Assembly Systems division and the FOCUS 2.0 optimization program. During the course of the meeting, the Board of Management reported on its plans to acquire MEGTEC and Universal. Furthermore, Mr. Dieter presented the first personnel report of the year.

At the meeting held on May 9, 2018, prior to the annual general meeting, the Supervisory Board was given detailed information on the planned acquisition of MEGTEC and Universal as well as on the strategic reorientation of Clean Technology Systems. The Supervisory Board adopted a corresponding resolution to determine the modalities and the acquisition price range for this transaction.

At the meeting held on July 31, the Supervisory Board first examined the current risk report and discussed compliance and internal auditing. Following a report on the status of the acquisition of MEGTEC and Universal, Mr. Crosetto presented the 'One Finance' project, which aims to increase efficiency in the area of finance. In the context of digitization, the Supervisory Board was shown a demo version of the ADAMOS platform for the Industrial Internet of Things. The result of the previously conducted efficiency review of the Supervisory Board was also discussed. The Supervisory Board members gave a positive assessment of the efficiency of the work performed by the full Supervisory Board and the committees, and of the Board of Management's meeting preparations. Minor improvements were discussed and agreed on how meetings should be prepared and conducted.

At the meeting held on September 25, the Supervisory Board appointed Mr. Pekka Paasivaara, CEO of HOMAG Group AG, to the Dürr AG Board of Management and adapted the schedule of responsibilities accordingly. The appointment, which was

based on a recommendation by the Personnel Committee, became effective on January 1, 2019. Another focus was the business performance and the strategy of the HOMAG Group. In view of the reorientation of Clean Technology Systems, the Board of Management explained the situation of the loss-making micro gas turbine business. The Supervisory Board then acknowledged the 2017 EMIR audit on hedging currency risks, and discussed the upcoming review of the non-financial consolidated declaration according to Section 315b (1) of the German Commercial Code. Dürr AG thus instructed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft to perform a limited assurance engagement on the non-financial consolidated declaration for 2018.

On October 17, 2018, the Supervisory Board, by way of circulation, approved the closure of the micro gas turbine business, as proposed by the Board of Management.

At the meeting held on December 12, the Supervisory Board first approved the reappointment of Mr. Dieter ahead of schedule. Other key topics included strategy and budget. The Board of Management provided detailed information on the status on the Group's 'Dürr 2020' strategy and the associated digital strategy, digital@DÜRR. The Supervisory Board then approved the budget for 2019 and acknowledged the planning for the period between 2020 and 2022. It also discussed the second risk report and the report on the internal control system. Professor Dr.-Ing. Holger Hanselka, Chairman of the Dürr Technology Council, reported on the work carried out by this external expert advisory board in 2018. Information on the Dürr Technology Council can be found in the Research and Development chapter in the management report. The Chairmen of the Board of Management and of the Supervisory Board signed the new declaration of compliance with the German Corporate Governance Code. Additional information on this can be found in the corporate governance report.

CHANGES IN THE SUPERVISORY BOARD

On January 1, 2018, I took over from Mr. Klaus Eberhardt as Chairman of the Supervisory Board. The relevant election by the members of the Supervisory Board took place on October 4, 2017. Mr. Eberhardt had resigned as a member and as Chairman of the Supervisory Board effective December 31, 2017. The Supervisory Board would like to take this opportunity to thank him once again for his dedication to the Dürr Group. Dr. Rolf Breidenbach was appointed by court as a new member of the Supervisory Board, effective January 1, 2018. At the annual general meeting on May 9, 2018, Dr. Breidenbach stood for election and was voted into office.

Mr. Eberhardt's departure also required some changes in the committees. Mr. Richard Bauer was elected as a member of the Personnel, Mediation and Nominating Committees, effective January 1, 2018. I took over as Chairman of these three committees.

WORK OF THE COMMITTEES

The Personnel Committee, which is also the Executive Committee, convened three times during 2018. On March 21, it discussed the LTI tranche for the period between 2018 and 2020, and the increase in Dr. Weyrauch's compensation. The meeting held on September 25 focused on Mr. Paasivaara's appointment to the Board of Management. The agenda for the session on December 12 included Mr. Dieter's reappointment ahead of schedule, and the LTI tranche for the period between 2019 and 2021.

The Audit Committee also held three meetings in 2018. It worked intensively on the quarterly, annual and consolidated financial statements as well as on various accounting matters such as the first-time consolidation of MEGTEC/Universal, the first-time application of IFRS 16 (Leases), and the effects of the tax reform in the United States. Furthermore, it dealt with the processes and the reporting system in the area of Corporate Social Responsibility, and with the preparation for the audit of the 2018 non-financial consolidated declaration. In this context, it recommended at the Supervisory Board's plenary meeting that the auditor perform a limited assurance engagement on the non-financial consolidated declaration, as was the case in the previous year. The Audit Committee also proposed the key points for the external audit and monitored compliance with capital market regulations. It checked and confirmed the efficiency of the internal control system, the risk management system and the internal auditing system, while taking into account any new requirements. Furthermore, it reviewed the financial reporting process and the compliance management system (CMS). In doing so, it also gained information on the ongoing optimization of the CMS, which is based on an external evaluation of the system in 2017. At the Supervisory Board meetings held on March 21, July 31 and December 12, 2018, the Chairman of the Audit Committee reported to the Supervisory Board on the committee's work.

The Nominating Committee did not convene in 2018, as no new Supervisory Board appointments had to be prepared. Likewise, a meeting of the Mediation Committee was not required, as in previous years.

AUDIT AND RATIFICATION OF THE ANNUAL FINANCIAL STATEMENTS

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft examined Dürr AG's annual financial statements, Dürr's consolidated financial statements and the combined management report prepared by the Board of Management for the period ended December 31, 2018, and issued unqualified auditors' certificates. The annual financial statements, the consolidated financial statements and the combined management report were submitted to the members of the Supervisory Board in good time. They were discussed in detail with the Board of Management and reviewed at the Supervisory Board meeting held to

approve the financial statements on March 21, 2019. The same applies to the auditors' reports, which were also submitted in due time. The auditors signing the audit certificate participated in that meeting and in the Audit Committee meeting on March 20, 2019. They reported on their audit and were available for further explanations and discussions. Auditor Marco Koch from Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft was responsible for Dürr AG for the second time.

At the Supervisory Board meeting held to approve the financial statements, the Chairman of the Audit Committee, Mr. Federer, gave his detailed opinion on the audit documents, on the preliminary talks with the auditors, and on the key points of the audit. The latter included the first-time consolidation and the presentation of the acquisition of MEGTEC/Universal in the notes to the consolidated financial statements, as well as internal checks and processes for dunning in the case of outstanding receivables.

On the basis of the documents presented to it and the reports of the Audit Committee and the auditors, the Supervisory Board examined and accepted the annual financial statements, the consolidated financial statements and the combined management report, which contains the non-financial consolidated declaration. The Supervisory Board's own review found no cause for objection. The Supervisory Board approves the results of the audits of both sets of financial statements, agrees with the Board of Management in its assessment of the situation of the Group and Dürr AG, and approves the annual financial statements and the consolidated financial statements prepared for the period ended December 31, 2018. The annual financial statements are thereby ratified. In light of the Audit Committee's recommendation and its own review, the Supervisory Board approves the Board of Management's proposal on the use of net retained profit – a dividend of €1.00 per share is planned for 2018.

The Supervisory Board thanks the Board of Management as well as the division heads, employee representatives and all employees for their dedication in 2018. The Supervisory Board also thanks the shareholders for their trust.



Karl-Heinz Streibich
Chairman of the Supervisory Board

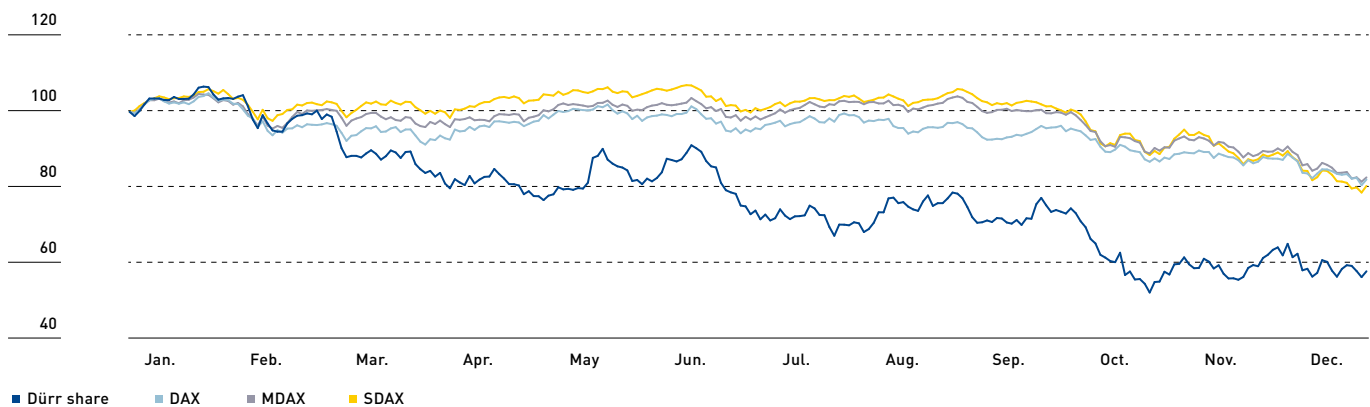
Bietigheim-Bissingen, March 21, 2019

CAPITAL MARKET

In touch with investors

1.1 — PERFORMANCE OF DÜRR SHARE IN XETRA TRADING, JANUARY – DECEMBER 2018

Compared to the DAX, MDAX and SDAX (indexed figures)



The purpose of our investor relations activities is to provide comprehensive information and to contribute to a fair valuation of our company's share – also in a peer group comparison. We take time for investors and analysts and engage in communications that are based on clarity, transparency and a spirit of mutual trust.

In 2018, our communications with the capital market particularly concentrated on the production shortfalls at HOMAG, the adverse effects that this had on sales and earnings, and the corrective measures taken. Other key issues were the FOCUS 2.0 optimization program for paint systems business, the impact of trade restrictions on the Dürr Group and the structural changes facing automotive business with the advent of electromobility. Our digitization strategy, the background to the acquisition of MEGTEC/Universal in our

environmental technology business, and the discontinuation of our loss-making business in micro gas turbines also attracted a good deal of discussion.

EQUITY ISSUE FROM OWN FUNDS (BONUS SHARES)

On June 22, 2018, we issued bonus shares to render the Dürr share more liquid and even more attractive for investors. Shareholders received one additional share for every one already held. The issue of the bonus shares caused the share price to notionally drop by half. However, the relative proportion attributable to each shareholder as well as the valuation metrics for the Dürr share were not

influenced by this move. The new shares are dividend-entitled with retroactive effect from January 1, 2018. The issue of the bonus shares was tied to a two-fold increase in the company's share capital from € 88.6 million to € 177.2 million by means of an equity increase from the company's own funds. To this end, the open reserves were converted into share capital without any change to total equity. We have retroactively adjusted the share trading volumes reported in this chapter to reflect the two-fold increase in the number of shares.

PRICE/EARNINGS RATIO IN LINE WITH PEER GROUP AVERAGE

Our listed peer group includes mechanical engineering companies and engineering service providers such as Andritz, Bertrandt, Deutz, Edag, Gea, Heidelberger Druckmaschinen, Jungheinrich, Kion, Krones and Rheinmetall. The price/earnings ratio, enterprise value to EBIT, EBITDA and sales as well as share price to book value constitute the benchmarks for a peer group comparison of our valuation. Our price/earnings ratio now matches that of our peer group. Accordingly, we have been able to eliminate the discount of up to 50 % recorded in earlier years. The consistently updated analyst consensus on sales, earnings and dividends can be found in the Investors/Share section of our website.

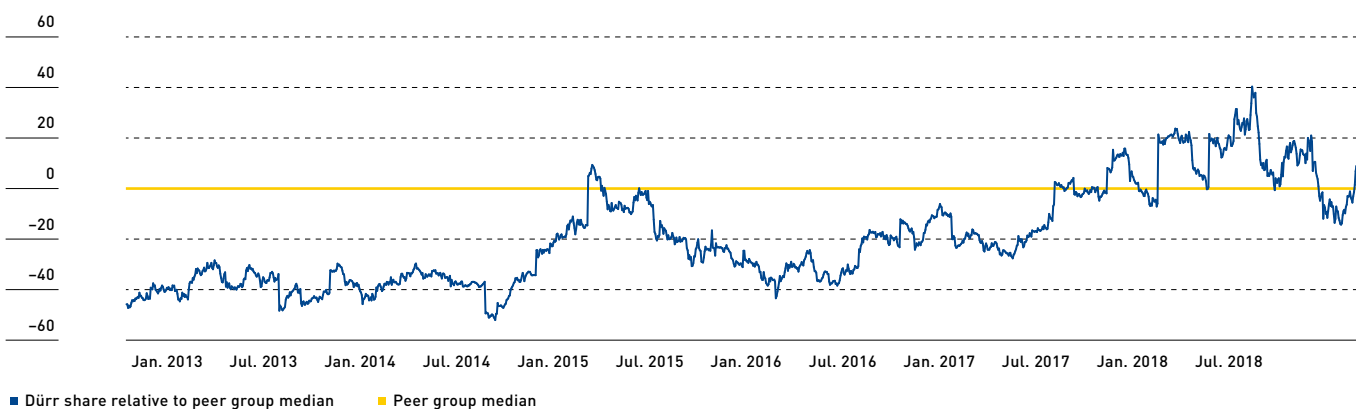
GEOPOLITICAL RISKS EXERTING STRAIN ON THE CAPITAL MARKET

After an upbeat start to the year, the DAX hit an all-time high of 13,597 points on January 23, 2018. As the year progressed, the capital markets primarily took their cues from geopolitical events. In particular, concerns over protectionist tendencies in the United States and their impact on exporting nations and the global economy unnerved investors. This was exacerbated by nationalistic tendencies, public-sector budget problems in Italy and the Brexit-related turmoil. The European Central Bank announced that it would be keeping its base rates at 0 % at least until late summer 2019, but terminated its bond-buying program at the end 2018.

The Dürr share (ISIN: DE0005565204) tracked the market as a whole up until the end of February, also reaching a high for the year on January 23, 2018. Concerns over export restrictions and a slower global economy, together with our cautious guidance for 2018, exerted a drag on the performance of our share. The announcement in June of the acquisition of MEGTEC/Universal temporarily boosted the share. In many cases, the nascent trade conflicts triggered substantial discounts in the automotive engineering and capital goods sectors of relevance for us. On October 17, we adjusted our full-year earnings forecast for 2018. The production shortfalls at the HOMAG Group, together with the

1.2 — DÜRR PRICE/EARNINGS RATIO RELATIVE TO PEER GROUP, JANUARY 2013 TO DECEMBER 2018

as a %



adjustments that had to be made to the production processes after the growth of previous years, were one reason for this. Moreover, the discontinuation of the loss-making business in micro gas turbines exerted pressure on earnings.

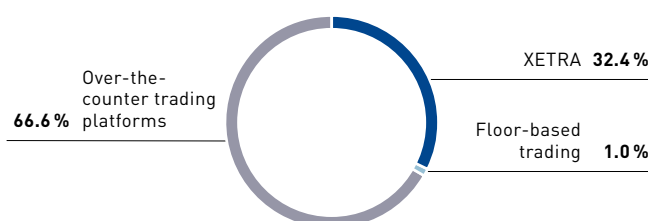
In the medium term, we see only a small likelihood of a further large-scale acquisition. Accordingly, the strategic goals for 2020 were also adjusted for this reason. We now expect sales of up to € 4.2 billion, an EBIT margin of 7 to 8% and ROCE of 20 to 30 % for 2020. The share dropped to a low for the year of € 27.30 on October 25. A number of investors made use of the low price to accumulate the shares; consequently, the share closed the trading year at € 30.53. This means that over the year as a whole the performance of the share was down 40.6 % (including a dividend of € 1.10 per share).

DIVIDEND OF € 1.00 PER SHARE PROPOSED – PAYOUT RATIO AT 42 %

We will be proposing a dividend of € 1.00 per share for 2018, equivalent to a reduction of 9.1% over the previous year (€ 1.10). This translates into a total distribution of € 69.2 million and a payout ratio of 42 % of consolidated net profit, i.e. above the customary range of 30 to 40 %. The higher ratio reflects the fact that earnings came under heavy pressure in 2018 as a result of extraordinary effects. By the same token, it highlights our optimism with respect to our business performance in 2019 despite external risks.

XETRA accounts for a good 95 % of exchange trading in Dürr shares. However, the shares traded via XETRA and on the floor constitute only a good 30 % of daily trading. Most of the trading in the shares is on an over-the-counter basis. Average daily exchange trading volumes of Dürr shares came to around 288,000 in 2018 (2017: 269,000). In value terms, daily trading volumes dropped to € 11.9 million from € 12.7 million in the previous year, due to the lower share price. Full-year XETRA trading volumes of all German shares increased by 19 % to € 1,415 billion in 2018.

1.3 — DÜRR SHARE: BREAKDOWN OF TRADING VOLUMES



Since September 24, 2018, the MDAX has comprised the 60 most important listed companies in Germany below the DAX. This is an increase of ten over its previous composition. Companies can now also be included in the DAX, MDAX or SDAX at the same time as being listed in the TecDAX. This change has resulted in the addition of a number of highly capitalized companies to the MDAX. In terms of trading volumes, the Dürr share ranked 41st in the MDAX at the end of 2018. After the decline in our share price in the second half of the year, we had the 57th highest market capitalization.

GOOD IR RANKINGS

We are pleased that our investor relations activities regularly achieve high rankings. Dürr AG's IR team reached fourth place in the capital goods category of the Europe-wide EXTEL survey of capital market participants. In the broad-based "Investors' Darling" competition organized by business journal "Manager Magazin", we ranked eighth in the MDAX despite the muted performance of our share. As Dürr AG has relatively lean investor relations structures, we are motivated all the more by the good scores awarded by capital market experts.

TO OUR SHAREHOLDERS

Capital market

1.4 — KEY FIGURES FOR DÜRR STOCK¹

€	2018	2017	2016
Earnings per share	2.27	2.78 ²	2.63
Book value per share (December 31)	14.12	12.80 ²	11.70
Cash flow per share	2.34	1.73	3.29
Dividend per share	1.00 ³	1.10	1.05
High	57.18	60.28	39.98
Low	27.30	37.00	24.76
Closing price	30.53	53.28	38.18
Average daily trading volume (shares) ⁴	288,000	269,000	348,000
Market capitalization in € million (December 31)	2,112.7	3,686.7	2,641.8
Number of shares	69,202,080	69,202,080	69,202,080

¹ The number of shares increased to 69,202,080 following the issue of bonus shares on a one-for-one basis on June 22, 2018. The figures shown here have been duly modified.

² Value subsequently adjusted due to the first-time application of IFRS 15.

³ Dividend proposed to the annual general meeting

⁴ XETRA

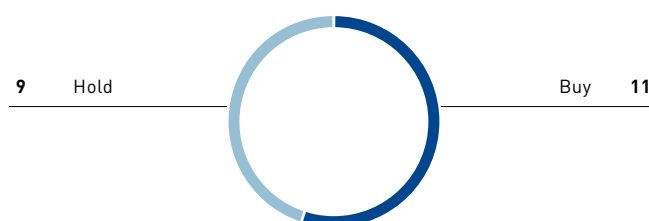
SLIGHT DECLINE IN COVERAGE

The MIFID II rules governing research activities have left some initial traces on the coverage of our share by analysts since coming into effect at the beginning of 2018. Research institutes are tending to reduce the number of companies they cover. We have also been affected by these structural changes: following the discontinuation by Oddo BHF and Macquarie Capital of their coverage of the Dürr share, we are now being tracked by 20 analysts. In 2018, the targets for our share were scaled back significantly. This reflected skepticism about the automotive markets, the muted earnings in the first half of the year and our revised guidance in October. The average target price for the Dürr share stood at € 39.65 as of December 31, 2018. At the end of the year, all analysts gave the share a “buy” or a “hold” rating.

Explaining developments, highlighting opportunities, understanding skepticism: capital market communications rely on a regular dialog with analysts and investors. The Dürr Group’s growth, the

various end markets and the performance of the individual divisions again attracted great interest in the talks held with the Investor Relations department and the Board of Management in 2018. We attended 24 capital market conferences and visited investors at 32 road shows in Europe and America. At the same time, we are able to welcome more and more investors to our corporate headquarters in Bietigheim-Bissingen. All told, we held more than 500 talks.

1.5 — ANALYST RECOMMENDATIONS (DECEMBER 31, 2018)



Hold	Buy
Bank of America Merrill Lynch, Commerzbank, Deutsche Bank, Goldman Sachs, Landesbank Baden-Württemberg, Pareto, Quirin Bank, Société Générale, UBS	Baader Bank, Bankhaus Metzler, Bankhaus Lampe, Berenberg Bank, DZ Bank, Hauck & Aufhäuser, HSBC Trinkaus, Kepler Cheuvreux, MainFirst, M.M. Warburg, Nord LB

FREE FLOAT UNCHANGED AT 71 %

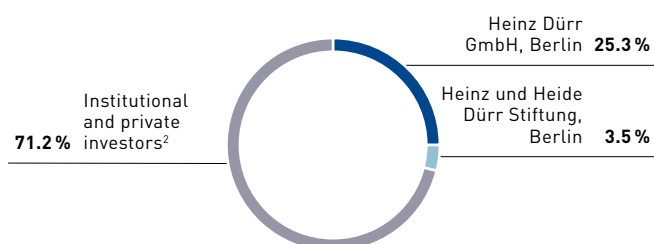
The Dürr family as the anchor shareholder holds 28.8 % of Dürr AG’s stock and plans to retain a quota of over 25 % in the future. Of this, 25.3 % is held by Heinz Dürr GmbH and a further 3.5 % by Heinz und Heide Dürr Stiftung. At the end of 2018, the following additional investors held share packages of 3 % or more: AXA (5.0 %), Goldman Sachs (4.8 %), Deutsche Bank (4.7 %), MainFirst (4.7 %) Morgan Stanley (4.0 %), BlackRock (3.2 %) and Alecia Pensionsförsäkring (3.2 %). The members of the Board of Management held a total of 0.3 % of Dürr shares as of December 31, 2018. Ralf W. Dieter held 176,000 shares, Carlo Crosetto 4,500 shares

TO OUR SHAREHOLDERS

Capital market

and Dr. Jochen Weyrauch 6,000 shares. Pekka Paasivaara, who joined Dürr AG's Board of Management as its fourth member on January 1, 2019, held 4,500 shares in Dürr on December 31, 2018. At 71.2%, the free float in accordance with the Deutsche Börse definition was unchanged over the previous year.

1.6 — SHAREHOLDER STRUCTURE¹ (DECEMBER 31, 2018)

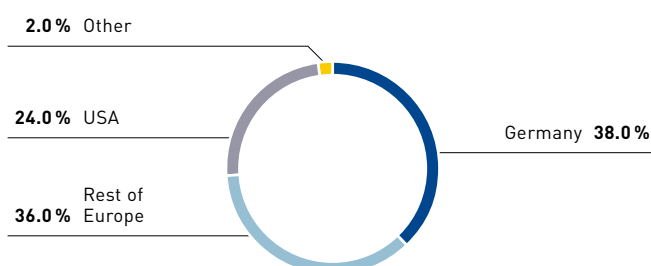


Institutional and private investors ²	Share
AXA S.A.	5.0 %
Goldman Sachs	4.8 %
Deutsche Bank AG	4.7 %
MainFirst	4.7 %
Morgan Stanley	4.0 %
BlackRock, Inc.	3.2 %
Alecta Pensionsförsäkring	3.2 %
Members of Dürr AG's Board of Management	0.3 %
Members of Dürr AG's Supervisory Board	0.1 %

¹ Free float as defined by Deutsche Börse AG

² On the basis of statutory notices

1.7 — SHAREHOLDERS BY REGION (DECEMBER 31, 2018)



DÜRR BOND: YIELD UNDER 1 %

Issued in 2014, our bond for € 300 million (ISIN XS1048589458) closed 2018 at 104.8 %. After reaching 106.7 % at the end of the first day of trading, it rose to a high for the year of 107.6 % on January 5, 2018. Maturing in 2021, the bond has a coupon of 2.875 % and achieved a return of 0.7 % at the end of 2018. Average daily trading volumes were valued at around € 35,000 (2017: € 61,000).

We have dispensed with issue and issuer ratings for some years as we see no reasonable justification for the expense of having a rating calculated. The capital market accepts this decision.



COMBINED MANAGEMENT REPORT

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COMBINED MANAGEMENT REPORT

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COMBINED MANAGEMENT REPORT

We have combined the management report of the Dürr Group with the management report of Dürr AG, in accordance with Section 315 (3) of Germany's Commercial Code (HGB) in conjunction with Section 298 (2) HGB. The management report is therefore termed a combined management report. It contains the non-financial consolidated declaration within the meaning of Section 315b ff. HGB in association with Section 289b ff. HGB. The content of the non-financial consolidated declaration is marked with a line in the margin and the abbreviation NFD. Unless otherwise specified, the information below is applicable to both the Dürr Group and Dürr AG. Statements which refer exclusively to Dürr AG are correspondingly marked. These come at the end of the combined management report.

The acquisition of the US environmental technology companies Babcock & Wilcox MEGTEC LLC, Babcock & Wilcox MEGTEC Holdings Inc. and Babcock & Wilcox Universal Inc. was only completed on October 5, 2018, so they have been part of the Dürr Group since that date. The processes and structures described in this management report, for example in the fields of sustainability, risks, opportunities and procurement, generally apply to the Dürr Group without the acquired companies. Integration of the acquired companies started in October 2018 and is scheduled to be largely complete by the end of the first quarter of 2019.

FUNDAMENTALS

The Group at a glance

PROFILE

The Dürr Group is one of the global leaders in mechanical and plant engineering. We are home to outstanding expertise in the digitization and automation of industrial manufacturing processes. Our machines, plant and services enable maximum production efficiency, whether in the automotive industry, which is responsible for 56 % of our sales, or in other sectors such as the woodworking, mechanical engineering, chemical, pharmaceutical and electrical/electronic engineering industries. We run 108 sites in 32 countries. We operate globally with our Dürr, Schenck and HOMAG brands. In addition to North America and Western Europe, we are also strongly represented in the emerging markets¹. These accounted for 46 % of our order intake and 48 % of our sales in fiscal 2018.

GROUP ORGANIZATIONAL STRUCTURE

The Group consists of three sub-groups: Dürr Systems, HOMAG and Schenck. Dürr AG is the Group's management holding company. It is responsible for governance of the divisions and handles central tasks such as financing, controlling and accounting, as well as legal affairs, taxation, internal auditing, corporate communication and human resources management. Together with Dürr Technologies GmbH

and Dürr International GmbH, which act as holding companies for equity interests, plus Dürr IT Service GmbH, Dürr AG forms the Corporate Center.

We operate in five divisions, which also form the reportable segments within the meaning of the IFRS:

- Paint and Final Assembly Systems
- Application Technology
- Clean Technology Systems
- Measuring and Process Systems
- Woodworking Machinery and Systems

DIVISIONS, BUSINESS MARKETS, MARKET SHARES², IMPORTANT PRODUCTS AND SERVICES

Paint and Final Assembly Systems

Paint and Final Assembly Systems plans, builds and upgrades turnkey paint shops and final assembly lines for the automotive industry. We supply products and processes for all the process stages in paint shop technology. The core products are the RoDip **dip-coating** → [page 206](#) system, which gives vehicle bodies their anti-corrosion coat, and the energy-efficient EcoDryScrubber and EcoDry X paint booth systems. We usually also supply the relevant control, **oven** → [page 206](#) and conveyor systems plus air supply and exhaust-air systems. Our software solutions cover our customers'

2.1 — GROUP STRUCTURE

Management holding company	Dürr AG				
Divisions	Paint and Final Assembly Systems	Application Technology	Clean Technology Systems	Measuring and Process Systems	Woodworking Machinery and Systems

¹ Asia (minus Japan), South and Central America, Africa, Eastern Europe

² own figures

Industry 4.0 requirements. Central to this is the iTAC.MES.Suite for connecting and controlling production equipment. We lead the field over the competition for paint shop business with a global market share of 40 to 45 %, followed by companies from Japan, Germany and China.

In final assembly systems, too, we are one of the few companies worldwide capable of supplying turnkey plants. Electromobility is opening up additional business opportunities in this field. Since electric cars have a less complex power train than conventional cars, a greater degree of automation is possible in their assembly process. Furthermore, our customers will increasingly be upgrading their assembly plants in the future so that, in addition to vehicles with internal combustion engines, they will also be able to produce hybrid and electric vehicles. We have a market share of 20 to 25 % in business related to final vehicle assembly lines.

The Dürr Consulting unit is also part of Paint and Final Assembly Systems. It advises customers on planning and optimizing production and logistics processes, particularly in painting and final assembly technology.

Application Technology

Application Technology generates some 85 % of its sales with technologies for the automated spray application of primers, base coats and clear coats. The key products are the EcoBell3 **high-speed rotating atomizer** → [page 206](#), the EcoLCC2 color changer and the third generation of our EcoRP painting robot family. It also offers systems used, for example, for paint supply, quality assurance, as well as process control and evaluation. We are the leading supplier in the automotive sector with a global market share of around 50 %. Our two most important competitors are manufacturers of standard industrial robots.

In addition to paint application technology, we are active in two related business fields, i.e. **sealing technology** and **glueing technology** → [page 206](#). Sealing processes are used for sealing seams, applying underbody protection and injecting insulating materials in cars. Glueing is an alternative to welding vehicle components during body-in-white production and final assembly. One significant benefit is that it permits the use of non-weldable **lightweight materials** → [page 206](#) in the manufacture of vehicle bodies. During final assembly, glueing technology is used, for instance, for fitting windows, glass roofs, cockpits and tanks.

Application Technology has also been expanding its operations beyond the automotive sector since 2014. Its Industrial Products business unit, which is responsible for this side of its activities, offers paint application products for sectors such as the plastics, ceramics, shipbuilding, timber and furniture industries.

Clean Technology Systems

Clean Technology Systems operates mainly in the field of exhaust-air purification technology. Our **Ecopure** exhaust-air purification systems are used in the chemical and pharmaceutical industries, but also in sectors such as printing, woodworking and carbon fiber production. Furthermore, the equipping of automotive paint shops accounts for around 30 % of sales in exhaust-air purification technology. Our most important process is thermal exhaust-air purification, in which pollutants are incinerated at up to 1,000 °C.

We extended our market leadership in exhaust-air purification technology by acquiring the US environmental technology companies MEGTEC and Universal in October 2018. That took our market share to around 25 %. Since MEGTEC/Universal achieve annual sales of some € 200 million, the acquisition doubles Clean Technology Systems' annual sales to around € 400 million. Further information on the acquisition can be found in the "Portfolio changes" section and the "**Strategy**" chapter → [page 26](#).

In the energy efficiency technology field, we are now concentrating exclusively on ORC systems, which generate electricity from waste heat. We closed our loss-making micro gas turbine business in October 2018. You can find further information on this in the "Portfolio changes" section.

Measuring and Process Systems

Measuring and Process Systems offers **balancing and diagnostic systems** → [page 206](#) and also assembly, test and filling systems products, with 65 % destined for the automotive sector. We are the world's largest supplier, with market shares of around 45 %. In **filling technology** → [page 206](#), we also supply systems for the automated filling of refrigerators, air-conditioning systems and heat pumps with refrigerants via the Agramkow Group. The major products in **testing technology** → [page 206](#) include test stands and calibration stations for brakes, electronics and chassis geometry. In 2018, we unveiled an innovation in the form of test stands for autonomously driving vehicles. The focus in assembly systems is on marriage stations, in which car bodies and power trains are brought together and attached to each other.

Woodworking Machinery and Systems

Woodworking Machinery and Systems consists of the activities of the HOMAG Group, acquired in 2014, the world's leading supplier of woodworking machinery and systems. With a global market share of a good 30 %, the HOMAG Group is significantly ahead of the two nearest competitors. Our technology is used by the furniture industry and woodworking trade, for example in the production of furniture, kitchens, parquet and laminate flooring, windows, doors, stairs and complete prefabricated timber houses. The range extends from entry-level machines to fully automated production lines

2.2 — ACTIVITIES AND BUSINESS MARKETS

PAINT AND FINAL ASSEMBLY SYSTEMS DIVISION

Business type	Activities	Customer groups
• Plant engineering	• Paint shops • Individual painting process stations • Final assembly systems • Service	• Vehicle manufacturers • Automotive suppliers • General industry (e.g. construction equipment and farm machinery)
• Consulting	• Consulting	• Vehicle manufacturers • Automotive suppliers • General industry

APPLICATION TECHNOLOGY DIVISION

Business type	Activities	Customer groups
• Mechanical engineering and component business	• Products for automated spray painting • Sealing technology • Glueing technology • Service	• Vehicle manufacturers • Automotive suppliers • General industry (e.g. plastics, ceramics, timber, shipbuilding)

CLEAN TECHNOLOGY SYSTEMS DIVISION

Business type	Activities	Customer groups
• Plant engineering and component business	• Exhaust-air purification systems • Noise abatement systems • Energy management and consulting • Service • ORC technology • Battery coating lines	• Chemical industry • Pharmaceutical industry • Carbon fiber production • Printing/coating • Vehicle manufacturers (paint shops) • Automotive suppliers (paint shops) • Woodworking • Mining • Energy sector • Oil and gas industry • Packaging industry • General industry • Operators of decentralized power plants

MEASURING AND PROCESS SYSTEMS DIVISION

Business type	Activities	Customer groups
• Mechanical engineering	• Balancing and diagnostic systems • Assembly technology for final vehicle assembly • Testing technology for final vehicle assembly • Filling technology • Service	• Vehicle manufacturers • Automotive suppliers • Electrical/electronic engineering • Turbines/power plants • Mechanical engineering • Aerospace industry • Household appliance industry

WOODWORKING MACHINERY AND SYSTEMS DIVISION

Business type	Activities	Customer groups
• Mechanical and plant engineering	• Machines and complete production lines for woodworking • Service	• Woodworking industry • Woodworking trade

for batch size 1 manufacturing. Our core products include panel cutting systems, throughfeed saws and drilling machines, sanders, edge-banding machines, CNC processing centers plus handling and storage systems. For the HOMAG Group as a system supplier, software solutions for digital production are of particular significance. These include, for instance, maintenance apps and production management programs.

DIGITIZATION/INDUSTRIAL INTERNET OF THINGS (IIOT)

Digitization of manufacturing operations is currently our customers' most pressing requirement. We have established the necessary systems in response: In the ADAMOS IIoT platform → page 206 for the mechanical engineering sector and the LOXEO and tapio digital marketplaces based on it, we have a pioneering infrastructure that will allow us to support the users of our machines and plant with digital services → page 206. Furthermore, we provide our customers with modular software solutions for all stages of the production process. In the new Digital Factories at Dürr Systems, Schenck and the HOMAG Group, we are developing smart apps for our customers. We have developed the ADAMOS IIoT platform in collaboration with partners from the mechanical engineering and software sectors. The LOXEO marketplace is aimed at Dürr Systems and Schenck customers, while the HOMAG Group is targeting companies from the woodworking industry with tapio. Further information on ADAMOS, our digital@DÜRR strategy and smart products can be found in the chapters "Strategy" and "Research and development" → pages 26 and 31.

COMPREHENSIVE SERVICE OFFER

Each machine and system sold adds to our installed base and thus to the potential to generate additional service business. Our service offer includes planning, remodeling, upgrading, optimizing and relocating plants and machinery, as well as plant productivity and energy efficiency audits, software updates, training, maintenance, remote diagnostics, repairs and the supply of replacement parts. Service-related sales passed the € 1 billion mark for the first time in 2018 when a figure of € 1,039.0 million was recorded. This constituted 26.8 % of Group sales. As at the end of 2018, the service side employed 2,605 persons, representing 16.0 % of the Group workforce.

TECHNOLOGY AND INDUSTRY PARK (TIP): REAL ESTATE SERVICE PROVIDER IN DARMSTADT

Schenck Technologie- und Industriepark GmbH (TIP), part of Measuring and Process Systems, markets and operates offices and also production and logistics space at Schenck's Darmstadt site. The floorspace for rent amounts to 109,900 m² on a 105,000 m² plot, of which offices account for 46 %.

LEGAL STRUCTURE

Each of the following companies is wholly owned by Dürr AG: Dürr Systems AG, Dürr International GmbH, Dürr Technologies GmbH, Carl Schenck AG and Dürr IT Service GmbH. The first four of these companies and Dürr AG have entered into domination and profit and loss transfer agreements. A profit and loss transfer agreement has been concluded between Dürr AG and Dürr IT Service GmbH. We hold 63.9 % of the shares in HOMAG Group AG via Dürr Technologies GmbH. A domination and profit and loss transfer agreement has been in place between the two companies since March 2015. There is a pool agreement between Dürr Technologies GmbH and the Schuler/Klessmann shareholder group, which owns approx. 14.1 % of the shares in HOMAG Group AG. This means we have around 78 % of the voting rights for votes at the annual general meeting. The Schuler/Klessmann shareholder group is made up of the Schuler family, who founded HOMAG, and the Klessmann Foundation. Dürr Systems AG, Dürr International GmbH, Carl Schenck AG and HOMAG Group AG hold direct or indirect stakes, usually 100 % holdings, in all the other Group companies.

PORTFOLIO CHANGES

Acquisitions/shareholdings/incorporations

- Effective April 30, 2018, we increased our shareholding in HOMAG Group AG by 8 percentage points to 63.9 %. The additional shares come from the Schuler/Klessmann shareholder group, with most (7.05 %) having been acquired by exercising a purchase option.
- HOMAG Group AG established HOMAG Vietnam Company Limited, effective July 30, 2018; Dürr Systems AG also established Dürr Vietnam Company Limited, effective December 20, 2018. The two new companies are intended to expand our presence in the growing Southeast Asian market.
- Effective October 5, 2018, we concluded the acquisition of the industrial environmental technology business of US company Babcock & Wilcox Enterprises, Inc. (B&W), of which we had given

2.3 — SIGNIFICANT ACQUISITIONS/SHAREHOLDINGS/INCORPORATIONS

	Shareholding	Type of consolidation	Included in the consolidated financial statements since	Purchase price	Employees (Dec. 31, 2018)	Division
HOMAG Group AG	63.9 % ¹ [previously 55.9 %]	Fully consolidated	Oct. 3, 2014	€ 34.8 million for 8.0 %	6,593	Woodworking Machinery and Systems
HOMAG Vietnam Company Limited	100 %	Fully consolidated	July 30, 2018	–	9	Woodworking Machinery and Systems
MEGTEC/UNIVERSAL GROUP WITH THE ACQUIRED COMPANIES						
Babcock & Wilcox MEGTEC LLC	100 %	Fully consolidated	Oct. 5, 2018	Preliminary purchase price € 103.9 million ² for the MEGTEC/Universal Group	865 in the MEGTEC/Universal Group	Clean Technology Systems
Babcock & Wilcox MEGTEC Holdings Inc.	100 %	Fully consolidated	Oct. 5, 2018			Clean Technology Systems
Babcock & Wilcox Universal Inc.	100 %	Fully consolidated	Oct. 5, 2018			Clean Technology Systems
Durr Vietnam Company Limited	100 %	Fully consolidated	Dec. 20, 2018	–	2	Paint and Final Assembly Systems

¹ Since the domination and profit and loss transfer agreement between HOMAG Group AG and Dürr Technologies GmbH came into force on March 17, 2015, the entire shareholding in HOMAG Group AG is assigned to the Dürr Group in accordance with the IFRS for the purposes of consolidation.

² net of liquid assets obtained

notice in June. 100 % of the shares in the companies Babcock & Wilcox MEGTEC LLC, Babcock & Wilcox MEGTEC Holdings Inc. and Babcock & Wilcox Universal Inc. were acquired by our US subsidiary, Dürr Inc. MEGTEC and Universal together achieve annual sales of some € 200 million and have been brought under the umbrella of the Clean Technology Systems division. MEGTEC, the larger of the two acquired units, supplies exhaust-air purification systems but also drying systems and coating systems for the production of electrodes used in lithium-ion batteries. Universal is a leading supplier of acoustic solutions, specializing in noise and emissions filtration systems.

Please see table 2.3 for further information on the transactions outlined above.

Closure of micro gas turbine business

We closed our loss-making micro gas turbine business in Q4 2018. This business belonged to the Clean Technology Systems division and was the most important activity in the energy efficiency field. Significant losses would have been expected in the years ahead in light of the low demand and high development costs for the technology. This action incurred an extraordinary expense of € 17.3 million in 2018.

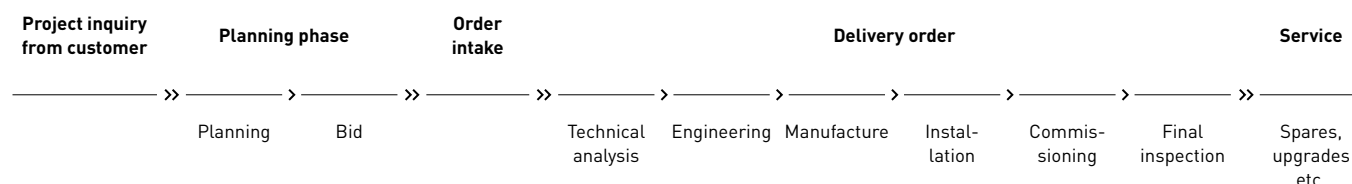
BUSINESS MODEL

Our core competence is the **engineering** → **page 206** of efficient production technology. We support our customers with everything ranging from individual machines to turnkey manufacturing systems. In response to **Industry 4.0** → **page 206**, we are expanding our offering related to the digital networking and control of production systems.

Our technologies and services help our customers increase the efficiency of their production operations, hence our corporate slogan “Leading in Production Efficiency”. We particularly rely on the following factors to meet this value proposition and to set ourselves apart from our competitors:

- Digitization and technological innovation
- Planning and engineering expertise
- Reliable order execution
- Efficient production and assembly sites for core products
- Comprehensive after-sales services
- Global presence, proximity to customers in all market regions

2.4 — PROCESSES IN PLANT ENGINEERING



We are globally active in niche markets, where we are the largest supplier, with market shares ranging from 25 to 50 %. 62 % of Group sales come from mechanical engineering and 38 % from plant engineering. In mechanical engineering, we aim for EBIT margins of 10 to 12 %. In plant engineering, the target margin is 6 to 7 %. In terms of return on capital employed (ROCE), plant engineering business achieves higher figures, in some cases in excess of 100 %, since the capital employed there is very low. In mechanical engineering operations, we aim for **ROCE** → [page 207](#) of 15 to 25 %. Our business model allows us to achieve high operating cash flows and **free cash flows** → [page 207](#).

Financial importance of individual products, services and business markets

In view of our broad-based portfolio, the financial importance of individual products and services is limited. A key factor in our success in the paint shop business is our systems expertise, i.e. the ability to plan and build turnkey systems. The growing service business generates a disproportionate contribution to earnings within the Group. Thanks to our international presence, we have a balanced regional sales breakdown. In 2018, 15.7 % of revenue accrued in Germany, 30.6 % in other European countries, 23.6 % in North and South America and 30.1 % in Asia, Africa and Australia. The earnings contribution from the individual regions is approximately in line with the regional breakdown of sales. In regions of strong growth, we tend to achieve slightly higher margins.

Business processes/process advantages

Planning, engineering, order execution and service are our most important business processes. We have expanded our in-house production in recent years in the interests of quality, achieving on-time-to-requirement deliveries and protecting our intellectual property. Professional project management is critical to success in large plant engineering projects in particular. A large project usually requires 15 to 24 months for completion, while the figure for machinery orders is between 2 and 12 months. Smaller remodeling, upgrade and service projects are of shorter duration.

Large projects require smooth collaboration between various departments and sites. We therefore operate with digitally assisted standard processes in planning, order execution, service and administration. That is based on globally harmonized IT systems. These prevent interface problems, automate processes and enable the international sharing of work packages and effective capacity management.

Customer relations

Most vehicle manufacturers and many suppliers use Dürr technology in their production operations. Our business with them is technically complex and long-term. We therefore maintain constant communication with them. We act as a planner, consultant and system supplier. In the case of major capital projects, we are involved for up to two years before an order is placed. As a service partner, we support our customers in their operations with our plant and in the event of upgrades. Customers often give us advance notice of the development of new models to ensure that we can supply the required production technology at the right time.

The mechanical engineering divisions – Measuring and Process Systems and Woodworking Machinery and Systems – have a very broad market base with tens of thousands of customers. Sales-related costs are therefore higher than for plant engineering business with the automotive industry. In addition to supplying individual machines, however, there are also larger projects with extended lead times in the mechanical engineering sector.

Supplier relations

We source goods, raw materials and services from several thousand suppliers. In addition to parts and component suppliers, we also often use the services of contract manufacturers, engineering consultancies and logistics companies. In the case of crucial commodity groups, we enter into global framework agreements with preferred suppliers. This enables us to pool the demands of several companies and divisions and achieve economies of scale. Further information is presented under “**Procurement**” → [page 30](#).

Further features of our business model

At 36 %, our real net output ratio is relatively low, though it has increased in recent years. Key factors in this were the expansion of our in-house production and the takeover of the HOMAG Group with a real net output ratio of 43 %. In the Paint and Final Assembly Systems plant engineering division, the real net output ratio is a mere 25 %.

Because of the low real net output ratio, the **asset intensity** → [page 207](#) and capital employed are also relatively low. The prepayments received from customers cover the receivables and inventories in current assets to a significant level. Consequently, the **net working capital (NWC)** → [page 207](#) in plant engineering is usually low or even negative. In relation to the fixed costs, too, we benefit from the low real net output ratio and asset intensity, which makes us more flexible in the event of cyclical order-book fluctuations. The average days working capital in 2018 was around 43 days. We have extended the target corridor to 40 to 50 days (previously 30 to 40 days), since the more capital-intensive mechanical engineering business continues to grow in importance. In the Woodworking Machinery and Systems as well as the Application Technology divisions, which are heavily dependent on mechanical engineering, we recorded a tangible increase in inventories.

Measured against sales, our usual need for capital investment (without acquisitions) is low at € 80 to 90 million per annum. Here, too, the low need for tangible assets in plant engineering has a corresponding impact. In 2018, investment was relatively low at € 74.4 million. The HOMAG Group expects annual investment to the tune of around € 40 million. That is more than in the other divisions since the HOMAG Group's real net output ratio is significantly higher.

Our material cost ratio (material costs¹ as a proportion of sales) has fallen in recent years: from 46.8 % in 2012 to 40.6 % in the year under review. This is a result, on the one hand, of the acquisition of the HOMAG Group; on the other hand, we have successfully reduced expenditure on external production service providers thanks to our higher level of in-house manufacturing.

Most divisions have local production plants and procurement structures in major foreign markets. This reduces their need to import and thus the transaction risks. Translation effects resulting from the conversion of foreign currency items into euros are more important.

Projects in the automotive industry often have long lead times. This allows us a clearer picture in terms of the future order book. We can therefore estimate our future sales, capacity utilization and income situation for a major portion of the business relatively accurately.

BUSINESS LOCATIONS AND DIVISION OF LABOR WITHIN THE GROUP

Our number of sites has risen from 92 to 108 following the acquisition of MEGTEC/Universal. In the past few years, the sites in the emerging markets have become increasingly important. At year's end 2018, 31.5 % of the workforce were employed there. Shanghai, with more than 2,400 employees (including around 350 external staff), is the largest location in the emerging markets.

Our lead sites in Germany control the Group's global operations. The Dürr Campus in Bietigheim-Bissingen (approx. 2,260 employees) is the Group's corporate headquarters and also the head office of Paint and Final Assembly Systems, Application Technology and Clean Technology Systems. Darmstadt (around 550 employees) coordinates Measuring and Process Systems' operations. The HOMAG Group head office in Schopfloch (approx. 1,700 employees) manages Woodworking Machinery and Systems' business activities.

Guidelines define how the Group companies collaborate on cross-border systems projects in plant engineering. In the case of major orders for Paint and Final Assembly Systems, one of the system centers in Bietigheim-Bissingen, Shanghai or Southfield in the United States is usually responsible for project management. There are also business centers that are responsible for smaller upgrades, parts of systems projects, and local sales and service. In mechanical engineering, the German lead sites act as the hub at the center of international projects.

¹ Material costs: costs for raw materials and supplies, bought-in parts and purchases from sub-contractors

Company-specific leading indicators

In managing the company, we follow various leading indicators. This enables us to prepare in good time for changes in economic activity and in demand. We use four types of indicators:

- Key economic leading indicators are money supply, commodity and energy prices as well as purchase manager and business climate indices. Research reports and macroeconomic statistics also assist us in recognizing cyclical developments at an early stage. Moreover, we pay close attention to the development of interest rates. Business trends within our main customer industry segments (automotive and woodworking) correlate strongly with the development of the global economy.
- More specific indicators to assess future business potential are customers' investment plans as well as statistics and forecasts on production and sales. In addition, we follow the expectations of analysts regarding our customers' cash flows and investments.
- Our customers' specific investment projects constitute the third leading indicator. We collect information in this regard in our database, along with an assessment of our chances of being awarded a contract. In the product business, the quotation time for offers serves as an indicator. If customers require more time for investment decisions, the average time for submitting quotations increases. This indicates a trend toward weaker demand.
- The fourth group of indicators are incoming orders and order backlog. As many projects have a long lifetime, both key figures are suitable for assessing capacity utilization and sales for the coming quarters.

Strategy

The "Dürr 2020" strategy is our roadmap for the Group's development through 2020. It defines targets for three key indicators:

- **Sales:** Sales are to increase to between € 4.0 and 4.2 billion by 2020. We had originally defined a target of € 5 billion. However, this figure was predicated on a further major acquisition. Since such an acquisition is unlikely over the next twelve months as things currently stand, we scaled back the sales target for 2020 in October 2018.
- **EBIT margin:** The EBIT margin is to widen to between 7 and 8 % by 2020. Up until October 2018, we had set a target corridor of 8 to 10 %. The reason for this adjustment is the reduced scope for margins that can be achieved in automotive business since the previous target margin was formulated (8 to 10 %) in 2015. Moreover, there were delays in the HOMAG Group's positive earnings performance in 2018.
- **ROCE:** **ROCE** → **page 207** is to remain consistent at 20 to 30 % by 2020.

ENTERING NEW AREAS OF BUSINESS THROUGH ACQUISITIONS

One central element of our strategy is acquisitions, with which we aim to tap potential for profitable growth. Potential takeovers are possible in either our existing business or new parts of mechanical and plant engineering. Our largest takeover to date was the acquisition of the HOMAG Group in 2014. As a result of this transaction, the proportion of automotive business in total sales has shrunk to 56 %. Moreover, the HOMAG Group has been making the largest contribution to Group EBIT of any division since 2017.

Acquisition of MEGTEC/Universal strengthens market leadership in exhaust-air purification technology

A further medium-sized acquisition was completed in October 2018. With the takeover of US environmental technology companies MEGTEC and Universal (full-year 2018: sales of around € 200 million, 865 employees) we are doubling the size of our business in industrial exhaust-air purification technology to over € 400 million. In this way, we have reached a relevant scale and substantially expanded our leading global market position. The integration of MEGTEC/Universal will strengthen the competitiveness of the Clean Technology Systems division significantly, e.g. in the

form of synergistic effects and economies of scale in production, purchasing and sales, an efficient service network and improved access to customers all around the world. Our market position has significantly improved in North America in particular. At the same time, our customer base has widened: Whereas previously we mainly addressed the automotive, pharmaceutical, chemical, food and printing industries, MEGTEC/Universal now gives us a strong position with customers in sectors such as metal, mining and timber.

The restructured Clean Technology Systems division has good prospects for growth. In emerging markets such as China, demand for exhaust-air purification systems is steadily rising, as stringent emission limits are increasingly being imposed for environmental reasons. In 2018, 43.7 % of the Dürr Group's order intake for environmental technology was already coming from emerging markets, with China accounting for 27.7 %. The established markets, in particular, offer great potential for expanding service business. The Clean Technology Systems division projects sales of around € 400 to 450 million and an EBIT margin of 2.0 to 3.0 % (including extraordinary effects) for 2019. In subsequent years, synergistic effects and economies of scale are to accelerate profitable growth. We want to achieve sales of up to € 500 million by as early as 2021, accompanied by a wider EBIT margin of 6 to 7 %.

Acquisition criteria

As things currently stand, no major acquisitions are planned over the next few months. Nevertheless, acquisitions remain part of our strategy and we are continuing to sound out the market in the search for suitable companies. We are seeking an acquisition candidate with sales of up to € 1.5 billion. Smaller acquisitions are also conceivable to strengthen one of the existing divisions or to supplement our portfolio with technology from which several divisions could benefit. Potential candidates are software or digitization companies.

Further criteria for the acquisition of potential targets are:

- Mechanical and plant engineering
- Niche market
- Leading market and technological position
- Not in need of restructuring but offering potential for improved earnings and synergistic effects
- A corporate culture which is a good fit for the Dürr Group

MARKET LEADER IN THE DIGITAL ERA

With "Dürr 2020" we are pursuing a central goal, namely to ensure that the Dürr Group as a mechanical and plant engineering specialist continues to grow and lead the competition in the digital era. This is reflected in the strategic thrust of digital@DÜRR. With these activities, we want to step up the digitization of our products, systems, services and business processes. digital@DÜRR has four dimensions.

- **Smart products:** We develop intelligent products which self-regulate, detect changing tasks and report servicing requirements at an early stage.
- **Smart services:** We analyze customers' equipment online. Big-data analyses allow us to offer predictive maintenance.
- **Smart processes:** We utilize intelligent software and simulations to optimize order execution.
- **Smart factories:** Using sensors and software, we network the machinery at Industry 4.0 factories, rendering the entire production process transparent and more efficient.

Unique combination of IT expertise and shopfloor knowledge

Digitization is the most important trend in production in all industries using our technology. It improves plant availability, lowers costs and permits automated production of individual items in batch size 1 manufacturing.

We want to be the most effective digitization partner for our customers. This goal is based on an important competitive differentiator, namely the combination of IT expertise and technical shop-floor skills. Consequently, we not only offer our customers the software required for digital networking but also contribute specialist knowledge of production technology and processes. This sets us apart from our peers.

ADAMOS: the backbone of digital business

We have built up a complete infrastructure for our digital business at an early stage. Its backbone is formed by the ADAMOS platform for the Industrial Internet of Things (IIoT) → [page 206](#). It is comparable to the operating system of a computer and collects large volumes of production data. On the basis of ADAMOS we can offer machinery operators [digital services](#) → [page 206](#) and apps that allow them to optimize their production.

We operate the ADAMOS IIoT platform → page 206 in joint venture with several partners. ADAMOS was established by Dürr, together with Software AG and mechanical engineering companies DMG Mori, Carl Zeiss and ASM in 2017. Since then, further companies have joined the ADAMOS network, which currently has twelve members. ADAMOS is made up of leading technologies provided by Software AG, the second largest software company in Germany, and is specially designed to meet the requirements of the mechanical engineering industry and its customers. As an open platform, it can be used by any mechanical engineering company.

Under the cooperative approach being pursued by ADAMOS, participating companies can develop solutions jointly and share them. In this way, they reduce resource requirements and offer their customers IIoT software and hardware from a single source. None of the participating companies would have been able to implement a platform like ADAMOS on their own. With ADAMOS we can act as a supplier of digital services and strengthen our customer bonds.

LOXEO and tapio online marketplaces

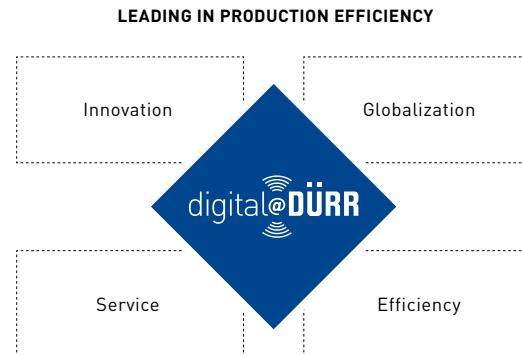
The online marketplaces, LOXEO (for Dürr and Schenk customers) and tapio (for the woodworking industry), are instrumental in boosting customer perception of our company as a provider of digital solutions. Based on ADAMOS, they form the interface with the users of our production technology. Using LOXEO and tapio, customers can evaluate data, map their production activities digitally, and purchase digital services and apps, e.g. for predictive maintenance, **adaptive production** → page 206 planning or the management of consumables. In this way, LOXEO and tapio act as gateways for our customers for digital production optimization.

Digital Factories: competence centers for app development

We want our customers to continuously find new apps on LOXEO and tapio that offer them strong benefits. For this reason, we particularly concentrated on app development in 2018, after being primarily concerned with setting up the digital infrastructure in the previous year. We have established Digital Factories at Dürr Systems, Schenck and the HOMAG Group in order to accelerate app development. Bringing together experts from different fields, these digital competence centers have already unveiled various app innovations and tested them in pilot projects with customers. We are planning to set up further Digital Factories, including in China.

FURTHER STRATEGIC FIELDS

2.5 — “DÜRR 2020”: FOUR STRATEGIC FIELDS



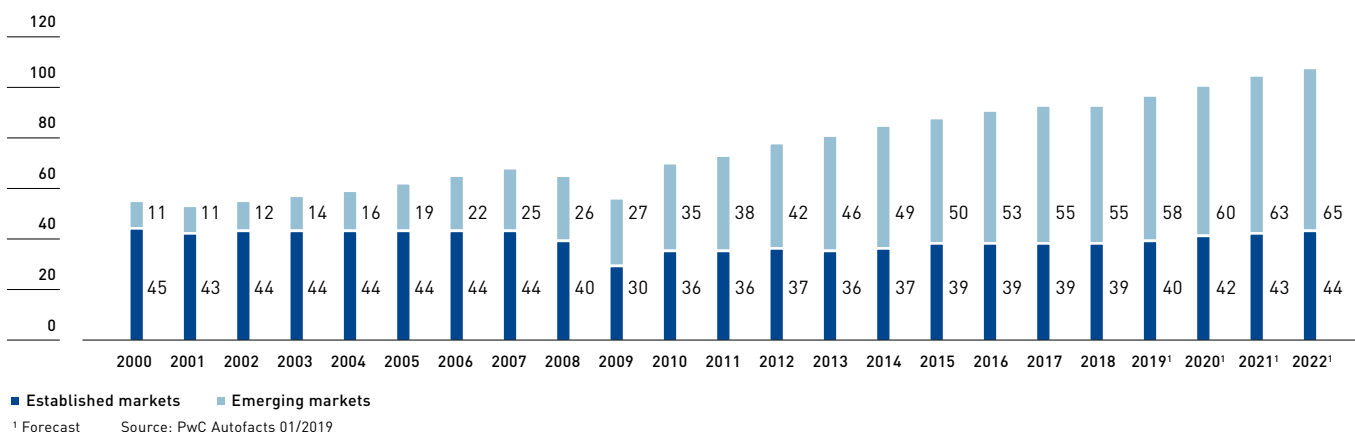
The digital@DÜRR strategic core sets the direction for the four strategic fields that accompany it. We are implementing digitization initiatives in all four strategic fields. At the same time, we are working on further key aspects such as the optimization of our organizational structures and of our costs, the development of our technology and the expansion of our international footprint.

STRATEGIC FIELD: INNOVATION

Innovations create spending incentives for our customers and safeguard our competitive edge. We are committed to ensuring that all new products lower our customers' unit costs and enhance their production efficiency. In recent years, we have continuously increased our R&D budget, which stood at € 121.0 million in 2018. This allows us to develop new technologies more quickly and in greater quantities than our peers. The digital transformation is currently the most important trend spurring innovation within the Dürr Group. The chapter entitled **“Research and development”** → page 31 provides further information on our innovation strategy and recent examples.

2.6 — GLOBAL AUTOMOTIVE PRODUCTION

(millions of units)



STRATEGIC FIELD: GLOBALIZATION

Localization strategy

In both the automotive and the furniture sector, our customers expect the greatest growth in sales and production in the emerging markets. That is why they are building the largest number of new factories there. As well as this, production capacities are being expanded in large end markets to circumvent trade restrictions. We are benefiting from this as we have a strong footprint in all key markets, thanks to our localization strategy. With our high level of localization, we are able to utilize cost advantages and support our customers effectively in establishing production capacities in foreign markets.

Over the last ten years, we have expanded our activities in the emerging markets in particular. With over 2,400 employees (including roughly 350 externals), we have a particularly strong presence in China. Since 2010, we have strengthened our market position in Southeast Asia. Among other things, we have done this by acquiring companies in Indonesia and Malaysia and by establishing companies in Thailand and Vietnam. Africa is also an interesting market in the medium and long term. We have been operating a facility in South Africa for more than 40 years and are tapping potential new markets such as Nigeria. We have completed important reference projects in South Africa and Morocco, for example.

Global expansion into new business fields

Globalization as a strategic field also entails the goal of entering areas which are related to the Group's core business. One example

is the Industrial Products segment, via which Application Technology has been making forays into general industry since 2014. Target sectors include, among others, plastics, shipbuilding, ceramics, wood and furniture. Application technology for general industry offers a considerable market volume. We are hoping to achieve industrial business worth around € 50 million by 2020. Other business segments which we have entered in the last few years include **glueing technology** → page 206 for the automotive industry and **filling technology** → page 206 for the household goods industry.

STRATEGIC FIELD: SERVICE

The expansion of service business is strategically important for three reasons:

- Our installed base has widened sharply as we have supplied an above-average quantity of equipment since the financial crisis in 2008/2009. This has generated correspondingly large potential for service business.
- Good service helps our customers to achieve maximum plant availability. This not only boosts productivity but also improves customer satisfaction.
- Service business generates greater and more stable earnings contributions than new business.

In recent years, we have steadily increased service-related sales, which exceeded the € 1 billion mark for the first time in 2018. We owe this success not least of all to the CustomerExcellence@Dürr optimization program (2013 to 2015), which entailed the expansion of service staff, the rollout of new IT systems and swifter delivery of spare parts. In addition, we have introduced the “Dürr Promotor Score”, a systematic customer satisfaction measurement system. The “Service Growth” module is a main thrust of the FOCUS 2.0 optimization program, launched in 2018 in the Paint and Final Assembly Systems division. Moving forward, we want to widen the contribution made by service business to Group sales to as much as 30 % (2018: 26.8 %).

STRATEGIC FIELD: EFFICIENCY

We are adapting to new market requirements and improving our cost structure through continuous process optimization. At the moment, we are concentrating on the following aspects:

- **Digitization:** We are stepping up the digitization of processes in all parts of the company to perform tasks more efficiently.
- **Global processes:** Shared international order execution calls for uniform Group-wide processes. In this connection, we are constantly integrating new knowledge in our standard processes and IT systems.
- **Global IT integration:** End-to-end IT systems provide access to the same data and permit more efficient communication from any location.
- **Paint and Final Assembly Systems:** The division is implementing the FOCUS 2.0 optimization program to achieve its EBIT margin target of 6 to 7 % by 2020. The main elements entail reduced project costs, more efficient order execution based on the lean management method, the expansion of service business, and organizational improvements in international cooperation between the individual locations.
- **Woodworking Machinery and Systems:** The HOMAG Group is rolling out an optimized and more flexible production system. This will ensure swifter and more efficient execution of major orders in the growing systems business, particularly at the division's head office in Schopfloch.

Procurement

The cost of materials came to € 1,573.0 million in 2018, rising by 11.1 % over the previous year and thus more strongly than sales. This was due, on the one hand, to higher prices for raw materials and semi-finished goods and, on the other, to delivery issues experienced by some suppliers.

In plant engineering, a large proportion of our procurements is accounted for by purchasing activities related to manufacturing and assembly, modules, assemblies, complete units and engineering services. In mechanical engineering, we purchase a lot of manufactured parts and pre-assembled modules. Other important procurement goods for all divisions are raw materials as well as finished and semi-finished products such as electrical components and drives.

The excellent order situation in mechanical and plant engineering also had a negative impact on supplier availability for us in 2018. The limited availability of important materials particularly affected the Paint and Final Assembly Systems, Application Technology, and Woodworking Machinery and Systems divisions. To counteract this effect, we boosted our in-house production of key components, broadened our local supplier base, and temporarily increased our stock levels. To ensure supplier availability, we also use forecasting models and long-term capacity planning, and we closely monitor deadlines and milestones when dealing with suppliers.

We are also adapting our procurement processes in view of the ever-decreasing lead times. For a large project in Vietnam, we were able to find local suppliers within just a few weeks. The aim is to use the supplier relationships established in this process for further projects in Southeast Asia.

Our purchasing operations are vital in ensuring efficient order execution. We have recorded price increases for bought-in parts and services. These have been affected by the strong demand experienced by our suppliers as well as the rising personnel costs and raw material prices. To lower costs, we use worldwide framework agreements with preferred suppliers and are further increasing the localization level of products and purchasing activities. We achieve economies of scale by pooling international purchasing needs. Our global lead buyers play a crucial role in enhancing localization and pooling. Further measures to achieve cost benefits are procurement auctions, product optimizations and the intensified search for new suppliers.

Purchasing aspects are also taken into account in the smart processes for executing our customer projects. We use, for example, digital auctions, electronic supplier integration (EDI and WEB EDI), and automated order confirmation. Together with important suppliers, we are investigating other digital process improvements.

In the purchasing organization of Paint and Final Assembly Systems, strategic purchasing activities were increased and even more emphasis placed on gaining new suppliers as well as on long-term supplier development. These measures are part of the FOCUS 2.0 optimization program. After the acquisition of MEGTEC and Universal at the Clean Technology Systems division, we are now harmonizing our purchasing processes in order to achieve synergies. The purchasing volume of Woodworking Machinery and Systems increased by 15 % in 2018. We are adapting the purchasing organization to the increased volume, while paying particular attention to efficient processes and good risk management.

In addition to the roughly 530 people working in purchasing, we will be hiring further procurement experts in 2019. Made up of the purchasing heads within the divisions, the Global Sourcing Board is responsible for coordinating purchasing operations worldwide. At Paint and Final Assembly Systems, Application Technology and Clean Technology Systems, the Global Sourcing Committee decides on framework agreements, major contract awards and the international pooling of requirements.

Research and development

R&D GOALS

Our R&D work aims to deliver innovations that help our customers achieve maximum production efficiency while lowering per-item costs. In addition, we wish to set ourselves apart from our competitors and safeguard our market-leading position. Great importance is attached to innovations as part of our digital@DÜRR digital strategy.

R&D KEY FIGURES AND EMPLOYEES

At € 121.0 million, direct expenditure on R&D set a new record in 2018. The growth of 3.6 % over the previous year is attributable to innovation projects in the digitization field, and the R&D ratio matched the previous year's level of 3.1 %. Order-related development costs are contained in the sales costs rather than the direct R&D costs. Capitalized development costs and their amortization totaled € 14.5 million and € 9.9 million (2017: € 9.6 million and € 12.7 million), respectively. Measured against the direct R&D costs, a capitalization rate of 12.0 % was achieved (2017: 8.2 %).

The proportion of the workforce engaged in R&D operations was 4.8 % at year's end 2018, corresponding to 782 employees (December 31, 2017: 713). We carry out R&D activities at sites in Europe, the Americas and China. 89 % of R&D staff are employed in Germany. Numerous other experts work on new solutions as part of customer orders outside the R&D departments.

2.7 — R&D KEY FIGURES

		2018	2017	2016
Group R&D ratio	%	3.1	3.1	3.0
Paint and Final Assembly Systems	%	1.3	1.1	1.2
Application Technology	%	4.0	4.1	4.3
Clean Technology Systems	%	2.6	2.0	1.7
Measuring and Process Systems	%	2.1	1.8	1.8
Woodworking Machinery and Systems	%	4.9	5.2	5.0
Capitalized development costs	€ million	14.5	9.6	12.4
Amortization of capitalized development costs	€ million	-9.9	-12.7	-13.1
R&D employees (Dec. 31)		782	713	695
R&D personnel costs	€ million	-77.7	-69.1	-68.0

2.8 — R&D EMPLOYEES 2018

	Group	Paint and Final Assembly Systems	Application Technology	Clean Technology Systems	Measuring and Process Systems	Woodworking Machinery and Systems
Total	782	74	183	31	73	421
% of divisional workforce	4.8	2.1	8.1	2.1	3.2	6.4

Responsibility for R&D lies with the five divisions. The “R&D/Technology” multidisciplinary team coordinates cross-divisional R&D activities and reports to the CEO. Processes and detailed issues relating to R&D work are governed by guidelines in the divisions. Developing new solutions represents around 70 % of our R&D expenditure, while some 30 % goes on maintaining existing products. Our R&D work generally focuses on specific products and applications. Basic research plays only a minor role.

NEW DEVELOPMENTS AND PATENTS

52 product innovations were completed in 2018. The number of patent families increased to 1,224, and the number of individual patents to 6,651 (December 31, 2017: 1,127 and 6,107). At 37 %, the Application Technology division is responsible for the largest proportion of our patents. The costs for protecting our intellectual property came to € 7.6 million in 2018 (2017: € 7.3 million).

COLLABORATIVE RESEARCH AND BOUGHT-IN R&D SERVICES

Close contacts with a large number of scientific institutions and development partners guarantee that leading-edge R&D is conducted. Expenditure on externally sourced R&D services in fiscal 2018 came to € 47.7 million (2017: € 49.3 million). We received state research grants to the sum of € 0.3 million; this represents 0.3 % of the total R&D costs.

R&D FOCUS

Our innovation work is based on our customers’ requirements and on leading technology and manufacturing trends. The following are currently of particular importance:

- **Digitization/Industrial Internet of Things (IIoT) → page 206:** The dominant trend in manufacturing technology is digitization. This increases our customers’ overall equipment effectiveness and enables **adaptive manufacturing processes → page 206**. We are putting major efforts into expanding the ADAMOS IIoT platform and the LOXEO and tapio digital marketplaces, into developing **digital services → page 206**, and into our data analysis capabilities. Other areas of interest include smart sensor technology, manufacturing execution systems, and tools for simulation and virtual commissioning of production equipment.

- **Increased flexibility:** Our customers need flexible production lines to be able to offer a wide diversity of models and variants.
- **Customization/batch size 1:** We are seeing growing interest in systems that enable individually configured end products to be manufactured efficiently on automated lines.
- **Optimization of per-unit cost:** Reducing per-unit manufacturing costs is an important goal for our customers. Accordingly, we are developing new products and processes with a reduced demand for material, energy, maintenance and human resources.
- **Automation:** Maximum automation is the key to reproducible top quality and efficiency in industrial production. Our customers still have a great deal of potential for automation.
- **Electromobility:** There are differences in the final assembly of battery-powered vehicles and conventional cars – for example when connecting the power train and the body or during **end-of-line → page 206** performance testing. We are therefore developing assembly and **testing technology → page 206** specifically for electric vehicles.
- **Autonomous driving:** More and more cars have driver assistance systems installed; the automotive industry is also working flat out on concepts for driverless vehicles. Highly sensitive automated test systems are important for testing and calibrating the required technology, for example sensors, during mass production.
- **Human-robot collaboration:** Combining human skill and mechanical efficiency enhances work processes. Know-how from fields such as robotics, sensor technology, control technology and occupational safety is applied when developing such processes.
- **Energy efficiency and conservation of resources:** Consumers are increasingly opting for goods that have been produced in environmentally compatible processes. For that reason and also for reasons of cost, our customers require production systems with low material and energy consumption.

R&D RESULTS

Paint and Final Assembly Systems

EcoPro Plant Analytics makes the operation of painting lines even more efficient by increasing availability and simplifying maintenance. The software ensures the continuous capture, analysis and evaluation of data. Consequently, customers are able to carry out predictive maintenance and optimize their processes. EcoPro Plant Analytics links data from several thousand sensors, actuators and control circuits, and converts it into smart data. The software identifies anomalies in the painting process via non-conformity with standards, diagnoses the causes of faults and calculates remaining process times.

The EcoScreen WEB visualization tool enables the painting line to be viewed on mobile devices. Modern operating philosophy and contemporary touch control give users intuitive access to the digital system. The user-oriented design is based on open standards and sets a new benchmark in the visualization and control of painting lines. The developers attached particular importance to the careful ergonomic design of the system and consistent user friendliness – they even took the precaution of making allowance for a possible operator red-green color blindness.

Application Technology

In EcoScreen 3D-OnSite 4, Application Technology has developed a digital tool for efficiently programming Dürr robots and [application technology](#) → [page 206](#). It supports the common CAD formats and, thanks to 3D models, enables realistic simulations. The processes can be optimized by diagnosing process and movement data. EcoScreen 3D-OnSite 4 will be used in all new painting stations in the future.

The division has also rounded off its portfolio of third-generation robots. The new additions are the EcoRP S053i swing-arm robot with eight axes of movement and the EcoRP S153i with nine axes for the interior painting of vans. Application Technology has also developed a space-saving rail that is mounted on the top and bottom of the booth wall, along which six-axis painting robots travel during the paint application process.

Clean Technology Systems

Clean Technology Systems' VarCom cuts nitrogen oxide emissions from [thermal oxidation systems](#) → [page 206](#) used for exhaust-air purification. Thanks to a special burner design, no visible flame is formed, and a uniform temperature profile impedes the formation of nitrogen oxides. Previously, a supplementary catalytic converter had to be used to convert these into nitrogen, the main constituent

of air. VarCom is aimed particularly at customers in the chemical and pharmaceutical industries.

Large exhaust-air volumes with low solvent concentrations can be cleaned even more efficiently thanks to the new carousel concentrator. Adsorption wheels with diameters in excess of four meters have been used for this up till now. They increase the pollutant concentration, as a result of which less energy is required for combustion. Clean Technology Systems has now engineered a modular adsorption wheel. Since the wheels have to be externally regenerated on a regular basis, the facility to simply replace the adsorption blocks instead of the whole wheel represents a significant competitive advantage. In addition, the carousel concentrator can be shipped twice as quickly as conventional adsorption wheels.

Measuring and Process Systems

The new, fully automated eTENO balancing machine balances electric armatures that are required for cars with a hybrid, plug-in hybrid or entirely electric drive. With its short cycle times, extremely precise measurements and a connection to our LOXEO digital marketplace, eTENO provides support for the efficient large-scale production of electric drives.

The new x-around and x-road curve test stands test autonomous vehicles fully automatically to ensure that cameras, radar systems, laser scanners and other components are performing faultlessly. Traffic scenarios displayed on monitors make it possible to test that the vehicle responds correctly if, for instance, a pedestrian suddenly steps into the road. A movable front axis on the x-road curve test stand means that steering movements by the vehicle do not cause it to drift to the side, so the test reflects realistic conditions.

Dürr Somac has developed three apps to capture and evaluate the process data from filling systems. The Production Basic app allows vehicle manufacturers to monitor the machine's production data online, while Maintenance Basic simplifies troubleshooting during maintenance operations. Equipment Overview is the interface between the two apps, providing an overview of the processes in the filling systems of one or multiple final-assembly production lines.

Woodworking Machinery and Systems

In its Autonomous Cell, the HOMAG Group has unveiled the first wood-processing workshop that operates fully autonomously. It consists of two fully automated machine units. These are connected by autonomously operating assistants in the form of automated guided vehicles, which transport the workpieces to the appropriate location. The Autonomous Cell creates flexibility for artisan and industrial-scale furniture production.

The IntelliDivide app from the tapio family optimizes the cutting of particleboard panels. The cloud-based, high-performance software enables significantly higher computing capacity and can therefore quickly offer the user optimization options for the panel-dividing process. Customers can, for example, choose among various options: Is the priority for minimal wastage, particularly simple operation or short operating times for the machines? The production program appropriate to the selected option can be launched.

DÜRR TECHNOLOGY COUNCIL

The Dürr Technology Council was set up in 2017 to advise the Board of Management on questions of technology strategy. The Council brings together scientific expertise, consultancy skills and senior management experience in the automotive engineering, automation and IT sectors. Its members are:

- Prof. Dr. Holger Hanselka (chairman), president of the Karlsruhe Institute of Technology (KIT)
- Ulrich Dietz, chairman of the Administrative Board of GFT Technologies SE
- Jonathan Guenak, senior consultant, Roland Berger GmbH
- Dr. Eberhard Veit, former CEO of Festo AG
- Prof. Thomas Weber, former member of the Board of Management of Daimler AG

The Dürr Technology Council sees its role as a think tank and sparring partner for the Board of Management. It balances our innovation strategy against new trends in production, and facilitates contacts. The Dürr Technology Council maintains communication with the Board of Management, the heads of divisions and managers from R&D, software and corporate development departments, and invites different representatives from this circle to its meetings.

In 2018, the Dürr Technology Council convened three times. At the first meeting, the members were given an overview of progress in the field of **IIoT** → [page 206](#). Discussions revolved around the necessity for an innovation strategy to harmonize development activities in the fields of machinery/hardware and IIoT/software. R&D managers from the divisions then presented current innovation projects. The issues discussed included increasing paint shop flexibility, automated guided vehicles and self-optimizing products.

The second meeting focused first on employee recruitment for IT, software and engineering roles. Another topic addressed was the Dürr Group's site strategy, particularly underlining the growth potential in China and Southeast Asia. Discussion then centered on R&D synergies between the divisions, IT security and digital business models.

At its third meeting, the Dürr Technology Council discussed new regulatory propositions for protection against emissions and the associated business opportunities for the Dürr Group. The focus then turned again to the subject of IIoT/software. The influence of digitization on internal processes was also highlighted. The Technology Council declared that models such as agile working and cooperation in Digital Factories ought to be pursued further.

SUSTAINABILITY

The Dürr Group has attached great importance to sustainable corporate governance for many years. We are aware of our corporate, environmental and social responsibility and exercise it actively. Our actions are guided by the precepts of the United Nations Global Compact, which defines principles for fair working relationships and responsible business operations. Inquiries from sustainability initiatives and rating platforms such as the Carbon Disclosure Project, EcoVadis and VigeoEiris are dealt with carefully.

The issue of sustainability lies within the remit of the Chief Financial Officer. Measures and initiatives are usually planned and implemented decentrally, with various Group-wide provisions in place that have to be adhered to.

To reflect the growing importance of sustainability and provide more detailed information, we are looking into reporting in compliance with the guidelines of the Global Reporting Initiative (GRI) in the future. No framework is currently used for our sustainability reporting.

Material non-financial issues

In order to provide information in accordance with the CSR Directive Implementation Act, we analyzed the non-financial issues that are material for us in 2017, and revised them in 2018. We started by asking ourselves which stakeholders we are addressing with our non-financial declaration. These can be summarized as:

- Employees
- Customers
- Business partners and suppliers
- Shareholders
- Public
- Media
- Governments, authorities and schools
- NGOs

In 2018, we reviewed the different interests of our stakeholders at in-house workshops and rated their materiality afresh. We critically scrutinized the material non-financial issues during in-depth discussions with the specialist departments and analyzed them from two points of view:

- What importance do the issues have for our business operations?
- What impacts do our business operations have on the issues?

As an engineering company with a low vertical depth of production, we also took the importance of the supply chain into account in our analysis. Ultimately, we have defined the following issues as material for us within the meaning of the CSR Directive Implementation Act:

- Innovation
- Compliance/anti-corruption
- Human rights
- Employees
 - Further training and people development
 - Occupational safety
 - Employee satisfaction/retention
 - Employee recruitment

We still regard the issue of the environment as non-material. This relates both to the relevance of environmental aspects to our activities and to the impacts of our business operations and our supply chain on the environment. Our core competences are **engineering** → [page 206](#), planning and order execution. These processes entail relatively low environmental impacts. Conversely, the value added as a result of production processes that are usually associated with relatively high impacts is comparatively low in the Dürr Group. We also regard the issue of social concerns as non-material within the meaning of the above-specified viewpoints.

NON-FINANCIAL DECLARATION

The non-financial consolidated declaration in accordance with Section 315b (1) of Germany's Commercial Code (HGB) is an integral part of the financial report and is spread across several of its chapters. The following index (table 2.9) shows which chapters contain information on the non-financial matters that are material for us. The content of the non-financial consolidated declaration is marked in the relevant chapters with a line in the margin and the abbreviation NFD. The non-financial consolidated declaration did not form part of the audit of the annual and consolidated financial statements by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. At the request of Dürr AG, however, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft performed a limited assurance engagement on the non-financial consolidated declaration.

2.9 — INDEX OF NON-FINANCIAL MATTERS

Details in acc. with CSR DIA¹
(Section 315c of Germany's
Commercial Code (HGB))

	Chapter/sub-chapter/section
Business model	• Fundamentals/The Group at a glance/Profile • Fundamentals/The Group at a glance/Group organizational structure • Fundamentals/The Group at a glance/Business model
Risks in relation to material non-financial matters	• Report on risks, opportunities and expected future development/Risks/ Risks in relation to material non-financial matters

MATERIAL NON-FINANCIAL MATTERS

Combating corruption and bribery	• Sustainability/Integrity
Respect for human rights	• Sustainability/Integrity
Employee matters • People development and further training • Health and safety • Employee satisfaction/retention • Employee recruitment	• Sustainability/Employees
Innovation	• Fundamentals/Research and development

OTHER NON-FINANCIAL MATTERS

Employee matters • Health	• Sustainability/Employees
Environment	• Sustainability/Environment
Social matters	• Sustainability/Social commitment

¹ CSR Directive Implementation Act

Integrity

Ethical behavior and observance of laws are important for all our business operations. We have enshrined our mandatory rules of conduct in the Dürr Group's Code of Conduct, which is available in ten languages. It contains rules on, among other things, dealing with human rights issues, such as the inadmissibility of discrimination, and exercising social responsibility. Another focus is conduct toward business partners, competitors and colleagues. We also expect honesty and integrity from our suppliers. This expectation is enshrined in our code of conduct for suppliers. Our aim is for our suppliers to commit to this code of conduct.

COMPLIANCE/ANTI-CORRUPTION

The aim of our compliance management system (CMS) is to ensure compliance with legislation and in-house requirements. It is described in a Group-wide organizational instruction. This defines, among other things, areas of responsibility, processes and reporting channels in the event of any suspicions being raised.

Overall responsibility for the compliance management system lies with the Board of Management. The CEO oversees Corporate Compliance. The Corporate Compliance Board is tasked with handling all compliance-related issues. Its responsibilities include defining and further developing the compliance management system. Its members comprise in particular the corporate compliance officer, the heads of internal auditing and tax affairs, the corporate risk manager and the finance managers of the divisions. Local compliance managers in the Group companies support the employees in meeting compliance requirements.

Questionable conduct can be reported to the corporate compliance officer. If an investigation supported by Internal Auditing yields concrete grounds for suspicion, the CEO and the Corporate Compliance Board are immediately notified. The Board examines the need for other steps on a case-by-case basis. Corruption is one of the issues addressed by the basic online compliance training course, which has been in place at Dürr Systems and Schenck since 2016. This highlights possible violations for employees, describes their consequences for those directly involved and the company, and provides tips on conduct. Employees of the HOMAG Group, which has run its own compliance training courses hitherto, are to be included in the training program for the Dürr Group's compliance system from 2019 onward. Furthermore, with effect from 2019, all newly appointed employees will complete a basic online compliance training course as part of our Group-wide onboarding process.

We plan to run refresher courses every two years. This is aimed at helping ensure that the entire workforce continues to be trained in compliance issues and that the necessary awareness of the issue of compliance is maintained. Employees who face particular exposure because of their job are also required to complete an advanced training course on the subject of corruption.

One of the core tasks of our compliance organization is to protect against corruption. We introduced a relevant Group-wide organizational instruction in 2018. The purpose of the anti-corruption organizational instruction is to provide employees with a clear code of conduct for their dealings with business partners and in the event of conflicts of interest. Our aim is to preempt the giving and acceptance of bribes from the very outset. We are assisted in this by both our internal monitoring system and the compliance management system as a whole. One indicator of the effectiveness of our compliance management system is that no cases of corruption occurred in 2018, as was also the case in the preceding year.

HUMAN RIGHTS

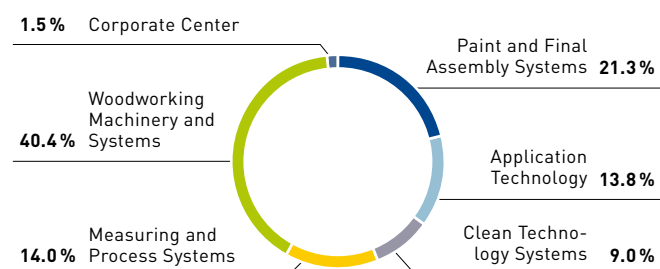
We tolerate no kind of prejudice and accept no discrimination on the basis of ethnic or cultural background, disability, gender, religion, age or sexual orientation. We are committed to social diversity and equal opportunities, and take care to ensure that human rights are respected. Child labor and forced labor are forbidden. If there is any suspicion of human rights violations of any kind, we check this using the compliance process described. The greatest risk of human rights violations in our view is in the supply chain, since we outsource a great deal of work to suppliers, particularly for manufacturing operations. The code of conduct for suppliers therefore explicitly requires human rights to be observed. Beyond that, there is no scheme in place to identify and avoid human rights violations; in particular, we have not yet introduced any systematic process for training, advising or assessing suppliers. To date, there is no Group-wide organization in place to monitor the observance of human rights. It is, of course, our aim that no human rights violations should occur in the Dürr Group or at our suppliers. We intend to take respect for human rights into account in the future when selecting suppliers.

Employees

In 2018 the Group's workforce grew by 8.9 % to 16,312 people. This was primarily due to the acquisition of MEGTEC/Universal with their 865 employees in October. The Clean Technology Systems division, to which MEGTEC/Universal belong, has 1,472 employees. The workforce also grew in all other divisions. The strong increase of 8.9 % at Application Technology results not only from the high level of business but also, to a large extent, from the fact that external workers became permanent employees following a change in the German legal framework. In order to be flexible, we take on external staff along with our regular workforce; the number of external staff corresponds to 8.6 % of our regular global workforce.

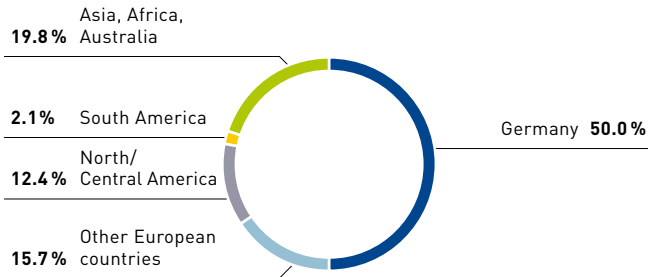
Half of our employees are based in Germany. China has the second highest number of employees, followed by the United States and Poland. In China, there are almost 2,100 employees, plus around 350 external workers. The workforce in the emerging markets grew by 7.6 % to 5,141 people. This is equivalent to 31.5 % of the total workforce and thus similar to last year.

2.10 — EMPLOYEES BY DIVISION (DECEMBER 31)



	2018	2017	2016
Paint and Final Assembly Systems	3,472	3,457	3,384
Application Technology	2,246	2,063	1,956
Clean Technology Systems	1,472	603	569
Measuring and Process Systems	2,279	2,279	3,010
Woodworking Machinery and Systems	6,593	6,371	6,126
Corporate Center	250	201	190
Total	16,312	14,974	15,235

2.11 — EMPLOYEES BY REGION (DECEMBER 31)



	2018	2017	2016
Germany	8,152	7,830	8,205
Other European countries	2,567	2,361	2,306
North/Central America	2,027	1,394	1,329
South America	341	313	323
Asia, Africa, Australia	3,225	3,076	3,072
Total	16,312	14,974	15,235

2.12 — PERSONNEL KEY FIGURES

	2018	2017	2016
Number of employees (Dec. 31)	16,312	14,974	15,235
of whom apprentices and students at cooperative state universities (Dec. 31)	431	420	464
Proportion of female employees (Dec. 31) (%)	16	16	16
Part-time employees (Dec. 31)	507	499	514
Average length of service (years)	11	11	11
Employee turnover (%)	9.3	7.7	7.3

Our Group-wide “People Development” process serves these objectives. It helps us identify, develop and retain potential managers within our workforce, and to make the best use possible of young talent. “People Development” is a software-supported process which is based on regular communication between people development staff and managers about the advancement of employees with high potential. In 2018 we evaluated the skills of 793 employees as part of “People Development”. The two-yearly process serves as a basis for making decisions on succession arrangements and filling vacancies with internal candidates. Having been tried-and-tested in the sub-groups of Dürr Systems and Schenck for several years, “People Development” was also introduced at the HOMAG Group in 2018.

The Corporate Human Resources department, which reports to the CEO and Employee Affairs Director, has overall responsibility for HR issues within the Group. The Corporate People Development department is in charge of the Group-wide management of personnel development and further training for employees. The processes in this area are defined in an organizational guideline. We want to safeguard the company’s long-term success through a comprehensive range of further training. This is to ensure that employees can continuously update their knowledge to meet new requirements. Our further training program comprises standard face-to-face training and seminars as well as online training, webinars, videos and e-books. The central instrument is the “MyTraining” online training platform. This enables users to select, book, approve and evaluate training, while making the training history transparent for both employees and managers. All employees worldwide have access to “MyTraining”.

In 2018 we recorded more than 14,500 attendances at face-to-face training sessions across the Group (2017: around 12,300). The number of training sessions per employee stood at 0.9 (2017: 0.8). Training events for the further development of specialist qualifications accounted for more than half of all attendances. These included mainly training in IT and digitization, technical and commercial expertise as well as technical rules and standards. We organized a total of 2,318 training events in 2018, which corresponds to a 6.2 % increase over the previous year. As part of our sustainable knowledge transfer, we also use internal specialist trainers to ensure a highly practice-oriented approach.

We have expanded our online training program. For online training on data protection and compliance, we recorded 1,417 attendances. We have introduced our new online onboarding training in nine languages, available to all new employees. It teaches basic knowledge and promotes a sense of identification with the Dürr Group from the outset. We are also using new training formats for topics relating to digitization. Examples include training in digital applications for sales and service employees, and training material around the digital@DÜRR strategy.

PEOPLE DEVELOPMENT AND FURTHER TRAINING

As an engineering company, we rely on well-qualified specialists and managers, to whom we would like to offer further training opportunities and career prospects. Our people development and further training programs are designed with three objectives in mind:

- to prepare employees properly for new challenges, for example in the digitization field
- to ensure the availability of well-qualified managers
- to promote the development of young skilled personnel from the company’s own ranks

We have also expanded our internationally staffed corporate training events for employees from different sites. The key topics were leadership, sales and project management as well as technical and commercial knowledge. The number of participants at the corporate training events reached 1,228, a substantial increase over the previous year (856).

Our training program for managers consists of the “Fit for Leadership” program for young executives and the “Advanced Leadership Program” for experienced managers. Both programs are based on the Dürr Group’s Leadership Skills Model and are conducted across all divisions. The “Fit for Leadership” program was attended by 584 people in 2018 (2017: 298), while the “Advanced Leadership Program” was attended by 288 people (2017: 45). The leadership skills of our project managers are developed through our special “Leadership Project Management Training”. These courses were attended by 109 participants Group-wide (2017: 220).

HEALTH & SAFETY

Our project business around the world requires a lot of travel and work on construction sites, both of which can pose safety risks for our employees. This is why health and safety measures are of great importance within the Group. Our primary goals are to ensure the physical integrity of our employees and to offer them a safe working environment. The relevant instructions and requirements for health and safety and accident prevention can be found in our Group-wide and division-specific health and safety guidelines.

The CEO heads up our Group-wide health and safety organization. A cross-functional team and the Corporate Health and Safety Manager are responsible for defining our health and safety strategy and for implementing it globally. Their task is also to put in place effective accident prevention systems and worldwide uniform health and safety standards for all sites. At divisional level, health and safety coordinators implement the organizational aspects of these standards, and adapt them to specific requirements. Local health and safety managers are appointed at the Group companies. They inform employees of the defined standards and processes for health and safety, and ensure that these are implemented locally. Regular internal audits are performed to help us comply with health and safety guidelines and processes at our sites.

One principle of our Group strategy relating to health and safety is that we must continuously improve the safety of work processes. This applies to all levels and companies of the Group. We want to make all employees aware of health and safety issues through

enhanced communication, presentations and regular safety briefings. It is compulsory to attend one relevant training session per year, with advanced and refresher courses being offered additionally. The future plan is for all Group employees to complete the required safety training online. In case of emergencies while traveling, our employees have access to a professional emergency management service.

Health and safety reporting was integrated into Group reporting in 2017. Key figures, such as accident frequency, are monitored at management level. Based on the recorded data, our aim is to better evaluate accidents and initiate countermeasures in the future. This is how we want to keep the number of accidents within the Group to a minimum.

In addition to the prevention of accidents, we also see our role as a responsible employer in promoting healthy working practices. As part of our company health scheme, in particular at our German sites, we offer fitness packages and health-promoting measures. The Group-wide sick leave rate was 3.2 % in 2018 (2017: 2.9 %).

2.13 — HEALTH AND SAFETY KEY FIGURES

	2018 ¹	2017	2016
Number of work-related accidents ² per thousand employees (including external staff, excluding commuting accidents)	14.8	12.7	13.5 ³
Work-related accidents ² per 100 thousand hours worked (including external staff, excluding commuting accidents)	0.7	0.6	— ⁴
Work-related accidents ² resulting in death (including external staff)	0	0	— ⁴

¹ Figures exclude MEGTEC/Universal

² A work-related accident is an incident which requires at least medical treatment.

³ Only Germany

⁴ No Group-wide figures recorded

EMPLOYEE SATISFACTION/RETENTION

Satisfied and motivated employees are an important basis of our company's success. We regularly measure our employees' satisfaction by means of worldwide employee surveys. The participation rate for the last survey, conducted in 2016, was 77 %. It showed that 82 % of our employees would recommend the Dürr Group as a good employer. For the next employee survey, which is scheduled for 2019, we aim to achieve another high participation rate. In response to previous surveys, we have introduced improvements in our feedback culture and created additional training opportunities. Both criteria had shown an unsatisfactory approval rate of around 52 %.

The central Corporate Human Resources department is responsible for the Group-wide recording of employee satisfaction levels. Employees' needs and suggestions are discussed at individual sites between the senior management, the HR department, the respective employees and, if necessary, the employee representatives.

Our aim is to retain employees in our company as long as possible. Our average length of service is around 11 years, the same as in 2017.

EMPLOYEE RECRUITMENT

We require a large number of highly qualified employees. Filling vacancies is becoming increasingly challenging, due to the competition for good candidates as well as for demographic reasons. It is thus all the more important for us to position ourselves as an attractive employer. The Corporate People Development department is responsible for the Group's personnel and university marketing, and coordinates the employer branding activities of Dürr, Schenck and HOMAG.

It is particularly in view of the strong demand for software and digitization experts that we have developed the international employer brand campaign, "PURE PASSIONEERING". This captures the essence of what the Dürr Group represents as an employer: fascinating technology, innovation, passion and international reach. "PURE PASSIONEERING" defines our presence at trade fairs, recruiting events and the careers pages of our new websites, www.durr-group.com and www.durr.com. We have greatly increased our presence as an employer and trainer on social media such as LinkedIn, Twitter and Facebook. We have redesigned our recruitment processes using new e-recruiting software.

Our aim is to fill any vacancies with suitable candidates as soon as possible. In 2018 almost 1,700 new employees were hired throughout the Group (2017: around 1,500).

We have further intensified our university marketing, while placing more emphasis on the growing importance of digitization when communicating with students and graduates. We have redefined the group of universities that are most important for us. This is where we are increasing our presence at contact fairs and working with student ambassadors who support us at events and share our content via social media.

In 2018 we attended 55 university and recruitment fairs worldwide. We had 160 interns and 109 student employees working for us across the Group. 45 students and aspiring engineers completed their theses at Dürr.

Our quality as an employer is underlined by independent awards and rankings:

- **Kununu Top & Open Company:** We have achieved an average score of 3.94 (out of 5) on the Kununu evaluation platform, thus outperforming our industry peers (average 3.39).
- **FOCUS Best Employers:** In the employer ranking published by German magazine FOCUS, we came 17th out of a total of 79, and were thus in the upper section of the mechanical and plant engineering firms rated.
- **Best Employer for Women:** The German magazine Brigitte conducted a study to find out which companies champion the promotion of women in the workplace. We received four out of five stars and are thus among the 91 best companies.
- **Best Trainer:** In a study conducted by business magazine Capital, Dürr Systems and HOMAG received the top mark for their training programs.
- **Fair Company:** This quality seal confirms that we do not hire graduates as interns and that interns are paid appropriately.
- **Success Factor Family:** We are committed to a family-friendly personnel policy.
- **Outstanding Trainee Program:** This award shows that our Dürr Graduate Program is fair and provides career opportunities.

Our attractiveness as an employer is not only reflected in the remuneration and career prospects we offer. At the larger sites, in particular, employees also benefit from activities to promote work-life balance, sports, wellbeing and culture. Added to this are flexible work arrangements relating to employees' time and presence.

VOCATIONAL TRAINING

Offering a broad vocational training program enables us to secure reliable junior talent and is part of our social responsibility. We offer young people vocational training in 11 commercial and industrial/technical fields, plus 11 study courses in the fields of engineering, business and information technology. In 2018 we had 431 apprentices as well as cooperative state university and Studium Plus students working for us, 68.7 % of whom were based at the HOMAG Group. High-achieving university graduates are offered attractive opportunities to embark on a specialist or management career with a future through the Dürr Graduate Program. In 2018 this was offered in two key areas: Technology & Innovation and Software Engineering & IIoT. Two trainees each spent time in several sections per key area.

OUR WORKFORCE

The average age of our workforce is 42. More than half of all employees working in Germany are older than 45. China has the youngest workforce, where almost 49 % of employees are between 25 and 34. Being an [engineering → page 206](#) company, we employ many academics and engineers; 46 % of our workforce have an academic degree (bachelor's, master's/degree or PhD), while 51 % have chosen a non-academic, vocational pathway. The Group employs around 760 project managers and 2,100 engineering staff. The largest function group is made up of staff working in assembly and manufacturing, accounting for 31.5 % of the workforce. Further personnel key figures can be found in table 2.12.

The percentage of women working at the Dürr Group is 15.8 % – but we are committed to increasing this figure. To this end, we organize partnerships with schools and support initiatives such as Girls' Days as well as the internal women's networks, she@Dürr and WOMENgineering. We would like to encourage more young women to pursue technical apprenticeships and cooperative state university courses, in particular. We are also creating favorable framework conditions to reconcile work and family life.

As a global company, we see the diversity of our employees as a strength. Every employee has the right to be treated fairly, politely and respectfully. Showing mutual respect – regardless of background, gender, religion, culture and age – is part of our corporate culture and is firmly embedded in our code of conduct.

Environment

We include environmental aspects in our decision-making processes, and aim to limit the environmental impacts of our actions and to ensure sustainability. For that reason, we have defined sustainable action as a central corporate value.

2.14 — ENVIRONMENTAL KEY FIGURES (ABSOLUTE)

	2018 ¹	2017 ²	2016
Number of sites	108	92	92
of which quality management certified to ISO 9001 ³	41	41	47
of which environmental management certified to ISO 14001 ³	14	14	19
of which energy management certified to ISO 50001 ³	10	10	10
Consumption			
Electricity (MWh)	55,980	57,080	61,249
Gas/oil/district heat (MWh)	62,813	67,736	69,721
Water (m³)	201,279	208,362	183,823
Waste water output (m³)	188,329	192,099	168,368
Waste (t)	10,574	10,508	11,189
of which recycled (t)	8,457	8,664	8,962
Emissions			
CO ₂ (t)	61,224	62,590	62,909
of which attributable to vehicle fleet (t) ⁴	12,586	12,185	9,474
SO ₂ (t)	29	30	32
NO _x (t)	44	46	49

¹ Figures for 2018 do not include MEGTEC/Universal. MEGTEC/Universal were taken into account in the number of sites.

² The Dürr Ecoclean Group, which was sold with effect from March 31, 2017, is no longer included in the environmental figures for 2017.

³ Sites used by several Dürr companies sometimes hold multiple certificates.

⁴ Change in the calculation method retroactively since 2017

As an engineering company with a low vertical depth of production, our energy, material and resource consumption is also relatively low, as is the amount of waste generated. The major environmental impacts of our business activities occur primarily in the supply chain and less at our own sites. The use of our products also results

in environmental impacts, for instance as a result of the consumption of resources and energy. We therefore aim to develop efficient solutions with low rates of consumption. Further information on this can be found under **“Research and development”** → **page 31**. We are working on creating processes in our supply chain that take account of environmental aspects.

We also aim to improve our performance in our direct environmental sphere of responsibility. Our goal is to reduce the consumption of energy, material and resources at the sites and to operate as efficiently as possible. To meet this aim, we are looking at establishing appropriate organizational structures. The principal responsibility for environmental aspects will continue to lie with the relevant site managers. However, we intend to introduce a Group-wide environmental policy to specify harmonized standards and guidelines.

A large number of our production companies are already certified to the ISO 14001 environmental management system. We are working toward ensuring that all production and assembly sites and all sites with technology centers gain certification to ISO 14001. Ten HOMAG Group sites have a certified energy management system to ISO 50001. A number of sites carry out energy and quality audits. The www.durr-group.com website gives an overview of certifications held under Company/Sustainability/Certificates.

2.15 — ENVIRONMENTAL KEY FIGURES (INDEXED)

	2018 ¹	2017 ²	2016
Consumption			
Electricity	64.9	68.9	76.9
Gas/oil/district heat	49.1	55.2	59.0
Water	85.3	92.0	84.4
Waste water output	90.0	95.6	87.1
Waste	119.1	123.3	136.5
Waste recycled	124.8	133.2	143.3
Emissions			
CO ₂	66.4	70.7	73.8
CO ₂ attributable to vehicle fleet ³	120.0	121.0	97.8
SO ₂	64.0	68.1	75.9
NO _x	60.3	65.1	71.7

2010 = 100; in relation to sales

¹ Figures for 2018 do not include MEGTEC/Universal

² The Dürr Ecoclean Group, which was sold with effect from March 31, 2017, is no longer included in the environmental figures for 2017.

³ Change in the calculation method retroactively since 2017

Social commitment

We are committed to a varied range of social issues. We support humanitarian charities, sponsor cultural and educational events and opportunities, and provide grants to grassroots, youth and disability sports clubs. In 2018, we made donations of € 0.8 million for charitable purposes (2017: € 0.8 million).

We support a range of local social organizations in our sites' neighborhoods. In Bietigheim-Bissingen, for instance, we donate to early years rhythmical/musical education in children's daycare centers and to the local church welfare organization. In Stuttgart, we support the Gustav Werner school for special educational needs. The HOMAG Group also has a tradition of social commitment. The "HOMAG Cares" initiative has been running for ten years. In this, furniture built for demonstration purposes at trade shows is sold, after which the proceeds are topped up and then donated to charitable organizations. In 2018, HOMAG Cares in Germany supported workshops for the disabled in Horb-Sulz and Calw and the Willibald Schmidt Foundation in Beilngries.

We also make a social contribution by getting actively involved. We are a member of the Knowledge Factory scheme in Germany and run "KiTec" children's technology projects at participating schools. "KiTec" teaches children to engage with technology through the medium of play.

CORPORATE GOVERNANCE

The German Corporate Governance Code contains rules and recommendations for the reliable management and supervision of listed companies. After the extensive changes in 2017, the Code Commission did not make any amendments to the set of rules in the past calendar year. We observe all current recommendations of the Code. Our current declaration of compliance is dated December 12, 2018. The full text is available at www.durr-group.com under Investors/Corporate Governance/Declaration on Corporate Governance.

Other information on corporate governance¹

BOARD OF MANAGEMENT AND SUPERVISORY BOARD

As the executive body, the Board of Management conducts the company's business, defines the strategy and implements it in consultation with the Supervisory Board. It must always act in the company's best interest and in compliance with its business policies. The Board of Management reports to the Supervisory Board on a regular and comprehensive basis about business performance, strategy and risks. The rules of procedure issued by the Supervisory Board stipulate the responsibilities among individual members of the Board of Management, the manner in which resolutions are passed, and other aspects.

The Supervisory Board advises and supervises the Board of Management. In accordance with the German Co-determination Act, it consists of 12 members with an equal number of shareholder and

employee representatives. The six shareholder representatives are elected at the annual general meeting, and the six employee representatives are elected by the employees of the Group's German business locations. The chairman has the casting vote in the event of a tie. The Supervisory Board can take particularly urgent resolutions by written circulation.

Elections are held every five years to appoint new members to the Supervisory Board; the last regular elections took place in 2016. If a member of the Supervisory Board resigns before the end of his/her term of office, a successor will be appointed by court if no elected substitute member is available. Supervisory Board members appointed by court must stand for election at the next annual general meeting (shareholder representatives) or at the next election date (employee representatives). The Supervisory Board currently has seven independent members and considers this to be an appropriate number.

The Supervisory Board of Dürr AG has created four committees from its midst, which discuss special topics and prepare resolutions. After every meeting, the chairmen of the committees inform the full Supervisory Board of the results.

- The Personnel Committee, which also acts as the Executive Committee, is primarily responsible for the appointment of members of the Board of Management and their compensation, and conducts the groundwork for the corresponding resolutions by the full Supervisory Board.
- The Audit Committee deals with financial reporting, risk management, internal control system and internal auditing. It also oversees the compliance management system, reviews the annual and consolidated financial statements of Dürr AG, and conducts the groundwork for the corresponding resolutions by the full Supervisory Board.

¹ The full declaration on corporate governance is available at www.durr-group.com under Investors/Corporate Governance.

- The Mediation Committee convenes if there are differences of opinion within the Supervisory Board regarding the appointment or dismissal of members of the Board of Management. At Dürr AG, this committee has never had to convene.
- The Nominating Committee proposes to the Supervisory Board candidates who are professionally and personally suitable for election as shareholder representatives at the annual general meeting. It takes account of the provisions of the Act on Equal Participation of Women and Men in Executive Positions, of the skills profile and of the objectives for the composition of the Supervisory Board.

Except for the three-strong Nominating Committee, which by its nature only has shareholder representatives, all the committees consist of four members with an equal number of shareholder and employee representatives.

SKILLS PROFILE FOR THE SUPERVISORY BOARD

The Supervisory Board has approved a skills profile and objectives for its composition. This is to ensure that its members collectively fulfill the requirements for the proper performance of the Supervisory Board's work. Among the skills needed are knowledge of the mechanical and plant engineering industry and our markets as well as knowledge in the fields of management, leadership, accounting, controlling, risk management, compliance and governance. It is not necessary for every member to have the same level of knowledge in all fields; rather, the different skills should complement each other. At least one member must have expertise in financial accounting or auditing. The chairman of the Audit Committee must have specific knowledge in applying accounting principles and internal control procedures. Every Supervisory Board member must be familiar with the relevant legal standards, devote a sufficient amount of time and continue to expand their knowledge. In terms of diversity, members are expected to have diverse professional and international experience; there must be a minimum quota of 30 % of both men and women on the Supervisory Board, according to Section 96 (2) of the German Stock Corporation Act (AktG). Further key points are an appropriate number of independent members, the avoidance of any conflicts of interest, a general

age limit of 70 when being elected and a maximum term of office of 15 years. The Supervisory Board, in its current composition, fulfills the requirements of the skills profile. In December 2018, the skills profile was reaffirmed by the Supervisory Board.

ANNUAL GENERAL MEETING

At the annual general meeting, a general debate is held between shareholders, Board of Management and Supervisory Board. It also enables shareholders to exercise their voting rights. All motions on which resolutions are to be passed are outlined in the agenda, which is sent out by the company in time for the annual general meeting. The Chairman of the Supervisory Board presides over the annual general meeting and reports on the activities of the Supervisory Board and its committees in the previous fiscal year.

TRANSPARENCY

Our Corporate Communications department provides comprehensive and up-to-date information. Detailed information and explanations relating to our business performance can be found in the annual report as well in interim reports, financial reports, press releases and ad-hoc announcements. All publications are available on our website. We hold press conferences and conference calls to announce important events.

FINANCIAL ACCOUNTING AND INDEPENDENT AUDIT

For several years now, our IFRS consolidated financial statements have been audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The company was elected at the annual general meeting to audit the annual financial statements for 2018 on the basis of a proposal put forward by the Supervisory Board. The auditor audits the consolidated financial statements and the annual financial statements of Dürr AG prepared by the Board of Management before these are reviewed and approved by the Supervisory Board and then published at the latest 90 days after the balance sheet date. In accordance with Item 7.2.3 of the German Corporate Governance Code, the auditor will inform the Chairman of the Supervisory

Board immediately of all matters relevant for the work of the Supervisory Board that come to its attention in the course of the audit. The auditor will also inform the Supervisory Board of any deviations from the declaration of compliance according to Section 161 of the German Stock Corporation Act. Prior to receiving the letter of engagement, the auditor gives a pledge of its independence to the Supervisory Board.

PERFORMANCE INDICATORS, CONTROL SYSTEM, INSIDER REGISTER

The key indicators for corporate management are incoming orders, sales, EBIT, EBIT margin and ROCE. Information on our 2018 figures and on the methods of calculation can be found in the chapter entitled **"Financial development"** → [page 72](#).

Our risk management system covers 15 specific risk fields and records the risk situation of the Group. It also looks at the risks arising from the Dürr Group's activities in terms of sustainability. The risk management system also includes the internal control system for the accounting process. More detailed information on this topic can be found in the **"Risk report"** [page 81](#).

We keep project-related insider lists according to Article 18 of the Market Abuse Regulation (MAR). All insiders will be informed about the associated legal obligations and sanctions.

BOARD OF MANAGEMENT AND SUPERVISORY BOARD PROCEDURES

The Board of Management of Dürr AG is composed of:

- Ralf W. Dieter (CEO since January 1, 2006; member of the Board of Management since January 1, 2005)
- Carlo Crosetto (member of the Board of Management since March 1, 2017)
- Pekka Paasivaara (member of the Board of Management since January 1, 2019)
- Dr. Jochen Weyrauch (member of the Board of Management since January 1, 2017)

Mr. Paasivaara was appointed to the Dürr AG Board of Management effective January 1, 2019, and will maintain his additional role as CEO of HOMAG Group AG. By expanding the Board of Management, the Supervisory Board has adapted the top-management structure to the Group's growth and responded to the increasing importance of the Woodworking Machinery and Systems division (HOMAG Group). Tables 2.16 and 2.17 provide an overview of the responsibilities within the Board of Management.

The second management level within the Group consists of the division heads. They have global responsibility for their business and work in close cooperation with the Board of Management. The corporate departments of Dürr AG support the Board of Management.

2.16 — RESPONSIBILITIES WITHIN THE BOARD OF MANAGEMENT IN 2018

	Ralf W. Dieter (CEO)	Carlo Crosetto (CFO)	Dr. Jochen Weyrauch
Divisions	• Application Technology (until December 31, 2018) • Measuring and Process Systems (from April 1, 2018) • Woodworking Machinery and Systems (until December 31, 2018)		• Paint and Final Assembly Systems • Measuring and Process Systems (until March 31, 2018) • Clean Technology Systems
Corporate functions	• Corporate Communications • Human Resources (Employee Affairs Director) • Research & Development • Quality Management • Internal Auditing • Corporate Compliance	• Finance/Controlling • Investor Relations • Risk Management • Legal Affairs/Patents/Insurance • Global Sourcing • Corporate Social Responsibility	• Corporate Development • Information Technology

2.17 — RESPONSIBILITIES WITHIN THE BOARD OF MANAGEMENT SINCE JANUARY 1, 2019¹

	Ralf W. Dieter (CEO)	Carlo Crosetto (CFO)	Pekka Paasivaara	Dr. Jochen Weyrauch
Divisions	• Measuring and Process Systems		• Woodworking Machinery and Systems	• Paint and Final Assembly Systems • Application Technology • Clean Technology Systems
Corporate functions	• Corporate Communications • Human Resources (Employee Affairs Director) • Internal Auditing • Corporate Compliance • digital@DÜRR	• Finance/Controlling • Investor Relations • Risk Management • Legal Affairs/Patents/Insurance • Global Sourcing • Non Productive Material • Corporate Social Responsibility	• Operational Excellence	• Corporate Development • Global IT

¹ Effective January 1, 2019, the central functions of Research & Development and Quality Management no longer report directly to the Board of Management. The corporate functions of digital@DÜRR and Operational Excellence have been added.

There are two management teams at Group level: The top management team (Dürr Management Board) had 18 members as at December 31, 2018. It consists of the Board of Management, the heads and financial officers of the divisions as well the managers of certain corporate functions. The broader Senior Management Group is composed of around 90 chief executive officers and managers from the Group. An overview of the members of the Supervisory Board and the Board of Management as well as their mandates can be found in item 43 in the notes to the consolidated financial statements.

CONTROL

In accordance with Article 6 of Dürr AG's articles of incorporation, the Supervisory Board determines the number of members of the Board of Management and their appointment. The rules of procedure, which the Supervisory Board has issued for the Board of Management, contain a list of transactions requiring approval and determine the allocation of responsibilities.

At Supervisory Board meetings, the Board of Management comments on the agenda items and answers any questions. The written motions for the Supervisory Board, along with a detailed dossier, are sent to the members at least one week prior to the meeting.

On the day of the meeting, preliminary talks are usually held separately between the shareholder representatives and between the employee representatives. The Board of Management is available to provide any explanations that might be needed. The Chairman of the Supervisory Board has regular discussions with the Board of Management also outside the meetings.

SHAREHOLDINGS AND MANAGERS' TRANSACTIONS

We publish managers' transactions, i.e. securities transactions that have to be reported pursuant to Article 19 of the MAR, as soon as the company is notified. An overview is available at www.durr-group.com under Investors/Corporate Governance.

As at December 31, 2018, the members of the Supervisory Board held 0.1 % of the shares of Dürr AG, while the Board of Management held a total of 0.3 % of the shares.

ACT ON EQUAL PARTICIPATION OF WOMEN AND MEN IN EXECUTIVE POSITIONS

We have fulfilled the provisions of the Act on Equal Participation of Women and Men in Executive Positions as follows:

- Since the 2016 elections, the Supervisory Board of Dürr AG has had four female members. This corresponds to a women's quota of 33 %, which fulfills the 30 % minimum quota required by law.
- The percentage of women on Dürr AG's Board of Management is 0 %; an increase is not planned before June 30, 2022.
- At the most senior management level of Dürr AG, the women's quota is 0 %; at the second most senior management level it was 25 % as at December 31, 2018. The targets have been set at 0 % for the first management level and at 20 % for the second level. The date by which both targets must be achieved is June 30, 2022.

DIVERSITY

Diversity is one of the five basic values of our Leadership Skills Model. No form of discrimination on grounds of gender, age, religion, disease, background, skin color, sexual orientation or for any other reason is tolerated at the Dürr Group. We ensure diversity and equal opportunities when hiring staff. We aim to give adequate consideration to women. Flexible working time models which meet individual needs promote equal opportunities. In view of the international nature of our business, intercultural diversity and tolerance are important values at the Dürr Group.

When appointing members to the Board of Management, the Supervisory Board pays particular attention to professional and social skills as well as to long-term experience in similar positions, in our industry and in an international environment. Added to that are character aptitude and an appropriate educational background (university degree or equivalent qualification). Preference is given to neither male nor female candidates. To ensure a balanced age structure, the age limit for members of the Board of Management is, generally, 63.

DISCLOSURES PURSUANT TO SECTIONS 289A (1) AND 315A (1) OF THE GERMAN COMMERCIAL CODE (HGB)

• Structure of subscribed capital

Dürr AG's subscribed capital is divided into 69,202,080 bearer common shares with full voting rights. The rights and obligations associated with the shares are regulated in the German Stock Corporation Act.

• Restrictions on voting rights/transfer of shares and related agreements

The Board of Management is not aware of any agreements by shareholders of Dürr AG which contain restrictions relating to voting rights or the transfer of shares. Legal voting right limitations exist, for example, pursuant to Section 44 (1) (breach of disclosure obligations) of the German Securities Trading Act as well as Section 71b (rights arising from own shares) and Section 136 (1) (voting right exclusion in the case of certain conflicts of interest) of the German Stock Corporation Act.

• Shareholdings that exceed 10 %

Heinz Dürr GmbH, Berlin, holds 25.3 % of Dürr AG's capital stock. Taking into account the shares held by Heinz und Heide Dürr Stiftung, Berlin, (3.5 %), the Dürr family controls 28.8 % of the shares (as at December 31, 2018).

• Shares conferring special rights

There are no shares in Dürr AG that confer special rights.

• Voting right control of any employee stock ownership plan where the control rights are not directly exercised

There are no employee stock ownership plans where the control rights are not exercised directly by the employees.

• Rules governing the appointment and replacement of members of the Board of Management

The applicable statutory rules are set out in Sections 84 and 85 of the German Stock Corporation Act and in Section 31 of the German Co-determination Act. Dürr AG's articles of incorporation do not contain any provisions that diverge from the

statutory rules. Article 6 (1) of the articles of incorporation states additionally that the Board of Management consists of at least two members and that the appointment of deputy members of the Board of Management is admissible. Article 6 (2) states that the Supervisory Board may appoint one member of the Board of Management to be the chair of the Board of Management and another member of the Board of Management to be the deputy chair.

▪ **Rules governing amendment of the articles of incorporation**

Any changes in the articles of incorporation are made by resolution at the annual general meeting. Unless otherwise mandatorily specified in the German Stock Corporation Act, the resolution is passed in accordance with Article 20 (1) of the articles of incorporation by a simple majority of the votes cast and – where a majority of the capital stock represented in the voting is required – by a simple majority of the capital stock represented in the voting. In accordance with Article 14 (4) of the articles of incorporation, the Supervisory Board is given the power to enact changes in the articles of incorporation which relate only to the wording. Pursuant to Article 4 (4) and Article 5 of the articles of incorporation, the Supervisory Board is authorized upon utilization of the conditional or authorized capital to amend the wording of the articles of incorporation to reflect the extent of the utilization.

▪ **Powers of the Board of Management to issue or buy back shares**

Information on this point may be found in item 27 in the notes to the consolidated financial statements.

▪ **Agreements in the event of a change of control following a takeover bid**

Bond: Section 7 of the terms of our corporate bond provides that the bondholders have the right to demand early redemption of their bonds by Dürr AG in the case of a redemption event. The redemption amount in that case will be 100 % of the face value plus accrued and unpaid interest up to the redemption date. A redemption event occurs if a change of control and a rating event take place cumulatively. A change of control means in this regard (a) that a person or group of persons acting in concert has become the legal or economic owner of more than 50 % of the common shares of Dürr AG, or (b) that we intend to sell or

otherwise dispose of all or almost all of the assets of Dürr AG to third parties (with the exception of a subsidiary of Dürr AG). The following cases constitute a rating event: The bonds have no rating, and no rating agency awards an investment grade rating for the bonds within 90 days of the occurrence of the change of control. The bonds have a rating at the time of the change of control, and at the end of a 90-day period after the change of control this rating does not represent an investment grade rating or has been withdrawn. Such covenants are customary practice and are included in comparable form in the terms of the bonds of other issuers. They serve to protect the interests of the bondholders.

Syndicated loan: The terms of our syndicated loan agreement stipulate that, in the event of a change of control, no additional cash drawings or applications for guarantees may be made. In addition, any lender can cancel the credit commitments it has made, which could result in the syndicated loan having to be repaid in part or even in full. The agent representing the interests of the banking syndicate must be informed about a change of control immediately after it becomes known. A change of control occurs if in total, directly or indirectly, more than 50 % of the common shares or voting rights of Dürr AG are held or controlled by one or more persons who have come to an accord on the exercising of voting rights or who collaborate in some other manner with the aim of achieving a lasting and substantial change in the business focus of Dürr AG.

▪ **Agreements providing for compensation in the event of takeover bids**

Where an arrangement has been agreed with the members of Dürr AG's Board of Management in the event of a takeover, this arrangement contains an option for a defined period for the Board of Management member, if a change of control should occur, to terminate the contract her/himself with capitalization of all the contractual remuneration components as a severance package, though as a maximum only up to the level of the balance of the emoluments for the remaining term of the Board member's contract of employment. Variable remuneration elements, which are included pro rata in the calculation, are only paid out when the contract of employment is legally terminated.

2018 Compensation report

In addition to the details below, the information contained in item 43 in the notes to the consolidated financial statements is part of this compensation report.

SIDELINE ACTIVITIES

The members of the Board of Management do not carry out any sideline activities other than those listed in item 43 in the notes to the consolidated financial statements. No loan agreements, guarantees or other liabilities exist between the members of the Board of Management and Dürr AG or its subsidiaries.

REGULAR REVIEW

The Supervisory Board Personnel Committee reviews the compensation system for the Board of Management at regular intervals and draws up proposals for its further development where necessary. The Supervisory Board examines these recommendations carefully and passes its resolutions on that basis. The appropriateness of the Board of Management's compensation is assessed using several criteria. These include the tasks of the Board of Management as a whole and of its respective members, the members' personal performance, the economic situation as well as the company's long-term success and outlook. In addition, the Supervisory Board follows the development of the Board of Management's compensation in comparison with other companies from the relevant industry as well as with the top management team and the workforce at Dürr.

The current compensation system has been in place since 2010. All contracts of the Management Board members include short-term and long-term incentives (variable compensation calculated over a period of one and several years, respectively), payment caps and a deductible that applies in connection with D&O (directors' and officers') liability insurance policies in case of liabilities.

COMPONENTS OF THE COMPENSATION SYSTEM

The compensation for the Board of Management consists of non-performance-related and performance-related (variable) components. The non-performance-related component is made up of the basic compensation (fixed compensation) payable in equal monthly installments, plus fringe benefits. The latter include the use of a company car, for example.

Performance-related compensation is based on short-term and long-term incentives; special bonuses may also be paid. The short-term incentive (STI) is calculated by multiplying the Group's earnings before tax (EBT) minus € 100 million by an individually defined factor. For Ralf W. Dieter this individual factor is 0.01, for Carlo Crosetto it is 0.004 and for Dr. Jochen Weyrauch it is 0.005. The STI payment is subject to a cap and is only applicable if the Group's EBT exceeds the minimum threshold of € 100 million. Please see chart 2.19 for more information.

The compensation payable under the long-term incentive (LTI) scheme is based on the development of Dürr's share price and the Group's average EBIT margin over a three-year period (LTI period). The LTI scheme operates on a rolling basis; nine LTI tranches have been issued since its introduction in 2010. Each year a specified number of virtual Dürr shares are issued, known as performance share units. In 2018, the following performance share units were issued: 50,000 for Mr. Dieter, 6,000 for Mr. Crosetto and 8,000 for Dr. Weyrauch. The amount payable at the end of the three-year LTI period is calculated by multiplying the number of performance share units by a share price multiplier and an EBIT multiplier. The share price multiplier corresponds to the average closing price of the Dürr share in euros in the last 20 trading days prior to the first annual general meeting after the three-year LTI period. The EBIT multiplier is calculated on the basis of the average EBIT margin achieved by the Group during the term of the LTI tranche.

The overall LTI payment and the EBIT multiplier are subject to caps. The EBIT multiplier reaches its maximum of two if an average EBIT margin of at least 8 % has been achieved. If the average EBIT margin is 4 % or below, the EBIT multiplier is zero, and therefore no LTI payment is made.

During the term of the LTI scheme, the participants must hold a certain number of Dürr shares for the duration, in order to be awarded the maximum number of performance share units. The participants must purchase the Dürr shares with their own funds. Mr. Dieter must hold 80,000 shares, Mr. Crosetto 4,500 and Dr. Weyrauch 6,000 (total number of shares to be held after the third LTI tranche). The LTI target achievement is illustrated using the example shown in chart 2.20.

2.18 — COMPENSATION FOR THE BOARD OF MANAGEMENT: BENEFITS GRANTED

€	RALF W. DIETER CEO					CARLO CROSETTO CFO		
	2017	2018	2018 (min)	2018 (max)	2017	2018	2018 (min)	2018 (max)
Basic compensation (fixed compensation)	800,000	800,000	800,000	800,000	416,667	500,000	500,000	500,000
Fringe benefits (payments in kind, allowances related to insurance premiums etc.)	50,908	42,009	42,009	42,009	13,162	16,590	16,590	16,590
Total	850,908	842,009	842,009	842,009	429,829	516,590	516,590	516,590
One-year variable compensation (STI)	1,600,000	1,196,800	0	1,600,000	566,183	478,720	0	700,000
Total of multi-year variable compensation (LTI)	1,200,000	1,200,000	0	1,200,000	125,000	129,203	0	275,000
Variable compensation LTI 2015–2017	400,000	–	–	–	–	–	–	–
Variable compensation LTI 2016–2018	400,000	400,000	0	400,000	–	–	–	–
Variable compensation LTI 2017–2019	400,000	400,000	0	400,000	125,000	44,415	0	125,000
Variable compensation LTI 2018–2020	–	400,000	0	400,000	–	84,788	0	150,000
Other variable compensation	0	0	0	17,991	0	0	0	388,410
Total	3,650,908	3,238,809	842,009	3,660,000	1,121,012	1,124,513	516,590	1,880,000
Benefit obligation contribution	640,000	640,000	480,000	640,000	69,976	106,618	50,000	120,000
Total compensation	4,290,908	3,878,809	1,322,009	4,300,000	1,190,988	1,231,131	566,590	2,000,000

A further component of the compensation is the employer-financed contribution to the company pension. This contribution is made up of 10 % of the basic compensation and 10 % of the previous year's STI, and is paid into our pension plan ('VORaB' scheme). The CEO additionally receives a fixed pension contribution of € 400 thousand. The pension scheme is the Group's defined benefit company pension plan based on a reinsurance scheme. If a member of the Board of Management resigns from office, no further expenses will be incurred under this scheme.

The Supervisory Board can agree targets with the members of the Board of Management for the further strategic development of the Group, and pay an additional bonus if these have been successfully implemented. A special bonus may also be paid for exceptional performance and successful achievements, and/or if a member of the Board of Management takes on an additional responsibility. The special bonus is also subject to a cap, equivalent to the difference between the sum of the defined maximum individual compensation payments and the maximum total compensation.

Aside from the Board of Management, other top managers also participate in the LTI scheme. They, too, must purchase an individually defined number of Dürr shares and hold them for the duration, in order to be awarded the maximum number of performance share units.

COMPENSATION FOR 2018

Total compensation expense for the Board of Management in 2018 was € 6,737 thousand (2017: € 8,407 thousand). Former members of the Board of Management received pension benefits in the amount of € 550 thousand (2017: € 550 thousand).

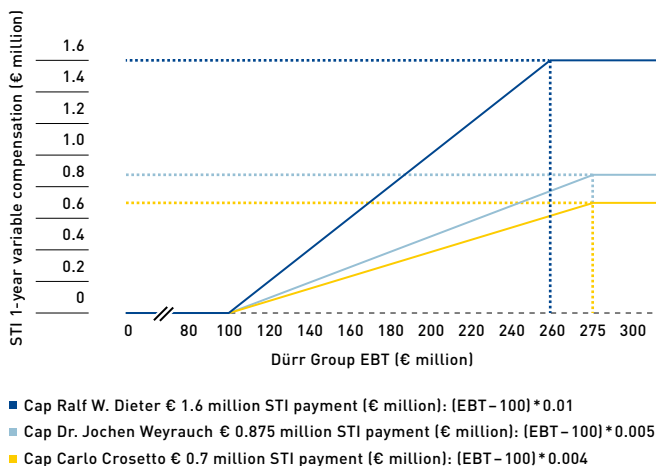
The LTI expenses shown in table 2.18 include the amounts recognized as liabilities on a pro-rata basis for the current LTI tranches. The share price multiplier used for the 2018 compensation was calculated based on the average closing price of the Dürr share in the last 20 trading days in December 2018. This is because the average closing price in the last 20 trading days prior to the 2019 annual general meeting was, of course, not known at the time. The LTI expenses for the 2017 to 2019 tranche shown for Mr. Crosetto and Mr. Weyrauch in table 2.18 are substantially lower than in the previous year. The main reason for this is the drop in the average closing price and in the EBIT margin. Furthermore, the maximum amount was recognized in liabilities in 2017. This amount had to be adjusted in view of the declines in share price and EBIT margin, which is why the addition to the LTI liability was lower in 2018. In 2018, Ralf W. Dieter received a total payment of € 1,200 thousand from the 2015 to 2017 LTI tranche. Carlo Crosetto and Dr. Jochen Weyrauch, who joined the Board of Management in 2017, have not received any LTI payments yet.

€	DR. JOCHEN WEYRAUCH Member of the Board of Management				RALPH HEUWING CFO until: May 14, 2017
	2017	2018	2018 (min)	2018 (max)	2017
Basic compensation (fixed compensation)	500,000	537,500	537,500	537,500	240,219
Fringe benefits (payments in kind, allowances related to insurance premiums etc.)	15,762	23,856	23,856	23,856	11,787
Total	515,762	561,356	561,356	561,356	252,006
One-year variable compensation (STI)	679,420	598,400	0	875,000	600,000
Total of multi-year variable compensation (LTI)	200,000	145,783	0	400,000	566,667
Variable compensation LTI 2015–2017	–	–	–	–	–
Variable compensation LTI 2016–2018	–	–	–	–	322,222
Variable compensation LTI 2017–2019	200,000	32,732	0	200,000	188,889
Variable compensation LTI 2018–2020	–	113,051	0	200,000	55,556
Other variable compensation	0	200,000	0	464,894	0
Total	1,395,182	1,505,539	561,356	2,301,250	1,418,673
Benefit obligation contribution	83,971	121,692	53,750	123,750	27,083
Total compensation	1,479,153	1,627,231	615,106	2,425,000	1,445,756

At the meeting held on March 21, 2018, the Supervisory Board granted Dr. Weyrauch a bonus of € 200,000 for 2017. The reason for this was that Dr. Weyrauch had assumed responsibility for the Paint and Final Assembly Systems division in addition to his existing roles.

2.19 — COMPENSATION FOR THE BOARD OF MANAGEMENT: STI

STI (€): (EBT reporting year – 100) * individual factor

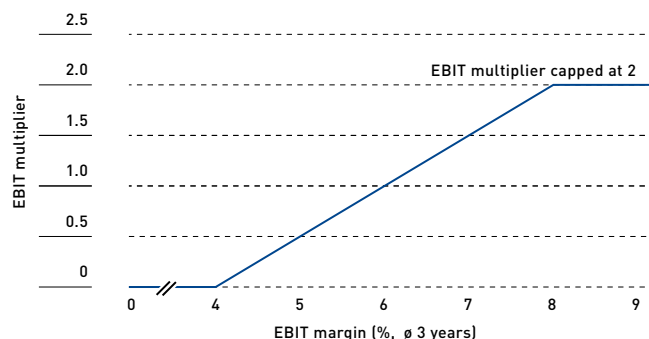


BOARD OF MANAGEMENT CONTRACTS

The contracts of the members of the Board of Management are concluded for a period of three years upon joining the Board. When the contracts are due for renewal, they are usually extended by a total period of five years as permitted by law. In December 2018, ahead

2.20 — COMPENSATION FOR THE BOARD OF MANAGEMENT: LTI

LTI (€): number of performance share units (PSU) * share price * EBIT multiplier (3-year average)



Example of LTI calculation (3-year tranche):
EBIT multiplier 1.0 (≅ 6% EBIT margin, 3-year average)
8,000 PSU€ 33 share price = € 264,000

2.21 — COMPENSATION FOR THE BOARD OF MANAGEMENT: PAYMENTS MADE

	RALF W. DIETER CEO		CARLO CROSETTO CFO		DR. JOCHEN WEYRAUCH Member of the Board of Management		RALPH HEUWING CFO until: May 14, 2017
€	2017	2018	2017	2018	2017	2018	2017
Basic compensation (fixed compensation)	800,000	800,000	416,667	500,000	500,000	537,500	240,219
Fringe benefits (payments in kind, allowances related to insurance premiums etc.)	50,908	42,009	11,182	16,590	15,762	23,856	11,787
Total	850,908	842,009	427,849	516,590	515,762	561,356	252,006
One-year variable compensation (STI)	1,581,260	1,600,000	–	566,183	–	679,420	2,023,134 ¹
Multi-year variable compensation (STI)	1,200,000	1,200,000	–	–	–	–	2,799,430 ²
Other variable compensation	0	0	0	0	0	200,000	0
Total	3,632,168	3,642,009	427,849	1,082,773	515,762	1,440,776	5,074,570
Benefit obligation contribution	638,126	640,000	16,667	78,309	25,000	85,221	130,740
Total compensation	4,270,294	4,282,009	444,516	1,161,082	540,762	1,525,997	5,205,310

¹ STI 2016 and 2017

² LTI tranches 2014 to 2016, 2015 to 2017, 2016 to 2018, 2017 to 2019

of schedule, the Supervisory Board extended the appointment of Mr. Dieter as CEO until June 30, 2023. Mr. Dieter received a new contract of employment for the period of January 1, 2019, through June 30, 2023. His previous contract of employment, which was due to end on December 31, 2020, was terminated. The employment contracts of the other members of the Board of Management run for a term of three years. Mr. Crosetto's contract ends on February 29, 2020; Mr. Paasivaara's on December 31, 2021; and Dr. Weyrauch's on December 31, 2019. Please also see the information in the paragraph entitled "Disclosures pursuant to Sections 289a (1) and 315a (1) of the German Commercial Code (HGB)".

COMPENSATION SYSTEM FOR THE SUPERVISORY BOARD

The compensation paid to the members of the Supervisory Board is set out in Article 15 of Dürr AG's articles of incorporation. The full text is available on our website, www.durr-group.com, under Investors/Corporate Governance. The compensation system for the Supervisory Board, which has been in place since 2016, stipulates that each member receives a fixed compensation payment of € 40,000, which is due at the end of the year. Members are also entitled to a € 1,000 attendance fee for each meeting attended, plus reimbursement of expenses. The variable compensation is based on the three-year rolling average EBT margin and must not exceed € 24,000. The Chairman of the Supervisory Board receives three times the total compensation paid to a regular member; each deputy chairman receives one and a half times the total compensation paid to a regular member. The compensation paid to the members of

the Audit Committee is € 10,000 per year; the committee chairman receives two times that amount. The members of the Personnel Committee receive € 5,000 per year, while the chairman receives one and a half times that amount. The members of the Nominating Committee are entitled to a compensation payment of € 2,500 per meeting, the chairman receiving one and a half times that amount. Any members serving on the Supervisory Board or a committee for a part of the fiscal year only are remunerated pro rata temporis.

Total compensation paid to the members of the Supervisory Board in 2018 was € 1,151 thousand (2017: € 1,220 thousand). Information on the individual compensation payments made to the members of the Supervisory Board can be found in item 43 in the notes to the consolidated financial statements.

PERFORMANCE-RELATED COMPENSATION FOR OTHER EMPLOYEES

Non-tariff employees receive a basic annual salary plus a performance-related bonus. The bonus is linked to the achievement of financial and personal performance targets. In most cases it is between 5 and 10 % of the basic salary, but higher for managers. Tariff employees at almost all German Group companies receive a profit-sharing bonus, which is subject to earnings exceeding a certain threshold pre-agreed with the Works Council. For 2018, the profit-sharing bonus payable to full-time tariff employees in Germany is € 2,250 at Dürr and Schenck, and € 2,750 at the HOMAG Group.

BUSINESS REPORT

Economy and industry environment

CYCLICAL HIGH REACHED BY THE GLOBAL ECONOMY IN 2018

In 2018, the global economy continued on its long-standing expansionary trajectory, growing by 3.8 % and, hence, at the same rate as in 2017. However, the momentum slowed in the second half of the year, primarily as a result of the escalating trade conflicts, rising US interest rates, the uncertainty surrounding the Brexit roadmap and public-sector budget problems in Italy. With the economy cooling off, global market prices of commodities and energy softened in the second half of the year, in some cases substantially so.

In the United States, gross domestic product (GDP) rose by 2.9 % in 2018, thus exceeding expectations. Although the European economy was spurred by declining unemployment and consistently low interest rates, growth in the Eurozone (+1.9 %) and in Germany (+1.5 %) fell short of the original forecasts for 2018. China posted

2.22 — GROWTH IN GROSS DOMESTIC PRODUCT

% year-on-year change	2018	2017	2016
Global	3.8	3.7	3.2
Germany	1.5	2.2	1.9
Eurozone	1.9	2.4	1.8
Russia	1.6	1.5	-0.2
United States	2.9	2.2	1.5
China	6.6	6.9	6.7
India	7.6	6.7	7.9
Japan	0.7	1.7	0.9
Brazil	1.1	1.0	-1.2

Source: Commerzbank 01/2019

GDP growth of 6.6 %, thus remaining close to the previous year's level. India remained on an upward trajectory, while Russia and Brazil reported low GDP growth rates.

The exchange rates of the main currencies have fluctuated in relatively narrow spreads over the past three years. The euro was very strong from January to April 2018, reaching figures of up to USD 1.25. After this, it dropped to USD 1.15, something which aided export-oriented companies in the Eurozone. The euro gained slightly against the Chinese renminbi in the course of the year but sagged somewhat at the end of the year. Amidst Brexit-related uncertainties, pound sterling continued on its downward course. As a result, the euro approached an exchange rate of GBP 0.90 toward the end of 2018.

2.23 — AVERAGE EXCHANGE RATES

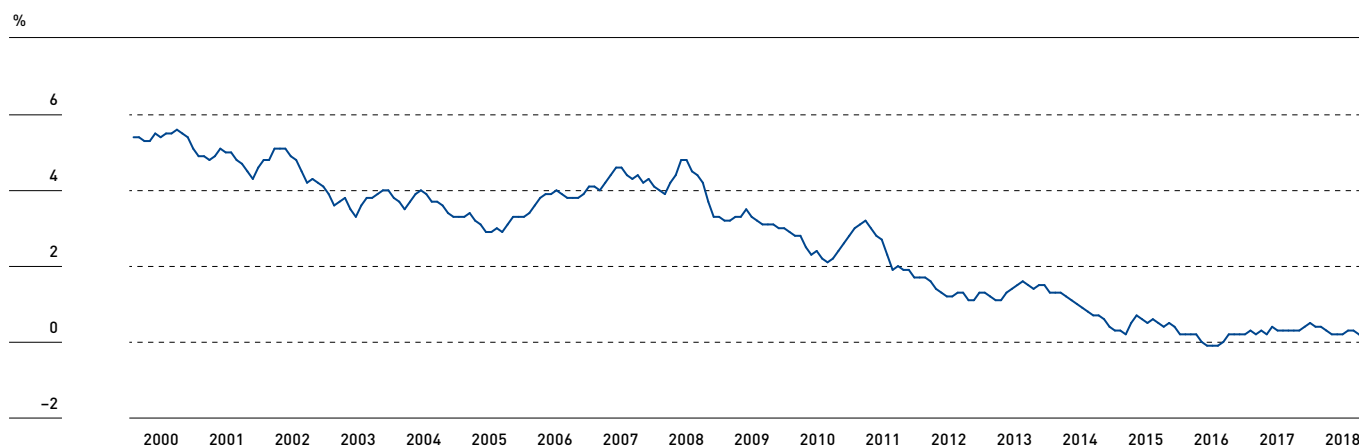
€ 1 equals	2018	2017	2016
USD	1.1792	1.1371	1.1037
GBP	0.8862	0.8764	0.8228
JPY	129.9983	127.3383	120.4308
CNY	7.8167	7.6614	7.3399

Source: Commerzbank

CURRENT YIELD IN GERMANY SLIGHTLY ABOVE 0 %

In Germany, the current yield on fixed-interest bonds fell from 0.3 to 0.1 % in 2018, thus reaching an extremely low level. Despite rising US interest rates, a slight increase in inflation as well as rising wages and salaries in Europe, the ECB retained its accommodative monetary policy, leaving its key rate at 0 %. However, bond purchasing by the ECB was discontinued at the end of 2018.

2.24 — CURRENT YIELD IN GERMANY



Source: Deutsche Bundesbank 01/2019

After a strong start to the year, equity markets softened more and more. For the first time since 2011, the DAX posted a negative performance for the year, at -18 %. The more cyclical equities in the capital goods and automotive sectors declined to a disproportionately strong degree. This was materially triggered by investor uncertainty in the wake of the trade conflicts and other political crises. Many companies scaled back their earnings forecasts for 2018 and 2019.

GLOBAL AUTOMOTIVE PRODUCTION ON A PAR WITH PREVIOUS YEAR

In 2018, 94.0 million passenger cars and light commercial vehicles were built worldwide. Accordingly, production remained flat over the previous year. China sustained a contraction of 4.0 %, with the 26.3 million units produced in that country corresponding to a share of around 28 % of global automotive production. The main reasons for this unsatisfactory performance were the uncertainty of Chinese consumers in view of the trade conflict with the United States and the muted state of the domestic real estate market. As expected, automotive production in North America receded slightly for the second consecutive time. Brazil and Russia reported significant increases in production, while vehicle production in India rose sharply. Production in Western Europe increased slightly, although the introduction of the new Worldwide Harmonized Light Vehicle Test Procedure (WLTP), a standard for deter-

mining fuel consumption and emissions, placed a damper on output in the second half of the year.

Capacity utilization of automotive plants dropped to a global average of 69.5 % in 2018 (2017: 72.4 %). Despite this, capital spending on machinery and plant increased in the automotive indus-

2.25 — PRODUCTION OF LIGHT VEHICLES

Million units	2018	2017	2016
Global	94.0	94.0	92.2
Western Europe	15.2	15.1	15.0
Germany	5.6	5.9	6.1
Eastern Europe	7.1	7.1	6.6
Russia	1.6	1.5	1.2
North America (incl. Mexico)	16.8	17.1	17.6
United States	10.8	11.2	11.8
South America	3.4	3.1	2.8
Brazil	2.8	2.5	2.1
Asia	48.7	49.0	47.9
China	26.3	27.4	26.6
Japan	9.0	8.9	8.5
India	4.9	4.3	4.1

Sources: PwC 01/2019, own estimates

try. This arose from rising demand for production technology for electric vehicles from both established automotive OEMs and new e-mobility producers. Moreover, many automotive OEMs are expanding their production capacity in foreign markets to reduce exports and to lower their exposure to trade conflicts.

EXPANSION IN MECHANICAL AND PLANT ENGINEERING IN 2018

2018 was another good year for German producers of capital goods. Capital spending on plant and equipment rose by just under 5 %, up from 4 % in the previous year. According to figures released by the German Mechanical and Plant Engineering Association (VDMA), the sector's sales climbed by 2 %, making 2018 the second consecutive year of growth after a protracted period of stagnation. The growth achieved in 2018 was underpinned by strong domestic and foreign demand. Exports of German machinery and equipment to other EU countries climbed at a gratifying rate, with exports to China and the United States increasing even more strongly.

DEMAND FOR WOODWORKING MACHINERY MORE MUTED AFTER STRONG EARLIER YEARS

The VDMA association for woodworking machinery reported sales growth of 4 % in the period from January to November 2018, which was spurred by large order backlogs in particular. By contrast, order intake dropped by 6 %, reflecting scaled-back capital spending in China and other Asian countries as a result of higher US tariffs on imported furniture and concerns over possible further trade barriers. Moreover, the furniture industry in China had invested heavily in new factories in 2017 and must now operate these at full capacity before embarking on new investments.

Explanatory notes on the figures

The charts and tables in this management report generally contain IFRS figures for the years from 2016 through 2018.

EBIT

EBIT is defined as earnings before interest, income taxes and income from investments. Extraordinary effects are eliminated in operating EBIT; these extraordinary effects are listed in table 2.39.

ACCOUNTING: FIRST-TIME APPLICATION OF IFRS 15

We have been applying the new International Financial Reporting Standard, IFRS 15 "Revenue from Contracts with Customers", since January 1, 2018, for the recognition of revenue. In this report, the figures for both 2018 and 2017 are presented in accordance with IFRS 15. For this reason, the comparison figures presented for 2017 may differ slightly from those disclosed in the annual report for 2017, which was prepared in accordance with the previous standards, IAS 11 and IAS 18. Table 2.26 provides an overview of the changes in the key performance indicators for 2017. The figures for 2016, which were calculated in accordance with IAS 11 and IAS 18, have not been adjusted.

2.26 — ADJUSTMENTS TO 2017 DUE TO APPLICATION OF IFRS 15

€ million	2017 reported	IFRS 15 adjustments	2017 adjusted
Order intake	3,876.0	12.7	3,803.0 ¹
Sales	3,715.4	-2.2	3,713.2
Orders on hand	2,516.3	18.7	2,449.4 ¹
EBIT	289.6	-2.6	287.0
EBIT before extraordinary effects	281.8	-2.6	283.7 ²
Earnings after tax	201.5	-1.8	199.6
Share of earnings attributable to Dürr shareholders	194.4	-1.8	192.6
Equity	903.7	-3.2	900.5
Total assets	3,411.8	99.8	3,511.6
Net working capital	362.1	11.6	373.7

¹ Orders worth € 85.7 million received from business in Iran have been removed from order intake for 2017 and orders on hand as of December 31, 2017. This was due to a decision made by the Board of Management to discontinue business in Iran, which necessitated a retroactive adjustment to order intake and orders on hand in the fourth quarter of 2017.

² In this report we have also included the purchase price allocation effects for smaller entities acquired in earlier years (e.g. iTAC, Agramkow, Dualis) in the extraordinary effects for 2018 and 2017 for the first time. In previous years, only the purchase price allocation expenses for the HOMAG Group had been included.

REPORTING PRACTICES

Generally speaking, the amendments to the IFRS had a limited impact on the presentation of the company's economic position in 2018. Relatively few reporting options are available under the IFRS and their utilization impacts our net assets, financial position and results of operations only minimally. They can be used, for example, in connection with inventories or property, plant and equipment. In the case of important balance sheet items, we exercise options in such a way that the greatest possible measurement continuity is preserved. We made use of most of the reporting options in unchanged form in 2018. Similarly, the use of accounting measures exerted at most only a minor influence on the presentation of the results of operation. Moreover, it is inconsistent in many cases with our commitment to continuity and cross-period transparency.

DERECOGNITIONS IN ORDER INTAKE AND ORDERS ON HAND IN 2017

Orders worth € 85.7 million received from business in Iran were removed from order intake for 2017 and orders on hand as of December 31, 2017. This was due to a decision made by the Board of Management to discontinue business in Iran, which necessitated a retroactive adjustment to order intake and orders on hand in the fourth quarter of 2017.

HOMAG GROUP AG: DOMINATION AND PROFIT AND LOSS TRANSFER AGREEMENT

Under the terms of the domination and profit and loss transfer agreement entered into between Dürr Technologies GmbH and HOMAG Group AG, all of the net profit earned by HOMAG Group AG has accrued to Dürr since January 1, 2016. HOMAG Group AG's external shareholders (36.1% of the capital) are not entitled to a variable dividend. Instead, they receive a guaranteed dividend of € 1.01 per share for the duration of the domination and profit and loss transfer agreement. As is customary in such cases, valuation proceedings were commenced in April 2015 before the Regional Court of Stuttgart by a number of HOMAG Group AG's external shareholders, who sought to have the amount of the guaranteed dividend and the cash settlement offer (€ 31.56 per HOMAG Group AG share) reviewed by a court of law. The interest expense arising from the domination and profit and loss transfer agreement with HOMAG Group AG (2018: € 5.7 million) is recognized within the Dürr Group's financial result.

SALE OF THE DÜRR ECOCLEAN GROUP

When comparing 2018, 2017 and 2016, it should be borne in mind that we sold the Dürr Ecoclean Group (industrial cleaning technology) to Shenyang Blue Silver Industry Automation Equipment Co., Ltd. effective March 31, 2017. In the first quarter of 2017, the Dürr Ecoclean Group had contributed order intake of € 51.1 million, sales of € 47.5 million and EBIT of € 2.2 million to the Dürr Group, specifically the Measuring and Process Systems division. In 2016, it had generated order intake and sales of just under € 200 million and EBIT of around € 14 million. The proceeds of € 107.9 million from the sale of 85% of Dürr Ecoclean's capital accrued to us on March 31, 2017, with the book gain of € 23.0 million entered as extraordinary income within the Corporate Center. In calculating ROCE for 2016 and 2017, we eliminated the effects arising from the sale of the Ecoclean Group in the interests of full comparability.

ACQUISITION OF MEGTEC/UNIVERSAL

The MEGTEC/Universal Group contributed order intake of € 46.1 million, sales of € 47.6 million and EBIT of € 2.7 million (before purchase price allocation) after being consolidated for the first time on October 5, 2018. The contribution made by MEGTEC/Universal to order intake and sales in 2018 roughly matched the corresponding amount attributable to the Dürr-Ecoclean Group in the previous year. In a comparison of the two years, the effects of the two transactions on the aforementioned performance indicators largely cancel each other out.

ISSUE OF BONUS SHARES/EARNINGS PER SHARE

Following the issue of bonus shares, the number of shares in Dürr AG doubled to 69,202,080 on June 22, 2018. The issue of the bonus shares was tied to a two-fold increase in the company's share capital from € 88.6 million to € 177.2 million by means of an equity increase from the company's own funds. To this end, open reserves were converted into share capital without any change to total equity. The earnings per share reported in the management report are based on the new number of shares (69,202,080) and were adjusted retrospectively for the previous years.

CALCULATION OF NET FINANCIAL STATUS

We have adjusted the calculation of net financial status slightly to ensure a more accurate presentation. In contrast to earlier years, the net financial status as of December 31, 2018 and 2017, includes liabilities under all finance leases as well as liabilities under the

deferral of interest on financial liabilities. This caused net financial status to drop to € 176.3 million as of December 31, 2017, down from the previously reported figure of € 191.5 million.

We have been applying IFRS 16 “Leases” since 2019. Among other things, it provides for operating leases to be reported within financial liabilities. As a result, net financial status is expected to drop by around € 100 million.

Overall assessment by the Board of Management and target achievement

Conditions in the markets that we address were characterized by numerous political and economic uncertainties in 2018. The fact that, despite this, we were still able to achieve new records in order intake and sales underscores the good market position that we enjoy and the trust that our customers place in us. Our earnings performance reflects the measures initiated in 2018 to optimize operating business and to tap new earnings and growth potential in future years. Examples of these include the FOCUS 2.0 optimization program, the discontinuation of the micro gas turbine business and the acquisition of MEGTEC/Universal. The non-recurring expenses arising from these measures caused the extraordinary expenses included in EBIT to rise to € 41.4 million in 2018. However, they will yield appreciable improvements in earnings as early as in 2019.

Order intake rose by 3.4 % in 2018 and, at € 3,930.9 million, reached the upper end of the target corridor (€ 3,650 to 3,950 million). We had originally been looking for order intake of a maximum of € 3,900 million but raised this target to € 3,950 million following the acquisition of MEGTEC/Universal. Adjusted for currency translation effects, order intake rose by 5.2 % in 2018. Our automotive business was particularly successful, underpinned as it was by rising capital spending on production technology for electric vehicles and the establishment of new automotive OEMs in the market through the emergence of e-mobility. The HOMAG Group also registered high orders (€ 1,336.8 million) in its business with the woodworking industry, although this marked a small decline of 2.2 % over the previous year, in which very strong growth of 17.2 % had been achieved.

Consolidated sales rose by 4.2 % to € 3,869.8 million, translating into an increase of 6.1 % before currency conversion. All divisions reported an increase in sales with the exception of Measuring and Process Systems, which felt the effects of the sale of Dürr Ecoclean.

EBIT contracted by 18.6 % to € 233.5 million primarily as a result of the high extraordinary expenses (€ 41.4 million). By contrast, net extraordinary income of € 3.3 million had arisen in 2017. Operating EBIT, i.e. adjusted for extraordinary effects, was only € 8.8 million or 3.1 % down on the previous year. Table 2.39 lists the extraordinary effects. It should be borne in mind that we have also included the purchase price allocation effects for smaller entities acquired in earlier years (e.g. iTAC, Agramkow, Dualis) in the extraordinary effects for 2018 and 2017 for the first time. In previous years, only the purchase price allocation expenses for the HOMAG Group had been included. Similarly, the purchase price allocation effects recognized in 2018 for MEGTEC/Universal are also included in extraordinary expenses for 2018.

In mid-October, we corrected our original target of 7.0 to 7.5 % for the EBIT margin to between 5.8 and 6.3 %. The main reason for this was the decision to discontinue our loss-making micro gas turbine business and to recognize extraordinary expenses of € 17.3 million in this connection. In addition, it became evident that Woodworking Machinery and Systems (HOMAG Group) would be generating lower sales and earnings chiefly as a result of production bottlenecks. The Dürr Group recorded an EBIT margin of 6.0 % in 2018. This figure is within the reduced target corridor and, in light of the extraordinary effects occurring in 2018, is satisfactory. We expect a substantial improvement in 2019. This is indicated by the fact that Paint and Final Assembly Systems, Clean Technology Systems and Woodworking Machinery and Systems are budgeting increases in their operating earnings. Moreover, extraordinary expenses will be lower than in 2018.

The gross margin contracted to 22.1 % in 2018. Adjusted for the extraordinary expenses included in the cost of sales, it reached 22.9 %.

Net finance expense improved somewhat more substantially than expected, coming to € 13.8 million (2017: € 19.8 million). One crucial factor in this was the substantially higher net investment income, which included an amount of € 3.1 million primarily contributed by the Chinese HOMAG sales company.

At 25.6 %, our tax rate reached a similarly low level compared with the previous year. The US tax reform as well as the remeasurement of deferred taxes in China had a dampening effect. At € 163.5 million, earnings after tax came in at the top end of the range of between € 145 and € 165 million that we had defined in November.

2.27 — GROUP TARGET ACHIEVEMENT IN 2018

		Actual 2017 ¹	Actual 2018	2018 target (February 2018 forecast)	New 2018 target (November 2018 forecast including MEGTEC/Universal)
Order intake	€ million	3,803.0 ²	3,930.9	3,600–3,900	3,650–3,950
Orders on hand (December 31)	€ million	2,449.4 ²	2,577.2	2,200–2,700	2,400–2,600
Sales	€ million	3,713.2	3,869.8	3,700–3,900	3,750–3,950
EBIT margin	%	7.7	6.0	7.0–7.5	5.8–6.3
EBIT margin before extraordinary effects ³	%	7.6	7.1	7.4–7.8	6.8–7.2
ROCE	%	38.6	24.0	30–40	20–25
Net finance expense	€ million	–19.8	–13.8	slightly better	slightly better
Tax rate	%	25.3	25.6	27–28	27–28
Earnings after tax	€ million	199.6	163.5	180–200	145–165
Cash flow from operating activities	€ million	119.8	162.3	substantially up on the previous year	up on the previous year
Free cash flow	€ million	14.3	78.4	substantially up on the previous year	up on the previous year
Net financial status (December 31)	€ million	176.3	32.3	240–280	30–80
Liquidity	€ million	659.9	655.0	690–730	480–530
Capital expenditure ⁴	€ million	88.0	74.4	75–85	75–85

¹ The figures for 2017 have been adjusted following the first-time application of IFRS 15.

² Orders worth € 85.7 million received from business in Iran have been removed from order intake for 2017 and orders on hand as of December 31, 2017. This was due to a decision made by the Board of Management to discontinue business in Iran, which necessitated a retroactive adjustment to order intake and orders on hand in the fourth quarter of 2017.

³ extraordinary effects in 2018: € –41.4 million (2017: € 3.3 million)

⁴ on property, plant and equipment and on intangible assets (excluding acquisitions)

At 24.0 %, **ROCE** → [page 207](#) reached the target of 20 to 25 % defined in November 2018. We had previously set a range of 30 to 40 %.

After a strong fourth quarter, cash flow from operating activities widened by 35.5 %, with free cash flow increasing from € 14.3 million to € 78.4 million. This growth was thus stronger than we had been expecting, despite the fact that we had increased inventories to address the availability problems among a number of suppliers.

At € 655.0 million, cash and cash equivalents were virtually unchanged over the end of 2017, despite the outflow of € 103.9 million in the fourth quarter for the payment of the purchase price for MEGTEC/Universal. After initially setting a target of € 690 to 730 million for cash and cash equivalents, we lowered this range to between € 480 and 530 million. The fact that we exceeded this target substantially is due to the heavy cash flow generated in the fourth quarter. **Net financial status** → [page 207](#), which was also affected by the payment of the purchase price for MEGTEC/Universal, was in clearly positive territory at the end of the year, reaching a satisfactory figure of € 32.3 million.

Capital expenditure was down 15.5 % on the previous year and, at € 74.4 million, came in at the lower end of the customary range (€ 75 to 85 million). **IoT** → [page 206](#) and digitization formed a key aspect of capital expenditure.

DIVISIONS: MOST TARGETS REACHED

Our five divisions achieved most of the full-year targets that had been defined for 2018.

After a strong fourth quarter, Paint and Final Assembly Systems substantially exceeded the full-year target for order intake. Sales were also higher than expected. At 4.5 %, the EBIT margin reached the target range of 4.0 to 5.0 %. This relatively low figure is due to the heavy pressure that had been exerted on margins on many orders placed in 2017. In the course of 2018, margins on incoming orders improved slightly step by step. Against this backdrop and given the improvements achieved with the FOCUS 2.0 optimization program launched at the beginning of 2018, we expect margins to widen slightly in 2019 and 2020.

2.28 — TARGET ACHIEVEMENT OF THE DIVISIONS 2018

	Order intake (€ million)			Sales (€ million)			EBIT margin (%)		
	2018 act.	2018 target (February 2018 forecast)	New 2018 target (November 2018 forecast)	2018 act.	2018 target (February 2018 forecast)	New 2018 target (November 2018 forecast)	2018 act.	2018 target (February 2018 forecast)	New 2018 target (November 2018 forecast)
Paint and Final Assembly Systems	1,300.4	1,000–1,200	1,000–1,200	1,235.7	1,100–1,200	1,100–1,200	4.5	4.0–5.0	4.0–5.0
Application Technology	632.4	600–650	600–650	652.6	600–650	600–650	10.4	10.0–11.0	10.0–11.0
Clean Technology Systems	258.2	190–220	240–270	226.7	180–200	230–250	–6.6	1.5–2.5	negative
Measuring and Process Systems	403.3	430–460	430–460	456.5	440–480	440–480	13.1	12.5–13.5	12.5–13.5
Woodworking Machinery and Systems	1,336.8	1,350–1,500	1,350–1,450	1,298.3	1,300–1,400	1,250–1,300	6.6	7.5–8.0	6.5–7.0

Order intake and sales in the Application Technology division achieved new records in 2018, reaching the top end of the respective target corridors. At 10.4 %, the EBIT margin landed roughly in the middle of the target range. Operating EBIT in the Application Technology division reached a new record of € 68.2 million.

Clean Technology Systems achieved the targets defined for order intake and sales even after adjustments for MEGTEC/Universal. EBIT adjusted for extraordinary effects came to € 5.1 million, translating into an operating EBIT margin of 2.3 %. After extraordinary effects, a loss of € 15.0 million was registered at the EBIT level. This was principally due to high non-recurring expenses of € 17.3 million in connection with the discontinuation of the micro gas turbine business and purchase price allocation effects of € 2.8 million.

Measuring and Process Systems achieved sales of € 456.5 million, placing it in the middle of the target corridor. Order intake fell short of the previous year, which was influenced by big-ticket orders, and was below the forecast. At 13.1 %, the EBIT margin was the highest of all the divisions and lived up to our expectations.

Woodworking Machinery and Systems was able to increase its sales by 6.5 %. Following the 17.2 % increase in orders in the previous year, we had expected sales to rise somewhat more quickly in the first half of the year in particular. The fact that this increase failed to eventuate was due to capacity shortfalls on the part of suppliers and bottlenecks in production, which had not yet been sufficiently adjusted to accommodate growing business in end-to-end furniture production lines. The HOMAG Group is currently implementing a flexible production system, permitting greater efficiency in the execution of large orders and higher sales. On this basis, the EBIT margin is to

be widened again, after coming in at 6.6 % in 2018 and thus reaching the target corridor (6.5 to 7.0 %), which had been adjusted downward during the year. HOMAG was able to post substantial increases in sales and earnings already in the fourth quarter of 2018. Order intake did not quite reach the target in 2018 as business in China softened after the exceedingly strong demand in 2017.

The division targets for 2019 can be found in the “[Report on expected future development](#)” → [page 91](#).

PERFORMANCE INDICATORS

The main financial performance indicators for managing the Dürr Group are order intake, sales, EBIT, EBIT margin and ROCE (EBIT to [capital employed](#) → [page 207](#)). Cash flow from operating activities and free cash flow are also important financial parameters particularly at the Group level. Detailed information on the main financial performance indicators can be found in the section entitled “Operating performance indicators” in the “[Financial development](#)” chapter → [page 72](#). This section also contains information on the non-financial performance indicators. Please also note the non-financial consolidated declaration in connection with the non-financial issues and performance indicators.

MAIN EVENTS DRIVING BUSINESS PERFORMANCE

The acquisition of MEGTEC/Universal and the discontinuation of the micro gas turbine business were events which materially impacted the Dürr Group’s results of operations, financial condi-

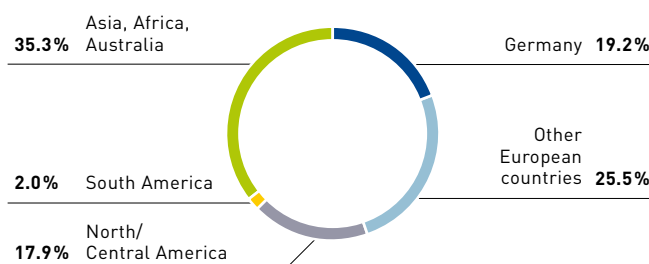
tion and net assets in 2018. In addition, we acquired a further 8.0 % of the shares in HOMAG Group AG for € 34.8 million, effective April 30, from the Schuler/Klessmann shareholder group. Demand in the automotive industry was higher than in the previous year, not least of all due to the trend toward electromobility. In our business with the woodworking industry, we noted strong demand for end-to-end production systems with a high level of automation and batch-size-1 capability; demand for individual machinery remained steady over the previous year.

Business performance

NEW RECORD REACHED IN ORDER INTAKE

Order intake rose by 3.4 % in 2018 to reach a new record of € 3,930.9 million. The effects on order intake arising from the sale of Dürr Ecoclean (2017) and the acquisition of MEGTEC/Universal (2018) largely cancel each other out, meaning that the two years, 2018 and 2017, are fully comparable. On the basis of like-for-like exchange rates, order intake would have been 5.2 % higher in 2018.

2.29 — CONSOLIDATED ORDER INTAKE BY SALES REGION

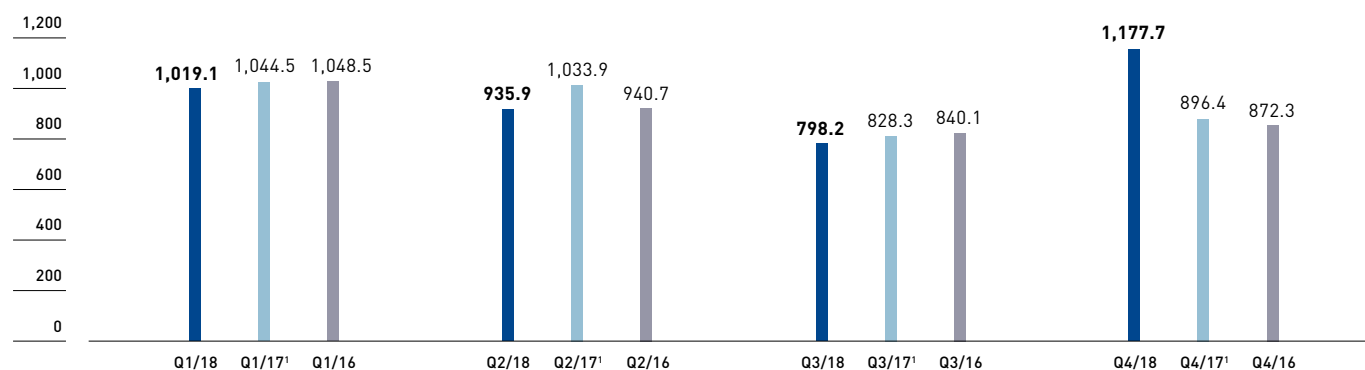


€ million	2018	2017 ¹	2016
Germany	753.6	592.7	555.6
Other European countries	1,003.0	1,170.5	1,154.7
North/Central America	705.1	820.9	1,045.3
South America	80.0	92.1	56.9
Asia, Africa, Australia	1,389.3	1,126.8	889.1
Total	3,930.9	3,803.0	3,701.7

¹ The figures for 2017 have been adjusted following the first-time application of IFRS 15. Orders worth € 85.7 million received from business in Iran were removed from order intake for 2017. This was due to a decision made by the Board of Management to discontinue business in Iran, which necessitated a retroactive adjustment to order intake in the fourth quarter of 2017.

2.30 — CONSOLIDATED ORDER INTAKE BY QUARTER

€ million



¹ The figures for 2017 have been adjusted following the first-time application of IFRS 15. Orders worth € 85.7 million received from business in Iran were removed from order intake for 2017. This was due to a decision made by the Board of Management to discontinue business in Iran, which necessitated a retroactive adjustment to order intake in the fourth quarter of 2017.

At 56.6 %, the greatest growth in new orders was achieved by Clean Technology Systems; even adjusted for the contribution from MEGTEC/Universal, the division still achieved high growth of 28.6 %. As the growth rates of 13.8 % (Paint and Final Assembly Systems) and 7.8 % (Application Technology) indicate, demand in paint systems business was also encouraging. After extremely strong growth in the previous year (up 17.2 %), Woodworking Machinery and Systems sustained a small 2.2 % decline. The drop in order intake in Measuring and Process Systems (down 25.7 %) was due to the sale of the Dürr Ecoclean Group in 2017. Moreover, the division had received an extraordinarily large number of big-ticket contracts in the previous year. The strong order intake ensured full capacity utilization for the Group.

Order intake from the emerging markets dropped by 3.8 % over the previous year to € 1,814.1 million, accounting for 46.1 % of total new orders within the Group (2017: € 1,885.3 million and 49.6 %). Orders received in China rose substantially by 12.1 %, coming to € 883.9 million. While orders remained at a high level in the automotive industry, demand for furniture production equipment softened in the Chinese market. Order intake in North and Central America contracted by 14.1 % to € 705.1 million due to more muted capital spending by automotive OEMs in these regions. In Europe (including Germany), order intake was roughly unchanged over the previous year's high level. All in all, we achieved a good international balance in our order intake. Among other things, an order was received in Vietnam for a large painting technology project. Our strong global market position offers us an important advantage as it allows us to expand even in the event of lower orders in individual regions.

The breakdown by quarter of the Dürr Group's order intake does not allow any meaningful conclusions to be drawn, as heavy fluctuation can arise from one quarter to the next on account of large system contracts. With new orders coming to € 1,177.7 million, the final quarter of 2018 was the strongest of the past three years.

6.1 % INCREASE IN SALES AT CONSTANT CURRENCY

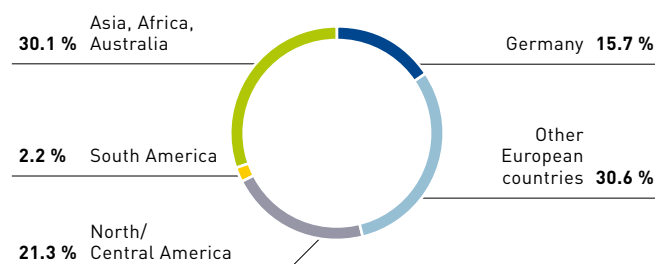
Consolidated sales rose by 4.2 % in 2018 to € 3,869.8 million, translating into an increase of 6.1 % before currency conversion. As with order intake, acquisition and divestment effects nearly cancelled each other out.

The consolidation of MEGTEC/Universal (from October 5, 2018) caused sales in Clean Technology Systems to widen by 22.1 %. The decline in sales in Measuring and Process Systems (down 10.7 %) was almost solely due to the sale of the Dürr Ecoclean Group. The other three divisions each posted gains in sales in the mid-single digits.

Table 2.31 shows that the regional breakdown of sales was also balanced. Once again, Europe contributed the greatest share (46.4 %), followed by Asia, Africa and Australia (30.1 %) and then North, South and Central America (23.6 %). At 47.8 %, the share accounted for by the emerging markets was more or less unchanged (2017: 48.0 %).

In contrast to order intake, the quarterly breakdown of sales reveals a distinct pattern. As a rule, our sales are higher in the third and fourth quarters than in the first half of the year. The final quarter is mostly the strongest in terms of sales, as a greater number of projects enter the final billing stage at the end of the year. As with order intake, the fourth quarter of 2018 was also by far the strongest period in the past three years for sales.

2.31 — CONSOLIDATED SALES BY SALES REGION

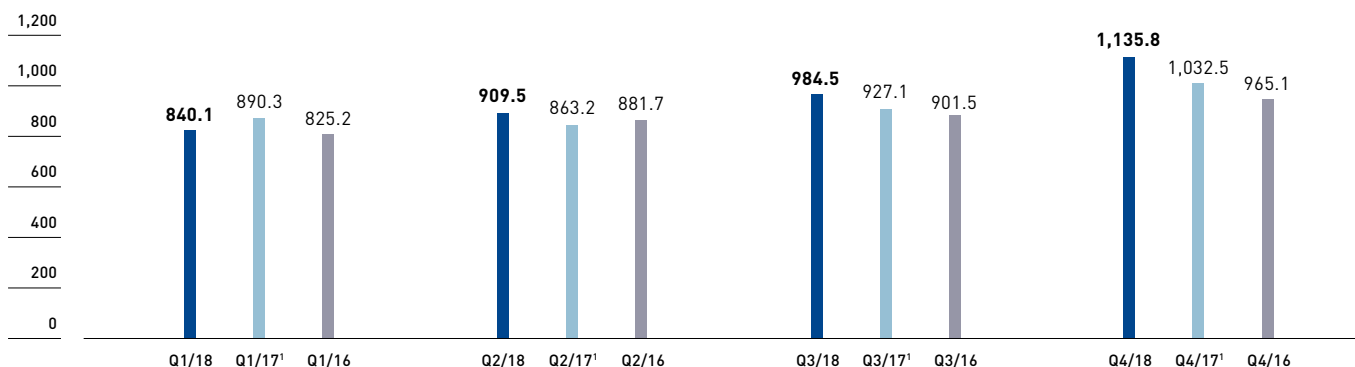


€ million	2018	2017 ¹	2016
Germany	609.4	485.9	542.8
Other European countries	1,184.4	1,090.0	1,010.9
North/Central America	826.1	926.8	770.8
South America	86.3	78.6	79.4
Asia, Africa, Australia	1,163.6	1,131.9	1,169.7
Total	3,869.8	3,713.2	3,573.5

¹ The figures for 2017 have been adjusted following the first-time application of IFRS 15.

2.32 — CONSOLIDATED SALES BY QUARTER

€ million



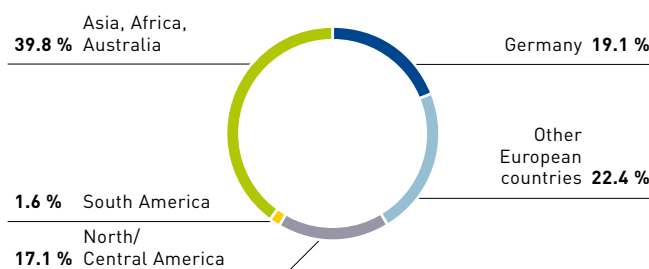
¹ The figures for 2017 have been adjusted following the first-time application of IFRS 15.

Service-related sales grew by 9.7 % in 2018 and, hence, substantially more quickly than new business. At € 1,039.0 million, service business exceeded the € 1 billion mark for the first time. All five divisions reported higher service-related sales. The proportion of service business in Group sales widened from 25.5 to 26.8 %. In the long term, we continue to target a share of 30 %.

ORDER BACKLOG 5.2 % UP ON THE END OF 2017

As order intake exceeded sales slightly, the book-to-bill ratio came to 1.02. The order backlog on December 31, 2018, climbed by 5.2 % compared with the end of 2017, reaching € 2,577.2 million. The bulk of short-term service business is not included in the order backlog. However, if it is added to the order backlog, we are confident of safely achieving our sales target of € 3.9 to 4.1 billion in 2019. Orders on hand as of the end of 2018 were sufficient to cover roughly two thirds of the sales target for 2019.

2.33 — CONSOLIDATED ORDER BACKLOG (DECEMBER 31) BY SALES REGION



€ million	2018	2017¹	2016
Germany	492.5	349.9	252.0
Other European countries	577.6	734.6	694.0
North / Central America	440.1	517.7	706.3
South America	40.3	50.8	42.3
Asia, Africa, Australia	1,026.7	796.5	873.8
Total	2,577.2	2,449.4	2,568.4

¹ The figures for 2017 have been adjusted following the first-time application of IFRS 15. Orders worth € 85.7 million received from business in Iran were removed from the order backlog as of December 31, 2017. This was due to a decision made by the Board of Management to discontinue business in Iran, which necessitated a retroactive adjustment to the order backlog as of December 31, 2017.

¹ Ratio of order intake to sales

2.34 — INCOME STATEMENT AND PROFITABILITY RATIOS

		2018	2017 ¹	2016
Sales	€ million	3,869.8	3,713.2	3,573.5
Cost of sales	€ million	-3,014.3	-2,856.0	-2,715.3
of which cost of materials	€ million	-1,573.0	-1,415.6	-1,403.6
of which personnel expense	€ million	-644.6	-623.0	-620.2
of which depreciation and amortization	€ million	-69.7	-56.9	-57.5
Gross profit	€ million	855.5	857.2	858.3
Overhead costs ²	€ million	-612.9	-601.8	-605.5
EBITDA	€ million	326.9	367.7	360.3
EBIT	€ million	233.5	287.0	271.4
EBIT before extraordinary effects ³	€ million	274.9	283.7	286.4
Net finance expense	€ million	-13.8	-19.8	-13.3
EBT	€ million	219.7	267.3	258.1
Income taxes	€ million	-56.2	-67.6	-70.3
Earnings after tax	€ million	163.5	199.6	187.8
Earnings per share ⁴	€	2.27	2.78	2.63
Gross margin	%	22.1	23.1	24.0
EBITDA margin	%	8.4	9.9	10.1
EBIT margin	%	6.0	7.7	7.6
EBIT margin before extraordinary effects ³	%	7.1	7.6	8.0
EBT margin	%	5.7	7.2	7.2
Return on sales after taxes	%	4.2	5.4	5.3
Interest coverage		11.5	13.4	13.7
Tax rate	%	25.6	25.3	27.2
Return on equity	%	16.5	22.2	22.6
Return on investment	%	5.3	6.5	6.4
ROCE	%	24.0	38.6	41.1

¹ The figures for 2017 have been adjusted following the first-time application of IFRS 15.

² selling, administrative and R&D expenses

³ extraordinary effects in 2018: € -41.4 million (2017: € 3.3 million), see table 2.39 for further information

⁴ Calculated on the basis of number of shares of 69,202,080 from June 22, 2018; figures for the previous year adjusted

GROSS MARGIN OF 22.1 % BURDENED BY EXTRAORDINARY EXPENSES

Total costs (cost of sales, selling, administrative and R&D costs plus other operating expenses) grew by 4.7 % and, hence, slightly more quickly than sales, coming to € 3,668.1 million in 2018. The increase in the cost of sales also outpaced sales growth slightly (up 5.5 %). However, it should be borne in mind that the cost of sales came

under pressure from substantially higher extraordinary expenses than in the previous year (2018: € 30.7 million / 2017: € 19.3 million). As a result, the gross margin narrowed from 23.1 % in the previous year to 22.1 % in 2018. Adjusted for the corresponding extraordinary effects in both years, the gross margin came to 22.9 % in 2018 and 23.6 % in 2017. Group gross profit dropped by € 1.7 million to € 855.5 million.

SUBSTANTIAL RISE IN THE COST OF MATERIALS

At 11.1 %, the cost of materials (€ 1,573.0 million) rose a good deal more quickly than sales. This resulted in a cost of materials ratio of 40.6 %, i.e. above the 40 % mark again, up from 38.1 % in the previous year. This increase was due to higher prices for raw materials and semi-finished goods as well as supply-chain and availability problems on the part of some vendors, which led to higher sourcing costs. The cost of materials is fully included in the cost of sales and chiefly comprises the cost of externally sourced parts and production and assembly services. Further information can be found in the chapter entitled “[Procurement](#)” → [page 30](#).

OVERHEAD COSTS RISE MORE SLOWLY THAN SALES

Overhead costs rose by a moderate 1.8 % to € 612.9 million. The selling expenses included in this item climbed by just 1.7 % and, thus, also less quickly than sales. As part of our digital@DÜRR digitization strategy, we increased our research and development (R&D) expenses by a further 3.6 % to € 121.0 million. Details on this and our innovations can be found in the chapter entitled “[Research and development](#)” → [page 31](#).

2.35 — OVERHEAD COSTS¹ AND EMPLOYEES IN 2018

	Employees	Costs (€ million)	Personnel expense (€ million)	Depreci- ation and amortization (€ million)	Other costs (€ million)
Selling	1,792	-314.2	-214.0	-6.3	-93.8
[2017]	1,728	-308.9	-211.0	-6.6	-91.2
Administra- tive	1,434	-177.8	-111.4	-7.3	-59.1
[2017]	1,312	-176.2	-114.4	-6.8	-54.9
R&D	782	-121.0	-77.7	-10.1	-33.2
[2017]	713	-116.7	-69.1	-7.9	-39.7

¹ The figures for 2017 have been adjusted following the first-time application of IFRS 15.

Group headcount was up 8.9 % by the end of 2018, rising to 16,312 employees. Roughly two thirds of this growth stems from the acquisition of MEGTEC/Universal (865 employees). We had an annual average of 15,593 employees (up 5.3 %). Despite substantially higher wages and salaries, personnel expense climbed by only 3.0 % to € 1,047.7 million, while the personnel expense ratio contracted from 27.4 to 27.1 %.

2.36 — PERSONNEL-RELATED INDICATORS

	2018	2017	2016
Employees (December 31)	16,312	14,974	15,235
Employees (annual average)	15,593	14,807	15,079
Personnel expense (€ million)	-1,047.7	-1,017.6	-1,011.8
Personnel expense ratio (%)	27.1	27.4	28.3
Personnel expense per employee (annual average) (€)	-67,188	-68,725	-67,100
Sales per employee (annual average) (€)	248,176	250,772	237,000

Net other operating expenses came to € 9.1 million in 2018. This includes transaction costs of € 4.9 million, which arose in connection with the acquisition of MEGTEC/Universal. The high net other operating income of € 31.6 million reported in the previous year had primarily been caused by the extraordinary income of € 23.0 million arising from the sale of the Ecoclean Group. Once again, the largest single items were currency translation expenses and income, resulting in net currency translation expenses of € 4.5 million in

2018. All other operating income and expenses remained within the customary range.

ONLY SLIGHT DECLINE IN OPERATING EBIT (DOWN 3.1 %)

EBIT – the most important earnings parameter in our overall management process – dropped by 18.6 % to € 233.5 million in 2018. However, this decline was primarily due to the high extraordinary expenses of € 41.4 million. By contrast, EBIT had benefited from the net positive extraordinary effect of € 3.3 million in the previous year. On the basis of like-for-like exchange rates, EBIT would have been € 5.5 million higher in 2018 and the decline in EBIT 1.9 percentage points smaller. The EBIT margin contracted by 1.7 percentage points to 6.0 %.

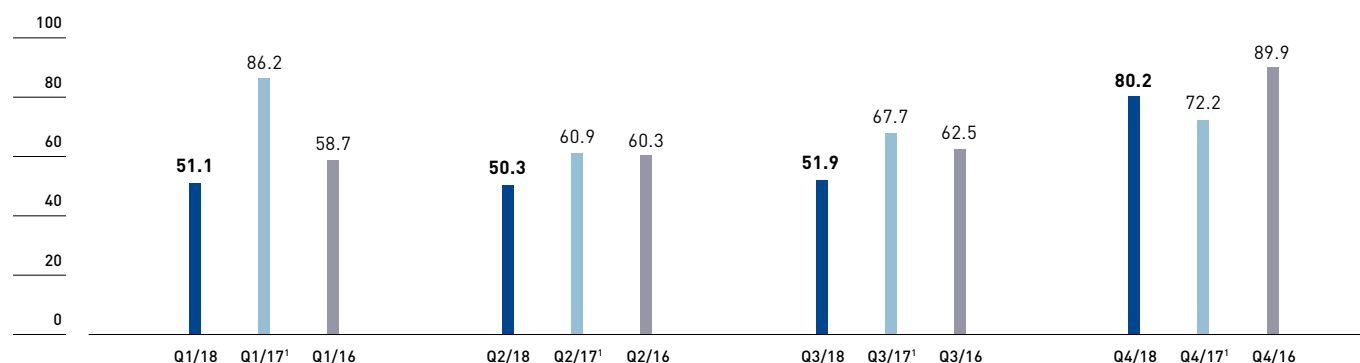
Adjusted for extraordinary effects, operating EBIT came to € 274.9 million, thus falling short of the previous year's figure (€ 283.7 million) by only 3.1 %. The operating EBIT margin came to 7.1 %, down from 7.6 % in the previous year.

EXTRAORDINARY EFFECTS IN 2017 AND 2018: ALL PURCHASE PRICE ALLOCATION EXPENSES INCLUDED FOR THE FIRST TIME

Table 2.39 breaks down the extraordinary effects recognized in profit and loss. In connection with the acquisition of MEGTEC/Universal, we decided to include the purchase price allocation effects

2.37 — EBIT BY QUARTER

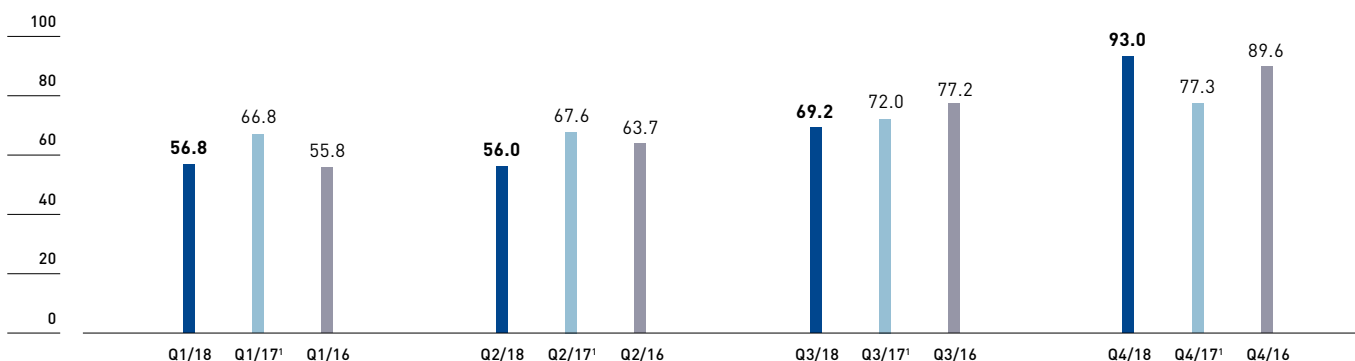
€ million



¹ The figures for 2017 have been adjusted following the first-time application of IFRS 15.

2.38 — EBIT BEFORE EXTRAORDINARY EFFECTS BY QUARTER

€ million



¹ The figures for 2017 have been adjusted following the first-time application of IFRS 15.

2.39 — EXTRAORDINARY EFFECTS WITHIN EBIT

€ million	2018	2017	2016
Paint and Final Assembly Systems	-2.2 • Purchase price allocation expense	-2.2 • Purchase price allocation expense	-4.8 • Cost of closing the Zistersdorf plant
Application Technology	-0.2 • Purchase price allocation expense	-0.5 • Expense for realigning glueing technology (Wolfratshausen plant) • Income from litigation • Purchase price allocation expense	17.3 • Income from the sale of real estate in the United States • Income from litigation
Clean Technology Systems	-20.1 • Expense from discontinuation of micro gas turbine business • Purchase price allocation expense	-0.7 • Purchase price allocation expense	- -
Measuring and Process Systems	-1.5 • Purchase price allocation expense	-2.4 • Expense for realigning filling technology (Agramkow) • Purchase price allocation expense	- -
Woodworking Machinery and Systems	-8.7 • Purchase price allocation expense	-8.7 • Purchase price allocation expense	-26.3 • Purchase price allocation expense • Write-off of trademark rights • Cost of closing the Weinsberg plant • Expense for terminating the employee capital participation program
Corporate Center	-8.7 • Expense from FOCUS 2.0 optimization program (Paint and Final Assembly Systems) • Transaction costs from the acquisition of MEGTEC/ Universal	17.7 • Income from the sale of the Dürr Ecoclean Group • Discontinuation of business at Dürr thermea GmbH	-1.2 • Transaction costs in connection with the sale of the Dürr Ecoclean Group • Income from the sale of shares in Tec4Aero (11 %)
Total	-41.4	3.3	-15.0

of all the acquisitions of the past few years, i.e. including smaller acquisition such as iTAC, Agramkow and Dualis, within extraordinary expenses for 2017 and 2018. Previously, they had only included the purchase price allocation expenses for the HOMAG Group. Purchase price allocation expenses came to a total of € 15.4 million in 2018. An overview of all the acquisitions of the past few years can be found at www.durr-group.com/en/investor-relations/key-figures/investments-acquisitions.

In the fourth quarter of 2018, EBIT increased by 11.1 % over the previous year, despite the high extraordinary expenses, and by a strong 54.6 % over the third quarter of 2018. Operating EBIT came to € 93.0 million in the fourth quarter, marking an increase of 20.2 % over the previous year. At 8.2 %, the operating EBIT margin was a good deal higher in the final quarter of the year than in the previous three quarters.

SUBSTANTIAL IMPROVEMENT IN FINANCE EXPENSE

Net finance expense improved substantially to € 13.8 million in 2018 (2017: € 19.8 million). In particular, net investment income was up significantly due to investment income of € 3.1 million, arising primarily in connection with the Chinese HOMAG sales company. Moreover, the negative currency translation effects, which left traces on dividend income, among other things, receded.

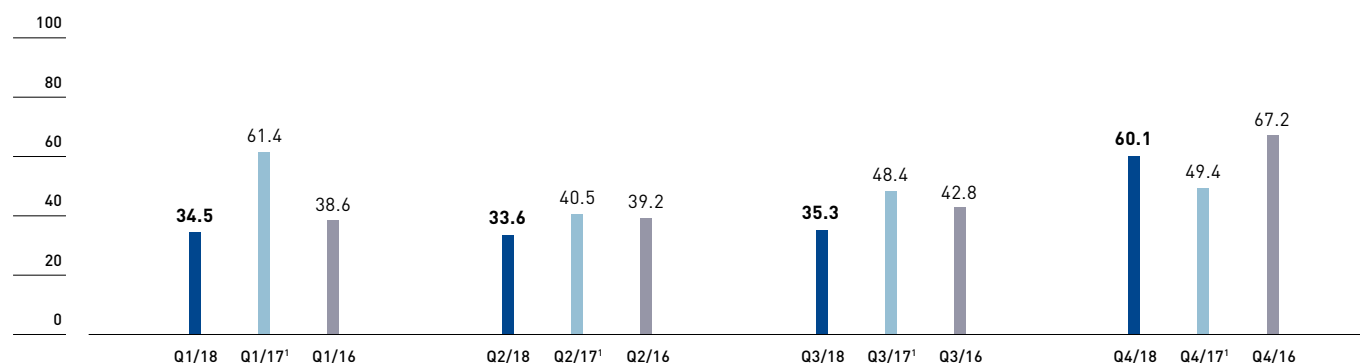
EARNINGS AFTER TAX BURDENED BY EXTRAORDINARY EFFECTS

The 17.8 % decline in earnings before tax is chiefly due to the high extraordinary expenses (€ -41.4 million) following the positive extraordinary effect of the previous year (€ 3.3 million). Tax expense contracted by € 11.5 million to € 56.2 million. At 25.6 %, the tax rate was only marginally higher than in the previous year, since the US tax reform as well as the remeasurement of deferred taxes in China exerted a dampening effect. In 2017 the tax rate had dropped to 25.3 % because, for one thing, the extraordinary income from the sale of the Ecoclean Group was largely tax-free and, for another, tax provisions that had been recognized in earlier years were released as they were no longer required. Earnings after tax dropped to € 163.5 million in 2018 (2017: € 199.6 million), primarily as a consequence of the extraordinary effects. The return on sales after tax came to 4.2 %, down from 5.4 % in the previous year. Net of non-controlling interests, earnings per share declined to € 2.27 (2017: € 2.78).

A dividend of € 1.00 per share is being proposed for 2018, equivalent to a total payout of € 69.2 million, i.e. down 9.1 % on the previous year. The payout ratio stands at 42 % of earnings after tax and is higher than the customary range of 30 to 40 %. This reflects the fact that the 18.1 % decline in earnings after tax is chiefly due to the high extraordinary expenses, whereas operating EBIT dropped by only 3.1 %.

2.40 — EARNINGS AFTER TAX BY QUARTER

€ million

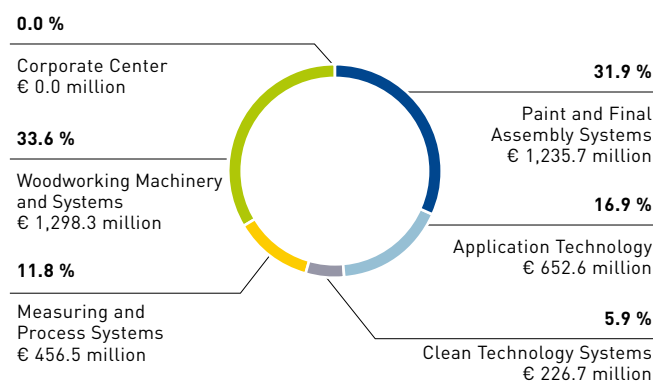


¹ The figures for 2017 have been adjusted following the first-time application of IFRS 15.

2.41 — SALES, ORDER INTAKE AND EMPLOYEES (DECEMBER 31, 2018) BY DIVISION

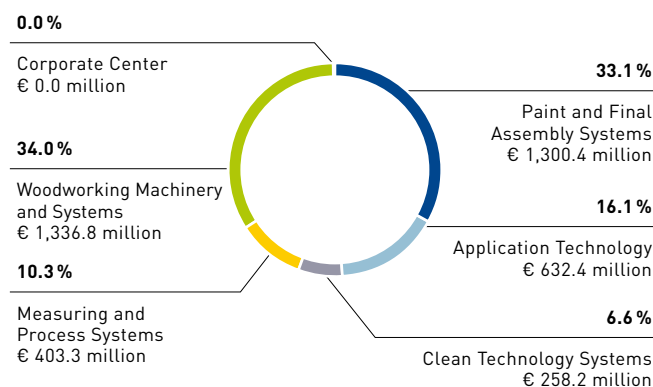
3,869.8
SALES (€ MILLION)

SALES



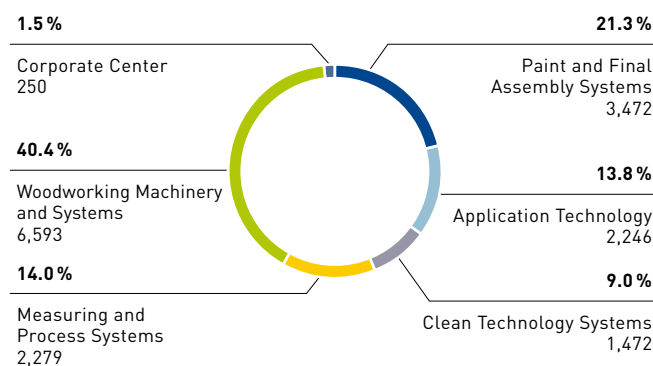
3,930.9
ORDER INTAKE (€ MILLION)

ORDER INTAKE



16,312
EMPLOYEES

EMPLOYEES



The dividend proposal leaves Dürr AG with a remaining net retained profit of € 508.4 million (2017: € 425.3 million), which is to be carried forward.

SEGMENT REPORT: DIVISIONS

2.42 — EBIT BY DIVISION

€ million	2018	2017 ¹	2016
Paint and Final Assembly Systems	56.0	70.4	77.2
Application Technology	68.0	64.8	76.1
Clean Technology Systems	-15.0	3.3	6.1
Measuring and Process Systems	59.7	64.3	79.7
Woodworking Machinery and Systems	86.2	83.0	44.9
Corporate Center/consolidation	-21.4	1.2	-12.5
Total	233.5	287.0	271.4

¹ The figures for 2017 have been adjusted following the first-time application of IFRS 15.

Table 2.42 shows EBIT by division; notes on this and on other division performance indicators can be found on the following pages. The Corporate Center sustained a loss of € 21.4 million at the EBIT level in 2018 after the positive figure of € 1.2 million in the previous year. One reason for this decline was the extraordinary expenses of € 8.7 million arising from the cost of the FOCUS 2.0 optimization program and transaction costs in connection with the acquisition of MEGTEC/Universal. By contrast, extraordinary income from the

sale of Dürr Ecoclean had been recognized in the Corporate Center in the previous year. Adjusted for the extraordinary effects, the Corporate Center recorded a loss of € 12.7 million at the EBIT level, compared with a loss of € 16.4 million in the previous year. This improvement was materially due to the fact that Woodworking Machinery and Systems was integrated in the Group transfer pricing system for the first time. The consolidation effects included in the Corporate Center EBIT came to € 1.4 million (2017: € 0.8 million).

Paint and Final Assembly Systems

Orders received by Paint and Final Assembly Systems rose by 13.8 % in 2018, despite the more selective approach that we are taking to the acceptance of orders under the FOCUS 2.0 optimization program. New orders were particularly high in the fourth quarter (€ 534.9 million) due to several big-ticket contracts received from China. Demand was the strongest in China, followed by Europe. By contrast, the Northern American market was muted in the year under review. However, a Japanese customer awarded us the largest paint systems contract so far received from the Japanese automotive industry for its US plant. The share accounted for by the emerging markets widened from 59 % to 63 %, underpinned by the strong performance of business with new automotive OEMs. For example, orders were placed by the VinGroup in Vietnam and e-mobility specialist Future Mobility Corporation in China. The margin quality of incoming orders improved over the previous year. Sales in the Paint and Final Assembly Systems division rose by 5.1 %, also reaching its highest level in the fourth quarter.

2.43 — PAINT AND FINAL ASSEMBLY SYSTEMS – KEY FIGURES

€ million	2018	2017 ¹	2016	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Order intake	1,300.4	1,142.3	1,094.5	274.2	303.3	187.9	534.9
Sales	1,235.7	1,175.2	1,140.0	270.2	297.1	311.2	357.1
Cost of materials (consolidated)	-571.8	-487.4	-535.9	-119.9	-138.5	-145.3	-168.0
EBITDA	70.4	84.7	92.0	16.1	16.1	17.4	20.9
EBIT	56.0	70.4	77.2	12.4	12.5	14.0	17.0
EBIT margin (%)	4.5	6.0	6.8	4.6	4.2	4.5	4.8
Cash flow from operating activities	117.0	-35.8	33.5	-41.6	65.8	-0.6	93.4
Capital expenditure	8.4	22.2	20.6	2.1	2.6	1.6	2.2
Capital employed	6.5	53.9	-41.5	117.9	66.3	79.6	6.5
ROCE (%)	>100	>100	>100	42.2	75.4	70.3	>100
Employees	3,472	3,457	3,384	3,435	3,405	3,447	3,472

¹ The figures for 2017 have been adjusted following the first-time application of IFRS 15.

At 4.5 %, the EBIT margin came within the forecast range of 4 to 5 %. The decline over the same period of the previous year is due to the more intense competition in 2016 and 2017 and, following on from this, the smaller margins on the orders accepted during that period. To address this, we have been implementing the FOCUS 2.0 program since the beginning of 2018. The purpose is to help Paint and Final Assembly Systems reach the EBIT margin target of 6 to 7 % again in 2020. In 2018, consulting costs of € 3.7 million were allocated to the Corporate Center in connection with FOCUS 2.0. No additional extraordinary expenses were recorded in the Paint and Final Assembly Systems division for the program.

Capital spending in Paint and Final Assembly Systems dropped to € 8.4 million, thus returning to normal after the increases in the previous years due to the establishment and expansion of several sites.

Application Technology

In the Application Technology division, order intake and sales increased in 2018, rising by 7.8 % and 4.8 % respectively. For the first time, order intake exceeded the € 600 million mark, spurred by expanding European business and the market upswing in China and other parts of Asia. In North America, demand, as with Paint

2.44 — APPLICATION TECHNOLOGY – KEY FIGURES

€ million	2018	2017 ¹	2016	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Order intake	632.4	586.5	582.7	168.6	176.6	141.2	146.0
Sales	652.6	622.4	560.6	145.5	152.5	174.1	180.5
Cost of materials (consolidated)	-240.6	-209.7	-211.0	-49.3	-51.8	-71.2	-68.2
EBITDA	79.4	76.4	85.2	18.1	18.3	20.2	22.7
EBIT	68.0	64.8	76.1	15.2	15.5	17.4	19.9
EBIT margin (%)	10.4	10.4	13.6	10.4	10.2	10.0	11.0
Cash flow from operating activities	13.4	50.9	66.1	-9.9	10.1	5.0	8.1
Capital expenditure	11.8	26.2	17.5	2.4	2.8	2.8	3.8
Capital employed	275.1	222.2	190.4	240.8	252.3	264.7	275.1
ROCE (%)	24.7	29.2	40.0	25.2	24.6	26.2	29.0
Employees	2,246	2,063	1,956	2,112	2,154	2,230	2,246

¹ The figures for 2017 have been adjusted following the first-time application of IFRS 15.

2.45 — CLEAN TECHNOLOGY SYSTEMS – KEY FIGURES

€ million	2018 ¹	2017 ²	2016	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Order intake	258.2	164.9	176.6	57.6	58.8	36.3	105.3
Sales	226.7	185.6	167.0	30.3	34.7	54.9	106.8
Cost of materials (consolidated)	-121.3	-99.9	-85.2	-14.0	-18.0	-29.5	-59.8
EBITDA	1.6	6.0	8.7	-0.3	-0.9	-0.3	3.0
EBIT	-15.0	3.3	6.1	-1.0	-1.6	-11.7	-0.7
EBIT margin (%)	-6.6	1.8	3.7	-3.2	-4.5	-21.3	-0.7
Cash flow from operating activities	9.5	-11.5	21.5	-0.9	-5.3	6.1	9.6
Capital expenditure	3.0	3.8	6.3	0.8	0.9	0.7	0.5
Capital employed	153.9	60.6	45.0	65.6	71.5	57.5	153.9
ROCE (%)	-9.7	5.5	13.6	-5.9	-8.8	-81.4	-1.9
Employees	1,472	603	569	601	600	612	1,472

¹ The MEGTEC/Universal Group was consolidated for the first time on October 5, 2018.

² The figures for 2017 have been adjusted following the first-time application of IFRS 15.

and Final Assembly Systems, was muted. At 1.6 %, service business temporarily expanded less quickly than the division's total sales.

There was also a slight improvement in the margin quality of the orders placed with Application Technology compared with 2017. Operating EBIT climbed by 4.4 % to a record high of € 68.2 million, resulting in an EBIT margin of 10.4 %, i.e. on a par with the previous year's good figure and within the target corridor of 10.0 to 11.0 %. Order intake for Industrial Products continued to rise, although a loss was sustained. At € 11.8 million, capital spending in the division reached the normal level.

Clean Technology Systems

One half of the sharp 56.6 % increase in orders in Clean Technology Systems was due to organic growth and the other half to the first-time consolidation of MEGTEC/Universal. The market for exhaust-air purification systems was in good condition in Europe and Asia in particular. The 22.1 % increase in sales was due solely to the consolidation of MEGTEC/Universal. Sales and earnings fell short of expectations in the first half of 2018, with the division feeling the effects of a temporary shortfall in capacity utilization due to muted demand in the second half of 2017. However, the declines were almost completely recouped in the second half of 2018.

2.46 — MEASURING AND PROCESS SYSTEMS – KEY FIGURES

€ million	2018	2017 ^{1,2}	2016	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Order intake	403.3	543.0	682.5	103.4	111.1	93.2	95.6
Sales	456.5	511.1	623.8	99.4	114.2	112.6	130.4
Cost of materials (consolidated)	-162.3	-184.9	-208.7	-31.1	-44.3	-40.5	-46.5
EBITDA	68.0	71.9	86.9	12.5	15.5	16.1	23.9
EBIT	59.7	64.3	79.7	10.4	13.5	14.1	21.8
EBIT margin (%)	13.1	12.6	12.8	10.5	11.8	12.5	16.7
Cash flow from operating activities	31.3	55.4	44.5	4.3	5.6	4.7	16.7
Capital expenditure	6.6	5.6	9.4	1.0	1.8	1.4	2.4
Capital employed	282.7	253.2	330.0	257.6	264.6	274.4	282.7
ROCE (%)	21.1	24.5	24.9	16.2	20.3	20.5	30.8
Employees	2,279	2,279	3,010	2,317	2,303	2,325	2,279

¹ The figures for 2017 have been adjusted following the first-time application of IFRS 15.

² The figures for 2017 still include the results of the Dürr Ecoclean Group, which has since been sold, for the first quarter of 2017.

2.47 — WOODWORKING MACHINERY AND SYSTEMS – KEY FIGURES

€ million	2018	2017 ¹	2016	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Order intake	1,336.8	1,366.3	1,165.3	415.2	286.1	339.6	295.9
Sales	1,298.3	1,218.8	1,082.0	294.6	311.1	331.6	361.0
Cost of materials (consolidated)	-536.1	-491.1	-425.1	-117.9	-128.4	-137.8	-152.0
EBITDA	125.5	120.2	95.9	29.7	26.9	31.2	37.7
EBIT	86.2	83.0	44.9	19.7	17.4	21.5	27.6
EBIT margin (%)	6.6	6.8	4.1	6.7	5.6	6.5	7.6
Cash flow from operating activities	45.4	107.1	82.2	3.6	-32.1	26.6	47.3
Capital expenditure	41.3	26.2	24.3	6.3	12.1	10.5	12.4
Capital employed	441.6	381.1	396.1	399.4	455.0	454.3	441.6
ROCE (%)	19.5	21.8	11.3	19.8	15.3	18.9	25.0
Employees	6,593	6,371	6,126	6,484	6,567	6,605	6,593

¹ The figures for 2017 have been adjusted following the first-time application of IFRS 15.

The loss of € 15.0 million at the EBIT level was caused solely by high extraordinary expenses: € 17.3 million arose in connection with the discontinuation of the loss-making micro gas turbine business and € 2.2 million from purchase price allocation effects for MEGTEC/Universal. By contrast, EBIT was clearly positive at the operating level: the previous Clean Technology Systems activities contributed € 2.4 million despite the operating losses that continued to arise from the micro gas turbine business. Since consolidation, MEGTEC/Universal has contributed operating EBIT of € 2.7 million.

Capital spending of € 3.0 million does not include any costs related to the acquisition of MEGTEC/Universal. The sharp rise in capital employed and headcount is due to the consolidation of MEGTEC/Universal.

In 2019 MEGTEC/Universal should contribute sales and order intake of over € 200 million as well as operating EBIT in the high single-digit millions. The EBIT contribution after extraordinary effects is likely to be slightly negative or neutral. As things currently stand, the acquisition will have a distinctly positive effect on the division's earnings in future years.

Measuring and Process Systems

The figures for Measuring and Process Systems show declines in order intake (down 25.7 %), sales (down 10.7 %) and EBIT (down 7.1 %). However, this must be seen in the light of the sale of the Dürr Ecoclean Group, which contributed order intake of € 51.1 million, sales of € 47.5 million and EBIT of € 2.2 million in the first quarter of 2017. In like-for-like terms, new orders shrank by 18.0 % over the previous year, during which many big-ticket orders had been received. Like-for-like sales were down 1.5 % and thus remained practically on a par with the previous year, while like-for-like EBIT was 3.8 % lower than in the previous year. In the fourth quarter, which is traditionally the strongest time of year for Measuring and Process Systems, the EBIT margin came to a very good 16.7 % for billing-related reasons.

Woodworking Machinery and Systems

Order intake for Woodworking Machinery and Systems (HOMAG Group) was down slightly in 2018, dropping by 2.2 %. In this connection it should be borne in mind, however, that it had grown at extraordinarily swift rates in the previous two years: by 17.2 % in 2017 and by 10.1 % in 2016. In the year under review, Europe accounted for 60 % of new orders and North and Central America for 23 %, with demand remaining brisk in both regions. On the other hand, order intake in China dropped by half to around € 110 million. After exceptionally strong conditions in the previous year, capital spending has slumped in China in the wake of the trade dispute with

the United States and the softer real estate market. What is more, many furniture producers in China must first make full use of their additional capacity before engaging in further capital expenditure.

Woodworking Machinery and Systems was able to increase its sales by 6.5 % to € 1,298.3 million. However, sales and earnings were muted in the first three quarters, one reason for this being a protracted interruption to production at the beginning of the year to roll out a new ERP system. Moreover, production problems arose as operations at the Schopfloch plant had not yet been sufficiently modified to accommodate the sharp growth in system business with end-to-end furniture production lines. The division addressed this by applying stricter cost management and implementing a new and more flexible production system to handle large system orders more swiftly and efficiently. These measures are already showing results: At € 361.0 million, sales in the fourth quarter were significantly higher than in the previous quarters, accompanied by an improvement of 60.6 % in EBIT over the previous year to € 27.6 million.

Despite the problems, EBIT in the Woodworking Machinery and Systems division rose by 3.9 % in the year as a whole, reaching a new record of € 86.2 million. The EBIT margin contracted temporarily from 6.8 to 6.6 %. In operating terms, i.e. before purchase price allocation effects, the EBIT margin came to 7.3 % (2017: 7.5 %) Woodworking Machinery and Systems was integrated in the Dürr Group's transfer pricing system in 2018, resulting in expense of € 5.5 million. Adjusted for transfer pricing effects, the operating EBIT margin came to 7.7 %.

Capital expenditure rose by 57.6 % due to the optimization measures taken at Woodworking Machinery and Systems. The main focus was on digitization and IT projects as well as on capacity enlargement and productivity enhancements. The increase in capital employed was caused by higher inventories.

Financial development

FUNDING AND LIQUIDITY MANAGEMENT

Our central finance and liquidity management system has two main targets: the optimization of earnings and financing costs as well as the reduction of financial risks. In addition, its purpose is to achieve transparency concerning the Group's funding and liquidity needs. Liquidity management is based on the principle of always having an adequate volume of cash and cash equivalents available in order to meet payment obligations at any time.

The cash flow from operating activities is our key source of funding. As a rule, debt finance is raised by Dürr AG and made available to the Group companies as required. Liquidity management is another task of Dürr AG. The company organizes a cash pooling system in which – to the extent legally possible – all cash and cash equivalents of the Group are consolidated. Companies located in countries subject to statutory restrictions on capital flows (for instance China, India and Brazil) largely obtain their funding locally.

The investment of surplus liquidity is governed by a policy for financial asset management and is the task of Group Treasury. At € 655.0 million, cash and cash equivalents at the end of 2018 practically matched the previous year's level (€ 659.9 million). Their share of total assets decreased from 18.8 to 18.1 %.

Our net working capital management optimizes the Group's internal funding capabilities and volume of capital employed. This has a beneficial effect on such key figures as our balance sheet structure and ROCE. For information on the utilization of financial instruments, please refer to the section "Currency, interest rate and liquidity risks as well as financial instruments for risk mitigation purposes" in the "Risk report" → page 81.

FUNDING STRUCTURE OF THE DÜRR GROUP

As at December 31, 2018, our funding structure comprised the following components:

- **Bonded loan:** Our bonded loan placed in 2016, amounting to € 300 million, comprises three tranches equal in size with maturities of five, seven and ten years and bearing interest at an average of 1.6 % p.a.
- **Corporate bond:** Our corporate bond issued in 2014 for € 300 million in nominal terms has a term to maturity until 2021 and a coupon of 2.875 % (effective interest rate: 3.085%). Its yield at the end of 2018 was 0.7 %. Early termination is not possible.
- **Syndicated loan:** The syndicated loan with a total volume of € 465 million has likewise been in place since 2014. It comprises a cash line of € 250 million and a guarantee line of € 215 million. Up to € 50 million of the cash line can be temporarily used as a guarantee line. In 2015 and in 2016, we extended the maturity of the syndicated loan originally agreed (until 2019) to 2021.
- **Leasing:** At the end of 2018, liabilities arising from finance leases amounted to € 7.2 million. In addition, there were money and capital market instruments and off-balance sheet financing instruments in the form of operating leases (Dec. 31, 2018: € 103.4 million) as well as forfaiting transactions and early performance under documentary credits (Dec. 31, 2018: € 24.9 million).
- **Bilateral credit facilities:** Their volume as at the 2018 balance sheet date came to € 9.3 million.

2.48 — FINANCIAL LIABILITIES (DECEMBER 31)

€ million	2018	2017 ¹	2016
Bond/bonded loan	598.0	597.3	596.6
Liabilities to banks	1.0	1.9	35.5
Liabilities under finance leases	7.2	5.8	8.5
Other interest-bearing liabilities	7.8	8.3	13.9
Interest deferral	9.3	9.4	0.0
Total	623.3	622.6	654.5
of which due within one year	12.5	12.7	5.3

¹ The figures as at December 31, 2017, were adjusted due to the first-time application of IFRS 15.

As at December 31, 2018, the total volume of all credit and guarantee lines available amounted to € 1,072.1 million. Of this sum, € 317.3 million was actually utilized. The cash line of the syndicated loan remained unutilized in 2018. In addition to the guarantee line from the syndicated loan, there are additional guarantee lines amounting to € 537.8 million that are made available by insurers and banks.

In 2018, we met the financial covenant of our syndicated loan at every effective calculation date. Interest comprises the refinancing rate with matching maturities plus a variable margin. Further particulars on debt financing are listed in item 32 of the notes to the consolidated financial statements.

FREE CASH FLOW SUBSTANTIALLY IMPROVED

2.49 — CASH FLOWS

€ million	2018	2017	2016
Cash flow from operating activities	162.3	119.8	227.4
Cash flow from investing activities	-30.1	-17.2	-116.9
Cash flow from financing activities	-134.0	-152.2	192.5

2.50 — CALCULATION OF CASH FLOW FROM OPERATING ACTIVITIES AND FREE CASH FLOW¹

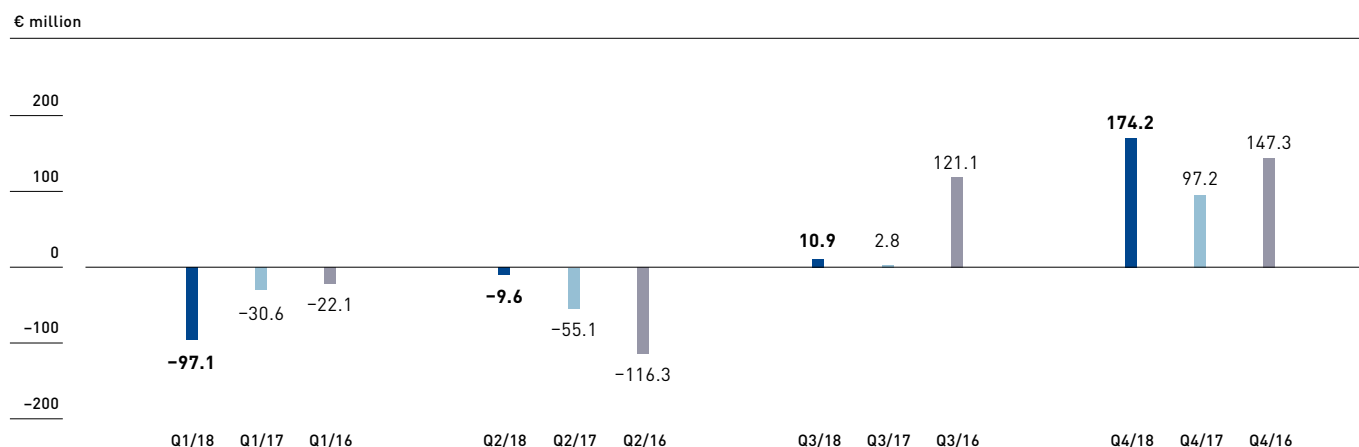
€ million	2018	2017 ²	2016
Earnings before income taxes	219.7	267.3	258.1
Depreciation and amortization	93.4	80.7	88.9
Interest result	20.9	21.6	20.2
Income tax payments	-93.0	-74.8	-75.3
Change in provisions	-29.9	43.7	-18.7
Change in net working capital	-51.6	-178.5	-33.6
Other	2.7	-40.1	-12.4
Cash flow from operating activities	162.3	119.8	227.4
Interest payments (net)	-12.0	-17.9	-15.8
Investment in property, plant and equipment and intangible assets	-71.9	-87.5	-81.6
Free cash flow	78.4	14.3	129.9
Other cash flows	-222.4	3.3	-82.8
Change in net financial status	-144.0	17.6	47.1

¹ Exchange rate effects were eliminated in the cash flow statement. Accordingly, the changes in balance sheet line items indicated there cannot be fully reflected in the balance sheet.

² The figures for 2017 were adjusted due to the first-time application of IFRS 15.

Cash flow from operating activities improved by € 42.5 million in 2018, reaching € 162.3 million. **Net working capital (NWC)** → page 207, at € 51.6 million, grew significantly more slowly year-on-year; we managed to reduce the level substantially above all in the fourth quarter. Within NWC, inventories grew appreciably in the course of

2.51 — FREE CASHFLOW BY QUARTER



the first three quarters, only to decline again in the fourth quarter. We took more components for production into storage to better control the risk of short-term bottlenecks due to suppliers operating at peak capacity. In addition, the inventory of spares in the service section was reinforced to speed up deliveries to customers. We anticipate, at best, a slight increase in NWC for 2019. A further key factor for cash flow development was the reduction of provisions for orders; it resulted from both higher use of provisions and higher write-backs. Moreover, we made higher tax payments as at the effective dates; for 2019 we expect tax payments to decline.

Cash flow from investing activities amounted to € -30.1 million in fiscal 2018 (2017: € -17.2 million). An inflow of funds resulted from the reversal of term deposits totaling € 138.3 million. This was offset by payments of € 71.9 million for investments and the purchase price paid for MEGTEC/Universal (€ 103.9 million).

Cash flow from financing activities amounted to € -134.0 million (2017: € -152.2 million). Substantial outflows resulted from the dividend payout (€ 76.1 million), the interest payments on the corporate bond and the bonded loan as well as from the increase in the equity interest in HOMAG Group AG (€ 34.8 million).

The **free cash flow** improved from € 14.3 million to € 78.4 million. In addition to the cash flow from operating activities, the free cash flow also includes interest income and capital expenditure (included in the cash flow from investing activities) as well as interest expenditure (included in the cash flow from financing activities). **Free cash flow → page 207** reflects the sum total of funding freely available following all expenditure within a given period.

The **net financial status → page 207** declined by € 144.0 million in spite of rising free cash flow, but was clearly in positive territory as at December 31, 2018 (€ 32.3 million). The main reasons for the reduction in relation to the effective date a year earlier (€ 176.3 million) were the purchase of MEGTEC/Universal and the increase in the stake in HOMAG Group AG. The two transactions together resulted in an outflow of € 138.8 million.

2.52 — NET FINANCIAL STATUS

€ million	2018	2017 ¹	2016
Checks, cash in hand and credit balances with banks – net	655.0	659.9	724.2
+ Securities and term deposits	0.5	139.0	98.4
– Bonds	298.6	298.0	297.5
– Liabilities to banks	1.0	1.9	35.5
– Bonded loan	299.4	299.3	299.2
Accrued/deferred interest on financial liabilities	9.3	9.4	–
– Leasing liabilities	7.2	5.8	–
– Other loans	7.8	8.3	13.9
= Net financial status	32.3	176.3	176.5

¹ The figures as at December 31, 2017, were adjusted due to the first-time application of IFRS 15.

OPERATING PERFORMANCE INDICATORS: INCOMING ORDERS, SALES, EBIT, AND ROCE

2.53 — PERFORMANCE INDICATORS

		2018	2017 ¹	2016
Incoming orders	€ million	3,930.9	3,803.0	3,701.7
Sales	€ million	3,869.8	3,713.2	3,573.5
EBIT	€ million	233.5	287.0	271.4
EBIT margin	%	6.0	7.7	7.6
ROCE	%	24.0	38.6	41.1

¹ The figures for 2017 were adjusted due to the first-time application of IFRS 15.

The key performance indicators at Dürr are incoming orders, sales, EBIT/EBIT margin and ROCE (EBIT to **capital employed → page 207**). Operating cash flow and free cash flow also play a central role, particularly at Group level. At divisional level, an additional focus is on order margins and net working capital.

We also determine non-financial performance indicators on a regular basis. They support us in management and the long-term strategic orientation of the company. Examples are key figures on employee and customer satisfaction, further training, ecology/sustainability and R&D/innovation. While the non-financial performance indicators are becoming increasingly important, they do not primarily serve to control the company. Instead, they facilitate extended findings on the situation prevailing within the Group and

decision-making on that basis. A detailed analysis of non-financial issues and performance indicators is available in the non-financial consolidated declaration.

The analysis of incoming orders and of the resulting sales enables us to engage in forward-looking capacity planning. As a rule, the realization of sales lags six to twelve months behind order intake. Incoming orders for 2018 (€ 3,930.9 million) reached the upper end of the target corridor (€ 3,650 to € 3,950 million), giving us a high degree of visibility as far as the realization of sales in 2019 is concerned. The analysis of margins in order intake for 2018 enables us to better estimate the earnings trend in 2019.

We use EBIT and our EBIT margin to measure our profitability. In 2018, EBIT decreased, predominantly due to extraordinary effects, to € 233.5 million (2017: € 287.0 million). The EBIT margin reached 6.0 %, thus achieving the target corridor of 5.8 to 6.3 %, which had been adjusted in November 2018.

ROCE → **page 207** shows whether we generate an appropriate return on our **capital employed** → **page 207** and thus represents the basis for efficient capital allocation. Capital employed takes account of all assets except cash and cash equivalents and financial assets, less non-interest-bearing liabilities. In 2018, ROCE declined to 24.0 % (2017: 38.6 %), which was due both to the higher level of capital employed and to lower EBIT. That said, the figure of 24.0 % represents a good value in an international peer group comparison.

2.54 — VALUE ADDED

		2018	2017 ¹	2016
Capital employed (Dec. 31)	€ million	971.9	738.9	670.6
ROCE	%	24.0	38.6	41.1
NOPAT	€ million	163.5	200.9	190.0
Weighted average cost of capital (WACC)	%	9.00	7.88	7.20
EVA	€ million	76.0	142.7	142.5

¹ The figures for 2017 were adjusted due to the first-time application of IFRS 15.

ROCE (in %) is calculated as follows:

$$\frac{\text{EBIT}}{\text{Capital employed}} \times 100$$

Economic Value Added (EVA) reflects the value added that a company generates in a financial year. While we have managed to achieve a high level of value added since 2011, in 2018 it turned out to be less robust than in previous years. We determine the capital costs as the weighted average cost rate of equity and borrowing costs before taxes (weighted average cost of capital: WACC). In calculating the cost of equity, a beta factor is taken into account, derived from capital market data and the capital structure of peer group companies. The borrowing costs comprise a basic interest rate for quasi-secure bonds and a surcharge determined from the credit rating of comparable peer group companies. The increase in capital costs in 2018 is based, inter alia, on higher beta factors of peer group companies.

EVA is calculated as follows:

$$\text{EVA} = \text{NOPAT} - (\text{WACC} \times \text{capital employed})$$

- NOPAT = Net Operating Profit After Taxes/EBIT after fictitious taxes
- WACC = Weighted Average Cost of Capital

The rule relating to the performance indicator ROCE is that added value is generated when the return on capital employed exceeds the costs of capital. In 2018, this was the case in four of five divisions. Capital employed in Paint and Final Assembly Systems was close to zero; accordingly, ROCE reached a value in excess of 100 %. Application Technology, Measuring and Process Systems as well as Woodworking Machinery and Systems reached 19 to 25 %, a very good ROCE level in mechanical engineering. Negative ROCE in Clean Technology Systems was attributable to the low operating earnings and extraordinary effects in terms of EBIT. Based on the expected earnings growth, the division's ROCE is likely to see a substantial improvement in 2019 and turn out in positive territory again; however, it is unlikely to exceed the capital costs at this point.

2.55 — ROCE BY DIVISION

%	2018	2017 ¹	2016
Paint and Final Assembly Systems	>100	>100	>100 ²
Application Technology	24.7	29.2	40.0
Clean Technology Systems	-9.7	5.5	13.6
Measuring and Process Systems	21.1	24.5	24.9
Woodworking Machinery and Systems	19.5	21.8	11.3

¹ The figures for 2017 were adjusted due to the first-time application of IFRS 15.

² Negative capital employed

EQUITY AT JUST UNDER € 1 BILLION

2.56 — KEY BALANCE SHEET FIGURES

		2018	2017 ¹	2016
Net financial status (Dec. 31)	€ million	32.3	176.3	176.5
Net financial liabilities in relation to EBITDA		–	–	–
Gearing (Dec. 31)	%	–3.4	–24.3	–27.0
Net working capital (NWC) (Dec. 31)	€ million	441.4	373.7	194.4
Days working capital	days	41.1	36.2	27.2
Inventory turnover	days	49.8	44.4	40.4
Days sales outstanding	days	56.1	51.7	47.3
Equity assets ratio (Dec. 31)	%	79.7	81.1	73.8
Asset coverage (Dec. 31)	%	142.9	152.0	148.8
Asset intensity (Dec. 31)	%	34.4	31.6	33.6
Current assets to total assets (Dec. 31)	%	65.6	68.4	66.4
Degree of asset depreciation	%	38.5	36.1	34.3
Depreciation expense ratio	%	6.4	6.5	6.7
Cash ratio (Dec. 31)	%	35.7	36.2	43.3
Quick ratio (Dec. 31)	%	66.5	64.8	89.8
Equity ratio (Dec. 31)	%	27.4	25.6	24.8
Total assets (Dec. 31)	€ million	3,614.4	3,511.6	3,348.5

¹ The figures as at December 31, 2017, were adjusted due to the first-time application of IFRS 15.

As at December 31, 2018, total assets were up by 2.9% or € 102.8 million year-on-year. The reason for this was the consolidation of MEGTEC/Universal, resulting in an increase especially in the value of goodwill as well as property, plant and equipment. Other current financial assets reflect the extensive cancellation of term deposits. The funds released in the process were employed to finance the acquisition of MEGTEC/Universal and the increase in the equity stake in HOMAG Group AG. Inventories grew because we stockpiled more input materials due to supplier bottlenecks. In addition, inventories of spare parts for our products were increased.

Adjusted for exchange rate fluctuations and the effects of the acquisition of MEGTEC/Universal, net working capital as at December 31, 2018, was up by € 51.6 million, reaching € 441.4 million. Cash and cash equivalents remained almost unchanged at € 655.0 million (December 31, 2017: € 659.9 million). Total liquidity, at € 655.6 million (December 31, 2017: € 798.9 million), corresponded almost exactly to the level of cash and cash equivalents since there were hardly any term deposits on the balance sheet at end-2018.

2.57 — NON-CURRENT AND CURRENT ASSETS (DEC. 31)

€ million	2018	% of total assets	2017 ¹	2016
Intangible assets	651.3	18.0	592.7	611.1
Property, plant and equipment	433.8	12.0	408.4	394.6
Other non-current assets	159.1	4.4	109.0	119.6
Non-current assets	1,244.3	34.4	1,110.1	1,125.3
Inventories	535.4	14.8	457.6	381.1
Contract assets	478.3	13.2	488.4	0.0
Trade receivables	566.7	15.7	522.4	779.4
Cash and cash equivalents	655.0	18.1	659.9	724.2
Other current assets	134.6	3.7	273.1	338.6
Current assets	2,370.1	65.6	2,401.4	2,223.2

¹ The figures as at December 31, 2017 were adjusted due to the first-time application of IFRS 15.

2.58 — EQUITY (DEC. 31)

€ million	2018	% of total assets	2017 ¹	2016
Subscribed capital	177.2	4.9	88.6	88.6
Other equity	800.1	22.1	797.3	720.9
Equity attributable to shareholders	977.3	27.0	885.9	809.5
Non-controlling interest	14.9	0.4	14.6	21.4
Total equity	992.2	27.4	900.5	831.0

¹ The figures as at December 31, 2017 were adjusted due to the first-time application of IFRS 15.

Equity was up by € 91.6 million at end-2018, to reach € 992.2 million, only just short of € 1 billion. Particular upward impetus came from after-tax earnings, amounting to € 157.1 million (after non-controlling interest); positive effects were also contributed by currency translation gains, totaling € 7.5 million. A contrary effect

was produced by the dividend payment for 2017 (€ 76.1 million). The equity ratio rose from 25.6 % at the end of the previous year to 27.4 %, moving closer to the target of 30 %.

On balance, non-current and current liabilities only changed slightly. While trade payables surged considerably, contract liabilities and other financial liabilities declined to a marked degree. Financial liabilities remained stable at € 623.3 million and turned out lower than the level of cash and cash equivalents.

2.59 — CURRENT AND NON-CURRENT LIABILITIES (DEC. 31)

€ million	2018	% of total assets	2017 ¹	2016
Financial liabilities (incl. bond)	623.3	17.2	622.6	654.5
Provisions (incl. pensions)	199.8	5.5	219.1	165.1
Contract liabilities	673.0	18.6	715.2	0.0
Trade payables	502.4	13.9	390.5	982.5
Income tax liabilities	35.0	1.0	50.4	40.3
Other liabilities (incl. deferred taxes, deferred income)	588.8	16.3	613.3	675.2
Total	2,622.2	72.6	2,611.0	2,517.6

¹ The figures as at December 31, 2017 were adjusted due to the first-time application of IFRS 15.

HIDDEN RESERVES/FAIR VALUES

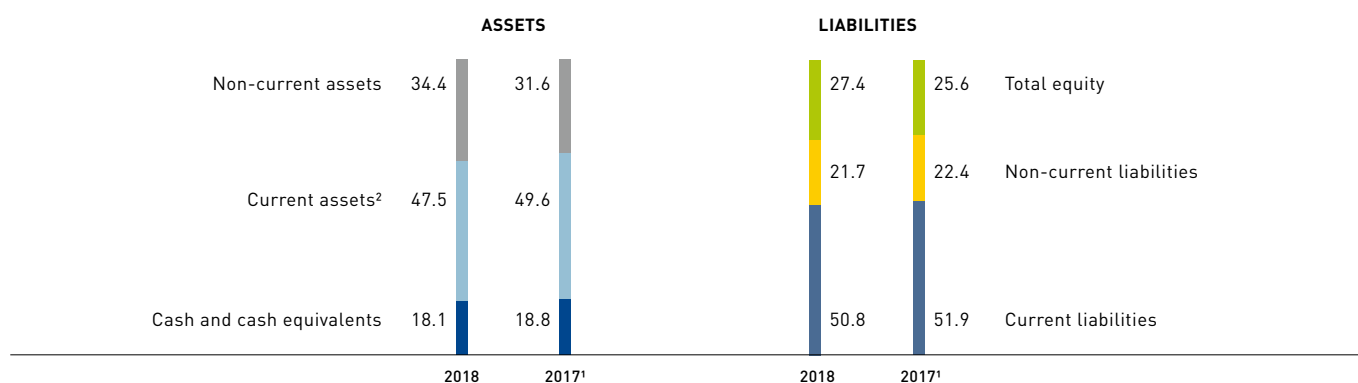
Hidden reserves – in comparison with total assets (December 31, 2018: € 3,614.4 million) – are of lesser significance. Similarly, the difference between fair values and book values is also low. Property, plant and equipment may develop hidden reserves, especially in the case of land and buildings. Schenck Technologie- und Industriepark GmbH in Darmstadt is worthy of mention in this regard. According to our assessment, its fair value exceeds the book value by a sum in the double-digit million euro range. In total, the fair values exceed the book values on the liabilities side of the balance sheet by approx. 0.5 % of total assets. Further particulars in this regard are listed in item 36 of the notes to the consolidated financial statements.

INVESTMENTS EXPANDED

Investments (excluding acquisitions) reached € 74.4 million, substantially down year-on-year (–15.5 %). This was attributable to a 22.4 % decline in investments in property, plant and equipment, after we had invested heavily in the extension and new construction of sites. 57 % of investments in property, plant and equipment were accounted for by replacement investments and 43 % by expansion investments.

2.60 — ASSET AND CAPITAL STRUCTURE (DEC. 31)

%



¹ The figures as at December 31, 2017 were adjusted due to the first-time application of IFRS 15.

² Excluding cash and cash equivalents

We raised our investments in intangible assets by 4.6% to € 23.5 million. These were made e.g. to fund the purchase of software and licenses. Investments in the field of information technology and digitization will continue to feature as a key focus.

Equity investments in 2018 rose from € 15.3 million to € 125.4 million, which was fully attributable to the acquisition of MEGTEC/Universal. Deducting the liquidity received with this acquisition would result in a purchase price of € 103.9 million. According to IFRS, the increase in the stake in HOMAG Group AG (8% of the capital stock for € 34.8 million) is no equity investment, since the company had already been fully consolidated.

The cash flow from operating activities fully covered the level of investments (excluding acquisitions) and the dividend payment. The equity investment (MEGTEC/Universal) and increase in the equity interest in HOMAG Group AG were largely funded by the liquidation of fixed-term deposits. Total liquidity, at € 655.6 million, reached a high level. The cash flow and high volume of financial resources are likely to cover the operating financing needs in 2019 again without any difficulty. Where necessary, we can resort to the cash line under the syndicated loan.

2.61 — INVESTMENTS¹ AND DEPRECIATION/AMORTIZATION²

€ million	2018	2017	2016
Investments in property, plant and equipment	50.9	65.6	57.4
Investments in intangible assets	23.5	22.4	24.5
Equity investments	125.4 ³	15.3	13.6
Depreciation and amortization	–93.4	–80.7	–88.9 ⁴

¹ The capital expenditures in this overview deviate from the figures in the statements of cash flows according to IFRS.

² Including impairment losses and reversals. Depreciation and amortization taken into account in the interest result is not included.

³ Including cash and cash equivalents received.

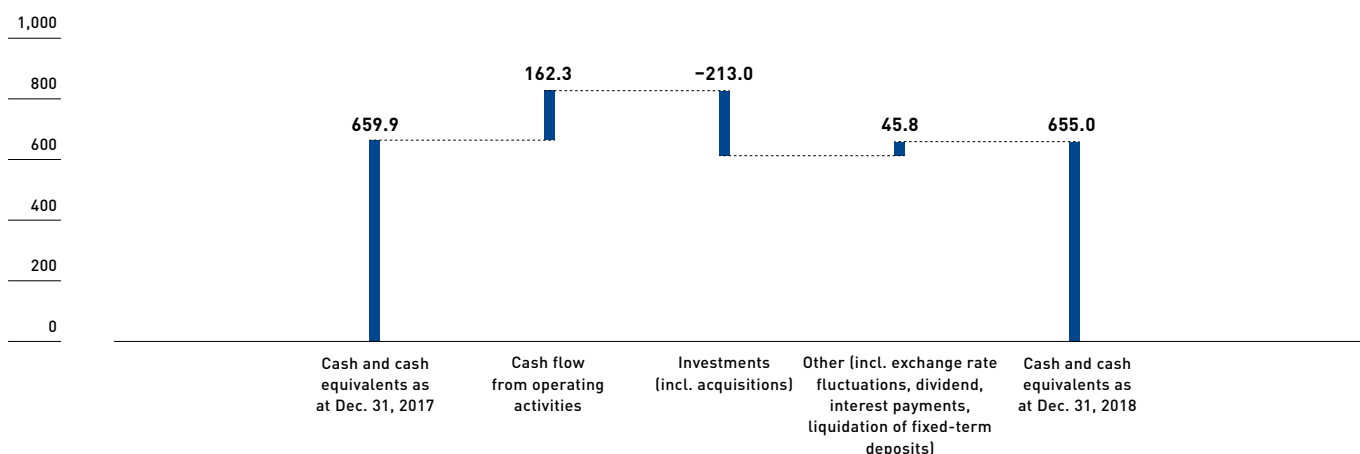
⁴ Including € 11.1 million in extraordinary write-offs of trademark rights.

2.62 — INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT: REPLACEMENT AND EXTENSION INVESTMENTS

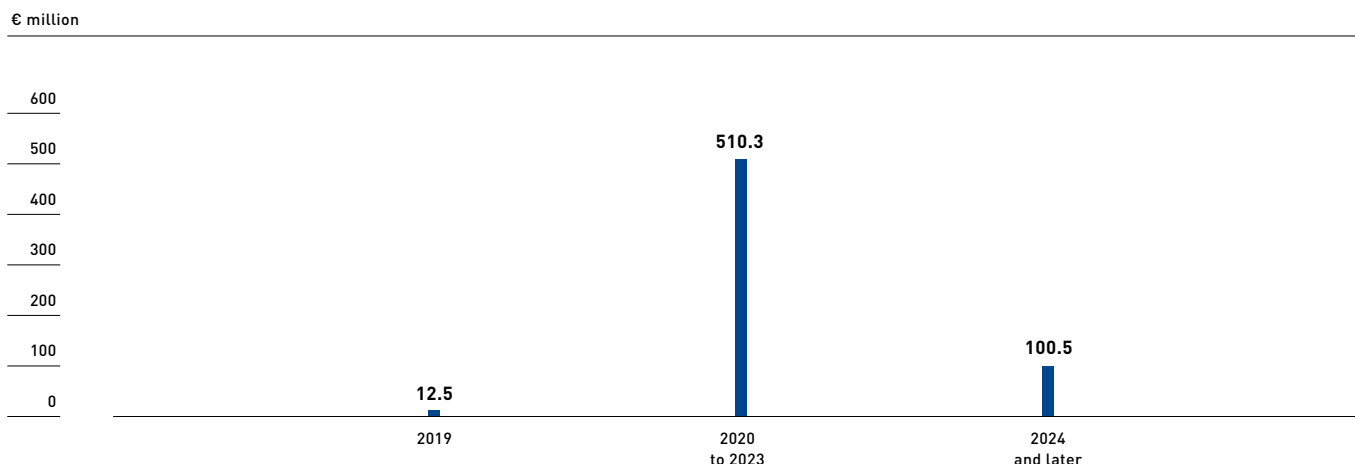
€ million	2018	2017	2016
Replacement investments	29.0	47.7	29.5
Extension investments	21.9	18.0	28.0
Investments in property, plant and equipment	50.9	65.6	57.4

2.63 — LIQUIDITY DEVELOPMENT

€ million



2.64 — MATURITY STRUCTURE OF FINANCIAL LIABILITIES



In 2019, payment obligations arising from operating leases come to € 31.2 million (2018: € 26.2 million). Minimum payments under finance leases amount to € 2.1 million; in addition, obligations to acquire property, plant and equipment exist to an extent of € 11.2 million. The volume of financial debt maturing in 2019 is low, amounting to € 12.5 million.

OFF-BALANCE SHEET FINANCING INSTRUMENTS AND OBLIGATIONS

Off-balance sheet financing instruments and obligations (excluding liabilities from procurement contracts) accounted for roughly 4 % of total assets in 2018 and are therefore in an appropriate ratio to the volume of business. At the end of 2018, due to the consolidation of MEGTEC/Universal, their volume rose to a total of € 147.1 million

(December 31, 2017: € 127.6 million). Future minimum payments arising from operating leases increased to € 103.4 million (December 31, 2017: € 89.8 million). Operating leases are the most important off-balance sheet form of financing employed in the Dürr Group. Sales of receivables (forfeiting, premature performance under documentary credits) decreased from € 28.0 million to € 24.9 million at the end of 2018.

Since January 1, 2019, we have applied the new IFRS 16 “Leases”, which governs accounting for leases. The most important change is that lessees are required to capitalize almost all leasing transactions. Information on the impacts of this first-time application can be found in the chapter entitled **“Expected future development”** → [page 91](#).

EVENTS SUBSEQUENT TO THE REPORTING DATE

From the beginning of the current financial year to March 12, 2019, no events occurred that materially affected, or could materially affect, the net assets, financial position and results of operations of the Group.

REPORT ON RISKS, OPPORTUNITIES AND EXPECTED FUTURE DEVELOPMENT

Risks

While entrepreneurial actions offer opportunities, they always entail risks. We follow the strategy of controlling and reducing risks in such a manner that opportunities predominate. To this end, we make use of an effective risk management system.

RISK MANAGEMENT SYSTEM OF THE DÜRR GROUP

Scope of application

Our risk management system is deployed throughout the Group. It has existed in its fundamental structure since 2008 and has since been continually adjusted to new requirements. In 2018 it essentially remained unchanged. The companies MEGTEC and Universal, acquired in early October 2018, were not yet included in the Dürr Group's risk management system in 2018. In the wake of their integration, they will apply the risk management system for the first time in 2019.

Objectives

Our risk management system is especially tailored to the mechanical and plant engineering business. In this way, we are able to record, analyze and – to the extent possible – evaluate risks systematically and uniformly. This allows effective countermeasures to be initiated at an early stage. We document all specific risks to the extent that these are identifiable and specific to an adequate degree. General risks with a low level of probability of occurring, such as natural disasters, are not taken into account. We also document and evaluate our opportunities; the relevant information is contained in the “[Opportunities report](#)” → [page 89](#).

Methods and processes

The risk management system covers all essential business and decision-making processes. We maintain open dealings with risks and encourage employees to report any misdirected developments at an early stage.

The risk management process takes account of all risks of the participating companies. The central risk management team at Dürr AG initiates the nine-stage process every six months. The centerpiece of this standard risk cycle is the risk inventory of the Group's companies. In the process, individual risks are identified, evaluated and consolidated, i.e. classified into 15 specific risk fields (chart 2.65). The risk fields cover management, core and support processes as well as external risk areas.

The risk managers of the operating units and Dürr AG are responsible for evaluating individual risks. They use the risk management manual as well as risk structure spreadsheets. The evaluation process consists of three stages: first of all, the damage potential is calculated, i.e. the maximum impact on EBIT that can result from a risk in the following 24 months. Next, we assess the likelihood of specific risk scenarios turning into reality. In a third step, the effectiveness of possible countermeasures is examined and evaluated with a risk-reducing factor.

The bottom line is the net risk potential, i.e. the net EBIT risk that remains after taking into account the probability of occurrence and the effectiveness of suitable countermeasures. The lower the probability of occurrence and the higher the effectiveness of countermeasures, the more sharply the net EBIT risk declines. The net EBIT risks of the 15 risk fields are calculated from the sum total of net EBIT risks of all individual risks assigned. Depending on the extent of its net EBIT risk, each risk field is assigned to one of the following categories:

- Very low ($\leq$ € 5 million)
- Low ($>$ € 5 million to $\leq$ € 20 million)
- Medium ($>$ € 20 million to $\leq$ € 40 million)
- High ($>$ € 40 million)

The net EBIT risks of all risk fields are totaled to produce the Group's entire potential risk exposure. Portfolio and correlation effects are not taken into consideration in this process.

The Group companies and divisions prepare their risk reports after the risk inventory has been completed. These reports constitute the basis for the Group risk report of Dürr AG, containing information on individual risks and overall risk. Following an analysis by the Board of Management and the Dürr Management Board, the Group risk report is sent to the Audit Committee of the Supervisory Board. The Audit Committee Chairman presents a statement in this regard to the Supervisory Board.

Acute risks are reported directly to the Board of Management and the heads of the relevant divisions. The risk managers of the Group, divisions and Group companies are responsible for identifying, evaluating, controlling and monitoring risks as well as for reporting; in most cases, these are the heads of the Controlling departments. The Internal Auditing department is also involved in this process.

our business activities in general, or specifically from our products and services, and which may have impacts on non-financial issues that we classify as material within the meaning of the CSR Directive Implementation Act. Essentially, a negative influence on material non-financial issues cannot be ruled out. However, we do not perceive any risks that might lead to negative impacts with a high probability of being serious.

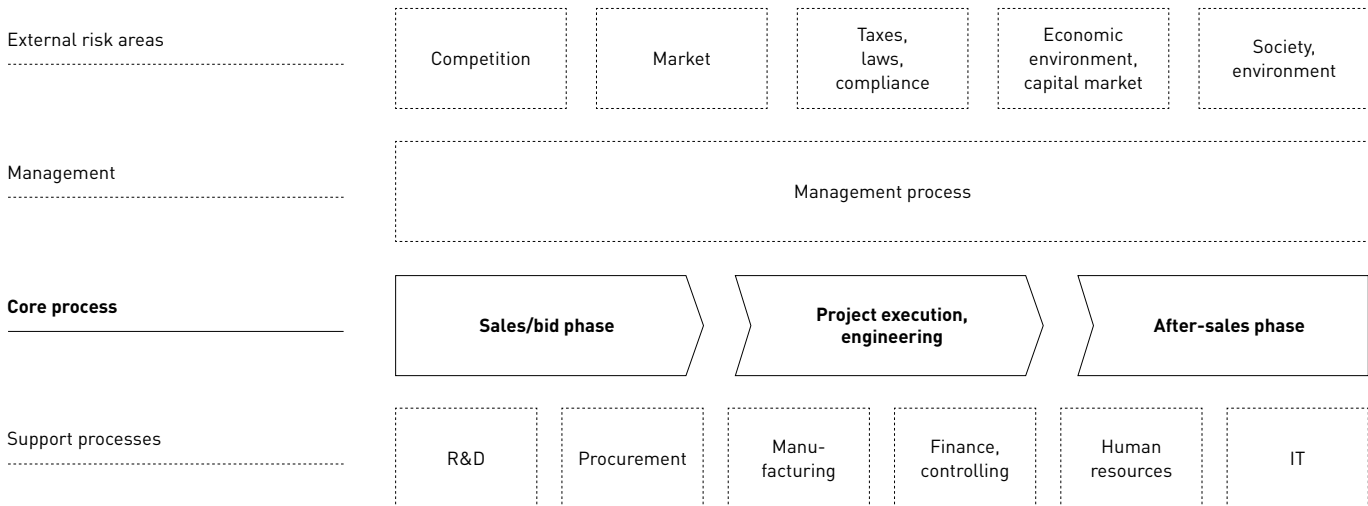
KEY FEATURES OF THE INTERNAL CONTROL SYSTEM/RISK MANAGEMENT SYSTEM FOR THE ACCOUNTING PROCESS

The internal control system (ICS) and the risk management system (RMS) for the accounting process are elements of the Dürr Group's risk management system. It comprises all rules, measures and processes that guarantee the reliability of financial reporting to an adequate degree of certainty, and ensure that the financial statements of the Group and its companies are prepared in conformity with the IFRS. The Board of Management bears the overall responsibility for ICS/RMS and has set up a managerial and reporting organization to this end, covering all organizational and legal units of the Group. Monitoring of the ICS/RMS is the task of the Internal Auditing department.

RISKS IN RELATION TO MATERIAL NON-FINANCIAL MATTERS

In the wake of the CSR Directive Implementation Act, we extended our risk management process in 2018. Within the scope of the risk management system, we now also consider risks that may arise from

2.65 — RISK FIELDS OF THE DÜRR GROUP



The internal control system takes account of the specific features of Group Accounting. The key instruments as well as control and backup routines for the accounting process are as follows:

- Dürr AG's accounting guideline, which defines the accounting process at the level of individual companies and at Group level. It is updated on a regular basis by Group Accounting and covers all IFRS rules and regulations of relevance. Supplementary internal accounting standards describe, for example, the processes of reconciliation of intercompany transactions for goods and services delivered.
- In a multi-stage validation process, we carry out samplings, plausibility checks and other control measures with regard to financial accounting. The operating companies, divisions as well as Group Controlling, Group Accounting and the Internal Auditing department are involved. The controls relate to various areas, such as reliability and appropriateness of IT systems, completeness of provisions or evaluation of customer orders where revenue recognition over time is applied. The results of all material control measures are systematically documented, recorded by the risk management team at Dürr AG, and sent to the Audit Committee of the Supervisory Board. The Chairman of the Audit Committee delivers a report to the Supervisory Board following an in-depth analysis of the outcome documentation.
- All material Group companies document their own internal controls with which they ensure reliable and factually correct financial reporting. The documentation created within the scope of ICS/RMS is deposited and forwarded to Group Accounting. The Internal Auditing department verifies the existence and effectiveness of the documented measures and instruments.
- Our ERP system and the consolidation system automatically verify booking processes and ensure that individual facts and circumstances are duly assigned to the correct balance sheet line items. In addition, we carry out manual audits.
- Only a select group of employees has access to the consolidation system. Access to all data is reserved to only a few employees from Group Accounting and Group Controlling. All other users' access is confined to the data of relevance for their specific activities. Data entered at the level of the Group companies must be checked in a two-stage process – initially by the Controlling department of the division responsible and then by Group Accounting.

- Commercial processes that trigger booking entries in the consolidation system are subject to the 'four-eye principle'. Invoices must be signed off by the division head, managerial staff or the Board of Management, depending on the invoice amount.

In order to avoid risks and ensure unobjectionable financial statements, we deal carefully with key regulations and new developments in the field of accounting and reporting. Particular weight is assigned to accounting for customer orders for which revenue recognition over time is applied, the impairment test of goodwill as well as the reliability of qualitative statements in the management report and corporate governance report.

Within the scope of the ICS/RMS, we provide regular training sessions for employees of our finance departments, for instance in the application of accounting standards, accounting rules and IT systems used in accounting. In the case of corporate acquisitions, we adjust the accounting processes without delay and familiarize new employees with all the relevant processes, content and systems.

OVERALL RISK SITUATION

The overall risk potential at the end of 2018 amounted to approx. € 210 million, equivalent to an increase of approx. 5 % year-on-year. This included the net risk potential of 264 individual risks evaluated. There is an adequate ratio of the overall risk potential to order intake and sales, both of which also increased. We also perceive the macroeconomic environment as reasonable and well manageable. We cannot discern any risks at present that might endanger the Group's continued existence as a going concern, whether separately or in combination with other risks.

The key field of risk in 2018 was the "Economic environment/capital market" field, which had ranked in second position in the previous year. In this area, we were particularly concerned about rising cyclical risks, causing the net risk potential to increase by 10 %. Runner-up is the risk field "Market", in which the net risk potential declined by 8 % year-on-year. As in the preceding year, the field "Finance/controlling" ranked in third position due to higher exchange rate risks. This is where we recorded the sharpest rise in the net risk potential (+15 %) in the group of the largest fields of risk. By contrast, the net risk potential declined in the field of "Procurement", ranking in fifth position.

MEGTEC/Universal

The risks arising from MEGTEC and Universal, acquired in early October 2018, were not included in the calculation of the overall risk potential. As part of the due diligence audit, we identified usual business risks at MEGTEC and Universal, although these are in an appropriate ratio to sales. No material risks or risks endangering the Group's status as a going concern were identified.

2.66— RISK FIELDS AND NET RISKS

Risk field	Net risk			
	Very low (≤ € 5 million)	Low (> € 5 million to ≤ € 20 million)	Medium (> € 20 million to ≤ € 40 million)	High (> € 40 million)
Economic environment/ capital market			■	
Sales/bid phase	■			
Project execution/ engineering			■	
Taxes, legislation, compliance		■		
Market			■	
Research & development	■			
Competition		■		
Procurement			■	
Human resources		■		
IT	■			
Manufacturing		■		
Society/environment	■			
After-sales phase	■			
Finance/controlling			■	
Management process	■			

RISK FIELDS AND SIGNIFICANT INDIVIDUAL RISKS

Economic environment

The risks arising from the economic environment increased in 2018. Trade conflicts, increasing nationalism and concerns about Italian public finance, the unstable situation in the Middle East and the conflict between Russia and Ukraine are impeding economic development. The ongoing uncertainties in connection with Brexit are likewise impacting the economic climate. Possible risks due to Brexit include trade impediments, investment declines and exchange rate distortions. The immediate impacts on

our business are likely to be manageable, since the United Kingdom only accounts for 3 % of our sales and 1 % of our assets.

In China, GDP growth remains at around 6 %. The trade conflict with the United States is making itself felt in terms of consumer spending, but the Chinese government is likely to respond with countermeasures to stimulate the economy if this trend is consolidated. The automotive industry in China is confident in the medium to long term, as reflected in the high investments made, particularly at the end of 2018. In view of rising per-capita income, there are also good prospects for the furniture industry, even though investments declined in 2018 due to the trade conflict with the United States, among other factors. If, contrary to expectations, a cyclical slow-down were to occur in China, this would substantially impair the Dürr Group's sales and earnings.

We can bridge cyclical weaknesses relatively well in smaller-scale markets since the distribution of our business is balanced on an international level. At the Dürr Group, cyclical fluctuations are discernible at a comparatively late stage, as our plant engineering business is shaped by long-term investment decisions by the automotive industry. In the early-cycle mechanical engineering business, macroeconomic changes tend to take effect faster.

Capital market

Economic crises and political conflicts may shock the capital markets, make new financing transactions more expensive and restrict credit availability. On the other hand, no borrowing requirements exist in the near future; moreover, the European Central Bank continues to adhere to its policy of low interest rates. We classify the risk of a hostile takeover of Dürr AG as relatively low, since the Dürr family owns 28.8 % of the company's shares. In line with the domination and profit and loss transfer agreement with HOMAG Group AG, external shareholders of the HOMAG Group receive a cash dividend of € 1.01; in addition, we have made them a cash compensation offer amounting to € 31.56 per share. A number of external shareholders of the HOMAG Group have initiated proceedings to have the extent of the guaranteed dividend and cash compensation appraised by a court of law. If the court considers higher amounts to be appropriate, then this would lead to increased expenditure. It cannot be ruled out altogether that information of a confidential nature or of relevance to the capital market will be prematurely leaked outside the organization. We protect ourselves from this by keeping the group of persons with access to such information small, and by carefully selecting the relevant employees and external service providers and instructing them regarding their duties. In addition, we set up project-related insider lists and use secure communication technologies.

Operating risks: sales/bid phase

In a phase of high competitive intensity, we may not be able to achieve our margin targets in negotiating for contract awards. When performing order calculations, there is potential for incorrect cost assessments. To prevent this, we obtain current market prices on the procurement side and have our calculation assumptions reviewed internally. Our sales position in the individual markets is good in most cases. Woodworking Machinery and Systems has limited contact with end customers in China, as sales activities take place via a partner company in which the HOMAG Group has a minority equity interest. However, we have intensified collaboration with this sales partner.

Operating risks: Project execution/engineering

Should we fail to meet deadlines or other commitments in order execution, this may lead to additional costs or to payments by customers being postponed. Although project lifetimes currently tend to grow shorter, we assess this risk as controllable since our capacities are adjusted in line with our volume of business. Moreover, thanks to standardized products and processes, we are in a position to handle numerous large projects simultaneously. We take precautions to prevent technical or logistical problems in the case of large projects by maintaining a tightly-knit supplier monitoring system and performing regular project reviews.

Taxes, legislation, compliance and compliance management system

We must observe different national legal norms. To prevent violations, we cooperate with local legal experts and train our employees accordingly. New trade barriers and legislation may increase our costs and reduce our sales opportunities. Changes under tax law may lead to higher tax payments and affect our tax assets and receivables; in addition there is a risk of uncertainty in the interpretation of the underlying tax legislation.

As a rule, material legal risks arise from warranty claims, claims for damages in cases of production failures or patent litigation. If we fail to meet our contractual obligations in performing our services, we may be liable to penalties. Before making any contractual representations and warranties, we study what liability-related consequences we may face. As a principle, we rule out any commitments that we cannot fulfill. In most cases, contractual risks in project business are higher than in single machine business. No extraordinary legal disputes are pending at present.

Compliance violations may lead to prosecution, liability risks and image loss. We are not aware of any serious violations at this time.

In 2018 we exposed a moderately severe incident in Brazil that caused us a financial loss in the low single-digit million euro range. In this case, we initiated legal proceedings against an employee in Brazil and intensified our corresponding compliance measures.

We protect ourselves by means of a compliance management system, the basic features of which are described at www.durr-group.com in the section on Investors/Corporate Governance. The system is monitored on a regular basis and comprises all activities with the objective of ensuring that all employees in daily operations behave in conformity with the relevant rules and ethical requirements. It governs the responsibilities, communication channels and measures in three central fields of activity synchronized with one another: preventing, detecting promptly, and responding to compliance violations. In this way, the compliance management system supports employees in preventing contraventions and associated risks of liability and criminal convictions. In addition, we deal with corruption risks in a targeted manner. Key instruments are internal policies, multi-stage online training sessions, the four-eye principle and the work carried out by the Internal Auditing department.

Market

Considering the immense investment demand in such segments as electromobility, autonomous driving and connectivity, the automotive industry might reduce its production technology investments of relevance to us. At present, however, we continue to register a comfortable to high level of investments. After all, the development of new technologies calls for carmakers to have access to high cash flows from business with conventional vehicles. This requires them to continue to invest adequately in efficiency-enhancing production technology. Another factor is that the trend toward e-mobility and autonomous driving also generates new business opportunities for us; the relevant information can be found in the **"Opportunities report" → page 89.**

In the automotive business, dependencies are possible since only a small number of carmakers exist worldwide. However, this number is growing as new producers of electric vehicles enter the market. In 2018, 32% of our sales were generated by business with the ten largest customers. Outside the automotive industry, the dependency risks are considerably lower as our customer base is very broad.

In our markets, we are confronted by price pressure; as a rule, this is most pronounced in paint shop construction for the automotive industry. We respond to price pressure with innovation, process optimization, localization and cost control.

Some customers in the automotive industry are showing less willingness to make prepayments for large projects. Chinese customers in particular prefer acceptance drafts – a kind of bill of exchange – to conventional prepayments. In projects of this kind, payments by customers tend to be made later or less evenly across the project duration. Defaults in payment have not increased, and uncollectible claims are extremely rare in business with the automotive industry.

We carry out sound creditworthiness checks before engaging in projects with new producers of electric cars, notably in China. We carefully monitor receivables from customers without an investment grade rating. However, defaults in receivables from customers cannot be ruled out, and this might have a negative impact on us.

We analyze the development of new products, technologies and business models in our industry segments very closely. Trends that might threaten our market position are not identifiable. Disruptive technologies such as electromobility and autonomous driving have not led to lower demand for paint, assembly and testing technology in the automotive industry. Instead, we expect increasing demand in final assembly technology since the assembly of electric cars partly calls for new methods to be deployed. Autonomous driving increases the need for testing technology for sensors, cameras and radar systems. In painting technology, there are no serious substitution risks as there still are no alternatives to aluminum, steel and plastics in large-scale serial car body production. Composite materials deployed as a weight reduction strategy also need to be painted by conventional means. Wood and chipboard continue to dominate in furniture production; for this reason the HOMAG Group is not exposed to any major substitution risks.

In the wake of digitization, it is becoming increasingly important for us to offer our customers top-performing software and IT solutions. Should we fail to do so, competitors from the software industry could come between us and our customers with offers of their own. Thanks to ADAMOS, LOXEO, tapio and other software and smart products, however, we are well positioned to defend our market position. Moreover, we are more familiar with the production processes of our customers than competitors new to the industry.

Strategic risks in the emerging markets

The large business share in the emerging markets (47.8 % of sales) entails specific risks:

- Cultural and language barriers, insufficient knowledge of suppliers, customers and market practices, and specific legal and general political parameters may give rise to disadvantages.
- The level of staff turnover in the emerging markets is higher than in Germany. Attractive remuneration packages, our status as world market leader and targeted career planning strategies help us retain top-performing employees.
- Product and brand piracy is more prolific in the emerging economies than in the established markets. However, many core technologies cannot easily be copied to the equivalent quality due to their complexity. Moreover, we protect ourselves with patents.
- Our local product development ensures that regional customer requirements are duly taken into account. This reduces the acceptance risks for new solutions.
- We protect ourselves against cost pressure of local competitors by means of a high degree of localization.

Strategy risks: acquisitions/new fields of activity

As regards corporate acquisitions, sales, earnings and synergies may turn out lower than planned. To avoid this risk at MEGTEC and Universal, we carried out a comprehensive due diligence audit in advance and developed an integration plan that is being rigorously implemented.

Risks in developing new fields of business are: misguided estimates of resources deployed, customer requirements and price targets, as well as the development of demand, markets and competition. Moreover, problems may arise in the field of technology development. Such misguided estimates and problems may increase the risk of impairment on investments, book values of equity interests and capitalized development costs. In the field of energy efficiency, our expectations in the micro gas turbine business were not met. Accordingly, in 2018 we discontinued our activities in this field.

R&D and product liability risks

With regard to innovations, there is a risk that we may not be able to absorb our development costs through our product prices. To avoid market acceptance risks, we analyze demand accurately, engage pilot customers in our projects and develop products with a high return on investment. This also reduces the risk of impairment charges on capitalized development costs.

We carefully review the patent situation to ensure that no products violate any intellectual property rights of third parties. To prevent product liability cases, we ensure that our products meet occupational health and safety regulations, and we take out appropriate insurance policies.

Competition

In view of our extensive market share, some customers choose to cooperate with smaller-sized competitors. This may make our price targets difficult to achieve. Local competitors sometimes undercut our prices. We counter this by increasing value added locally and by protecting our technology lead through innovations.

We are not aware of any rival products that could endanger our market position. In certain markets, we have registered an above-average level of competitive intensity. We have noticed that some competitors from the emerging markets are also starting to operate outside their home markets. In no key market are we systematically discriminated against by the public sector in relation to domestic competitors. In certain markets, some customers prefer to cooperate with domestic suppliers of production technology.

Procurement and manufacturing

In certain segments, the robust increase in our volume of business is leading to bottlenecks among suppliers. This applies in particular to the Woodworking Machinery and Systems division, which has boosted its stocks for this reason to ensure their ability to deliver. To mitigate availability and price risks, we enter into framework agreements with preferred suppliers and pool our procurement volumes. Dependency risks may occur in a few cases; we reduce these by broadening our supplier base.

Quality deficiencies or delays may arise with suppliers; this applies especially to the emerging markets. We therefore rely on careful selection and monitoring of suppliers. Moreover, we have reduced our dependency on suppliers in some divisions by extending our own production. We are often unable to pass rising supplier prices

on to our customers in full. The insolvency risk of suppliers is low in most countries.

Human resources

We hire external workers to avoid risks of capacity bottlenecks. As we have numerous highly qualified employees, know-how losses may be incurred when they leave our company. This is why we distribute specialist expertise across a number of persons and promote knowledge transfer e.g. by documentation and training measures.

Bottlenecks in personnel procurement are possible, especially in the fields of information technology, digitization and electrical engineering. To counteract this, we rely on long-term career planning for experts as well as on personnel and university marketing, vocational training and cooperative state university courses.

We have outsourced pension commitments to external pension funds in which other enterprises also participate. Should one of these companies file for insolvency, this would give rise to the risk of co-liability for its retirement benefit commitments. Accordingly, we regularly monitor the financing status of the pension funds and the performance of the participating companies.

Our pension risks are manageable. The discount rate for calculating pension obligations in Germany amounted to 1.7 % on December 31, 2018, identical to the previous year's figure. Pension provisions, at € 50.1 million, remained on a par with the previous year.

IT and management processes

IT risks, such as data loss, hacking and virus attacks, increase in the wake of digitization. We protect ourselves by means of a Group-wide IT security organization and a robust IT infrastructure, equipped with state-of-the-art firewalls and antivirus programs. We use back-up servers, redundant data lines and uninterrupted power supply units to avoid any outages. We rate the risk of hacker attacks and data theft as normal for the industry in which we operate.

The frequency of cyber fraud attempts by computer and data manipulation is rising. To avoid loss or damage, we use enhanced authentication standards in electronic payments, security certificates for email messages, secure smartphones and verified bank connections. In addition, we regularly draw our employees' attention to typical fraud practices.

Incorrect assignment of IT access privileges gives rise to the risk of data being read or manipulated by unauthorized persons. We protect ourselves by restrictive assignment of rights. Reading and editing rights regarding sensitive data are assigned only to employees who absolutely depend on them to perform their work.

The EU General Data Protection Regulation (GDPR), in force since May 2018, has substantially tightened the requirements for processing personal data. This has also led to an increase in the risk of violations. To operate in conformity with the law, we have notified our employees of the new rules and regulations and prepared instructions for action.

Environment, health and safety

We counter the risk of accidents at work by carrying out regular safety instruction and comprehensive safety standards and procedures, which are described in our health and safety policy. In addition, we cooperate with our customers in order to guarantee safety at work on construction sites. In the field of emission protection, we follow statutory regulations, internal guidelines and the parameters of certification systems. Any materials or substances posing health or environmental hazards are only used on a restricted scale, such as when carrying out tests in painting technology.

CURRENCY, INTEREST AND LIQUIDITY RISKS AS WELL AS FINANCIAL INSTRUMENTS FOR RISK MITIGATION PURPOSES

Currency, interest rate and liquidity risks are explained in detail in item 42 of the notes to the consolidated financial statements. Management of such risks is governed by a Group-wide policy. The top corporate body in this area is the Financial Risk Committee, consisting of the Chief Financial Officer, the heads of Group Controlling and Group Treasury as well as the financial officers of the divisions. This body discusses strategic financial policy issues and prepares resolutions for the Board of Management.

Hedging currency risks

We use financial instruments for hedging purposes. In most cases these are forward exchange contracts used as currency hedges. Their nominal value came to € 488.1 million at the end of 2018 (December 31, 2017: € 459.8 million). In particular, all payment flows were hedged in the key currencies listed under item 5 of the notes to the consolidated financial statements. In order to hedge interest rates regarding the variable tranches of the bonded loan, we deployed financial derivatives with a volume of € 100 million in 2018. We wish to point out that the use of financial instruments may entail risks, such as less favorable terms of deposits and higher financing costs. In addition, the market value of financial deriva-

tives may decrease if credit risk spreads increase due to changes on the financial markets.

In most cases, we hedge foreign currency risks of orders placed immediately after the relevant contract awards. In principle, we agree a separate (micro) hedge for each larger individual project. In the standard machinery and spare parts business, we also use macro-hedges for any number of orders bundled.

All financial derivatives and their underlying transactions are checked and valued on a regular basis. Financial derivatives are exclusively used to hedge loans and operations in commercial terms.

The risks involved in currency translation into euros increased slightly in 2018 due to higher exchange rate volatility. Our export-related transaction risks are relatively moderate as we produce numerous products on site or purchase them in local currency.

Hedging interest rate risks

We pursue a conservative interest rate and financing strategy, comprising three core elements: long-term interest rate and financing certainty, matching maturities, and a prohibition of speculation. Our financial liabilities primarily comprise the bonded loan issued in 2016 and the bond issued in 2014. Due to the new IFRS 16 "Leases", as of 2019 most leasing transactions will be accounted for on the liabilities side as leasing liabilities (under financial liabilities). Accordingly, the level of financial liabilities is likely to increase by approx. € 100 million. The risk of interest rate fluctuations of our Group financing arrangement is limited.

Interest rate risk management covers all interest-bearing and interest-sensitive balance sheet line items. Regular interest rate analyses enable risks to be identified at an early stage. Group Treasury is chiefly responsible for borrowing, investment and interest rate hedges; from a defined scale onward, exceptions must be submitted to the Chief Financial Officer for approval.

Hedging liquidity risks

We largely cover our liquidity needs from our cash flow. At times of temporary negative cash flows, we are able to use cash and cash equivalents and the cash line of the syndicated loan. This was not necessary in 2018. Please also refer to the chapter on "Financial development" → page 72 in this regard. Our cash pooling enables us to make use of liquidity surpluses of individual companies for other Group subsidiaries, provided that the capital transfer regulations of the individual states allow this practice. This enables us to avoid taking out loans and paying interest expenditure.

Financing risks

No risks relating to borrowing exist at this time. Our bond issue, the bonded loan and the syndicated loan have maturities until at least 2021. The terms of our bond contain the usual restrictions and obligations. A violation could result in the bond plus accrued interest being called due for immediate payment. The bonded loan may also be called for immediate repayment in the event of a violation of material contractual obligations, in case of insolvency or a control change. The contract concerning our syndicated loan provides for compliance with a certain key financial ratio. If we fail to meet this financial covenant, the banking syndicate may terminate the agreement prematurely. In fiscal 2018, the financial covenant was complied with on each effective calculation date.

Hedging investment risks

Our policy for financial asset management governs the process of handling investment risks, and defines the permissible asset classes and credit status requirements. As we do not hold any government or corporate bonds, we are not subject to corresponding repayment and impairment risks.

RATINGS

We do not have any ratings carried out to assess our credit status.

Opportunities

OPPORTUNITIES MANAGEMENT SYSTEM

We use a Group-wide opportunities management system to identify, evaluate and exploit new business opportunities. This is primarily done by the divisions, which collect information on new trends and market requirements through their contacts with customers, suppliers and partners. This information is aggregated to identify opportunity clusters, and duly evaluated. Opportunity clusters offering sustained economic potential are analyzed in strategy workshops with the Board of Management and the division heads. The divisions then integrate the approved opportunity clusters in their strategy and define goals, measures, responsibilities and schedules.

Identifying and evaluating business opportunities is an ongoing process, which is coordinated by the division heads. The Board of Management and the Corporate Development department are responsible at the level of Dürr AG. If opportunities are found to be

of major strategic significance, we form multidisciplinary teams to conduct potential analyses and prepare plans.

A further aspect of opportunities management entails joint activities with universities, research institutions and the Dürr Technology Council. These contacts help us to determine the extent to which new scientific findings may yield opportunities for the Dürr Group. Opportunities may also arise from new legislation, e.g. on emission protection and international trade. Our opportunities management system takes account of global and regional business opportunities as well as the potential offered by specific products, customers and business models.

POTENTIAL OFFERED BY OPPORTUNITIES

This section now proceeds to describe the material opportunities of the Group and the divisions. The business plan for 2019 and the strategic plan through 2022 incorporate the sales and earnings potential that can realistically be expected to be generated by these opportunities. If we are able to make use of the opportunities to a greater extent than assumed, sales and/or EBIT may exceed the figures budgeted for 2019 by up to 4 % and 11 %, respectively. However, this additional sales and EBIT potential is achievable only in a best-case scenario.

STRATEGIC OPPORTUNITIES

Digitization/Industrial Internet of Things: The digitization and networking of production processes is opening up additional sales potential for us. Another opportunity stems from the establishment of new business and pricing models that are based, for example, on the value of a digital service for system availability, the intensity of use or the number of connected machines. In addition, digitization allows us to stand apart from competitors to a greater extent.

Growth in automotive production: Global automotive production is expected to grow by an annual average of 3.3 % between 2018 and 2023. This translates into just under 17 million additional units, for which the automotive industry requires further production capacity. Above-average growth is expected in Russia and Eastern Europe as well as in Central and Southeast Asia. With our international project execution skills, we stand to benefit from this.

Electromobility: Electromobility offers opportunities for the Dürr Group. The proportion of electric vehicles in global automotive sales stood at 1 % in 2015 but should widen to 8 % by 2025.

Consequently, the automotive industry looks set to significantly increase spending on plant conversion and on special production technologies for electric vehicles. At the same time, our customer base widens as new producers of electric vehicles are entering the market.

Automation: Demand for automated manufacturing processes is growing in such areas as the furniture industry, wheel assembly and the final assembly of electric vehicles. With our automation expertise, we will be benefiting from this trend and will be able to stand apart from the competition.

Service: Our large installed base is opening up further growth potential for us in service business with its wider margins. Leveraging this potential is a priority of the “Dürr 2020” strategy.

Growing modernization business: Plant modernization business is growing. Our customers are able to boost the productivity of older plants significantly at reasonable expense and over short amortization periods.

Localization/local products: We are improving cost structures and customer proximity by expanding our local capacities in market regions offering potential. We can harness cost advantages in purchasing, [engineering → page 206](#) and production in particular. Along with localization, we are broadening our range of less complex products for certain regions to improve our competitiveness and to heighten our appeal for local customers.

New materials: The automotive industry is increasingly using plastics to lower vehicle weight. This is spurring demand for plastic coating technology. To take advantage of this trend, we established the cross-divisional Plastic Painting Systems unit in 2018. The growing proportion of plastics in automotive engineering is also increasing market volumes for [glueing technology → page 206](#).

OPPORTUNITIES IN THE DIVISIONS

Paint and Final Assembly Systems has implemented the FOCUS 2.0 optimization program as a basis for reaching the EBIT margin target of 6 to 7 % again in 2020. The increasing output of electric vehicles is offering opportunities in painting and final assembly technology. Given the large installed base, there is substantial potential for profitable growth in service business. Paint and Final Assembly Systems also wants to step up business with Japanese automotive OEMs and in the emerging Southeast Asian market.

Application Technology wants to leverage growth opportunities in business with general industry, sales in this segment are set to rise to around € 50 million by 2020. In automotive business, opportunities in terms of quantities and variety of models are arising from full automation of the painting process and the installation of more flexible painting lines. A further opportunity comes from the fact that the first painting robots, which were installed around 12 to 15 years ago, are now approaching the end of their life cycles and must be replaced. By offering flexible special paint supply systems and innovations for [overspray-free painting → page 206](#). Application Technology is benefiting from the trend in favor of customized vehicle painting. The market for [glueing technology → page 206](#) is growing as, looking forward, more and more panels will be glued rather than welded in automotive body-in-white engineering.

Clean Technology Systems is able to harness additional potential for growth through the acquisition of MEGTEC/Universal. Sales in exhaust-air purification technology is to increase to as much as € 500 million by 2021, while the EBIT margin is to widen to between 6 and 7 %. There are good opportunities in China and other emerging markets in particular, due to the growing environmental awareness in these countries and the related introduction of more stringent emission limits. It will be possible to tap earnings potential by concentrating on attractive market segments and harnessing economies of scale after the acquisition of MEGTEC/Universal.

Measuring and Process Systems wants to continue expanding its US business. At the same time, opportunities are beckoning from new products for the assembly of electric vehicles. Examples include the eTENO balancing system for electric armatures and filling systems that supply drive batteries with refrigerant. The trend toward autonomous driving is also opening up new business opportunities. Self-driving cars require a variety of sensors, cameras and radar systems. We are already providing the necessary [test systems → page 206](#) for these today.

Woodworking Machinery and Systems expects continued brisk spending by the woodworking industry on integrated production lines with a high level of automation and batch-size-1 capability. Demand is being driven by the advancing industrialization of furniture production. The HOMAG Group is benefiting greatly from this trend: It holds the widest range, and has a particularly strong position in automation and digitization. There is still potential for further growth in earnings, with an EBIT margin of 8 to 10 % being targeted. In order to achieve this goal, the HOMAG Group is implementing efficient processes to improve operational excellence and is expanding its service business.

Expected future development

MOUNTING RISKS FOR THE GLOBAL ECONOMY

Experts assume that economic momentum will slow in 2019 and 2020. Global economic growth is likely to weaken to 3.5 % in 2019 and to 3.4 % in the year after, with the risks outweighing the opportunities.

In the United States, the stimulus generated by the tax reform is waning. At the same time, trade conflicts and interest rates hikes are exerting a drag on the economy. Even so, GDP growth should exceed 2 % this year, after reaching 2.9 % in 2018. China projects economic growth of over 6 % in 2019 but will probably only be able to achieve this through economic stimulus by the government. Sources of strain include high corporate debt, the trade dispute with the United States and dislocations in the real estate market. Europe should achieve sustained growth at a lower level, although Brexit and Italy's public-sector budget problems, among other things, are causing uncertainty. In Germany, GDP growth should come to roughly 1 % in 2019. Russia is also expected to achieve only moderate expansion. By contrast, India will be able to maintain its strong economic momentum with growth of just under 7 %, according to forecasts. The growth forecasts for 2019 and 2020 are summarized in table 2.67.

Experts again do not see any signs of pronounced inflationary pressure worldwide. Although wages and salaries have risen significantly in some cases, technological advances, for example in the field of digitization, and globalization are keeping more substantial price increases at bay. The ECB wants to keep interest rates low in the Eurozone. Given the more muted growth in the US economy, the Fed is not likely to raise its interest rates any further. Softer commodity prices in the second half of 2018 can be seen as an indicator of slower growth in the global economy.

Our two main sell-side sectors, the automotive industry and furniture producers, are expanding at a similar rate to GDP growth in the long term. However, automotive sales fell short of expectations in 2018 and are expected to remain fairly moderate in 2019 as well – not least of all in view of the trade conflicts. Equipment investments in general should continue to expand in 2019 and 2020, although the rate of growth is likely to have peaked in 2018.

2.67 — GROWTH FORECAST FOR GROSS DOMESTIC PRODUCT

% year-on-year change	2018	2019	2020
Global	3.8	3.5	3.4
Germany	1.5	1.2	2.0
Eurozone	1.9	1.4	1.6
Russia	1.6	1.1	1.2
United States	2.9	2.5	1.8
China	6.6	6.3	6.0
India	7.6	6.9	6.8
Japan	0.7	1.2	0.3
Brazil	1.1	1.9	1.6

Source: Commerzbank, 01/2019

GLOBAL AUTOMOTIVE PRODUCTION: GROWTH OF A GOOD 4 % EXPECTED FOR 2019

PricewaterhouseCoopers (PwC) projects growth of 4.1 % in global automotive production to 97.9 million units in 2019. Production in North America should increase slightly to 16.9 million units. PwC expects production in China to rise significantly by 9.1 %, following the slump that emerged in 2018 for the first time in several years. Consumers in China are holding out for government support measures for automotive sales and are therefore postponing purchases of new cars. This explains why sales remained weak at the beginning of 2019. In Western Europe, output could exceed the previous year's figure of 15.2 million, as production came under pressure in 2018 from the implementation of the Worldwide Harmonized Light Vehicle Test Procedure (WLTP) for exhaust emissions. In Russia, the automotive market should continue recovering, while PwC expects flat production output in Brazil. However, India could post a gain of a good 8 %. PwC's projections for 2019 are more optimistic than those of other institutions.

Looking further down the road, we continue to see favorable conditions for an increase in automotive sales thanks to generally strong consumer confidence and inexpensive finance for vehicle buyers. The automotive industry has considerable growth potential in the emerging markets in particular due to the rising need for mobility. PwC expects global production to expand by an annual average of 3.3 % between 2018 and 2023. This means that global output should widen to around 111 million units by 2023.

2.68 — PRODUCTION OF PASSENGER VEHICLES AND LIGHT TRUCKS

Million units	2018	2019 ¹	2020 ¹
Global	94.0	97.9	101.9
Western Europe	15.2	15.5	16.0
Germany	5.6	5.8	6.1
Eastern Europe	7.1	7.3	7.4
Russia	1.6	1.7	1.7
North America (incl. Mexico)	16.8	16.9	17.1
United States	10.8	11.2	11.7
South America	3.4	3.5	3.7
Brazil	2.8	2.8	2.9
Asia	48.7	51.9	54.7
China	26.3	28.7	30.7
Japan	9.0	8.8	8.8
India	4.9	5.3	5.6

¹ Projection

Source: PwC 01/2019, own estimates

UPWARD TREND IN MECHANICAL ENGINEERING SLOWING

The German Mechanical and Plant Engineering Association (VDMA) forecasts a further 2% increase in sector sales in 2019. The German Economic Institute (IW) projects growth of around 4% in spending on capital goods in Germany. Although this is somewhat lower than in 2018 (up 5%), it will still be at a high level in a long-term comparison.

As in the previous year, the global furniture industry will expand by 3.5% in 2019, according to the Centre for Industrial Studies (CSIL). The trade conflict with the United States has triggered uncertainty on the part of furniture producers in China in particular as well as in other parts of Asia-Pacific. Roughly 10% of the furniture produced in China is exported to the United States. The industry association within the VDMA responsible for wood-processing machines projects flat revenues in 2019 after the 8% increase in 2018.

AUTOMOTIVE AND FURNITURE TO REMAIN OUR KEY SELL-SIDE INDUSTRIES, HIGHER WEIGHTING FOR ENVIRONMENTAL TECHNOLOGY

The relevant project and capital expenditure volumes in business with the automotive industry should more or less remain steady at the previous year's level in 2019. Spending on production technology for electric vehicles is likely to continue rising in view of

the growing demand for battery-powered and hybrid vehicles. The most important factors driving capital spending by automotive OEMs remain capacity expansion and reductions in unit costs by means of more efficient production facilities either via greenfield or brownfield spending.

In business with the woodworking industry, we expect demand for production technology to remain stable in 2019. This assumption is supported by the consolidation process in the furniture industry, which has led to the emergence of larger companies that are calling particularly for systems with a high degree of automation. At the same time, consumer demand for customized furniture is growing. For this reason, manufacturers are spending on production lines with batch-size-1 capability. Another factor driving demand is the digitization of production facilities to achieve higher availability and adaptability.

The automotive and furniture industries will remain our most important customer groups. In addition, environmental technology business will gain significant added importance following the acquisition of MEGTEC/Universal. We are not planning any changes to our business policy. Digitization is increasingly growing in importance for our business success. It offers the opportunity of retaining customers through new services and of standing apart from the competition.

One key success factor is our good international positioning. The emerging markets continue to offer the greatest opportunities for growth. We are particularly focusing on China, which is by far the largest market for our machines and systems and the products manufactured with them. The Chinese government is committed to advancing e-mobility and air pollution control, both areas in which we have considerable growth potential with our technologies.

FIRST-TIME APPLICATION OF IFRS 16

We have been applying the new accounting standard IFRS 16 "Leases" since January 1, 2019. The most important change is that lessees must now place virtually all leases on their balance sheets. We assume that we will have to recognize assets of around € 90 million due to the application of IFRS 16. At the same time, we expect financial liabilities to rise by around € 100 million, while revenue reserves are likely to drop by some € 10 million. EBIT should climb by an amount in the low single digit million euro range due to the first-time application of IFRS 16, accompanied by a decline of a similar scale in financial result.

SALES TARGET FOR 2019: € 3,900 TO 4,100 MILLION

This outlook assumes that the global economy will continue to grow, that there are no macroeconomic dislocations and that the stability of the political environment does not deteriorate any further.

Looking ahead over the next few years, we are seeking organic growth in sales of an annual average of around 2 to 3 %. As things currently stand, we expect to be able to report sales of € 3,900 to 4,100 million in 2019, thus possibly reaching the € 4 billion mark for the first time. The MEGTEC/Universal Group, which will be consolidated for the first full year, should contribute sales of around € 150 million more than in 2018 (sales contributed in 2018: € 47.6 million). The Dürr Group's order intake should reach a corridor of € 3,800 to 4,100 million in 2019, while the target range for order backlog at the end of 2019 is € 2,400 to 2,900 million.

Total costs (cost of sales, overheads and other operating costs) should increase only slightly in 2019. Personnel expense and the costs of materials will remain the largest single items. We expect personnel expense to rise more slowly than in 2018, when the pay-scale agreement reached for the German metal and electrical engineering industry was extraordinarily high. The cost of materials should rise more slowly than sales, if at all, and could possibly even drop slightly, as the prices of many raw and input materials fell in the second half of 2018. Depreciation and amortization will be higher due to the greater purchase price allocation effects as well as the application of IFRS 16. We assume that the cost of sales will climb a good deal more slowly than sales, accompanied by lower extraordinary expenses. Accordingly, the gross margin should be wider than in 2018. According to our plans, R&D expenses as well as selling and administrative expenses will increase at roughly the same rate as sales.

SUBSTANTIALLY HIGHER EBIT MARGIN PLANNED FOR 2019

The EBIT margin should widen substantially in 2019. A figure of 6.5 to 7.0 % is being targeted, up from 6.0 % in the previous year. The extraordinary expenses included in EBIT should drop to around € 25 million (2018: € 41.4 million) and primarily arise from purchase price allocation effects. Adjusted for extraordinary effects, the operating EBIT margin should come to between 7.0 and 7.5 % in 2019 (2018: 7.1 %). Upside potential should arise from the optimization and efficiency enhancement measures implemented in 2018. With the exception of Measuring and Process Systems, which achieved a high EBIT margin of 13.1 % in 2018, all divisions are targeting unchanged or wider margins.

**EARNINGS AFTER TAX:
€ 175 TO 190 MILLION EXPECTED**

Net finance expense will increase in 2019. One reason for this is the first-time application of IFRS 16. In addition, high investment income of € 3.1 million was received in 2018. With an expected tax rate of 27 to 28 %, earnings after tax should rise to between € 175 and 190 million.

The dividend proposed for 2018 (€ 1.00 per share) corresponds to a payout ratio of 42 % of earnings after tax. This is slightly higher than the customary range of 30 to 40 % and reflects the fact that the 18.1 % decline in earnings after tax in 2018 is chiefly due to the high extraordinary expenses, whereas operating EBIT dropped by only 3.1 %. The payout ratio should reach 30 to 40 % again in 2019. In this way, we will be able to retain sufficient funds within the company to finance our capital expenditure and continue expanding our business by means of further acquisitions.

ROCE → **page 207** should come within a range of 20 to 30 % in 2019. Although it should benefit from the rising EBIT, capital employed will also increase due to the inclusion of leases on the balance sheet.

2.69 — GROUP OUTLOOK

		2018	2019 target
Order intake	€ million	3,930.9	3,800–4,100
Orders on hand (December 31)	€ million	2,577.2	2,400–2,900
Sales	€ million	3,869.8	3,900–4,100
EBIT margin	%	6.0	6.5–7.0
EBIT margin before extraordinary effects	%	7.1	7.0–7.5
ROCE	%	24.0	20–30
Net finance expense	€ million	–13.8	Deterioration
Tax rate	%	25.6	27–28
Earnings after tax	€ million	163.5	175–190
Cash flow from operating activities	€ million	162.3	Up on the previous year
Free cash flow	€ million	78.4	Up on the previous year
Net financial status (December 31) ¹	€ million	32.3	–60 to –20
Liquidity (December 31)	€ million	655.0	660–700
Capital expenditure ²	€ million	74.4	80–90

¹ We expect the first-time application of IFRS 16 "Leases" to exert a negative effect of around € 100 million on net financial status in 2019. Adjusted for this extraordinary effect, net financial status should improve to between € 40 and 80 million.

² on property, plant and equipment and on intangible assets (excluding acquisitions)

DIVISIONS

Paint and Final Assembly Systems expects order intake of € 1,100 to 1,300 million in 2019 after rising to a very high level of more than € 1,300 million in 2018. At € 1,200 to 1,300 million, sales should more or less match the previous year. The EBIT margin should widen to between 4.6 and 5.5 %, underpinned by the efficiency gains achieved via the FOCUS 2.0 optimization program and the improved quality of margins on incoming orders in 2018. Thanks to FOCUS 2.0, Paint and Final Assembly Systems should reach the EBIT margin target of 6 to 7 % again in 2020.

Application Technology is targeting order intake of € 620 to 670 million; sales could rise slightly. The EBIT margin should be in a range of 10.0 to 11.0 % again. Start-up costs in non-automotive business (Industrial Products) will probably decline in tandem with higher sales.

Order intake and sales for Clean Technology Systems will each increase by around € 150 million due to the full-year consolidation of MEGTEC/Universal. The division also expects organic growth. On this basis, order intake and sales are each expected to rise to between € 400 and 450 million in 2019. The EBIT margin should widen to between 2 and 3 % despite the pressure exerted on earnings by heavy purchase price allocation effects, which are expected to reach a good € 7 million. These should drop to around € 5 million in 2020.

Measuring and Process Systems is targeting order intake of € 400 to 450 million in 2019, equivalent to growth potential of up to around 10 %. After the strong performance in the previous year, sales should

reach € 400 to 450 million and hence match order intake. Earnings are likely to decline slightly as capital expenditure and R&D costs will increase as a result of digitization. Even so, the EBIT margin should reach a very satisfactory figure of 11.5 to 12.5 %.

Woodworking Machinery and Systems is budgeting sales of € 1,280 to 1,380 million in 2019, while order intake should reach € 1,250 to 1,450 million. The EBIT margin should widen to between 6.7 and 7.5 %, underpinned by process improvements, particularly in production. The purchase price allocation effects included in EBIT will remain unchanged at € 8.7 million in 2019, equivalent to around 0.7 % of sales.

FURTHER IMPROVEMENT IN CASH FLOW EXPECTED

As things currently stand, we expect to report a further increase in the cash flow from operating activities in 2019. **Net working capital** → page 207 will probably rise only slightly, after growing by € 51.6 million in 2018 due to increased inventories. **Free cash flow** → page 207 should be positive again in 2019 and exceed the 2018 figure. Cash flow and cash and cash equivalents should be sufficient to cover operating funding requirements (capital expenditure, interest payments etc.) as well as the dividend payout.

CAPITAL EXPENDITURE

Capital expenditure on property, plant and equipment and on intangible assets looks set to reach a normal level of € 80 to 90 million in 2019. The main focus will be on IT and replacement spending.

2.70 — OUTLOOK BY DIVISION

	Order intake (€ million)		Sales (€ million)		EBIT margin (%)	
	2018	2019 target	2018	2019 target	2018	2019 target
Paint and Final Assembly Systems	1,300.4	1,100–1,300	1,235.7	1,200–1,300	4.5	4.6–5.5
Application Technology	632.4	620–670	652.6	630–680	10.4	10.0–11.0
Clean Technology Systems	258.2	400–450 ¹	226.7	400–450 ¹	–6.6	2.0–3.0 ¹
Measuring and Process Systems	403.3	400–450	456.5	400–450	13.1	11.5–12.5
Woodworking Machinery and Systems	1,336.8	1,250–1,450	1,298.3	1,280–1,380	6.6	6.7–7.5

¹ MEGTEC/Universal will be consolidated for a full year in 2019.

Under the “Dürr 2020” strategy, we are planning further acquisitions and technology buy-ins, although no major acquisition is currently on the horizon. We will be able to fund a possible transaction with our high cash position and cash flow.

LIQUIDITY, EQUITY AND FUNDING

We currently project a **net financial status** → **page 207** of € -60 to -20 million at the end of 2019. This forecast factors in an increase of approximately € 100 million in financial liabilities due to the first-time application of IFRS 16. Adjusted for this effect, net financial status will probably improve to between € 40 and 80 million. The target corridor for cash and cash equivalents is € 660 to 700 million at the end of 2019.

Equity should increase again due to the retained earnings. We also project a small increase in the equity ratio as of December 31, 2019, although total assets will increase by around € 90 million due to the first-time application of IFRS 16. There are again no plans to draw on the cash credit line of our syndicated loan in 2019. We currently have no intention of raising any fresh capital; this would only be an option in an exceptional case in the event of a large acquisition. Our financial position is stable up until 2021.

EMPLOYEES

The headcount is expected to rise slightly by the end of 2019. The proportion of employees based in the emerging markets will probably continue widening.

RESEARCH AND DEVELOPMENT

R&D expenditure should rise roughly in line with sales in 2019, resulting in a growth rate in the mid-single digits. Digitization continues to be at the center of our innovation work; among other things, we are working on software products for networked and intelligent production processes. A further aspect of our R&D efforts is the development of competitive products at lower costs; in particular, they will be addressing demand in the emerging markets and will also be manufactured locally.

SUMMARIZED STATEMENT BY THE BOARD OF MANAGEMENT ON PROJECTED DEVELOPMENTS

We expect capital spending levels in the automotive industry to remain roughly the same in 2019. The main driving forces will be the flexibilization and modernization of production; moreover, investments in production technology for electric vehicles should continue to increase. In the woodworking industry, we expect to see stable demand. The most important technological trend – and thus driver of our R&D activities – remains digitization throughout the entire Group.

Sales should grow by a percentage rate in the mid-single digits to between € 3,900 and 4,100 million in 2019. The Clean Technology Systems environmental technology business, which we have reinforced with the acquisition of MEGTEC/Universal, will be making a growing contribution to this. The Group's EBIT margin should widen to between 6.5 and 7.0 %, underpinned by measures implemented in 2018 to boost earnings as well as lower extraordinary expenses (purchase price allocation effects). Adjusted for extraordinary effects, the operating EBIT margin should reach 7.0 to 7.5 %. Earnings after tax are set to climb to between € 175 and 190 million, while further growth in cash flow from operating activities and free cash flow are also planned. The net financial status will be in negative territory (€ -60 to -20 million) due to the first-time application of IFRS 16. The dividend proposed for 2018 (€ 1.00 per share) translates into a payout ratio of 42 % of consolidated net profit.

DÜRR AG (GERMAN COMMERCIAL CODE)

Dürr AG's annual financial statements are prepared in accordance with the provisions of the German Commercial Code, whereas the consolidated financial statements are prepared in accordance with IFRS. As the holding company, Dürr AG comprises the Group's central functions and does not engage in any operating business of its own. Its economic condition mainly hinges on the business performance of the Group's operating companies. Dürr AG holds shares in 145 companies directly or indirectly. The economic environment in which Dürr AG operates is essentially the same as the Group's and is described in the chapter entitled ["Economy and industry environment"](#) → page 53.

RESULTS OF OPERATIONS

Dürr AG's sales chiefly arise from payments made by Group companies under transfer pricing agreements for the services provided by Dürr AG as the holding company. In 2018, they rose by 1.1 % over the previous year.

Other operating income fell by 15.9 % to € 24.1 million due to lower currency translation gains. At the same time, other operating expenses dropped by 11.2 % to € 42.8 million as a result of reduced currency translation losses. The 9.6 % increase in personnel expense was chiefly due to a change in the accounting treatment of the pension provisions for our pension plan ('VORaB' program). In the previous year, the pension provisions had been measured at a lower value than the pension liability insurance that had been pledged for this purpose. These figures were brought into line in 2018, resulting in a once-only increase of just under € 2 million in pension provisions, which was recognized through profit and loss.

Dürr AG's investment income, which is generated by the payments received under profit transfer agreements, dropped by 23.6 % to € 193.4 million in 2018. The previous year's figure had been buoyed by two extraordinary effects: the extraordinary book gain of

€ 23.0 million from the sale of the Dürr Ecoclean Group and the reversal of impairment losses at the US subsidiary Dürr Systems Inc. By contrast, the investment income recorded for 2018 came under pressure from the extraordinary expense of € 17.3 million in connection with the discontinuation of micro gas turbine business.

Net finance expense improved from € 11.8 million to € 8.9 million due to higher interest income, which resulted from higher lending to subsidiaries under the Dürr Group's cash pooling system.

Income taxes were down slightly over the previous year. Net income for the year fell to € 152.3 million primarily as a result of the lower investment income. Net retained profit came to € 577.6 million and includes the high profit brought forward from the previous year. The net income for the year is sufficient to cover the proposed dividend payout.

2.71 — DÜRR AG INDIVIDUAL FINANCIAL STATEMENTS – INCOME STATEMENT (GERMAN COMMERCIAL CODE)

€ million	2018	2017
Sales	34.5	34.1
Other operating income	24.1	28.7
Cost of materials	-3.7	-1.9
Personnel expense	-20.7	-18.9
Depreciation and amortization	-1.0	-1.2
Other operating expenses	-42.8	-48.2
Investment income	193.4	253.2
Net finance expense	-8.9	-11.8
Income taxes	-22.6	-23.7
Net income	152.3	210.4
Profit brought forward from the previous year	425.3	291.0
Net retained profit	577.6	501.4

NET ASSETS AND FINANCIAL CONDITION

Dürr AG's total assets dropped by 4.2 % to € 1,574.5 million at the end of 2018. Within non-current assets, financial assets increased slightly to € 799.7 million as we injected € 34.8 million into the capital reserve of Dürr Technologies GmbH. This entity used these funds to increase its share in the capital of HOMAG Group AG by 8.0 percentage points to 63.9 %.

Within current assets, receivables and other assets were up 8.7 %, coming to € 489.7 million. One reason for this was the loan that we extended to US company Dürr Inc. to fund the acquisition of MEGTEC/Universal. The largest change on the asset side was with cash and cash equivalents, which declined by just under one third. This was caused by the repayment of funds that subsidiaries had remitted to us under the cash pooling system for investment purposes.

The issue of bonus shares in June 2018 is reflected in the equity structure. This entailed an issue from the company's own funds in which part of the capital reserve was converted into subscribed capital. However, the issue of the bonus shares did not alter total equity. On the other hand, the higher net retained profit caused equity to rise by 10.2 % to € 822.4 million as of the end of 2018.

Provisions dropped from € 19.8 million to € 16.5 million due to lower tax provisions. The decline in liabilities reflects the reduction in cash and cash equivalents. The surplus liquidity received from subsidiaries was recognized within liabilities. When the funds were returned, there was a corresponding decline in liabilities.

2.72 — DÜRR AG INDIVIDUAL FINANCIAL STATEMENTS – BALANCE SHEET (GERMAN COMMERCIAL CODE)

€ million	Dec. 31, 2018	Dec. 31, 2017
ASSETS		
Non-current assets		
Intangible assets	8.2	9.0
Property, plant and equipment	0.3	0.3
Financial assets	799.7	768.3
	808.2	777.6
Current assets		
Receivables and other assets	489.7	450.5
Other securities	0	3.0
Cash and cash equivalents	274.1	407.1
	763.8	860.6
Prepaid expenses, sundry items	2.5	5.2
	766.3	865.7
Total assets	1,574.5	1,643.3
EQUITY AND LIABILITIES		
Equity		
Subscribed capital	177.2	88.6
Capital reserve	67.6	156.2
Net retained profit	577.6	501.4
	822.4	746.2
Liabilities		
Provisions	16.5	19.8
Liabilities	735.7	877.4
	752.1	897.1
Total equity and liabilities	1,574.5	1,643.3

OPPORTUNITIES AND RISKS

Dürr AG is exposed to the opportunities and risks of its subsidiaries. The extent of such exposure depends on the size of its share in the respective company. See also the [“Report on risks, opportunities and expected future development”](#) → page 81 for further details. In addition, strain may arise from the contingent liabilities in existence between Dürr AG and its subsidiaries.

FORECAST

Dürr AG's future economic performance is closely linked to the Group's operating performance. Details of the outlook and our plans for our operating business can be found in the "[Report on risks, opportunities and expected future development](#)" → [page 81](#).

Dürr AG's full individual financial statements can be found under Investors/Financial Publications/Presentations at our website at www.durr-group.com.

Bietigheim-Bissingen, March 12, 2019

Dürr Aktiengesellschaft
The Board of Management



Ralf W. Dieter



Carlo Crosetto



Pekka Paasivaara



Dr. Jochen Weyrauch



CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of income/Consolidated statement of comprehensive income

3.1 — Consolidated statement of income

of Dürr Aktiengesellschaft, Stuttgart, for the period from January 1 to December 31, 2018

€ k	Note	2018	2017 adjusted ¹
Sales revenues	[8]	3,869,816	3,713,186
Cost of sales	[9]	–3,014,331	–2,856,004
Gross profit on sales		855,485	857,182
Selling expenses	[10]	–314,153	–308,892
General administrative expenses	[11]	–177,797	–176,190
Research and development costs	[12]	–120,960	–116,718
Other operating income	[14]	31,783	77,368
Other operating expenses	[14]	–40,857	–45,729
Earnings before investment result, interest and income taxes		233,501	287,021
Investment result	[15]	7,117	1,813
Interest and similar income	[16]	6,570	6,091
Interest and similar expenses	[16]	–27,508	–27,664
Earnings before income taxes		219,680	267,261
Income taxes	[17]	–56,175	–67,643
Profit of the Dürr Group		163,505	199,618
Attributable to			
Non-controlling interests		6,452	7,065
Shareholders of Dürr Aktiengesellschaft		157,053	192,553
Number of shares issued in thousands		69,202.08	69,202.08
Earnings per share in € (basic and diluted) ²		2.27	2.78

¹ The figures for the 2017 reporting period were adjusted due to the first-time application of IFRS 15.

² The earnings per share figure refers to the status quo after the issue of bonus shares in a ratio of 1:1 on June 22, 2018, and was calculated on the basis of 69,208,080 shares.

3.2 — Consolidated statement of comprehensive income

of Dürr Aktiengesellschaft, Stuttgart, for the period from January 1 to December 31, 2018

€ k	Note	2018	2017 adjusted ¹
Profit of the Dürr Group		163,505	199,618
Items of other comprehensive income that are not reclassified to profit or loss			
Remeasurement of defined benefit plans and similar obligations	[28]	5,116	636
Associated deferred taxes	[17]	–257	–279
Items of other comprehensive income that may be reclassified subsequently to profit or loss			
Changes in fair value of financial instruments used for hedging purposes recognized in equity	[42]	–3,350	11,252
Associated deferred taxes	[17]	802	–3,425
Reclassifications from currency translation reserve through profit or loss		–	–2,981
Currency translation effects		6,945	–35,265
Currency translation effects from entities accounted for using the equity method		524	–33
Other comprehensive income, net of tax		9,780	–30,095
Total comprehensive income, net of tax		173,285	169,523
Attributable to			
Non-controlling interests		6,371	6,648
Shareholders of Dürr Aktiengesellschaft		166,914	162,875

¹ The figures for the 2017 reporting period were adjusted due to the first-time application of IFRS 15.

3.3 — Consolidated statement of financial position

of Dürr Aktiengesellschaft, Stuttgart, as of December 31, 2018

€ k	Note	December 31, 2018	December 31, 2017 adjusted ¹	January 1, 2017 adjusted ¹
ASSETS				
Goodwill	(18, 44)	446,817	396,551	401,600
Other intangible assets	(18, 44)	204,525	196,155	209,533
Property, plant and equipment	(18, 44)	433,828	408,443	394,577
Investment property	(18, 44)	19,203	20,180	20,664
Investments in entities accounted for using the equity method	(19, 44)	35,718	30,772	32,726
Other financial assets	(19, 44)	10,186	4,393	11,901
Trade receivables	(22)	36,276	10,970	16,878
Sundry financial assets	(23)	4,291	4,853	4,162
Income tax receivables	(17)	–	–	90
Deferred taxes	(17)	49,893	35,343	29,786
Other assets	(25)	3,568	2,455	3,426
Non-current assets		1,244,305	1,110,115	1,125,343
Inventories and prepayments	(20)	535,371	457,635	399,001
Contract assets	(21)	478,336	488,418	309,190
Trade receivables	(22)	566,748	522,374	471,796
Sundry financial assets	(23)	52,443	190,653	117,264
Cash and cash equivalents	(24)	655,042	659,911	724,179
Income tax receivables	(17)	28,151	20,035	22,234
Other assets	(25)	54,003	61,441	39,478
Assets held for sale	(26)	–	978	167,367
Current assets		2,370,094	2,401,445	2,250,509
Total assets Dürr Group		3,614,399	3,511,560	3,375,852

¹ The figures for December 31 and January 1, 2017 were adjusted due to the first-time application of IFRS 15.

CONSOLIDATED FINANCIAL STATEMENTS
Consolidated statement of financial position

€ k	Note	December 31, 2018	December 31, 2017 adjusted ¹	January 1, 2017 adjusted ¹
EQUITY AND LIABILITIES				
Subscribed capital	[27]	177,157	88,579	88,579
Capital reserve	[27]	67,318	155,896	155,896
Revenue reserves	[27]	771,468	690,417	587,394
Other comprehensive income		-38,650	-49,007	-23,653
Total equity attributable to the shareholders of Dürr Aktiengesellschaft		977,293	885,885	808,216
Non-controlling interests		14,858	14,637	21,429
Total equity		992,151	900,522	829,645
Provisions for post-employment benefit obligations	[28]	50,084	49,830	51,817
Other provisions	[29]	19,058	17,552	17,564
Contract liabilities	[30]	2,197	3,828	3,828
Trade payables	[31]	967	496	461
Bond and bonded loan	[32]	597,958	597,285	596,630
Other financial liabilities	[32]	12,827	12,564	52,564
Sundry financial liabilities	[33]	6,266	7,199	11,034
Income tax liabilities	[17, 34]	4,164	6,711	6,711
Deferred taxes	[17]	91,949	91,165	101,569
Other liabilities	[34]	611	628	551
Non-current liabilities		786,081	787,258	842,729
Other provisions	[29]	130,676	151,684	109,533
Contract liabilities	[30]	670,795	711,337	648,118
Trade payables	[31]	501,403	390,033	345,926
Financial liabilities	[32]	12,496	12,746	14,656
Sundry financial liabilities	[33]	347,698	382,517	362,929
Income tax liabilities	[17, 34]	30,806	43,694	33,573
Other liabilities	[34]	142,293	131,145	128,835
Liabilities held for sale	[26]	–	624	59,908
Current liabilities		1,836,167	1,823,780	1,703,478
Total equity and liabilities Dürr Group		3,614,399	3,511,560	3,375,852

¹ The figures for December 31 and January 1, 2017 were adjusted due to the first-time application of IFRS 15.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of cash flows

3.4 — Consolidated statement of cash flows

of Dürr Aktiengesellschaft, Stuttgart, for the period from January 1 to December 31, 2018

Note [37]

€ k	2018	2017 adjusted ¹
Earnings before income taxes	219,680	267,261
Income taxes paid	-92,977	-74,837
Net interest	20,938	21,573
Profit from entities accounted for using the equity method	-6,844	-3,624
Dividends from entities accounted for using the equity method	4,387	2,808
Amortization, depreciation and impairment of non-current assets	93,369	80,695
Net gain/loss on the disposal of non-current assets	-97	-509
Net gain from the disposal of investments and assets and liabilities classified as held for sale	-61	-22,986
Non-cash allowance on cash and cash equivalents	855	-
Other non-cash income and expenses	-304	-3,079
Changes in operating assets and liabilities		
Inventories	-58,884	-79,258
Contract assets	28,245	-191,459
Trade receivables	-40,079	-67,031
Other receivables and assets	11,724	-26,263
Provisions	-29,873	43,654
Contract liabilities	-64,240	97,518
Trade payables	83,360	61,777
Other liabilities (other than bank)	-6,354	13,966
Other assets and liabilities	-571	-425
Cash flow from operating activities	162,274	119,781
Purchase of intangible assets	-23,453	-22,420
Purchase of property, plant and equipment	-48,409	-65,120
Purchase of other financial assets	-1	-2,006
Proceeds from the sale of non-current assets	2,665	9,502
Acquisitions, net of cash acquired	-103,970	-4,567
Investments in time deposits	138,287	-46,563
Proceeds from the sale of assets and liabilities classified as held for sale	634	108,517
Interest received	4,098	5,436
Cash flow from investing activities	-30,149	-17,221

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of cash flows

Note [37]

€ k	2018	2017 adjusted ¹
Change in current bank liabilities and other financing activities	-970	795
Repayment of non-current financial liabilities	-314	-40,987
Payments of finance lease liabilities	-1,056	-3,071
Cash paid for transactions with non-controlling interests	-34,802	-8,355
Dividends paid to the shareholders of Dürr Aktiengesellschaft	-76,122	-72,662
Dividends paid to non-controlling interests	-4,689	-4,629
Interest paid	-16,088	-23,328
Cash flow from financing activities	-134,041	-152,237
Effects of exchange rate changes	-1,767	-14,591
Change in cash and cash equivalents related to changes in the consolidated group	467	-
Change in cash and cash equivalents	-3,216	-64,268
Cash and cash equivalents		
At the beginning of the period	659,911	724,179
At the end of the period	656,695	659,911
Less allowance according to IFRS 9	-1,653	-
Cash and cash equivalents at the end of the reporting period (consolidated statement of financial position)	655,042	659,911

¹ The figures for the 2017 reporting period were adjusted due to the first-time application of IFRS 15.

3.5 — Consolidated statement of changes in equity

of Dürr Aktiengesellschaft, Stuttgart, for the period from January 1 to December 31, 2018

€ k	Subscribed capital	Capital reserve	Revenue reserves
December 31, 2016	88,579	155,896	588,705
Adjustments IFRS 15	–	–	–1,311
January 1, 2017	88,579	155,896	587,394
Profit for the year	–	–	192,553
Other comprehensive income	–	–	–
Total comprehensive income, net of tax	–	–	192,553
Dividends	–	–	–72,662
Options of non-controlling interests	–	–	–3,648
Other changes	–	–	–13,220
December 31, 2017	88,579	155,896	690,417
Adjustments IFRS 9	–	–	1,146
January 1, 2018	88,579	155,896	691,563
Profit for the year	–	–	157,053
Other comprehensive income	–	–	–
Total comprehensive income, net of tax	–	–	157,053
Capital increase Dürr Aktiengesellschaft from company funds	88,578	–88,578	–
Dividends	–	–	–76,122
Options of non-controlling interests	–	–	–530
Other changes	–	–	–496
December 31, 2018	177,157	67,318	771,468

CONSOLIDATED FINANCIAL STATEMENTS
Consolidated statement of changes in equity

Note [27]

Other comprehensive income								Total equity
Items that are not reclassified to profit or loss	Items that may be reclassified subsequently to profit or loss					Total equity attributable to the shareholders of Dürr Aktiengesellschaft	Non-controlling interests	
	Remeasurement of defined benefit plans	Unrealized gains/ losses from cash flow hedges	Changes in the consolidated group/ reclassifications	Currency translation	Other comprehensive income			Total equity
	-40,698	-8,055	652	24,452	-23,649	809,531	21,429	830,960
	-	-	-	-4	-4	-1,315	-	-1,315
	-40,698	-8,055	652	24,448	-23,653	808,216	21,429	829,645
	-	-	-	-	-	192,553	7,065	199,618
	462	7,827	-	-37,967	-29,678	-29,678	-417	-30,095
	462	7,827	-	-37,967	-29,678	162,875	6,648	169,523
	-	-	-	-	-	-72,662	-4,629	-77,291
	-	-	-	-	-	-3,648	-2,314	-5,962
	4,312	-	-22	34	4,324	-8,896	-6,497	-15,393
	-35,924	-228	630	-13,485	-49,007	885,885	14,637	900,522
	-	-	-	-	-	1,146	-73	1,073
	-35,924	-228	630	-13,485	-49,007	887,031	14,564	901,595
	-	-	-	-	-	157,053	6,452	163,505
	4,864	-2,548	-	7,545	9,861	9,861	-81	9,780
	4,864	-2,548	-	7,545	9,861	166,914	6,371	173,285
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-76,122	-4,689	-80,811
	-	-	-	-	-	-530	-1,427	-1,957
	518	-	-22	-	496	-	39	39
	-30,542	-2,776	608	-5,940	-38,650	977,293	14,858	992,151

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the 2018 reporting period

Basis of presentation

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Dürr Aktiengesellschaft (“Dürr AG” or the “Company”) has its registered offices in Stuttgart, Germany. Its headquarters for operations are located at Carl-Benz-Strasse 34 in 74321 Bietigheim-Bissingen, Germany. The Dürr Group, which consists of Dürr AG and its subsidiaries, is a mechanical and plant engineering company with distinct automation competency. The Group is one of the global market leaders in almost all of its fields of business. In addition to the automotive industry, it also acts as supplier of production technology for other industries including the mechanical engineering, energy, chemical and pharmaceutical industries as well as the woodworking industry. The Dürr Group serves the market with five global divisions: Paint and Final Assembly Systems offers assembly and paint finishing technology, mainly for the automotive industry. Application Technology manufactures products and systems for automated painting applications as well as sealing and glueing technology. Clean Technology Systems primarily manufactures plant and equipment for purifying exhaust gases. The machines and systems produced by Measuring and Process Systems are used, among other things, in engine and drive construction as well as final vehicle assembly. Woodworking Machinery and Systems develops and manufactures such machinery and systems.

Accounting policies

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) at the end of the reporting period, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB [“Handelsgesetzbuch”: German Commercial Code].

The accounting policies used generally correspond to the policies applied in the prior period. In addition, the Group has applied the new and/or revised standards that became mandatory for the first time in the 2018 reporting period. → [table 3.6](#)

- IFRS 9 “Financial Instruments” governs the recognition and measurement, impairment, derecognition and hedge accounting of financial assets and liabilities. While the Dürr Group introduced the new provisions for classification and measurement as well as for impairment as of January 1, 2018, the new provisions for hedge accounting will be applied at a later date.

At transition, assets increased by € 1,743 thousand. This is attributable to a decrease of € 4,713 thousand from applying the expected credit loss model and an increase of € 6,456 thousand from applying new classification requirements. The adjustment effects of the new impairment requirements resulted from contract assets, trade receivables, sundry financial assets and cash and cash equivalents. The effects of the new classification requirements primarily related to other financial assets. When introducing these new requirements, the Dürr Group made use

3.6 — CHANGES IN ACCOUNTING POLICIES FROM THE ADOPTION OF THE NEW AND REVISED STANDARDS AND INTERPRETATIONS

Standard/Interpretation	First-time application ¹	Adopted by the EU Commission	Impact on the Dürr Group
NEW STANDARDS			
IFRS 9 "Financial Instruments"	January 1, 2018	Yes	Significant
IFRS 15 "Revenue from Contracts with Customers" in the April 2016 version with clarifications	January 1, 2018	Yes	Significant
AMENDED STANDARDS/INTERPRETATIONS			
IFRS 2 "Share-Based Payment" – Classification and Measurement of Share-based Payment Transactions	January 1, 2018	Yes	No
IFRS 4 "Insurance Contracts" – Applying IFRS 9 with IFRS 4	January 1, 2018	Yes	No
IAS 40 "Investment Property" – Transfers of investment property	January 1, 2018	Yes	No
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018	Yes	Immaterial
Annual Improvements to IFRSs (2014–2016 cycle) (IFRS 1 and IAS 28)	January 1, 2018	Yes	No

¹ The standards/amendments are effective for reporting periods beginning on or after the specified date.

3.7 — ACCOUNTING STANDARDS AND INTERPRETATIONS THAT HAVE BEEN PUBLISHED BUT NOT YET ADOPTED IN THE REPORTING PERIOD AS WELL AS REVISION OF THE FRAMEWORK

Standard/Interpretation	First-time application ¹	Adopted by the EU Commission	Expected impact on the Dürr Group
NEW STANDARDS			
IFRS 16 "Leases"	January 1, 2019	Yes	Significant
IFRS 17 "Insurance Contracts"	January 1, 2021	No	Immaterial
AMENDED STANDARDS/INTERPRETATIONS/Framework			
IFRS 3 "Business Combinations"	January 1, 2020	No	Immaterial
IFRS 9 "Financial Instruments" – Redemption clauses with negative compensation payment	January 1, 2019	Yes	Immaterial
IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – Definition of material	January 1, 2020	No	No
IAS 19 "Employee Benefits" – Plan adjustment, curtailment or settlement	January 1, 2019	No	Immaterial
IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2019	Yes	No
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019	Yes	Immaterial
Annual Improvements to IFRSs (2015–2017 cycle)	January 1, 2019	No	Immaterial
Revised framework for financial reporting and amendments of references to the framework in IFRS standards	January 1, 2020	No	Immaterial

¹ The standards/amendments are effective for reporting periods beginning on or after the specified date.

of practical expedients and did not adjust comparative periods. Past periods can therefore only be compared with this reporting period to a limited extent. A reconciliation of all items affected in the statement of financial position is presented in → [note 6](#).

- IFRS 15 “Revenue from Contracts with Customers” in the April 2016 version with clarifications: This standard regulates the basic principles for revenue recognition from contracts with customers. IFRS 15 defines the procedure for recognition of revenue from contracts with customers in a five-step model. It defines that revenue is recognized as control over the goods or services is transferred to the customer. This can be either at a point in time or over time. The standard also contains a number of other rules on details and expands the required disclosures in the notes.

The accounting policies for revenue recognition were changed in compliance with the transitional provisions of IFRS 15. With a view to enhancing comparability, the Dürr Group decided to retrospectively apply the changed accounting policies for all reporting periods presented in the consolidated financial statements. Retrospective application of the changed accounting policies means that the comparative period is presented as if the Group had always applied this accounting policy.

The transition as of January 1, 2017 reduced the Group’s equity by € 1,315 thousand. In addition, total assets increased by € 27,329 thousand, or 0.82 %.

The adjusted figures of the 2017 reporting period are as follows: Sales revenues decreased by € 2,236 thousand, earnings before investment result, interest and income taxes (EBIT) by € 2,594 thousand and equity by € 3,172 thousand. A reconciliation of all items affected in both the statement of financial position and the statement of income is presented in → [note 6](#).

New or amended standards not yet adopted but significant for the consolidated financial statements of the Company are explained in → [table 3.7](#).

- IFRS 16 “Leases”: The new standard on lease accounting replaces the previous rulings of IAS 17 “Leases” and its interpretations. The main changes in the standard relate to the lessee’s accounting model. In the future, the lessee will no longer differentiate between operating and finance leases, but will instead account for most leases as right-of-use assets and lease liabilities. In contrast, lessor accounting is subject only to minor changes compared to the classification and accounting of leases under IAS 17.

The Dürr Group set up a project to implement IFRS 16 throughout the Group, which has analyzed the significant lease agreements. It was found that a significant transition effect results from the properties leased by the Dürr Group that are classified as operating leases under IAS 17 and presented in the statement of financial position under IFRS 16. When deciding on the first-time application, the Dürr Group chose the modified retrospective approach. Accordingly, the transition effects are recognized as an adjustment in revenue reserves without impact on profit or loss as of January 1, 2019. Comparison with the prior-period figures is therefore only possible to a limited extent. In connection with the first-time application, the Dürr Group will use the practical expedient and apply IFRS 16 to lease agreements that were entered into by December 31, 2018 and contain leases pursuant to IAS 17 and IFRIC 4. Furthermore, lease agreements that expire in 2019 will continue to only be reported under expenses. In addition, the Group will make use of the exemptions for low-value leased assets and for future short-term leases. The final transition effects are currently being calculated for the opening statement of financial position as of January 1, 2019. As a result, the provisional effects from first-time application on the net assets, financial position and results of operations are calculated as follows:

- Lease liabilities will most likely increase by between € 90 million and € 110 million. Likewise, non-current assets are expected to increase, with the Dürr Group currently expecting total assets to increase by between 2.5 % and 3.0 %.
- As lease liabilities represent a portion of financial liabilities, the net financial status is expected to decrease by between € 90 million and € 110 million. Due to the increase in total assets, the equity ratio will decrease by around 0.7 percentage points.

- In the future, IFRS 16 will influence the type of expenses within the statement of income of the Dürr Group. Instead of an expense for operating leases, depreciation of the right-of-use asset as well as interest expenses from unwinding the discount on the lease liability will be recognized. Due to these changes, the Dürr Group expects EBIT to show an improvement in the lower single-digit-million range.
- The repayment of the lease liability and the cash paid in connection with the interest portions relating to the lease liability will constitute cash flows from financing activities in the future. As a result, cash flow from financing activities will decrease in the future. On the other hand, cash flow from operating activities will improve as lease expenses from operating leases have to date been allocated in full to the cash flow from operating activities.

The new standard will also lead to an increase in the quantitative and qualitative disclosures of leases in the notes to the financial statements. For disclosures on the obligations from operating and finance leases, we refer to → [note 41](#).

The Group elected not to early adopt standards and IFRIC interpretations which have already been issued but have not yet become effective. Generally speaking, the Dürr Group intends to adopt all standards when they become effective. The requirements of the standards applied have been satisfied in full. The financial statements thus give a true and fair view of the net assets, financial position and results of operations and cash flows of the Group.

The Dürr Group's reporting period is the calendar year. The consolidated financial statements are prepared in euros; all amounts are presented in thousands of euro (€ thousand or € k), unless stated otherwise.

All assets and liabilities are measured at historical or amortized cost. Exceptions to this rule are derivative financial instruments measured at fair value, other investments, other short-term securities as well as financial assets measured at fair value through profit or loss or through other comprehensive income. Obligations from options held by non-controlling interests, liabilities from contingent purchase price installments and obligations from share-based compensation are also measured at fair value.

Assets and liabilities are treated as current if they are realized or settled within twelve months of the end of the reporting period. Within the statement of financial position, assets and liabilities with a remaining term of more than twelve months are presented as non-current. By contrast, liabilities with a remaining term of between one and five years are presented in the notes to the consolidated financial statements as medium-term and those with a remaining term of more than five years as long-term.

2. BASIS OF CONSOLIDATION

The financial statements of the Dürr Group are based on the IFRS financial statements of Dürr AG and the consolidated subsidiaries and entities accounted for using the equity method as of December 31, 2018, prepared in accordance with uniform policies and audited by independent auditors.

For subsidiaries included in the consolidated financial statements for the first time, acquisition accounting is performed according to the acquisition method of accounting pursuant to IFRS 3 "Business Combinations". This involves offsetting the cost of the shares acquired against the proportionate equity of the subsidiaries. All assets and liabilities and contingent liabilities acquired are included in the consolidated statement of financial position at the acquisition date, taking hidden reserves and encumbrances into account. Any remaining positive difference is shown as goodwill. Negative differences are posted immediately to profit or loss. For acquisitions in which less than 100% of the shares are purchased, IFRS 3 provides for a choice between the purchased goodwill method and the full goodwill method. This option can be exercised for every business combination. The Dürr Group determines the method to be used to recognize the goodwill for each acquisition. For information on exercising the option for individual business combinations, please refer to → [note 18](#). Changes in interests for subsidiaries which cause the Group's interest to increase or decrease without losing control are treated as transactions between equity providers that do not effect profit or loss.

Intragroup sales revenues, other income and expenses, all intragroup receivables, liabilities, provisions and cash and cash equivalents received and paid are eliminated. Intragroup profits which are not realized by sale to third parties are eliminated.

Subsidiaries that, on account of their low level or lack of business activity, are immaterial for the Group and the presentation of a true and fair view of the net assets, financial position and results of operations are generally included in the consolidated financial statements at cost. They are listed under non-consolidated entities.

Entities over which Dürr exercises significant influence (associates) are accounted for using the equity method. Significant influence is the power to participate in the financial and operating policy of the investee. Interests in entities accounted for using the equity method are initially recognized at cost. Costs exceeding the share in the net assets of the entity accounted for using the equity method, after taking into account hidden reserves or encumbrances, are recognized as goodwill. Goodwill resulting from the acquisition of an associate is included in the carrying amount of the entity accounted for using the equity method and is not amortized, but tested instead for impairment as part of the overall carrying amount of the entity accounted for using the equity method.

For subsequent measurement, the Dürr Group's share of the profit or loss of the entity accounted for using the equity method is recorded under investment result in the consolidated statement of income. The share in other comprehensive income is recognized directly in Group equity. The cumulative changes after the acquisition date increase or decrease the carrying amount of the entity accounted for using the equity method. Dividends received are deducted from the carrying amount. If the losses of an entity accounted for using the equity method attributable to the Group correspond to or exceed the value of the interest in this entity, no further losses are recognized unless the Group has entered into obligations or has made payments for the entity accounted for using the equity method.

3. CONSOLIDATED GROUP

Besides Dürr AG, as of December 31, 2018, the consolidated financial statements contain all German and foreign entities which Dürr AG can control directly or indirectly. Under IFRS 10 "Consolidated Financial Statements", control exists if an entity is exposed, or has rights, to positive or negative returns from its involvement with another entity. It must also have the ability to affect these variable returns through its power over the investee. Control can exist due to voting rights or prevailing circumstances as a result of contractual arrangements, among other things.

The entities are included in the consolidated financial statements of Dürr from the date on which the possibility of control was obtained. For most of the Group companies, control is based on holding the majority of voting rights. On account of the contractual arrangements, the Dürr Group has the power to exercise control over four entities, although in each case the Group only holds 50 % of the shares or 50 % or less of the voting rights in the company. At two of the entities, the Group can bring about a decision in case of parity of votes; at the other two entities, the Dürr Group assumes operational management. Furthermore, the Dürr Group includes a structured entity in the consolidated financial statements. The Group manages the variable returns of the entity without holding any shares. Consolidation of an entity included in the consolidated financial statements ceases when the Dürr Group loses control over the entity.

Structured entities

A structured entity is often characterized by restricted activities and a narrow and precisely defined purpose. A key characteristic is that voting rights do not have any significant effect on the returns from this entity. The possibility of control does not result from the majority interest in capital or from voting rights, but rather from contractual arrangements.

The consolidated structured entity in the Dürr Group is a lease property company with properties in Bietigheim-Bissingen. The Group is the tenant of these properties as well as the lender of the entity; however, it does not hold any shares in this entity. There are no obligations for financial support; the loan is secured by a land charge registered to the Dürr Group.

Entities accounted for using the equity method

Entities over which the Dürr Group exercises significant influence pursuant to IAS 28 "Investments in Associates and Joint Ventures" (associates) as well as joint ventures as defined by IFRS 11 "Joint Arrangements" are accounted for using the equity method. Significant influence is assumed with a share of voting rights ranging from 20 % to 50 %. Associates are included in the consolidated financial statements using the equity method from the date on which the possibility of significant influence existed. For shares of voting rights below 20 %, interests in entities are generally recognized under other investments.

The consolidated financial statements contain 15 entities (prior period: 13) which have non-controlling interests in them. There are four companies that are only included in the consolidated financial statements at cost on grounds of immateriality. Their revenue contribution to total Group sales revenues, the earnings contribution to Group earnings (before taxes) as well as the contribution of equity to Group equity is less than 0.05 %. The Dürr Group is not exposed to any risks from these entities due to their size, contribution to sales revenues, complexity and minor activities.

3.8 — NUMBER OF ENTITIES

	Dec. 31, 2018	Dec. 31, 2017
FULLY CONSOLIDATED SUBSIDIARIES		
Germany	30	30
Other countries	104	80
	134	110
ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD		
Germany	–	2
Other countries	2	2
	2	4
OTHER INVESTMENTS		
Germany	3	3
Other countries	2	2
	5	5

4. CHANGES IN THE CONSOLIDATED GROUP

3.9 — ADDITIONS OF FULLY CONSOLIDATED ENTITIES

Entity	Interest ¹	Effective as of	Interest acquired by	Note
HOMAG Equipment Machinery Trading LLC, Dubai/United Arab Emirates	49.0%	January 1, 2018	–	Previously non-consolidated entity
HOMAG Arabia FZE, Dubai/United Arab Emirates	100.0%	January 1, 2018	–	Previously non-consolidated entity
CPM DO PERNAMBUCO MANUTENÇÃO DE MÁQUINAS E EQUIPAMENTOS LTDA., Goiana/Brazil	50.5%	June 20, 2018	Foundation	–
HOMAG VIETNAM COMPANY LIMITED, Ho Chi Minh City/Vietnam	100.0%	July 30, 2018	Foundation	–
Durr MEGTEC Holdings Inc., De Pere, Wisconsin/USA	100.0%	October 5, 2018	Acquisition	–
Durr MEGTEC LLC, De Pere, Wisconsin/USA	100.0%	October 5, 2018	Acquisition	–
Dürr Universal Europe Ltd., Hinckley/UK	100.0%	October 5, 2018	Acquisition	–
Durr Universal Inc., Stoughton, Wisconsin/USA	100.0%	October 5, 2018	Acquisition	–
Dürr Universal S. de R.L. de C.V., San Luis Potosi/Mexico	100.0%	October 5, 2018	Acquisition	–
MEGTEC Energy & Environmental LLC, De Pere, Wisconsin/USA	100.0%	October 5, 2018	Acquisition	–
MEGTEC Environmental Limited, Standish/UK	100.0%	October 5, 2018	Acquisition	–
MEGTEC IEPG BV, Amsterdam/Netherlands	100.0%	October 5, 2018	Acquisition	–
MEGTEC India Holdings LLC, De Pere, Wisconsin/USA	100.0%	October 5, 2018	Acquisition	–
MEGTEC Systems AB, Gothenburg/Sweden	100.0%	October 5, 2018	Acquisition	–
MEGTEC Systems Australia Inc., Wilmington, Delaware/USA	100.0%	October 5, 2018	Acquisition	–
MEGTEC Systems India Private Ltd., Pune/India	100.0%	October 5, 2018	Acquisition	–
MEGTEC Systems S.A.S., Lisses/France	100.0%	October 5, 2018	Acquisition	–
MEGTEC Systems Shanghai Ltd., Shanghai/PR China	100.0%	October 5, 2018	Acquisition	–
MEGTEC Thermal Energy & Environmental (Shanghai) Ltd., Shanghai/PR China	100.0%	October 5, 2018	Acquisition	–
MEGTEC Turbosonic Inc., Waterloo/Canada	100.0%	October 5, 2018	Acquisition	–
MEGTEC Turbosonic Technologies Inc., De Pere, Wisconsin/USA	100.0%	October 5, 2018	Acquisition	–
MTS Asia Inc., De Pere, Wisconsin/USA	100.0%	October 5, 2018	Acquisition	–
MTS Environmental GmbH, Maintal/Germany	100.0%	October 5, 2018	Acquisition	–
Universal Acoustic & Emission Technologies Pvt. Ltd., Pune/India	100.0%	October 5, 2018	Acquisition	–
Universal Asia Pacific Pte. Ltd, Singapore/Singapore	100.0%	October 5, 2018	Acquisition	In liquidation
Universal AET Holdings, LLC, Stoughton, Wisconsin/USA	100.0%	October 5, 2018	Acquisition	–
Universal Silencer (Shanghai) Co. Ltd., Shanghai/PR China	100.0%	October 5, 2018	Acquisition	–
Universal Silencer Mexico II LLC, Stoughton, Wisconsin/USA	100.0%	October 5, 2018	Acquisition	–
Universal Silencer Mexico LLC, Stoughton, Wisconsin/USA	100.0%	October 5, 2018	Acquisition	–
DURR VIETNAM COMPANY LIMITED, Ho Chi Minh City/Vietnam	100.0%	December 20, 2018	Foundation	–

¹ Calculated pro rata

3.10 — DECONSOLIDATIONS/MERGERS

Entity	Effective as of	Note
Dürr Anlagenbau Gesellschaft m.b.H. in Liqui., Vienna/Austria	June 21, 2018	Closure
E&P Turbo Ltd., Aldermaston/UK	August 21, 2018	Closure
HOMAG Machinery Bangalore Private Limited, Bangalore/India	October 31, 2018	Merged into Homag India Private Limited, Bangalore/India
Universal Asia Pacific Pte. Ltd., Singapore/Singapore	November 5, 2018	Closure
Dürr Clean Energy GmbH, Stuttgart/Germany	December 4, 2018	Merged into Luft- und Thermochnik Bayreuth GmbH, Goldkronach/Germany
Dürr Systems Canada, Corp., Windsor, Ontario/Canada	December 27, 2018	Closure

5. CURRENCY TRANSLATION

Financial statements denominated in the foreign currency of the subsidiaries included in the consolidation are translated to the euro on the basis of the functional currency concept pursuant to IAS 21 “The Effects of Changes in Foreign Exchange Rates”. For the majority of foreign subsidiaries in the Group, the functional currency is the local currency, since these entities operate independently from a financial, economic and organizational viewpoint. According to this concept, assets and liabilities are thus translated at closing rates, while income and expenses are generally translated at average rates. Any currency translation differences are recorded without effect on profit or loss in other comprehensive income.

In the separate financial statements of Dürr AG and its subsidiaries, receivables and liabilities in a currency other than the euro are measured at the historical rate; current transactions are translated at the current exchange rate. Any exchange rate gains and losses at the end of the reporting period are included in the statement of income. For actual figures of the exchange rate gains and losses recognized in profit or loss, please refer to → [notes 9 and 14](#).

In the separate financial statements of the foreign subsidiaries, goodwill is translated at the rate prevailing at the end of the Group’s reporting period. The hidden reserves identified in acquisitions are accounted for using the functional currency of the acquired entity. An adjusted average rate was used for entities consolidated for the first time during the year.

3.11 — SIGNIFICANT EXCHANGE RATES

in relation to one euro	Closing rate		Average rate	
	Dec. 31, 2018	Dec. 31, 2017	2018	2017
Brazilian real (BRL)	4.4449	3.9707	4.3244	3.6406
Pound sterling (GBP)	0.8971	0.8874	0.8862	0.8764
Chinese renminbi (CNY)	7.8600	7.8327	7.8167	7.6614
Danish krone (DKK)	7.4675	7.4453	7.4533	7.4389
Indian rupee (INR)	79.9088	76.5603	80.6401	73.8182
Korean won (KRW)	1,276.9371	1,276.3339	1,295.4805	1,275.0855
Mexican peso (MXN)	22.5196	23.6070	22.6299	21.4141
Swiss franc (CHF)	1.1266	1.1693	1.1515	1.1161
US dollar (USD)	1.1453	1.1988	1.1792	1.1371

6. ADJUSTMENT OF THE FIGURES IN THE STATEMENT OF FINANCIAL POSITION AND STATEMENT OF INCOME

3.12 — RECONCILIATION OF THE STATEMENT OF FINANCIAL POSITION ITEMS AFFECTED AS OF JANUARY 1, 2017

€ k	Dec. 31, 2016 reported	Adjustments IFRS 15	Reclassifi- cations	Jan. 1, 2017 adjusted
ASSETS				
Non-current assets	1,125,295	48	-	1,125,343
Deferred taxes	29,891	-105	-	29,786
Other assets	527	153	2,746	3,426
Prepaid expenses	2,746	-	-2,746	-
Current assets	2,223,228	27,281	-	2,250,509
Inventories and prepayments	381,056	17,945	-	399,001
Contract assets	-	309,190	-	309,190
Trade receivables	779,420	-307,624	-	471,796
Other assets	26,972	7,623	4,883	39,478
Prepaid expenses	4,883	-	-4,883	-
Assets held for sale	167,220	147	-	167,367
Total assets Dürr Group	3,348,523	27,329	-	3,375,852
LIABILITIES				
Total equity	830,960	-1,315	-	829,645
Non-current liabilities	843,323	-594	-	842,729
Contract liabilities	-	3,828	-	3,828
Trade payables	4,136	-3,675	-	461
Sundry financial liabilities	6,944	-	4,090	11,034
Deferred taxes	102,316	-747	-	101,569
Other liabilities	4,603	-	-4,052	551
Deferred income	38	-	-38	-
Current liabilities	1,674,240	29,238	-	1,703,478
Other provisions	95,686	13,847	-	109,533
Contract liabilities	-	648,118	-	648,118
Trade payables	978,338	-632,878	466	345,926
Financial liabilities	5,339	-	9,317	14,656
Sundry financial liabilities	283,215	-757	80,471	362,929
Other liabilities	216,253	908	-88,326	128,835
Deferred income	1,928	-	-1,928	-
Total equity and liabilities Dürr Group	3,348,523	27,329	-	3,375,852

CONSOLIDATED FINANCIAL STATEMENTS
Notes to the consolidated financial statements

3.13 — RECONCILIATION OF THE STATEMENT OF FINANCIAL POSITION ITEMS AFFECTED AS OF DECEMBER 31, 2017 AND JANUARY 1, 2018

€ k	Dec. 31, 2017 reported	Adjustments IFRS 15	Reclassifi- cations	Dec. 31, 2017 adjusted	Adjustments IFRS 9	Jan. 1, 2018 adjusted
ASSETS						
Non-current assets	1,108,977	1,138	-	1,110,115	6,320	1,116,435
Other financial assets	4,393	-	-	4,393	6,402	10,795
Trade receivables	10,970	-	-	10,970	-55	10,915
Sundry financial assets	4,853	-	-	4,853	-27	4,826
Deferred taxes	34,440	903	-	35,343	-	35,343
Other assets	467	235	1,753	2,455	-	2,455
Prepaid expenses	1,753	-	-1,753	-	-	-
Current assets	2,302,781	98,664	-	2,401,445	-4,577	2,396,868
Inventories and prepayments	437,658	19,977	-	457,635	-	457,635
Contract assets	-	488,418	-	488,418	-1,365	487,053
Trade receivables	941,086	-418,712	-	522,374	-2,222	520,152
Sundry financial assets	190,653	-	-	190,653	-184	190,469
Cash and cash equivalents	659,911	-	-	659,911	-806	659,105
Other assets	45,300	8,981	7,160	61,441	-	61,441
Prepaid expenses	7,160	-	-7,160	-	-	-
Total assets Dürr Group	3,411,758	99,802	-	3,511,560	1,743	3,513,303
LIABILITIES						
Total equity	903,694	-3,172	-	900,522	1,073	901,595
Non-current liabilities	787,492	-234	-	787,258	514	787,772
Contract liabilities	-	3,828	-	3,828	-	3,828
Trade payables	4,089	-3,593	-	496	-	496
Sundry financial liabilities	2,801	-	4,398	7,199	1,699	8,898
Deferred taxes	91,634	-469	-	91,165	-1,185	89,980
Other liabilities	4,916	-	-4,288	628	-	628
Deferred income	110	-	-110	-	-	-
Current liabilities	1,720,572	103,208	-	1,823,780	156	1,823,936
Other provisions	126,359	25,325	-	151,684	156	151,840
Contract liabilities	-	711,337	-	711,337	-	711,337
Trade payables	1,023,035	-633,454	452	390,033	-	390,033
Financial liabilities	3,383	-	9,363	12,746	-	12,746
Sundry financial liabilities	298,488	-	84,029	382,517	-	382,517
Other liabilities	221,572	-	-90,427	131,145	-	131,145
Deferred income	3,417	-	-3,417	-	-	-
Total equity and liabilities Dürr Group	3,411,758	99,802	-	3,511,560	1,743	3,513,303

Notes on adjustments to the items in the statement of financial position

Other financial assets

The Dürr Group classifies its equity instruments at fair value through profit or loss or through other comprehensive income. In applying IFRS 9, an investment that had previously been held in the category available-for-sale financial assets was reclassified as measured at fair value through profit or loss. This change led to other financial assets increasing by € 6,402 thousand. Further information on this reclassification can be found in → [table 3.15](#).

Inventories and prepayments

For machine types with alternative usage, it was necessary to change to revenue recognition at a point in time. The results are a time delay in recognizing sales revenues compared to the previous method and an associated increase in inventories.

Contract assets and liabilities

The net total of the contract assets and liabilities disclosed separately differs from the net total of the amounts removed from receivables and liabilities, as potential losses from onerous contracts are always disclosed separately from provisions following the transition to IFRS 15. When applying IAS 11 “Construction Contracts”, onerous contracts were offset against future receivables from construction contracts. Furthermore, prepayments are now recognized as a receivable when they fall due and not – as was previously the case – when the cash is received.

In the opening statement of financial position on January 1, 2018, allowances were recognized on contract assets of € 1,365 thousand for the first time applying the expected credit loss model. Further information on the new impairment losses can be found in → [note 7](#).

Trade receivables and trade payables

Pursuant to IFRS 15, trade receivables constitute an unconditional right to receive consideration. Accordingly, they are presented separately from contract assets thus leading to a decrease in trade receivables compared to the way they were previously presented. Trade payables are reduced by the amount of obligations to customers exceeding the Dürr Group’s claims from the respective contract. They are now disclosed as contract liabilities.

By applying the expected credit loss model under IFRS 9, bad debt allowances on trade receivables increased by € 2,277 thousand from € 15,882 thousand on December 31, 2017 to the accumulated opening balance as of January 1, 2018 of € 18,159 thousand.

Sundry financial assets and cash and cash equivalents

The first-time application of IFRS 9 caused sundry financial assets and cash and cash equivalents to decrease by € 1,017 thousand. Of this, € 1,071 thousand related to the first-time application of the new impairment model. A reclassification to sundry financial assets of € 54 thousand had the opposite effect.

Other assets

Sales commissions incurred in order to obtain contracts are disclosed under other assets.

Other provisions

The increase in other provisions is attributable to the gross presentation of provisions for onerous contracts from pending transactions. Until now, the latter had been offset against future receivables from construction contracts.

Pursuant to IFRS 9, other provisions were adjusted by an amount of € 156 thousand.

The first-time application of IFRS 15 and IFRS 9 did not have any impact on the cash flows or the cash and cash equivalents of the Dürr Group. However, the standards do have an effect on the presentation of the statement of cash flows.

Reclassifications

In conjunction with the first-time application of IFRS 15 and IFRS 9, further items of the statement of financial position were changed with the aim of improving the presentation for the users of financial statements. This mainly involves the reclassification of obligations to employees from other liabilities to sundry financial liabilities as well as the recognition of liabilities from accrued interest under financial liabilities instead of under sundry financial liabilities. Furthermore, prepaid expenses and deferred income are now shown as part of other assets or liabilities.

Further explanations on individual items are provided in → [note 7](#) “Recognition and measurement policies”.

3.14 — IFRS 15 – RECONCILIATION OF THE STATEMENT OF INCOME FOR THE 2017 REPORTING PERIOD

€ k	2017 reported	Adjustments IFRS 15	2017 adjusted
Sales revenues	3,715,422	-2,236	3,713,186
thereof sales revenues from services	945,946	1,069	947,015
Cost of sales	-2,857,121	1,117	-2,856,004
Gross profit on sales	858,301	-1,119	857,182
Functional and other costs	-568,686	-1,475	-570,161
Earnings before investment result, interest and income taxes	289,615	-2,594	287,021
Financial result	-19,760	-	-19,760
Earnings before income taxes	269,855	-2,594	267,261
Income taxes	-68,389	746	-67,643
Profit of the Dürr Group	201,466	-1,848	199,618
Attributable to			
Non-controlling interests	7,065	-	7,065
Shareholders of Dürr Aktiengesellschaft	194,401	-1,848	192,553
Number of shares issued in thousands	69,202.08	-	69,202.08
Earnings per share in € (basic and diluted) ¹	2.81	-0.03	2.78

¹ To improve transparency, the earnings per share figure refers to the status quo after the issue of bonus shares in a ratio of 1:1 on June 22, 2018.

After the transition to IFRS 15, the Dürr Group recognizes its sales revenues from the sale of standard machines, spare parts and other goods as well as from the rendering of certain services at the point in time when control is transferred to the customer. The adjustments to the statement of income primarily result from the change to revenue recognition at a point in time due to alternative uses available for certain machine types and for spare part packages. Sales revenues from the service business were recognized at an earlier point in time in connection with the transition. Costs for sales commissions upon concluding a contract are recognized under selling expenses, after subsequent depreciation and any impairment.

The application of the classification provisions of IFRS 9 resulted in a reclassification of investments previously held to maturity to the measurement category measured at fair value through profit or loss, which was associated with an increase in the carrying amount

of € 54 thousand. In addition, the equity instruments under the item other financial assets were reclassified to the measurement category measured at fair value through profit or loss or through other comprehensive income. The new classification provisions caused equity instruments to increase in value by € 6,402 thousand. A related derivative increased sundry financial liabilities by € 1,699 thousand. Aside from equity, deferred taxes and provisions, the introduction of IFRS 9 did not lead to any changes for the other items.

3.15 — IFRS 9 – CHANGE IN THE MEASUREMENT CATEGORIES OF FINANCIAL ASSETS

€ k	Previous carrying amount	Measurement category IAS 39	Carrying amount as of Dec. 31, 2017 adjusted ¹	Measurement category IFRS 9	Carrying amount as of Jan. 1, 2018
ASSETS					
Cash and cash equivalents	Amortized cost	Loans and receivables	659,911	Financial assets measured at amortized cost	659,105
Trade receivables due from third parties	Amortized cost	Loans and receivables	524,187	Financial assets measured at amortized cost	521,962
Trade receivables due from entities accounted for using the equity method	Amortized cost	Loans and receivables	9,157	Financial assets measured at amortized cost	9,105
Other non-derivative financial instruments					
Sundry financial assets	Amortized cost	Loans and receivables	167,069	Financial assets measured at amortized cost	166,804
Held-for-trading financial assets	Fair value (in profit or loss)	Held-for-trading financial assets	19,513	Financial assets measured at fair value through profit or loss	6
				Investments in equity instrument measured at fair value through profit or loss	19,507
Held-to-maturity investments	Amortized cost	Held-to-maturity investments	2,996	Financial assets measured at fair value through profit or loss	3,050
Available-for-sale financial assets	(Amortized) cost	Available-for-sale financial assets	4,393	Investments in equity instrument measured at fair value through other comprehensive income	2,437
				Investments in equity instrument measured at fair value through profit or loss	8,358
Derivative financial assets					
Derivatives not used for hedging	Fair value (in profit or loss)	Held-for-trading financial assets	496	Financial assets measured at fair value through profit or loss	496
Derivatives used for hedging	Fair value (not in profit or loss)	No IAS 39	4,436	No IFRS 9	4,436
	Fair value (in profit or loss)	measurement category	996	measurement category	996

¹ The figures for December 31, 2017 were adjusted due to the first-time application of IFRS 15.

7. RECOGNITION AND MEASUREMENT POLICIES

Revenue recognition pursuant to IFRS 15

The Dürr Group generates most of its sales revenues from the production and delivery of customer-specific plant and machinery. For these contracts, the sales revenues and planned gross margin is realized in accordance with the percentage of completion method (PoC method) in line with the percentage of completion of a contract over the performance period. The criteria of IFRS 15 for

this are: the asset does not have any other alternative usage and, at the same time, the Group has an enforceable right to payment for work already performed. The percentage of completion is calculated on the basis of the costs incurred relative to the total estimated costs (cost-to-cost method). This ensures that both sales revenues and the associated costs are systematically recorded and therefore the profit or loss from the contract is recognized in the period incurred over which the control over the goods or services is transferred. Customer payments are contractually agreed and based on

the progress of projects and on milestones set. This keeps the time that elapses between customer payments and progress towards satisfaction of a performance obligation to a minimum. The Group came to the conclusion that the input-based method is best suited for determining the progress towards complete satisfaction of a performance obligation as the Group uses IT-supported calculation methods and, with the help of division-specific project controlling, is able to reliably estimate planned costs and monitor total costs.

Where it is not possible to give a reliable estimation of the progress towards complete satisfaction of a performance obligation based on output factors or input factors, the zero profit method (ZP method) is applied as long as it can be assumed that the Dürr Group can recover the costs incurred from satisfying the performance obligation. With the zero profit method sales revenues and the associated costs are realized in equal amounts until it is possible to reliably estimate the progress towards complete satisfaction of a performance obligation. The gross margin is thus, in part at least, not made up for until a later stage of the contract and is recognized in profit or loss.

The other portion of sales revenues from contracts with customers is generated from both the sale of standard machines, spare parts and other goods as well as the rendering of services. These sales revenues are recognized at the date on which the customer obtains control over the promised asset. This is usually the date on which the machine is delivered to the customer, at which point the customer obtains legal title to the machine or inspects it. Services are rendered and recorded as sales revenues upon their completion. For standard machines and spare parts, the customer makes the payment upon receiving the invoice, which is done following delivery or inspection, depending on the contractual arrangements. In this case, advance payments are also invoiced to the customer.

Performance obligations

The Group divides its contracts with customers into performance obligations, separating them based on contractual terms into performance obligations that are either satisfied at a point in time or over time. The customer contracts are analyzed for separable performance obligations. In addition to the performance obligation to produce a machine or plant for the customer, separable performance obligations in the Paint and Final Assembly Systems, Application Technology and Clean Technology Systems divisions mainly include spare parts packages and partial modifications. In the Measuring and Process Systems and Woodworking Machinery and Systems divisions, it is primarily assembly and commissioning that play a role as distinct performance obligations.

Intangible assets

Intangible assets comprise goodwill, franchises, brand names, industrial rights and similar rights, internally generated software, capitalized development costs as well as acquired customer relationships, orders and technological know-how. Purchased and internally generated intangible assets are recognized pursuant to IAS 38 "Intangible Assets" if, in addition to other criteria, it is probable that a future economic benefit will flow to the entity from the use of the asset, and the cost of the asset can be reliably determined.

Intangible assets are recognized at cost. Intangible assets with a finite useful life are amortized over their useful life using the straight-line method, unless they are impaired. Goodwill and other intangible assets with indefinite useful lives are not amortized. Other intangible assets are tested once annually to determine whether events and circumstances still justify the assumption that they have an indefinite useful life. If this is not the case, the estimated useful life is changed from indefinite to finite in accordance with the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Likewise, intangible assets with an indefinite useful life are tested once annually or sooner if there are any indications that an asset may be impaired. In addition to goodwill, the Dürr Group recognizes brand names as further intangible assets with mostly indefinite useful lives. These brand names are tested annually for impairment alongside goodwill. Like goodwill, the brand names are part of the net assets of a cash-generating unit.

In the Group, development costs are only recognized as internally generated intangible assets if the conditions set forth in IAS 38 are satisfied. These include the following criteria:

- Technical feasibility of completing the intangible asset so that it will be available for use or sale
- The probability of a future economic benefit arising from the use of the asset
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Cost is the sum of all directly attributable expenditure incurred from the date when the intangible asset first meets the recognition criteria. Development costs which do not meet these criteria, as well as research costs, are recognized immediately as an expense. Amortization of capitalized development costs is disclosed under cost of sales in the statement of income.

3.16 — USEFUL LIVES OF INTANGIBLE ASSETS (ESTIMATED)

years	
Brand names with finite useful life (DUALIS, MEGTEC, Universal)	0 to 4
Capitalized development costs	2 to 10
Franchises, industrial rights and similar rights	2 to 20
Customer relationships	4 to 10
Technological know-how	5 to 15
Other brand names	indefinite
Goodwill	indefinite

More information on the brand names is provided in → [note 18](#).

Property, plant and equipment

Property, plant and equipment are accounted for at cost less straight-line depreciation over their useful life. Cost comprises all production costs that are directly attributable to the production process.

3.17 — USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT (ESTIMATED)

years	
IT hardware	2 to 5
Machines and equipment	2 to 25
Furniture and fixtures	2 to 25
Buildings, hereditary building rights and leasehold improvements	3 to 50
Land	indefinite

The cost of property, plant and equipment includes major expenditures and replacements which extend useful lives or increase capacity. The historical cost of assets that are either sold or scrapped

is derecognized, as is the accumulated depreciation. Any gains or losses from derecognition are determined as the difference between the net disposal proceeds and the carrying amount and recognized in profit or loss as other operating income or expenses in the period in which the item is derecognized. Costs of ongoing repairs and maintenance are posted immediately to profit or loss.

Investment property

Properties are allocated to investment property if a change in use has occurred which is substantiated by their being occupied by another party after the end of owner-occupation or the inception of an operating lease with another party.

Investment property is recognized initially at (amortized) cost, including transaction costs. The carrying amount contains the costs for investments to replace an existing investment property at the time these costs are incurred, provided the recognition criteria are satisfied, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured at amortized cost.

Investment property is derecognized when it is sold or retired from active use and no future economic benefit is expected upon its disposal. Gains or losses arising from the retirement or disposal of investment property are recognized in the year of retirement or disposal.

Impairment testing for intangible assets and property, plant and equipment

All intangible assets with an indefinite useful life, intangible assets which are not yet ready for use and goodwill are tested for impairment at the end of each reporting period. Other intangible assets and property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that an asset may be impaired, i.e., that the carrying amount of an asset may not be recoverable. Investment property that is largely rented to third parties is also subjected to an annual impairment test.

An impairment loss is recognized if the recoverable amount of the asset falls short of its carrying amount. The recoverable amount is the higher of an asset's net selling price and its value in use. The net selling price is the amount recoverable from the disposal of an asset at market conditions less costs to sell. Value in use is the fair value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The recoverable amount is determined for each asset individually

or, if that is not possible, for the cash-generating unit to which the asset belongs. As regards goodwill acquired in business combinations, the relevant cash-generating units correspond to the business activities within the divisions of the Dürr Group based on internal reporting structures. To determine the estimated cash flows of each cash-generating unit, basic assumptions have to be made. These include assumptions regarding financial planning and the interest rates used for discounting.

Impairment losses recognized in prior periods are reversed against profit or loss if they cease to exist or have decreased. The reversal of an impairment loss or the reduction of an impairment loss of an asset is, however, only recognized to the extent that it does not exceed the carrying amount that would have existed if the regular amortization or depreciation had been recorded and no impairment losses had been recognized. Impairments on goodwill may not be reversed.

Other comments on intangible assets and property, plant and equipment can be found in → [note 18](#).

Leases

Several entities in the Dürr Group lease land, buildings, plant and machinery, office and operating equipment and software. The majority of leases are classified as operating leases. Lease payments on operating leases are recorded as an expense in the statement of income over the term of the lease.

Assets leased under finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased asset, are capitalized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. A liability is also established at that time for the same amount. Lease payments are apportioned between finance charges and a redemption of the lease liability so as to achieve a constant rate of interest over the period on the remaining balance of the lease liability. Finance charges are taken to profit or loss immediately. The leased asset is depreciated over the shorter of the lease term and its estimated useful life.

Financial instruments

A financial instrument is a contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Pursuant to IFRS 9 “Financial Instruments”, financial instruments are classified in the following categories:

- financial assets measured at amortized cost
- financial assets measured at fair value through other comprehensive income
- investments in equity instruments measured at fair value through other comprehensive income
- financial assets measured at fair value through profit or loss
- investments in equity instruments measured at fair value through profit or loss
- financial liabilities measured at amortized cost
- financial liabilities measured at fair value through profit or loss

Purchases or sales of financial assets are recognized using trade date accounting.

Financial assets

Financial assets are classified in accordance with IFRS 9 based on the business model used to manage financial assets and on the basis of the characteristics of the contractual cash flows of the financial assets. The objective of the Dürr Group’s business model is to hold financial assets in order to collect contractual cash flows. With regard to the characteristics of the contractual cash flows, it is examined whether the contractual terms of the financial assets give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets in Dürr’s portfolio are measured at amortized cost provided that the business model is complied with and the contractual cash flows fulfil the condition above.

The business model for financial assets measured at fair value through other comprehensive income (debt instruments) includes both the holding and sale of financial assets. The contractual terms that have to be met give rise solely to payments of principal and interest on the principal amount outstanding on specific dates.

Equity instruments are generally classified as measured at fair value through profit or loss at initial recognition. However, upon initial recognition an irrevocable option may be exercised to classify equity instruments as measured at fair value through other comprehensive income. This option may only be exercised if the equity instruments are not held for trading and if they do not represent contingent consideration in a business combination. The Dürr Group generally holds its equity interests for strategic reasons as a way of expanding the Group's business operations. Focus is not placed on the intention to generate significant amounts of short-term gains on sale. Any fluctuations in the measurement of investments are therefore not expected to have any impact on the statement of income. Accordingly, equity instruments are classified as measured at fair value through other comprehensive income. Gains or losses of equity instruments in this category recognized in other comprehensive income are never reclassified to profit or loss. In derogation from this, the investment in SBS Eco-clean GmbH is classified as at fair value through profit or loss. At Parker Engineering Co., Ltd., a put option accounted for in profit or loss is held in addition to the investment. In order to keep the economic effect on the statement of income to a minimum here, both the investment and the related option are classified at fair value through profit or loss. Parker Engineering Co., Ltd. is recognized in the statement of financial position under other investments, the option under sundry financial liabilities.

Financial assets that do not satisfy the conditions for being classified as measured at amortized cost/at fair value through other comprehensive income are designated as measured at fair value through profit or loss. The Dürr Group does not currently make use of the option to measure financial assets at fair value through profit or loss at initial recognition.

Impairment of financial assets

IFRS 9 introduces an impairment model based on the expected credit loss model, which is applicable for all financial assets (debt instruments) that are measured at amortized cost or at fair value through other comprehensive income. The expected credit loss model distinguishes between the general approach and the simplified approach. The general approach allocates the financial assets to three risk levels and is mainly applicable for cash and cash equivalents as well as sundry financial assets. The simplified approach, which is applicable for contract assets, trade receivables and lease receivables, does away with the first of the three risk levels.

The Dürr Group allocates the financial assets to the individual impairment levels based on past-due criteria and historically tried-and-tested, qualitative internal and external risk assessments of the individual debtors. These assessments are applicable for all classes of financial assets. Provided that the non-derivative financial assets were not already impaired upon acquisition, the assets are allocated to risk level 1. Generally speaking, a financial instrument is also allocated to level 1 if it is deemed to be investment grade by external rating agencies.

If there has been a significant increase in the credit risk since initial recognition, the assets are allocated to level 2. A number of qualitative criteria are used to assess whether the credit risk has increased significantly since a financial asset was recognized for the first time. This involves, for example, examining whether the total comprehensive income of the debtor has deteriorated significantly or whether it is expected to do so. Financial assets are allocated to level 2 at the latest when contractual payment is more than 30 days past due.

Financial assets are allocated to level 3 or their default is assumed once matters become known that could impair the ability of a certain debtor to meet its financial obligations. For all financial assets, this means observing the criteria of being 90 days past due as well as using qualitative credit ratings for debtors. For example, the likelihood of insolvency or any other financial reorganization of the debtor results in the financial assets being allocated to level 3.

In deviation from the past due criteria mentioned above, trade receivables measured in accordance with the simplified approach are allocated to level 3, as are contract assets that are more than

twelve months past due. This appropriately reflects the industry-specific experience and payment patterns for long-term projects in the plant and machinery sector.

Financial assets are derecognized as soon as reasonable information is available that indicates that they are uncollectible, such as insolvency proceedings coming to an end or following a court decision. Further explanations on the impairment of financial assets can be found in → [note 42](#).

Financial liabilities

Financial liabilities generally give rise to the right to receive settlement in cash or another financial asset. They include, for example, trade payables, liabilities to banks, bonds, bonded loans, obligations from options, derivative financial liabilities and other financial liabilities.

After initial measurement, financial liabilities carried at amortized cost are subsequently measured at amortized cost using the effective interest method. Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading. Derivatives are deemed to be held for trading unless they are designated and effective hedging instruments. Gains or losses on financial liabilities held for trading are recognized in profit or loss.

The Dürr Group has not yet made use of the option to designate financial liabilities upon initial recognition as financial liabilities at fair value through profit or loss.

Financial assets pursuant to IAS 39 (prior period)

By introducing IFRS 9, the regulations on classification and measurement as well as on the impairment of financial assets changed as of January 1, 2018. Making use of the practical expedient, the Dürr Group continues to present the prior-period figures pursuant to IAS 39. Past periods can therefore only be compared with the reporting period to a limited extent.

The recognition and measurement policies that applied before January 1, 2018 are presented below for the significant matters.

Impairment of financial assets

Receivables and non-derivative financial assets were carried at the lower of amortized cost or net realizable value. The Group assessed their recoverability by referring to a number of factors. Should any issues have arisen which would have impinged on the ability of certain debtors to meet their financial obligations, the Dürr Group posted a specific valuation allowance to write down the net asset to the recoverable amount that could be reasonably expected. Impairments were recognized using valuation allowances. Receivables and non-derivative financial assets were derecognized as soon as they became uncollectible.

3.18 — OVERVIEW OF SELECTED MEASUREMENT METHODS

Item in the statement of financial position	Measurement method
Financial assets (category)	
Loans and receivables	(Amortized) cost
held to maturity	(Amortized) cost (applying the effective interest method)
available for sale	(Amortized) cost/at fair value recognized through other comprehensive income
held for trading	At fair value recognized through profit or loss
Trade receivables	(Amortized) cost
Sundry financial assets	(Amortized) cost
Cash and cash equivalents	Nominal value

Management made an estimate to evaluate whether separate accounts receivable were overdue or in default. For all other debtors, the Group recorded bad debt allowances on a portfolio basis for all receivables and non-derivative financial instruments depending on the days past due, the current business environment and past experience. A central monitoring and local collection management system countered the risk of bad debts. This system included regular credit ratings, the conclusion of credit insurance policies and – particularly in the export business – issuing letters of credit.

Derivative financial instruments and hedge accounting

The Dürr Group uses derivative financial instruments such as forward exchange contracts in order to hedge against currency risks. For accounting of hedges, the Dürr Group continues to apply the regulations of IAS 39 “Financial Instruments: Recognition and Measurement”.

Derivative financial instruments are measured at fair value on initial recognition and in subsequent periods. Recognition of these changes – whether in profit or loss or in other comprehensive income (hedge reserve) – depends on whether the derivative financial instrument is part of an effective hedge in accordance with IAS 39. Changes in fair value are recognized in profit or loss unless the special criteria of IAS 39 for hedge accounting are satisfied.

Depending on the nature of the hedged item, hedging instruments are designated as follows:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset, liability, unrecognized firm commitment or an identifiable part of such assets, liabilities or firm commitment which could affect profit or loss.
- Cash flow hedges if they hedge exposure to variability in cash flows that is attributable to a recognized asset or liability or a forecast transaction and could affect profit or loss; or

- Hedges of a net investment in a foreign operation. They are treated in the same manner as cash flow hedges.

Fair value hedge accounting

In the case of fair value hedges, the carrying amount of a hedged item is adjusted in profit or loss by the profit or loss that is attributable to the hedged exposure. In addition, the derivative financial instrument is remeasured at its fair value. Gains or losses arising as a result are also recognized in profit or loss. In a perfect hedge, the fluctuation in fair value recognized in profit or loss for the hedged item practically offsets that of the hedging instrument. For fair value hedges which relate to hedged items carried at amortized cost, the adjustments of the carrying amount are released to profit or loss over their term until maturity. Every adjustment of the carrying amount of a hedged financial instrument is released to profit or loss using the effective interest method. The amount can be released as soon as an adjustment is made. It is released at the latest when the hedged item ceases to be adjusted for the changes in fair value that are attributable to the hedged exposure. If the hedged item is derecognized, the unamortized fair value is recognized immediately in the statement of income.

If an unrecognized firm commitment is designated as a hedged item, the subsequent accumulated change in its fair value that is attributable to the hedged risk is recognized as an asset or liability in the profit or loss of the period. The changes in fair value of the hedging instrument are also recognized in the profit or loss of the period. However, this does not apply if foreign exchange exposure is hedged, as that is treated as a cash flow hedge. Hedge accounting is discontinued when the hedging instrument is settled prematurely or matures or no longer qualifies for hedge accounting.

Cash flow hedge accounting

In the case of cash flow hedges, the effective portion of the gain or loss on a hedging instrument is recognized directly in equity. The ineffective portion is recognized in profit or loss. Amounts that are recognized directly in equity are reclassified to profit or loss in the

period in which the hedged item affects the net profit or loss for the period. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or non-financial liability. If the forecast transaction is no longer expected to occur, any amounts previously taken to equity are reclassified to the net profit or loss for the period. When the hedge is settled prematurely or matures, the amounts previously disclosed remain a separate item in equity until the forecast transaction occurs. The same applies if the hedging instrument is exercised without replacement or rollover, or if the criteria for cash flow hedge accounting are no longer in place. If the forecast transaction is no longer expected to occur, the amount is recognized in profit or loss. Further explanations on derivative financial instruments are given in → note 42.

Other financial assets

Other financial assets include non-current investments in equity instruments. Other investments include shares in entities that are classified as at fair value through profit or loss or through other comprehensive income. Also included are non-consolidated entities that are included in the consolidated financial statements at cost on grounds of immateriality.

Inventories

Inventories of materials and supplies, work in process from small series production and finished goods and merchandise are recognized at the lower of cost or net realizable value at the end of the reporting period. As a rule, an average value is used. Write-downs are recorded for obsolete and slow-moving inventories.

Costs of conversion comprise direct materials costs, direct labor costs as well as an appropriate portion of production-related overheads and depreciation. The overhead markups are determined on the basis of average capacity utilization. Borrowing costs are included, provided that they relate to qualifying assets.

Contract assets

For the Dürr Group, contract assets represent a legal claim to consideration in exchange for goods or services that are subject to conditions other than the simple term of payment. To the extent that

costs have been incurred on contracts, but the amounts cannot yet be billed under the terms of the contracts as the payment claim is still conditional, they are reported as contract assets together with the corresponding estimated earnings. The contract assets contain directly allocable contract costs as well as, to an appropriate degree, production-related overheads and estimated earnings that can be derived from the agreed transaction price. In order to adequately portray the credit risk of the respective customer, a corresponding risk provision is recognized in accordance with IFRS 9. The risk provision is determined using the same methods as for trade receivables.

Trade receivables and other non-derivative financial assets

Receivables and other non-derivative financial assets constitute a contractual right to receive cash or another financial asset at a point of time in the future.

Receivables and non-derivative financial assets are carried at the lower of amortized cost or net realizable value. To determine the impairment the Group assesses the recoverability of the financial assets by referring to a number of factors. For this purpose, credit risks are segmented using common credit risk characteristics.

A central monitoring and local collection management system counters the risk of bad debts. This system includes regular credit ratings, the conclusion of credit insurance policies and – particularly in the export business – issuing letters of credit. Further information on impairment can be found in the section on the impairment of financial assets.

Other assets

Other assets comprise capitalized assets that cannot be allocated to any other category.

Costs of obtaining a contract that have arisen in connection with customer contracts are recognized at the amount incurred under other assets. Usually, the contractually agreed commission is a percentage of the contract value. This is only based on judgment to a small degree. Only in some cases is the amount of the commission

variable and depends on the estimated gross margin of the contract. The costs of obtaining a contract are generally amortized in line with the percentage of completion of the underlying goods and services. For customer contracts that are invoiced when control is transferred, this occurs when the costs of obtaining a contract are written off entirely. Impairment losses on recognized costs of obtaining a contract are posted immediately to profit or loss if the residual carrying amount of the capitalized costs of obtaining a contract are higher than the remaining portion of consideration less costs that are directly in connection with delivering the goods or rendering the services and were not yet expensed.

Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits and other short-term, highly liquid financial assets with an original term to maturity of less than three months. They are recognized at nominal value less risk provisioning. The risk provision is formed on the basis of current market data and internal risk assessments. Further information on risk provisioning can be found in the section on the impairment of financial assets.

Non-current assets held for sale and disposal groups

Non-current assets held for sale and disposal groups relate to fixed assets or current and non-current assets that can be sold in their present condition and whose sale is highly probable. The disposal group also relates to liabilities that are directly connected to the assets. Their carrying amounts must mainly be recovered through a sale transaction rather than through continuing use.

Non-current assets held for sale and disposal groups are recognized as a separate item in the statement of financial position under current assets. The sale must be expected to qualify within one year from the date of classification.

Pursuant to IFRS 5 “Non-current assets held for sale and discontinued operations”, a non-current asset, provided that it is classified as held for sale or belongs to a disposal group classified as held for sale, is not depreciated but instead recognized at fair value less costs to sell, if the fair value is lower than the carrying amount.

Other comprehensive income

This item presents changes in equity, including the deferred taxes thereon, other than those arising from capital transactions with owners (e.g., capital increases or distributions). These include exchange differences, accumulated actuarial gains and losses from the remeasurement of post-employment benefits and similar obligations as well as unrealized gains and losses from the measurement of financial assets and derivative financial instruments (cash flow hedges) measured at fair value.

Borrowing costs

Borrowing costs include interest and similar expenses, other finance costs and the cost of liabilities.

Pursuant to IFRS 9 “Financial Instruments”, borrowing costs incurred in connection with the issue of the bond and bonded loan are deducted on the liabilities’ side of the consolidated statement of financial position. Calculated using the effective interest method, borrowing costs are amortized over the term of the bond and the bonded loan.

Post-employment benefits

The Group’s post-employment benefits include defined contribution plans and defined benefit plans. The defined benefit plans guarantee the beneficiary a monthly old-age pension or non-recurring payment upon leaving the company. These benefit plans are funded by the entities as well as by the employees.

In accordance with IAS 19 “Employee Benefits”, provisions for post-employment benefits are measured using the projected unit credit method. For this purpose, the future obligations are measured on the basis of the pro rata employee benefit obligations at the end of the reporting period. Provisions for post-employment benefit obligations are calculated taking into account development assumptions (e.g. relating to salary trends or pension increases) for those factors which affect the benefit amount.

Defined benefit cost is divided into service cost and net interest, which are recognized in profit or loss, and remeasurements, which are recognized directly in equity after deducting deferred taxes. Pursuant to the criteria of IAS 19, provisions for post-employment

benefit obligations covered by assets held by a long-term benefit fund or by qualifying insurance policies are offset against the related plan assets, taking account of the asset ceiling. In addition to qualifying insurance policies, assets of an external insurance company or a fund are recognized as plan assets under IAS 19 if these assets can be used exclusively to pay or fund employee benefits and are protected from potential creditors.

Other provisions

Other provisions are recorded pursuant to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" if the obligation to a third party results from a past event which is expected to lead to an outflow of economic benefits and can be reliably determined. These are uncertain liabilities recognized on the basis of a best estimate of the amount needed to settle the obligations. If the amount of the provision can only be determined within a range, the most probable figure is used. If there is no difference in the level of probability, the weighted average is taken. Provisions with a remaining term of more than one year are discounted at market interest rates which reflect the risk and period until the obligation is settled.

Contract liabilities

Contract liabilities constitute an obligation to the customer when progress billings issued and payments received from customers are collected or fall due before the promised service is rendered. Contract liabilities from progress billings issued and payments received from customers are offset against the services as soon as they are rendered. If a contract contains several separate performance obligations, only one contract asset or contract liability from this contract is nevertheless determined on a net basis.

Liabilities

Trade payables and other non-derivative financial liabilities are recorded at amortized cost. Remaining other liabilities are recorded at the settlement amount. Liabilities that do not lead to an outflow of resources in the following year are discounted at market interest rates as of the end of the reporting period.

Liabilities for restructuring are recognized to the extent that a detailed formal plan has been prepared and communicated to the parties concerned. At the inception of the lease, liabilities from finance leases are carried at the lower of fair value of the leased asset or the present value of the minimum lease payments (please refer to the explanations on leases).

Deferred taxes

Deferred taxes are accounted for using the balance sheet liability method according to IAS 12 "Income Taxes". This involves creating deferred tax items for all temporary accounting and measurement differences between the carrying amounts for IFRS purposes and the tax bases of the assets and liabilities. They are not created if the taxable temporary difference arises from goodwill or the initial recognition of other assets and liabilities in a transaction (that is not a business combination) which affects neither the IFRS accounting profit nor the taxable profit or loss. A deferred tax asset is recognized for all taxable temporary differences arising from investments in subsidiaries or associates, and interests in joint ventures, unless the parent can control the reversal of the temporary difference and the temporary difference will probably not reverse in the foreseeable future. Further, deferred tax assets for future economic benefits from unused tax losses and unused tax credits are taken into account if it is highly probable that they will be used.

Deferred taxes are measured taking into account the respective local income tax rates which are expected to apply in the individual countries at the time of realization based on tax laws that have been enacted or substantively enacted. Deferred tax assets are reversed if it is more probable that the tax benefit will be forfeited than that it will be utilized.

Deferred tax assets and deferred tax liabilities are netted if, and only if, the entity has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied on the same taxable entity by the same taxation authority. Deferred taxes are recorded as tax income or expense in the statement of income unless they relate to items recorded in other comprehensive income; in this case, the deferred taxes are also recorded in other comprehensive income. Deferred tax assets from temporary differences in excess of deferred tax liabilities are only recognized to the extent that they can be utilized against future taxable profits.

Share-based payment

The share-based payment transactions pursuant to IFRS 2 "Share-based Payment" cover remuneration systems that are settled in cash. For the measurement, the Dürr Group calculates the fair value of the share-based payment transactions upon initial recognition, at each reporting date and on the settlement date. The fair value is accumulated over the period in profit or loss until they are

settled and recognized in remaining other liabilities. Changes in fair value are recognized in personnel expenses in the statement of income.

Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent liabilities can arise from a present obligation that results from past events but is not recognized because:

- it is not probable that an outflow of resources embodying economic benefits will be required to settle this obligation or
- the amount of the obligation cannot be measured with sufficient reliability.

A contingent liability is not disclosed if the possibility of an outflow of resources embodying economic benefits is remote; otherwise, information is provided in the notes to the financial statements. Contingent liabilities assumed in a business combination are recognized at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Use of assumptions and estimates

The preparation of the consolidated financial statements pursuant to IFRSs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual figures may diverge from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that risk causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are discussed below.

Significant accounting judgments when applying IFRS 15 Determining the transaction price

The transaction price is the amount of the consideration the Dürr Group expects to receive from its customers in exchange for transferring goods or rendering services. The transaction price of

the individual performance obligations is determined using their stand-alone selling prices. The Group breaks down the transaction price agreed in the contract in proportion to the stand-alone selling prices. Variable consideration is only taken into account where it is highly probable that it will not result in a significant decrease in realized sales revenues until there is no longer any uncertainty in connection with the variable consideration. When determining the transaction price, it must therefore be assessed whether the contractual arrangements provide for variable consideration. The Dürr Group has variable consideration in the form of discounts and rebate arrangements. Either the expected value method or the most likely amount method is used when estimating the variable consideration. The method used is the one with which the Group can provide the most reliable estimate of the consideration. The Group came to the conclusion that the most likely amount method is the most suitable method for estimating variable consideration. If it is assumed that a rebate will be granted upon concluding the contract, the transaction price is adjusted to the most likely amount. The same applies if it is expected upon concluding the contract that the customer will claim the discount. The most likely amount is calculated as the single most likely amount in a range of possible considerations. In determining the transaction price, the time value of money also needs to be considered if the timing of payments agreed to by the parties to the contract provides the customer (payment after receipt of goods or services) or the entity (payment before transfer of goods or services) with a significant benefit of financing the transfer of goods or services to the customer. In those cases where it is assumed upon initiating the contract that the period between customer payments and transfer of control over the asset is less than one year, the Group has decided to make use of the simplification rule not to adjust the transaction price for significant financing components.

Determining the stage of completion

The majority of orders in the Dürr Group are accounted for using the percentage of completion method and sales revenues are recorded over time in accordance with the criteria of IFRS 15. A precise assessment of the degree of completion is essential for determining the percentage of completion using the PoC method. The key estimation parameters include total contract revenues and contract costs, the remaining costs of completion and the contract risks. These estimates are reviewed and adjusted regularly.

As the PoC method and the ZP method are based on estimates, estimates of the expenses required for completion may have to be adjusted subsequently due to the uncertainties prevailing in this respect. Such adjustments to costs and income are recognized in the period in which the adjustments are determined. Provisions for onerous contracts are recognized at contract level and taken into account in the period in which the losses are identified; they are recognized as provisions pursuant to the requirements of IAS 37.

Contract amendments

Revenue recognition from the production and delivery of plant and machinery also takes into account amounts that the Group seeks to collect from customers or others for errors or changes in contract specifications or design, contract change orders in dispute or not yet negotiated as to both scope and price, or other customer-related causes of unanticipated additional contract costs, claims and pending change orders. These are carried at the estimated amount provided their realization is highly probable and they can be reliably estimated. Pending change orders involve the use of estimates. Therefore, it is possible that adjustments to the estimated recoverable amounts of recorded pending change orders will be made in the future.

Other accounting judgements

Impairment of goodwill

The Group tests goodwill for impairment at least once a year. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. To do this, management is required to make an estimate of the expected future cash flows from the cash-generating units. The Dürr Group uses a planning horizon of four years. In addition, it is necessary to choose a suitable discount rate in order to calculate the present value of these cash flows. Please refer to → [note 18](#) for further details.

Impairment of financial assets

During the recognition and measurement of financial assets, estimates and assumptions regarding the creditworthiness of debtors are necessary. Under the expected credit loss model, the measurement of impairment for financial assets is subject to various assumptions and uncertainties. In particular, estimates are to be made about expected payment defaults, incoming payments and the collateral available. Please refer to → [note 42](#) for further details.

Income taxes

The Dürr Group operates in a large number of countries and is consequently subject to different tax jurisdictions. The anticipated current and deferred income taxes have to be determined for each taxable entity. Deferred tax assets are recognized to the extent that they are likely to be used. The probability of their being used in the future is assessed taking into account various factors, such as future taxable profit in the planning periods, effects on earnings from the reversal of temporary differences, tax strategies and profit actually generated in the past. The Group uses a planning horizon of four years. Management reviews the deferred tax assets for impairment at the end of each reporting period. As these reviews are sometimes based on assumptions about the future, the actual values may diverge from estimates. These are then adjusted in other comprehensive income or in profit or loss, depending on how they were initially recognized. Based on past experience and the expected future income, the Dürr Group assumes that the corresponding benefits will be realized from the deferred tax assets. Deferred tax assets and liabilities are measured at the tax rates expected to apply when the asset is realized or the liability is settled. Please refer to → [note 17](#) for further details.

Pensions and other post-employment benefit plans

The cost of defined benefit plans is determined using actuarial calculations. This involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. On October 4, 2018, the Heubeck AG published new mortality tables (Heubeck 2018 G). These tables are based on the most recent statistics from statutory pension insurance as well as the German Federal Statistics Office, and therefore reflect the most recent developments regarding life expectancy. The new tables have been applied for the first time when calculating the defined benefit obligations and the plan assets of the obligations in Germany as of December 31, 2018. The discount rates used are based on the market yields of high-quality, fixed-interest corporate bonds. Due to the long-term nature of these plans, such assumptions are subject to significant uncertainty. Please refer to → [note 28](#) for further details.

Development costs

Development costs are capitalized in accordance with the presented accounting policy. Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, interest rates to be applied and the expected period of benefits.

Options in connection with the domination and profit and loss transfer agreement with HOMAG Group AG

Based on the domination and profit and loss transfer agreement that came into force in 2015, Dürr Technologies GmbH has the possibility to issue instructions to the corporate bodies of HOMAG Group AG and to recognize the entire profit of HOMAG Group AG as well as the obligation to absorb any losses. In return, the Dürr Group is required to make a compensation payment pursuant to Sec. 304 AktG [“Aktiengesetz”: German Stock Corporations Act] of € 1.18 (gross) per HOMAG share (€ 1.01 (net) after deducting corporate income tax and solidarity surcharge; before individual tax burden of the shareholder) for each reporting period as well as a settlement payment pursuant to Sec. 305 AktG of € 31.56 per HOMAG share. Since then, Dürr Technologies GmbH has guaranteed a dividend equivalent to the compensation payment. The domination and profit and loss transfer agreement can be terminated for the first time as of December 31, 2020. For the claims of the minority shareholders of HOMAG Group AG, the arbitration proceedings initiated by the shareholders of HOMAG Group AG may in principle lead to adjustments being made to the settlement and compensation payments. However, as of the reporting date, the Group does not expect any such adjustments to be made due to the arbitration proceedings.

On April 30, 2018, Dürr Technologies GmbH acquired another 8.0 % of the shares in HOMAG Group AG. The call option granted for this purpose was exercised for the shareholder group Schuler/Klessmann on February 2, 2018. The total purchase price in this connection amounted to € 34,802 thousand, which reduced sundry financial liabilities by € 32,756 thousand. Through this transaction the share of Dürr Technologies GmbH in the subscribed capital of HOMAG Group AG increased to 63.9 %. For further information on the recognition of the sundry financial liability for the obligation to acquire shares as well as to pay the compensation claims in connection with the domination and profit and loss transfer agreement concluded with HOMAG Group AG, we refer to → [note 33](#).

Share-based payment

The measurement of cash-settled share-based payment transactions is based on the anticipated share price at the end of the contractual term and earnings ratios over the duration of the program. Historical share prices are used to determine the fair value. The earnings ratios used are based on internal forecasts. The actual share prices and earnings ratios may deviate from the assumptions made.

Estimates and assumptions are also required for the recognition and measurement of contingent liabilities and other provisions; the same applies to determining the fair value of long-lived items of property, plant and equipment and intangible assets.

Notes to the items of the consolidated financial statements

Notes to the consolidated statement of income

The disclosures for the 2018 reporting period include the values of the MEGTEC/Universal entities acquired as of the date of first-time consolidation October 5, 2018.

8. SALES REVENUES

3.19 — SALES REVENUES

€ k	2018	2017
Sales revenues recognized over time from contracts with customers	2,403,544	2,209,705
Sales revenues recognized at a point in time from contracts with customers	1,461,910	1,493,065
Sales revenues from lease agreements	4,362	10,416
Total sales revenues	3,869,816	3,713,186
thereof		
Sales revenues from services	1,039,036	947,015
Sales revenues with the automotive industry	2,152,839	2,096,447

In the 2018 reporting period, € 612,976 thousand (prior period: € 446,310 thousand) was recognized as sales revenues, which had still been recognized under contract liabilities at the beginning of the reporting period. In future periods, sales revenues from currently unsatisfied or partially unsatisfied performance obligations of € 2,577,164 thousand (prior period: € 2,449,404 thousand) will be generated, with an estimated € 2,037,030 thousand being recognized as sales revenues in the 2019 reporting period (prior period: € 2,052,995 thousand – 2018 reporting period).

In the 2018 reporting period, sales revenues of € 94,049 thousand (prior period: € 141,838 thousand) had been recognized relating to performance obligations that had been satisfied or partially satisfied in past periods.

Further information on the breakdown of sales revenues by division and region can be found in the reporting in → [note 38](#).

9. COST OF SALES

3.20 — COST OF SALES

€ k	2018	2017
Cost of materials	1,573,003	1,415,581
Personnel expenses	644,624	623,044
Exchange rate gains	-55,691	-29,348
Exchange rate losses	54,755	32,595
Amortization and depreciation of non-current assets	69,705	59,063
Other cost of sales	727,935	755,069
Total cost of sales	3,014,331	2,856,004
Gross margin in %	22.1	23.1

Of the total amount reported as amortization and depreciation of non-current assets, an amount of € 9,892 thousand (prior period: € 12,662 thousand) is attributable to the amortization and depreciation of capitalized development costs.

10. SELLING EXPENSES

Selling expenses comprise all direct selling costs and overheads. These generally include all personnel expenses, cost of materials, amortization and depreciation as well as other costs relating to sales. In addition, selling expenses include expenses for bad debt allowances relating to trade receivables and contract assets as well as amortization and impairment losses on recognized costs of obtaining a contract.

3.21 — SELLING EXPENSES

€ k	2018	2017
Personnel expenses	213,987	211,016
Amortization and depreciation of non-current assets	6,325	6,637
Write-downs of trade receivables	788	3,235
Additions to and releases of bad debt allowances on trade receivables and contract assets	2,328	2,488
Amortization, depreciation and impairment on costs of obtaining a contract	15,635	12,082
Other selling expenses	75,090	73,434
	314,153	308,892

For further information about bad debt allowances and impairments of trade receivables, please refer to → [note 22](#). For information about amortization and impairment losses on costs of obtaining a contract, please refer to → [note 25](#).

11. GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses comprise personnel expenses and non-personnel expenses of the central administrative functions, which are not attributable to contract processing, production, sales or research and development.

3.22 — GENERAL ADMINISTRATIVE EXPENSES

€ k	2018	2017
Personnel expenses	111,390	114,434
Amortization and depreciation of non-current assets	7,272	7,141
Other administrative expenses	59,135	54,615
	177,797	176,190

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs include all the costs of those activities undertaken to gain new scientific or technical knowledge, to develop new products or to improve products and manufacturing processes. They comprise both personnel expenses and non-personnel expenses and are included in profit or loss on the date

they are incurred. Research and development costs are reduced by those development expenses that qualify for recognition as assets pursuant to IAS 38 “Intangible Assets”.

3.23 — RESEARCH AND DEVELOPMENT COSTS

€ k	2018	2017
Personnel expenses	77,661	69,118
Amortization and depreciation of non-current assets	10,067	7,852
Capitalized development costs	-14,524	-9,569
Other research and development costs	47,756	49,317
	120,960	116,718

13. PERSONNEL EXPENSES

The expense items of the statement of income contain the personnel expenses according to → [table 3.24](#).

3.24 — PERSONNEL EXPENSES

€ k	2018	2017
Wages and salaries	882,642	857,676
Social security contributions	165,020	159,936
Total personnel expenses	1,047,662	1,017,612
thereof post-employment benefits	64,666	60,852

14. OTHER OPERATING INCOME AND EXPENSES

3.25 — OTHER OPERATING INCOME AND EXPENSES

€ k	2018	2017
OTHER OPERATING INCOME		
Exchange rate gains	20,812	39,881
Reimbursements from damage claims	3,115	4,903
Reversal of provisions	2,014	607
Government grants	735	1,167
Gains on disposal of non-current assets	616	1,725
Income from the disposal of assets held for sale	61	22,986
Sundry	4,430	6,099
	31,783	77,368
OTHER OPERATING EXPENSES		
Exchange rate losses	25,325	38,666
Expenses from transaction costs in connection with acquisitions	4,887	756
Expenses for other local taxes	3,969	592
Expenses for litigation	1,532	–
Expenses from additions to provisions	795	573
Expenses for canteens	705	695
Incidental costs for monetary transactions	559	480
Losses on disposal of non-current assets	519	1,216
Sundry	2,566	2,751
	40,857	45,729

Apart from the reversal of provisions recognized in prior periods, part of reimbursements from damage claims as well as the result of litigation, there are no other material income or expense items relating to other periods. With regard to income from the disposal of assets held for sale, we refer to → [note 26](#).

15. INVESTMENT RESULT

Investment result includes earnings from entities accounted for using the equity method as well as income and expenses from other investments. Earnings from entities accounted for using the equity method amounted to € 6,844 thousand (prior period: € 3,624 thousand). This contains the share of profit or loss from

accounting using the equity method and dividends received. Profits from the sale of goods by consolidated entities to entities accounted for using the equity method (intragroup profits), which are not realized by sale to third parties, are eliminated in the profit from entities accounted for using the equity method in line with their interest. Profit or loss from other investments includes income from distributions, the measurement of investments and options associated therewith as well as currency effects from hedging dividend payments.

16. NET INTEREST

3.26 — NET INTEREST

€ k	2018	2017
Interest and similar income	6,570	6,091
Interest and similar expenses	-27,508	-27,664
thereof		
Nominal interest expenses on the corporate bond	-8,625	-8,625
Interest expenses on the bonded loan	-4,451	-4,340
Interest expenses arising from subsequent accounting of the domination and profit and loss transfer agreement concluded with HOMAG Group AG	-5,710	-6,503
Amortization of transaction costs, premium from a bond issue and a bonded loan	-672	-655
Interest expenses from finance leases	-225	-278
Net interest expenses from the measurement of defined benefit plans	-862	-813
Other interest expenses	-6,963	-6,450
Net interest	-20,938	-21,573

17. INCOME TAXES

The income taxes relate to the German corporate income tax including a solidarity surcharge, trade tax on income and comparable taxes levied at foreign subsidiaries. The current taxes incurred by foreign subsidiaries are recognized at the tax rates and regulations of the respective national tax law. In Germany, deferred taxes are calculated using a tax rate of 28.7 % (prior period: 28.7 %). → [table 3.27](#)

→ [Table 3.28](#) shows the reconciliation of theoretical income tax expense to the total income tax expense reported. For the 2018 reporting period, German corporate income tax law provided for a statutory tax rate of 15.0 % (prior period: 15.0 %) plus the solidarity surcharge of 5.5 % (prior period: 5.5 %). The average trade tax burden amounted to 12.9 % for the 2018 reporting period (prior period: 12.9 %). This means that the reconciliation is based on an overall tax rate in Germany of 28.7 % (prior period: 28.7 %). For the foreign entities, the respective country-specific income tax rates range from 8.75 % to 35.0 % (prior period: 8.75 % to 39.1 %).

Pursuant to IAS 12 “Income Taxes”, a deferred tax asset should be recognized on unused tax losses and other deductible temporary differences only to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be offset. In calculating the possibilities for utilizing tax losses,

the Dürr Group uses a four-year planning horizon and takes into account the minimum taxation rule applicable in certain countries. Losses arising in Germany from the period prior to the tax group are not recognized.

In the prior period, tax-free income included an amount of € 5,173 thousand, which was attributable to the sale of the Cleaning and Surface Processing business activity (Dürr Euroclean Group).

In sum, unused interest and tax losses amounted to € 181,355 thousand (prior period: € 179,133 thousand) as of December 31, 2018. Unused interest and tax losses for which no deferred tax assets were recognized came to € 148,488 thousand (prior period: € 127,441 thousand) and primarily exist in Germany, France, Poland and Brazil. In Germany, unused trade tax losses for which no deferred taxes were recognized amount to € 57,920 thousand (prior period: € 51,750 thousand). The unused trade tax losses can currently be carried forward for an indefinite period of time. Of the unused interest and tax losses not recognized, amounts of € 9,454 thousand expire within the next ten years (prior period: € 2,064 thousand). At present, the remaining unused tax losses do not lapse.

Other deductible temporary differences of € 5,601 thousand were not recognized as of December 31, 2018 (prior period: € 9,277 thousand).

3.27 — COMPOSITION OF THE INCOME TAX EXPENSE

€ k	2018	2017
CURRENT INCOME TAXES		
Income tax expense – Germany	27,265	33,403
Income tax expense – other countries	42,691	58,967
Adjustment for prior periods	-745	-4,168
Total current taxes	69,211	88,202
DEFERRED TAXES		
Deferred tax income – Germany	-3,842	-5,378
Deferred tax income – other countries	-12,255	-12,242
Adjustment for prior periods	3,061	-2,939
Total deferred taxes	-13,036	-20,559
Total tax expense	56,175	67,643

3.28 — RECONCILIATION OF THE INCOME TAX EXPENSE

€ k	2018	2017
Earnings before income taxes	219,680	267,261
Theoretical income tax expense in Germany of 28.7 % (prior period: 28.7 %)	63,048	76,704
Adjustments of income taxes incurred in prior periods	2,316	-7,136
Non-deductible operating expenses and withholding taxes	15,334	13,329
Foreign tax rate differential	-6,767	-6,245
Unrecognized deferred tax assets especially on unused tax losses	942	4,234
Subsequent recognition of deferred taxes on unused tax losses and changes in deferred taxes on impairment losses	-2,835	-5,798
Change in tax rates	-10,889	-39
Tax-exempt income	-4,435	-7,319
Other	-539	-87
Total income tax expense of the Dürr Group	56,175	67,643

In the 2018 reporting period, effects recognized in other comprehensive income contained € -1,185 thousand from the first-time application of IFRS 9. Without these effects, the amount would have been € -545 thousand. In the prior period, effects recognized in other comprehensive income contained € 642 thousand from the first-time application of IFRS 15. Without these effects, the amount would have been € 3,704 thousand.

Deferred tax assets and deferred tax liabilities are netted if, and only if, the entity has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

CONSOLIDATED FINANCIAL STATEMENTS
Notes to the consolidated financial statements

3.29 — DEFERRED TAX ASSETS AND LIABILITIES

€ k	Consolidated statement of financial position		Consolidated statement of income	
	Dec. 31, 2018	Dec. 31, 2017	2018	2017
DEFERRED TAX ASSETS				
Accounting for intangible assets	3,842	3,203	639	-119
Remeasurement of land, buildings and property, plant and equipment	2,015	1,488	527	-1,211
Bad debt allowances	1,743	1,649	94	509
Interest/currency transactions	4,869	4,976	-107	-2,132
Contract assets/liabilities and inventories	42,235	18,344	23,891	1,112
Other assets and other liabilities	4,468	4,569	-101	731
Post-employment benefits	12,140	11,174	966	-2,360
Provisions not recognized for tax purposes	20,569	22,679	-2,110	10,079
Interest and tax loss carryforwards	8,231	13,164	-4,933	-2,937
Total deferred tax assets	100,112	81,246		
Netting	-50,219	-45,903		
Net deferred tax assets	49,893	35,343		
DEFERRED TAX LIABILITIES				
Accounting for intangible assets	-32,487	-35,998	3,511	4,067
Capitalized development costs	-8,926	-9,556	630	651
Tax-deductible impairment of goodwill	-13,550	-10,553	-2,997	4,493
Remeasurement of land, buildings and property, plant and equipment	-25,479	-23,901	-1,578	2,781
Measurement of shares in subsidiaries	-17,026	-14,283	-2,743	879
Contract assets/liabilities and inventories	-38,234	-34,649	-3,585	-321
Other assets and other liabilities	-6,279	-7,873	2,779 ¹	318
Amortization of costs related to bond and bonded loan	-187	-255	68	63
Total deferred tax liabilities	-142,168	-137,068		
Netting	50,219	45,903		
Net deferred tax liabilities	-91,949	-91,165		
Reconciliation effect from first-time consolidation			-408	182
Translation effects from deferred tax items			223	712
Effects recognized in other comprehensive income			-1,730	3,062
Deferred tax income			13,036	20,559

¹ relates to the effect recognized in profit or loss adjusted by € 1,185 thousand due to IFRS 9

The income taxes and withholding taxes on distributable profits from subsidiaries are reported under deferred tax liabilities if it can be assumed that these profits will be subject to the corresponding taxation, or if there is a plan not to reinvest these profits permanently. No deferred tax liabilities were recognized on temporary

differences in connection with shares in subsidiaries and associates of € 443,628 thousand (prior period: € 276,141 thousand). Dürr assumes that no reserves will be distributed to the respective parent in the tax group while the consolidated tax group is in place.

Notes to the consolidated statement of financial position: assets

18. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Details regarding the changes in the Group's intangible assets and property, plant and equipment are presented in the statement of changes in non-current assets in → [note 44](#).

Amortization, depreciation and impairment

Amortization, depreciation and impairment is shown in the statement of income in the cost of sales and functional costs.

In connection with the strategic realignment of the environmental technology business, the Dürr Group discontinued its business with micro gas turbines. This resulted in an impairment loss on capitalized development costs of € 10,421 thousand.

Intangible assets

In addition to goodwill, intangible assets with an indefinite useful life also include brand names of € 50,731 thousand (prior period: € 50,733 thousand). The Dürr Group intends to continue using these brand names in the future.

In the prior period, prepayments for intangible assets mainly contained current capital expenditure on software products for large-scale IT projects of the HOMAG Group.

3.30 — AMORTIZATION AND DEPRECIATION

€ k	2018			2017		
	Intangible assets	Property, plant and equipment	Total amortization and depreciation	Intangible assets	Property, plant and equipment	Total amortization and depreciation
Cost of sales	-29,332	-29,952	-59,284	-29,421	-27,442	-56,863
Selling expenses	-1,806	-4,519	-6,325	-1,850	-4,787	-6,637
General administrative expenses	-1,087	-6,185	-7,272	-1,390	-5,455	-6,845
Research and development costs	-3,162	-6,543	-9,705	-2,959	-4,893	-7,852
Other operating expenses	-	-	-	-	-2	-2
	-35,387	-47,199	-82,586	-35,620	-42,579	-78,199

3.31 — IMPAIRMENT LOSSES

€ k	2018			2017		
	Intangible assets	Property, plant and equipment	Total impairment losses	Intangible assets	Property, plant and equipment	Total impairment losses
Cost of sales	-10,421	-	-10,421	-1,449	-751	-2,200
General administrative expenses	-	-	-	-34	-262	-296
Research and development costs	-249	-113	-362	-	-	-
	-10,670	-113	-10,783	-1,483	-1,013	-2,496

Impairment test for goodwill

The goodwill acquired from business combinations is allocated to the cash-generating units for impairment testing. The Dürr Group has defined the divisions or business activities within its divisions as cash-generating units. These are Paint and Final Assembly Systems, Application Technology, Clean Technology Systems, Balancing and Assembly Products, and Woodworking Machinery and Systems. The calculation model is used in exactly the same way for all cash-generating units as the main parameters apply equally to all business activities.

The recoverable amount of the cash-generating units is determined based on the value in use. The value in use of each of the business activities exceeded the net assets assigned to it. The calculation is based on cash flow forecasts for a planning period of four years. The pre-tax discount rate for the cash flow forecast ranged from 10.80 % to 13.65 % in the 2018 reporting period (prior period: 9.17 % to 13.37 %). Cash flows after the four-year period are extrapolated using a growth rate of 1.0 % (prior period: 1.0 %) based on the long-term growth rate of the business activities.

The Dürr Group tests goodwill for impairment at the end of each reporting period.

Planned gross profit margins

The planned gross profit margins are determined in the bottom-up planning of the Group's entities and business activities. They are based on the figures determined in the previous reporting periods taking anticipated price and cost developments as well as efficiency increases into account.

Cost of capital (discount rate)

The cost of capital is the weighted average cost of debt and equity before taxes. When calculating the cost of equity, a beta factor is taken into account, which is derived from capital market data and the capital structure of the Dürr Group's benchmark companies. Borrowing costs are based on a base interest rate for government bonds and a mark-up derived from the credit rating of benchmark companies.

Increase in the price of raw materials

Future increases in the price of upstream products and raw materials needed in the Group are primarily derived from the expected increase in the prices of those commodities needed to manufacture the goods or materials. These, in turn, are determined from the forecast price indices of the countries from which the upstream products and raw materials are procured by the respective Group entities.

Increase in wage and salary costs

In the four-year plan, the German subsidiaries have assumed annual average salary increases of 2.9 % p.a. from 2019 onwards (prior period: 2.7 % p.a.). The foreign subsidiaries have all used the applicable local rate of increase for the respective planning period.

Sensitivity analysis of goodwill

Independent of the current economic situation and the expectations for the future, the Dürr Group conducted sensitivity analyses of the recoverability of the goodwill carried in its activities. The impact of the following scenarios was examined:

- Decrease of 10 % in EBIT in all years within the planning horizon beginning in 2019 (in comparison to the figures projected in the approved business plans)
- Increase of 0.5 percentage points in the discount rate
- Decrease in the growth rate for the terminal value to 0.75 %

The sensitivity analyses revealed that, from today's perspective, no impairment loss needed to be recognized on goodwill in any of the business activities even under these assumptions.

Development of goodwill

→ **Table 3.32** shows the development of goodwill, broken down by division and business activity.

Goodwill of € 49,129 thousand is attributable to the acquisition of MEGTEC and Universal companies in the 2018 reporting period, of € 105,719 thousand is attributable to the acquisition of the HOMAG Group in 2014 and of € 11,192 thousand to the acquisition of the iTAC companies in 2015. From historical acquisitions, sales and restructuring, today € 98,453 thousand is attributable to the acquisition of former Alstom companies and € 93,832 thousand to the acquisition of the former Schenck Group.

3.32 — DEVELOPMENT OF GOODWILL

€ k	Carrying amount as of Jan. 1, 2017	Exchange difference	Additions	Carrying amount as of Dec. 31, 2017	Exchange difference	Additions	Carrying amount as of Dec. 31, 2018
Paint and Final Assembly Systems	107,980	-1,964	-	106,016	434	-	106,450
Application Technology	67,040	-611	-	66,429	24	-	66,453
Clean Technology Systems	17,230	-817	-	16,413	63	49,129	65,605
Balancing and Assembly Products	102,997	-1,356	160	101,801	456	-	102,257
Measuring and Process Systems	102,997	-1,356	160	101,801	456	-	102,257
Woodworking Machinery and Systems	106,353	-461	-	105,892	160	-	106,052
Dürr Group	401,600	-5,209	160	396,551	1,137	49,129	446,817

The change in goodwill from additions in the 2018 reporting period is explained below.

Acquisitions

MEGTEC/Universal

On October 5, 2018, Dürr AG acquired via its subsidiary Dürr Inc. 100 % of the shares in the companies Babcock & Wilcox Universal Inc., Babcock & Wilcox MEGTEC Holdings Inc. and Babcock & Wilcox MEGTEC LLC, with registered offices in Stoughton/De Pere, Wisconsin, USA, and their subsidiaries.

MEGTEC, the larger of the two acquired business activities, offers waste air purification plants and drying systems as well as coating machines for the production of electrodes for lithium-ion batteries. Universal is a leading provider of acoustic solutions specializing in noise and emission filtration systems. With the acquisition, the environmental technology division Clean Technology Systems has reached the critical size needed to be able to successfully and sustainably act on the global market.

First-time consolidation of MEGTEC/Universal was performed pursuant to IFRS 3 “Business Combinations” using the full goodwill method for acquisition accounting purposes. The profit or loss of the MEGTEC/Universal companies has been included in the consolidated financial statements since the date of first-time consolidation.

The purchase price allocation is still provisional with regard to the amount of the purchase price, as individual parameters relevant for the purchase price have not yet been set. However, the purchase price is not expected to undergo any further significant changes. The goodwill from the first-time consolidation of the acquired MEGTEC/Universal entities, which is also provisional as a result, and the acquired net assets are as follows:

3.33 — ACQUISITION MEGTEC/UNIVERSAL: GOODWILL

€ k	
Provisional purchase price for MEGTEC/Universal	125,340
Fair value of net assets	-76,211
Goodwill	49,129

€ 123,487 thousand of the provisional purchase price was settled in cash. The acquisition-related costs came to € 4,887 thousand in the 2018 reporting period and were recorded as an expense.

Goodwill of € 49,129 thousand contains intangible assets that cannot be separated such as the specialist knowledge of employees, expected synergy effects and earnings prospects for MEGTEC/Universal. € 15,945 thousand of the goodwill is tax deductible. The goodwill was allocated to Clean Technology Systems.

The purchase price of the acquired assets and liabilities was allocated as follows:

**3.34 — ACQUISITION MEGTEC/UNIVERSAL:
PURCHASE PRICE ALLOCATION**

€ k	Carrying amount before acquisition	Adjustment	Carrying amount after acquisition
Intangible assets	–	31,262	31,262
Property, plant and equipment	21,266	1,047	22,313
Deferred tax assets	750	909	1,659
Inventories and prepayments	17,226	427	17,653
Contract assets	19,149	–	19,149
Receivables and other assets	33,634	–	33,634
Cash and cash equivalents	19,567	–	19,567
Non-current liabilities	–5,603	–	–5,603
Deferred tax liabilities	–750	–501	–1,251
Current liabilities	–62,172	–	–62,172
Net assets	43,067	33,144	76,211

The carrying amounts after acquisition correspond to fair value as of the date of first-time consolidation. The gross contractual value of the acquired receivables and other assets approximates their fair value. The adjustments mainly relate to intangible assets, where technological know-how, customer relationships, brand names and order backlog were recognized in the purchase price allocation. For property, plant and equipment, real estate was recognized at market value. Hidden reserves were also uncovered to a lesser extent under property, plant and equipment and inventories. No contingent liabilities were identified in the course of the first-time consolidation.

**3.35 — ACQUISITION MEGTEC/UNIVERSAL: HIDDEN RESERVES
IDENTIFIED IN ACQUIRED INTANGIBLE ASSETS**

€ k	Fair value
Technological know-how	5,287
Customer relationships	20,699
Order backlog	3,307
Brand names	1,969
	31,262

The fair value of technological know-how and the brand name was measured using the relief from royalty method; the fair value of customer relationships and the order backlog was measured using the residual value method.

The earnings contributed by the MEGTEC/Universal entities consolidated for the first time from the date of first-time consolidation until December 31, 2018 break down as follows:

**3.36 — EARNINGS CONTRIBUTION MEGTEC/UNIVERSAL
FROM THE DATE OF FIRST-TIME CONSOLIDATION**

€ k	
Sales revenues	47,558
Earnings after income taxes	303

Earnings after income taxes include the effects from the subsequent measurement of hidden reserves and liabilities in the context of the purchase price allocation of € –2,184 thousand.

Had the acquired MEGTEC/Universal entities been included in the consolidated group as of January 1, 2018, the statement of income for the 2018 reporting period of the Group would have been as follows.

3.37 — PRO FORMA RESULTS DÜRR GROUP

€ k	2018
Sales revenues	4,010,177
Gross profit on sales	886,191
Earnings before investment result, interest and income taxes	243,087
Profit of the Dürr Group	173,092

Property, plant and equipment

Items of property, plant and equipment are recognized as assets under construction if costs for own or third-party work have already been incurred but they had not been completed by the end of the reporting period. As of December 31, 2018, the majority of assets under construction related to the erection of a new building at the Herzebrock location as well as modernization measures at the Bietigheim-Bissingen location.

The Group did not pledge any self-owned land and buildings as well as plant and machinery as collateral (prior period: € 469 thousand).

Land and buildings

In the 2018 reporting period, property of € 15,942 thousand was acquired as part of the acquisition of MEGTEC/Universal, which primarily relate to the locations in De Pere and Stoughton, Wisconsin, USA, as well as San Luis Potosi in Mexico and Shanghai, PR China. Further investments in property primarily related to the Schopfloch and Calw locations where new buildings were erected as well as modernization measures at the Bietigheim-Bissingen location.

Dürr invested € 28,388 thousand in property in the 2017 reporting period. The majority thereof is attributable to the first-time consolidation of Olivia Grundstücksverwaltungsgesellschaft mbH & Co. KG. This is a lease property company with properties in Bietigheim-Bissingen. The properties with a carrying amount of € 17,636 thousand were recognized as an addition to land and buildings. Moreover, further investments were attributable to the completion of the Dürr Campus in Shanghai region in the PR China and the acquisition of other properties in the USA.

Investment property

The Dürr Group distinguishes between property that is largely owner-occupied and property that is mostly let to third parties. A property is considered to be largely used by third parties if the space used by the company itself is insignificant. The Dürr Group uses the cost method to measure such investment property. The properties concerned are a group of buildings as well as part of the infrastructure area of Schenck Technologie- und Industriepark GmbH in Darmstadt, Germany, which are allocated to the Measuring and Process Systems division.

3.38 — INCOME AND EXPENSES FROM INVESTMENT PROPERTY

€ k	2018	2017
Rental income in the reporting period	3,631	3,578
Future rental income expected based on the existing agreements	10,084	12,120
Directly attributable expenditure	1,358	1,231
Directly attributable expenditure for vacant property	56	72

Buildings are depreciated using the straight-line method of depreciation over their useful life ranging between 20 and 50 years.

In the 2018 reporting period, the composition of the properties accounted for pursuant to IAS 40 "Investment Property" was

changed only slightly on the prior period. The fair value came to € 35,580 thousand as of December 31, 2018 (prior period: € 31,860 thousand) and is allocated to level 3 in the fair value hierarchy (for more information on the fair-value hierarchy levels, please see → [note 36](#)). An internal calculation prepared on an annual basis is used to determine the fair value of the investment properties; no valuer was consulted in determining the values. Fair value of the property is calculated using capitalized income from the cash-generating unit based on market rents adjusted by risk mark-downs customary for the region. A vacancy rate of 5 % (prior period: 10 %) and a property yield of 7.5 % (prior period: 7.5 %) was used in the calculation. The accumulated cost of land and buildings came to € 43,922 thousand as of December 31, 2017 and € 43,795 thousand as of December 31, 2018. The accumulated depreciation including all impairment losses and reversals of impairment losses increased from € 23,742 thousand as of December 31, 2017 to € 24,592 thousand as of December 31, 2018.

19. INVESTMENTS IN ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD AND OTHER FINANCIAL ASSETS

Significant entities accounted for using the equity method

Homag China Golden Field Ltd.

The entity Homag China Golden Field Ltd. is based in Hong Kong, PR China, and is a sales and service company which sells the products of the HOMAG Group's manufacturing companies. It is responsible for ensuring a functioning service organization and for working the Chinese market.

3.39 — CONDENSED STATEMENT OF FINANCIAL POSITION OF HOMAG CHINA GOLDEN FIELD LTD.

€ k	Dec. 31, 2018	Dec. 31, 2017
Non-current assets	16,300	13,999
Current assets	169,840	180,398
Non-current liabilities	441	456
Current liabilities	135,671	150,570
Equity	50,028	43,371
Carrying amount of the investment	15,998	12,578
Shareholding Dürr Group	25.0 %	25.0 %

**3.40 — FURTHER FINANCIAL INFORMATION ON
HOMAG CHINA GOLDEN FIELD LTD.**

€ k	2018	2017
Sales revenues	255,154	295,435
Earnings after income taxes	12,688	21,098
Cash flow from operating activities	-22,952	26,312
Cash flow from investing activities	-2,930	-2,737
Cash flow from financing activities	-19,170	8,465
Dividends received from Homag China Golden Field Ltd.	2,610	1,054

As in the prior period, the associate had no material contingent liabilities as of December 31, 2018. At present, there are no significant restrictions with respect to dividend distributions.

Nagahama Seisakusho Ltd.

The company Nagahama Seisakusho Ltd. has its registered office in Osaka, Japan, and offers machinery, systems and services in the area of balancing technology.

**3.41 — CONDENSED STATEMENT OF FINANCIAL POSITION
OF NAGAHAMA SEISAKUSHO LTD.**

€ k	Dec. 31, 2018	Dec. 31, 2017
Non-current assets	5,995	5,636
Current assets	51,020	48,658
Non-current liabilities	7,367	7,614
Current liabilities	8,573	7,102
Equity	41,075	39,578
Carrying amount of the investment	19,720	18,194
Shareholding Dürr Group	50.0 %	50.0 %

**3.42 — FURTHER FINANCIAL INFORMATION
ON NAGAHAMA SEISAKUSHO LTD.**

€ k	2018	2017
Sales revenues	38,070	36,193
Earnings after income taxes	4,022	2,486
Cash flow from operating activities	301	1,222
Cash flow from investing activities	965	-78
Cash flow from financing activities	-3,262	-2,084
Dividends received from Nagahama Seisakusho Ltd.	1,777	1,754

The reporting period of the company ends September 30; it is included using the equity method on the basis of the figures contained in the financial statements from that date. Significant effects that occurred between that date and December 31 are considered.

As in the prior period, the associate had no material contingent liabilities as of December 31, 2018. At present, there are no significant restrictions with respect to dividend distributions.

The carrying amounts of the entities accounted for using the equity method are influenced by currency effects. For further information on the consolidated companies, please refer to [→ notes 3 and 4](#).

Other financial assets

As of December 31, 2018, other investments primarily included the investment in ADAMOS GmbH with a carrying amount of € 2,000 thousand (prior period: € 2,000 thousand) and in Parker Engineering Co., Ltd. with a carrying amount of € 7,880 thousand (prior period: € 1,956 thousand). Measured in accordance with IFRS 9, the carrying amount of the investment of € 5,924 thousand was adjusted. Of this, € 6,402 thousand related to the adjustment in revenue reserves in the opening statement of financial position as well as an expense of € 478 thousand in the 2018 reporting period.

20. INVENTORIES AND PREPAYMENTS

3.43 — INVENTORIES AND PREPAYMENTS

€ k	Dec. 31, 2018	Dec. 31, 2017
Materials and supplies	259,555	207,005
less write-downs	-29,382	-25,737
Work in process	124,398	109,816
less write-downs	-4,571	-4,407
Finished goods and merchandise	154,590	127,301
less write-downs	-12,739	-15,474
Prepayments	43,658	59,269
less write-downs	-138	-138
	535,371	457,635

Materials and supplies were measured at average cost. On aggregate, write-downs on inventories increased to € 46,830 thousand (prior period: € 45,756 thousand) after taking into account exchange differences and consumption. The additions to write-downs in the 2018 reporting period of € 8,826 thousand (prior period: € 8,509 thousand) were recognized in profit or loss.

21. CONTRACT ASSETS

3.44 — DEVELOPMENT OF THE VALUATION ALLOWANCES OF CONTRACT ASSETS

€ k	2018		2017
	Level 2	Level 3	
As of January 1	1,365	-	-
Exchange difference	7	-	-
Additions			
newly acquired	1,522	-	-
already in the portfolio	-	-	-
Change in risk parameters	-	-	-
Reversal	-724	-	-
Utilization	-	-	-
Reclassifications	-	-	-
As of December 31	2,170	-	-

The change in the impairment of contract assets with a gross value of € 480,506 thousand (prior period: € 488,418 thousand) is primarily attributable to the fact that the composition of customers, the respective business volume with them and their credit ratings have changed.

22. TRADE RECEIVABLES

3.45 — CHANGES IN BAD DEBT ALLOWANCES OF TRADE RECEIVABLES

€ k	2018		2017
	Level 2	Level 3	
As of January 1	3,277	14,882	15,088
Changes in the consolidated group	21	-	-
Exchange difference	47	53	-429
Additions			
newly acquired	2,406	4,266	6,990
already in the portfolio	454	175	-
Change in risk parameters	-	-	-
Reversal	-1,616	-4,155	-4,502
Utilization	-5	-359	-1,265
Reclassifications	-171	131	-
As of December 31	4,413	14,993	15,882

This change in the bad debt allowance is primarily attributable to a change in the receivables volume and a change in the composition of customers as well as their credit ratings.

Receivables of € 788 thousand (prior period: € 3,235 thousand) were derecognized in the 2018 reporting period; € 364 thousand (prior period: € 1,265 thousand) thereof had already been impaired in the past. The remaining € 424 thousand (prior period: € 1,970 thousand) was derecognized in profit or loss in the 2018 reporting period.

3.46 — TRADE RECEIVABLES BY MATURITY

€ k	Dec. 31, 2018		Dec. 31, 2017
	Level 2	Level 3	Level 2
Gross value	603,611	18,819	549,226
Not due	430,238	–	421,374
less than 1 month	68,999	–	28,006
between 1 and 3 months	45,916	–	56,011
between 3 and 6 months	32,449	–	20,466
between 6 and 9 months	13,469	–	10,869
between 9 and 12 months	12,540	–	4,576
more than 12 months/level 3		18,819	7,924
Amount of impairment	–4,413	–14,993	–15,882
Net carrying amount	599,198	3,826	533,344

In risk level 2, a provision matrix is used to calculate a portfolio-based valuation allowance. Receivables in risk level 3 were impaired based on an individual risk assessment. Receivables in impairment level 2 are subject to the risk grade with a low credit risk (not affected by credit rating), while receivables in impairment level 3 are subject to the risk level with a high credit risk (affected by credit rating).

Remaining sundry financial assets include receivables from claims for damages of € 13,706 thousand (prior period: € 12,387 thousand), balances at suppliers of € 5,880 thousand (prior period: € 3,572 thousand) and receivables from employees totaling € 1,910 thousand (prior period: € 1,693 thousand).

For sundry financial assets, there is no major indication that the debtors will not be able to meet their payment obligations. Accordingly, sundry financial assets are primarily allocated to impairment level 1.

24. CASH AND CASH EQUIVALENTS

→ tables 3.48 and 3.49

The credit risk rating grades are based on internal and external risk assessments. For cash and cash equivalents, there is no major indication that the debtors will not be able to meet their payment obligations. For further information on financial assets, we refer to → notes 23 and 36.

23. SUNDRY FINANCIAL ASSETS

3.47 — SUNDRY FINANCIAL ASSETS

€ k	Dec. 31, 2018			Dec. 31, 2017		
	Total	Current	Non-current	Total	Current	Non-current
Derivative financial assets	3,691	3,602	89	5,928	5,758	170
Rent deposits and other collateral provided	6,194	3,208	2,986	6,951	4,092	2,859
Time deposits	539	539	–	136,008	136,008	–
Investments in equity instruments measured at fair value through profit or loss (IFRS 9)	19,507	19,507	–	–	–	–
Financial assets measured at fair value through profit or loss (IFRS 9)	5	5	–	–	–	–
Held-to-Maturity financial assets (IAS 39)	–	–	–	2,996	2,996	–
Held-for-trading financial assets (IAS 39)	–	–	–	19,513	19,513	–
Remaining sundry financial assets	26,798	25,582	1,216	24,110	22,286	1,824
	56,734	52,443	4,291	195,506	190,653	4,853

3.48 — CASH AND CASH EQUIVALENTS COMBINED BY CREDIT RISK RATING GRADE

€ k	Dec. 31, 2018		
	Level 1	Level 2	Level 3
Investment grade AAA to A-	449,709	–	–
Investment grade BBB+ to BBB-	195,384	–	–
Sub-investment grade	11,602	–	–
Total non-current	656,695	–	–
Risk provision pursuant to IFRS 9	–1,653	–	–
Carrying amount	655,042	–	–

3.49 — DEVELOPMENT OF VALUATION ALLOWANCES ON CASH AND CASH EQUIVALENTS

€ k	2018		
	Level 1	Level 2	Level 3
As of January 1	806	–	–
Changes in the consolidated group	–	–	–
Exchange difference	–8	–	–
Additions			
newly acquired	1,179	–	–
already in the portfolio	–	–	–
Change in risk parameters	–	–	–
Reversal	–324	–	–
Utilization	–	–	–
Reclassification	–	–	–
As of December 31	1,653	–	–

25. OTHER ASSETS

3.50 — OTHER ASSETS

€ k	Dec. 31, 2018			Dec. 31, 2017		
	Total	Current	Non-current	Total	Current	Non-current
Tax reimbursement claims without income taxes	38,244	37,657	587	45,660	45,296	364
Cost of obtaining a contract	9,462	8,738	724	9,216	8,981	235
Rent, maintenance cost and royalties	7,803	6,273	1,530	8,913	7,160	1,753
Sundry	2,062	1,335	727	107	4	103
	57,571	54,003	3,568	63,896	61,441	2,455

The cost of obtaining a contract included in other assets comprises sales commissions in connection with customer contracts that would not have been incurred had the contract not been concluded.

26. ASSETS HELD FOR SALE AND DISPOSALS

Assets sold in the 2018 reporting period

In the course of the sale of the Cleaning and Surface Processing business activity to the company Shenyang Blue Silver Industry Automation Equipment Co., Ltd., PR China (SBS), further assets were subsequently sold as of March 31, 2018 with a carrying amount of € 571 thousand and sales proceeds of € 634 thousand. These were allocated to the Measuring and Process Systems division. Dürr does not currently have any assets and liabilities classified as held for sale.

Assets and liabilities sold in the 2017 reporting period

The company Shenyang Blue Silver Industry Automation Equipment Co., Ltd., PR China (SBS), acquired the business of the Cleaning and Surface Processing activity (Dürr Ecoclean Group), with effect from March 31, 2017. The assets and associated liabilities allocated to the Cleaning and Surface Processing activity were classified as held for sale and recognized separately in the consolidated statement of financial position of Dürr AG as of December 31, 2016. These assets and liabilities were allocated to the Measuring and Process Systems division as of December 31, 2016. In addition to various

assets and liabilities in the PR China, Mexico and several other countries, the transaction involved the following companies:

- Dürr Ecoclean GmbH, Filderstadt, Germany,
- Dürr Cleaning France S.A.S., Le Mans, France,
- Dürr Ecoclean spol. s r.o., Oslavany, Czech Republic,
- UCM AG, Rheineck, Switzerland,
- Dürr Ecoclean Inc., Southfield, Michigan, USA,
- Mhitraa Engineering Equipments Private Limited, Sriperumbudur, India.

The income from the sale amounted to € 22,986 thousand. Under the sale, the Dürr Group received a net cash settlement of € 108,517 thousand and a 15 % investment in the new holding company SBS Ecoclean GmbH with registered offices in Stuttgart, Germany. Shenyang Blue Silver Industry Automation Equipment Co. exercised the option to acquire the remaining 15 % of the investment in SBS Ecoclean GmbH from the Dürr Group. This is recognized under current financial assets. Until the shares are transferred in full, the Dürr Group remains the shareholder of SBS Ecoclean GmbH, Stuttgart.

In the first quarter of 2017, the Cleaning and Surface Processing business activity contributed € 47,475 thousand to group sales revenues and € 2,183 thousand to EBIT.

Notes to the consolidated statement of financial position: equity and liabilities

27. EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF DÜRR AKTIENGESELLSCHAFT

Subscribed capital (Dürr AG)

As of December 31, 2018, the capital stock of Dürr AG came to € 177,157 thousand (prior period: € 88,579 thousand) and was made up of 69,202,080 no-par value shares (prior period: 34,601,040 shares). On June 22, 2018, bonus shares were issued in a ratio of 1:1 to the existing shareholders in the course of a capital increase from company funds, during which part of the capital reserve of € 88,578 thousand was converted into subscribed capital. Each share represents € 2.56 of the subscribed capital and is made out to the bearer. The shares issued were fully paid in.

Authorizations

Authorization for acquisition and sale of treasury shares (Dürr AG)

The annual general meeting on May 4, 2016 authorized the Board of Management to purchase no-par value bearer shares once or several times until May 3, 2021. The purchases, whether for one or more purposes, may be transacted through the stock exchange or through a public tender addressed to all shareholders. The number of shares purchased in this way may not at any time exceed 10 % of the capital stock. The authorization may not be used for the purpose of trading with treasury shares. In the event of the shares being purchased through the stock exchange or by public offer, the consideration for the purchase of the shares is not allowed to exceed or fall below the arithmetic mean of the price in the closing auction on the XETRA trading system by more than 10 % during the last ten trading days before the contractual transaction is concluded. If the acquisition takes place through a public invitation addressed to all shareholders for the submission of bids, the Company sets a range of purchase prices per share. The 10 % threshold described above also applies here. The Board of Management, with the consent of the Supervisory Board, was also authorized to sell treasury shares under certain circumstances. In connection with this authorization, the Board of Management was also granted the option, under certain circumstances, to exclude the shareholders' put option and subscription right.

Authorized capital (Dürr AG)

The annual general meeting on April 30, 2014 authorized the Board of Management, subject to the approval of the Supervisory Board, to increase the capital stock once or several times in exchange for cash contributions and/or contributions in kind in the period up to April 29, 2019 by up to € 44,289 thousand by issuing up to 17,300,520 no-par value shares made out to the bearer. The Board of Management was also authorized to preclude, subject to the approval of the Supervisory Board, the subscription right of the shareholders in certain cases.

Conditional capital (Dürr AG)

The annual general meeting on April 30, 2014 authorized the Board of Management, subject to the approval of the Supervisory Board, to issue once or several times until April 29, 2019, bearer or registered convertible bonds, warrant-linked bonds, participation rights or income bonds or combinations of these instruments with or without fixed maturity. For this purpose, the subscribed capital has been conditionally increased by a maximum of € 88,579 thousand (prior period: € 44,289 thousand) by issue of up to 34,601,040 (prior period: € 17,300,520) new no-par value bearer shares. The Board of Management was also authorized, with the approval of the Supervisory Board, to preclude the subscription right of shareholders under certain circumstances and with defined limits.

None of the three authorizations have been exercised to date.

Capital reserve (Dürr AG)

The capital reserve includes share premiums and amounted to € 67,318 thousand as of December 31, 2018 (prior period: € 155,896 thousand). The capital reserve is subject to the restrictions on disposal of Sec. 150 AktG.

Revenue reserves

Revenue reserves contain the profits generated in the past by the entities included in the consolidated financial statements that have not been distributed. They totaled € 771,468 thousand as of December 31, 2018 (prior period: € 690,417 thousand). The change is chiefly owing to the addition of the result for the year, the recognition and measurement of options allocable to non-controlling interests and the distribution of the dividend for the 2017 reporting period.

Restriction on distribution, transfer and withdrawal in the separate financial statements of Dürr AG (Sec. 253 (6) HGB and Sec. 285 No. 28 HGB)

Due to the legal regulations on the measurement of provisions in the separate financial statements of Dürr AG prepared in accordance with the German commercial law, there are restrictions on distribution. A difference of € 931 thousand (prior period: € 1,505 thousand) arises from the recognition of provisions according to the respective average market interest rate from the past ten reporting periods and from the recognition of provisions according to the respective average market interest rate from the past seven reporting periods; this amount is also subject to a restriction on distribution.

Dividends

In accordance with the AktG, the distribution is measured based on net retained profit as reported by Dürr AG in its separate financial statements prepared in accordance with the provisions of German GAAP. In the 2018 reporting period, Dürr AG distributed a dividend to its shareholders of € 2.20 per share from the net retained profit recorded in 2017 (prior period: € 2.10). The total amount distributed came to € 76,122 thousand (prior period: € 72,662 thousand). Based on the results of operations in the 2018 reporting period, the Board of Management of Dürr AG will propose to the Supervisory Board that a dividend of € 1.00 per share be distributed, corresponding to a total distribution amount of € 69,202 thousand.

Effects in equity of changes in the shareholding without loss of control

3.51 — EFFECTS IN EQUITY FROM INCREASING SHAREHOLDINGS

€ k	2017
Benz GmbH Werkzeugsysteme	-15,037
Dürr thermea GmbH	-
HOMAG KOREA CO., LTD.	-1,466
	-16,503

Disclosures on capital management

The primary objective of capital management is to support business operations, ensure a healthy capital ratio and increase business value.

The Dürr Group monitors its capital on a monthly basis using a gearing ratio, which reflects the ratio of net financial debt to equity and is defined as the ratio of net financial debt to equity and net financial debt. Pursuant to the Group's internal policy, the ratio should not exceed 30 %. At -3.4 % (prior period: -24.3 %), the ratio at the end of the 2018 reporting period was significantly lower than the threshold given because, as was also the case in the prior period, the Group carried net financial assets rather than net financial debt.

3.52 — GEARING RATIO

€ k	Dec. 31, 2018	Dec. 31, 2017
Cash and cash equivalents	-655,042	-659,911
Time deposits and other short-term securities	-544	-139,010
Bond and bonded loan	597,958	597,285
Liabilities to banks	1,002	1,875
Sundry financial liabilities	24,321	23,435
Net financial status	-32,305	-176,326
Equity	992,151	900,522
Net financial status	-32,305	-176,326
Equity and net financial status	959,846	724,196
Net financial status	-32,305	-176,326
Equity and net financial status	959,846	724,196
Gearing ratio	-3.4 %	-24.3 %

28. PROVISIONS FOR POST-EMPLOYMENT BENEFIT OBLIGATIONS

The Group's post-employment benefits include defined contribution plans and defined benefit plans.

Defined contribution plans

In the case of defined contribution plans, the Dürr Group pays contributions to state or private insurance institutions. Other than the subsidiary liability of the employer regarding its company pension plans, there are no other legal or constructive obligations for the Dürr Group. A claim from the subsidiary liability is currently unlikely. The contributions are recognized when they fall due as a personnel expense within the functional costs.

The post-employment benefits available to the employees of the German entities of the Dürr Group include a life insurance program (MetallRente) in line with the respective tariff group, for which the Group recognized contributions of € 875 thousand (prior period: € 916 thousand) as an expense. In addition, the Group paid contributions of € 44,715 thousand (prior period: € 42,955 thousand) to the German statutory pension scheme, which also constitutes a defined contribution plan.

The US subsidiaries contribute to external pension funds for trade union employees. In the 2018 reporting period, pension expenses for these employees amounted to € 3,795 thousand (prior period: € 4,739 thousand). Payments for other defined contribution plans in other countries, including state pension systems, amounted to € 13,050 thousand (prior period: € 10,852 thousand).

In addition, the US subsidiaries of the Group have a "401(k)" profit-sharing plan for certain employees. Profit-sharing is based on the years of service and the employees' remuneration. The Dürr Group's contribution is discretionary and is determined annually by management. In the 2018 reporting period, expenses came to € 2,164 thousand (prior period: € 2,017 thousand).

Defined benefit plans

Pension entitlements have been granted to individual former members of the Board of Management of Dürr AG and the members of the management board and general managers of German subsidiaries based on their most recent fixed salary and years of service.

Non-pay-scale employees of the German subsidiaries of the Dürr Group, including the members of the Board of Management of Dürr AG, Carl Schenck AG and HOMAG Group AG, are also offered the possibility to convert employee contributions into a benefit obligation in addition to ongoing employer contributions (pension plan of the Dürr Group). Under these plans, Dürr employees are entitled to convert certain parts of their future pay into an entitlement to future supplementary company benefits. To secure and finance the resulting obligation, the Dürr Group has taken out employer's pension liability insurance for the life of the beneficiaries. The Dürr Group has the exclusive right to the respective benefits. This therefore does not represent any significant actuarial or investment risk for the Dürr Group. The amount of post-employment benefits equals the benefit paid out under the employer's pension liability insurance concluded by the Group, which consists of a guaranteed pension and the divisible surplus allocated by the insurance company. The Dürr Group reports the benefit obligation net of assets from the employer's pension liability insurance.

At the German entities of the Dürr Group, those employees who were employed at the Schenck entities at the time of the takeover were entitled to post-employment benefits. These are based on years of service. The payments provided for by the pension plans comprise fixed amounts plus an element that is dependent on years of service.

A US entity has a pension plan covering all non-union employees at that subsidiary. This plan was closed in 2003 and the claims for active members were frozen. The amount of the future pension benefits is based on the average salaries earned and length of service before the pension entitlements were frozen in 2003.

A subsidiary in the US has an approximate 37 % share in a multi-employer plan which is maintained jointly with other non-affiliated metal-working companies. The defined benefit plan is accounted for as a defined contribution plan as it is not possible to allocate the share of obligations and plan assets to the individual member companies. The beneficiaries of the plan are members of a trade union. The contributions are calculated on the basis of the number of production hours worked by members. A temporary shortfall in capacity utilization as well as lower returns on plan assets meant there has been a deficit in the past. As of March 31, 2017, unfunded obligations from the plan amounted to € 7,338 thousand, which the

Dürr Group would have covered in full in case of default by other member companies. There was no longer a deficit as of March 31, 2018. For 2018, the Group expects contributions of € 1,154 thousand (prior period: € 1,102 thousand) to be made to the pension plan.

Moreover, there are plans that provide for payouts when employees leave the company as well as further minor pension plans.

Post-employment benefit plan participants and risk management

Provisions for post-employment benefits are recognized for obligations from future and current post-employment benefits to eligible current and former employees as well as their surviving dependents. Pension plans vary according to local legal, tax and economic conditions and are usually based on employees' years of service as well as their remuneration. In the 2018 reporting period there were obligations in place for 3,227 eligible persons (prior period: 2,618), thereof 2,650 active employees (prior period: 2,044), 116 former employees with vested rights (prior period: 126) as well as 461 retired employees and surviving dependents (prior period: 448).

The defined benefit plans are largely financed via provisions which have corresponding qualifying plan assets as plan assets that are offset against the obligations. The plan assets mostly exist in the form of employer's pension liability insurance policies pledged to beneficiaries.

In order to take adequate account of risks associated with post-employment benefit obligations, the Dürr Group established the Corporate Pension Committee (CPC) several years ago. This committee convenes on a quarterly basis and reviews and assesses all global post-employment benefit plans within the Dürr Group. Regular participants of the CPC are the Chief Financial Officer of Dürr AG as well as the heads of the central functional areas Human Resources, Accounting & Controlling, Treasury and Legal.

Furthermore, to minimize the risk from pension obligations, no new defined benefit pensions have been granted in Germany for several years if their value is largely not hedged by external counter-financing. At the same time, the current pension plans are largely financed through deferred compensation.

Development of defined benefit plans

3.53 — CHANGES IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

€ k	Dec. 31, 2018	Dec. 31, 2017
Defined benefit obligation at the beginning of the year	116,739	114,924
Exchange difference	876	-1,837
Current service cost	3,488	3,132
Past service cost	554	-8
Interest expenses	1,638	2,035
Remeasurement of the defined benefit obligation	162	-3,008
thereof actuarial gains and losses from changes in demographic assumptions	750	497
thereof actuarial gains and losses from changes in financial assumptions	-872	-2,680
thereof experience adjustments	284	-825
Employer contributions	-	7
Employee contributions	1,875	1,912
Benefits paid	-5,148	-6,858
Changes in the consolidated group	5,728	6,432
Other	-215	8
Defined benefit obligation at the end of the year	125,697	116,739

3.54 — CHANGE IN PLAN ASSETS

€ k	Dec. 31, 2018	Dec. 31, 2017
Fair value of plan assets at the beginning of the year	68,340	64,213
Exchange difference	459	-1,278
Interest income	839	1,238
Remeasurement of plan assets	5,205	-2,064
thereof actuarial gains and losses from changes in financial assumptions	4,782	-825
thereof experience adjustments	423	-1,239
Employer contributions	3,344	3,146
Employee contributions	1,875	1,911
Benefits paid	-2,890	-3,621
Changes in the consolidated group	172	4,813
Other	-139	-18
Fair value of plan assets at the end of the year	77,205	68,340
Effect of asset ceiling	-1,592	-1,431
Plan assets taking account of the asset ceiling	75,613	66,909
Funded status ¹	50,084	49,830

3.55 — FUNDED STATUS

€ k	Dec. 31, 2018	Dec. 31, 2017
Present value of funded obligations	113,832	110,600
Plan assets taking into account the asset ceiling	75,613	66,909
Defined benefit obligation in excess of plan assets	38,219	43,691
Present value of non-funded benefit obligations	11,865	6,139
Funded status ¹	50,084	49,830

¹ Difference between the present value of the defined benefit obligation and the plan assets, taking into account the asset ceiling.

At the end of the reporting period, the fair value of plan assets breaks down as shown in → [table 3.56](#).

3.56 — COMPOSITION OF PLAN ASSETS

€ k	Dec. 31, 2018	Dec. 31, 2017
Employer's pension liability insurance	65,943	57,950
Fixed-interest securities	9,968	8,447
Shares	828	1,513
Real estate	138	114
Other	328	316
	77,205	68,340

The plan assets of the German entities mainly consist of employer's pension liability insurance policies which guarantee the amount. These employer's pension liability insurance policies have been invested mainly in fixed-interest securities. When selecting the issuers, the factors considered include the individual rating by international agencies and the equity capitalization of the issuers. The aim of the investment strategy is long-term capital accumulation on the one hand, and ongoing interest income on the other. This leads to slightly greater volatility. As part of a balanced approach, the portfolio mix contains debt and equity securities. The long-term growth in plan assets should be achieved primarily by means of fixed-interest securities which will also secure ongoing interest income. Equity instruments also make up a share of the investment portfolio.

With the exception of shares and fixed-interest securities, there are no listed prices on an active market. Where employer's pension liability insurance belongs to plan assets as qualifying insurance policies and exactly match the benefits, the present value of the covered obligations applies as their fair value. Otherwise, the fair value of plan assets is generally calculated on the basis of the market expectations prevailing on that date.

The expenses for defined benefit plans recognized in profit or loss comprise the items listed in → [table 3.57](#).

3.57 — SHARE OF EXPENSES FROM DEFINED BENEFIT PLANS RECOGNIZED IN PROFIT OR LOSS

€ k	2018	2017
Current service cost	3,488	3,132
Past service cost	554	-8
Net interest expenses	823	813
Other	-268	-269
	4,597	3,668

The asset ceiling resulted in a change of € 51 thousand (prior period: € -307 thousand) in total comprehensive income. Of this amount, € 75 thousand (prior period: € -291 thousand) was recognized directly in equity and € -24 thousand (prior period: € -16 thousand) in profit or loss.

The reporting date for the measurement of projected benefit obligations and plan assets is December 31; the measurement date for defined benefit plans is January 1. In addition to the assumptions on life expectancy based on the biometric 2018 G mortality tables

published by Prof. Dr. Klaus Heubeck for the German Group companies, the rates in → [table 3.58](#) were used as a basis for calculating the defined benefit obligations and the fair value of the plan assets. The application of the new mortality tables for the German pension obligations caused the present value of the defined benefit obligation to increase by € 824 thousand, which was recognized as part of the remeasurement.

The rate of pension progression, which has a significant impact on the defined benefit obligations as of the end of the reporting period, came to 1.75 % in the 2018 reporting period (prior period: 1.75 %). The average rates are calculated on the basis of the weighted average of the defined benefit obligations.

The average duration of the post-employment benefit obligations as of the end of the 2018 reporting period was 14 years (prior period: 14 years). For the 2019 reporting period, employers are expected to make contributions of € 3,031 thousand to the plan assets.

→ [Table 3.59](#) gives an overview of the payments for defined benefit plans expected in the coming reporting periods.

Sensitivity analyses

The material actuarial assumptions to determine the post-employment benefit obligations are the discount rate and, for obligations in Germany, also the rate of pension progression. By hedging the significant risks with employer's pension liability insurance policies, the longevity risk for the obligations in Germany plays only a minor role.

→ [Table 3.60](#) shows how the defined benefit obligation is influenced by potential changes to the respective assumptions using sensitivity analyses.

3.58 — AVERAGE RATES USED FOR CALCULATING OBLIGATIONS

%	2018		2017	
	Germany	Rest of world	Germany	Rest of world
Discount rate	1.70	2.40	1.70	2.12
Long-term salary increases	3.00	2.00	3.00	2.00

3.59 — EXPECTED PAYMENTS FROM THE DEFINED BENEFIT PLANS

€ k	2019	2020	2021	2022	2023	2024 to 2028	Total
Expected payments from the defined benefit plans	5,311	5,513	5,669	5,594	5,485	27,065	54,637

3.60 — SENSITIVITIES – CHANGES IN THE DEFINED BENEFIT OBLIGATION

€ k	Dec. 31, 2018	Dec. 31, 2017
DISCOUNT RATE		
+1 percentage point	-10,332	-14,204
-1 percentage point	12,791	17,462
RATE OF PENSION PROGRESSION		
+0.25 percentage points	1,994	2,548
-0.25 percentage points	-1,910	-2,451

There are dependencies between the actuarial assumptions. The sensitivity analyses do not take these dependencies into account.

29. OTHER PROVISIONS → table 3.61

The contract-related provisions mainly consist of provisions for after-sales expenses, warranties and for onerous contracts in the

order backlog. Around 61% (prior period: 50%) of the contract-related provisions relate to provisions for warranties and after-sales expenses. The calculation of the contract-related provisions is largely based on after-sales expenses that are still expected as well as on statutory or contractual warranty claims and was performed using past experience and taking current circumstances into account. The personnel provisions mainly contain obligations for the phased retirement scheme and provisions for long-service awards. These provisions are derived from actuarial investigation procedures. Sundry provisions relate to various identifiable specific risks and uncertain liabilities for which there is uncertainty as to the date and future costs and for which the amount can be estimated reliably.

Those other provisions that are expected to be used within the next twelve months are classified as current. The payments for non-current provisions are expected to be incurred within the next two to five years. → table 3.62

3.61 — CHANGES IN OTHER PROVISIONS

€ k	Contract-related provisions	Personnel provisions	Sundry provisions
As of January 1, 2018	140,458	22,101	6,833
Changes in the consolidated group	7,289	504	954
Exchange difference	104	11	61
Utilization	-58,650	-5,529	-1,131
Reversal	-30,330	-1,545	-472
Additions	57,546	8,542	2,251
Reclassifications	721	-	16
As of December 31, 2018	117,138	24,084	8,512

3.62 — OTHER PROVISIONS – EXPECTED UTILIZATION

€ k	Dec. 31, 2018			Dec. 31, 2017		
	Total	Current	Non-current	Total	Current	Non-current
Contract-related provisions	117,138	115,803	1,335	140,458	139,139	1,319
Personnel provisions	24,084	10,019	14,065	22,101	9,750	12,351
Sundry provisions	8,512	4,854	3,658	6,677	2,795	3,882
	149,734	130,676	19,058	169,236	151,684	17,552

30. CONTRACT LIABILITIES

Contract liabilities constitute obligations for the Dürr Group to transfer goods or services to a customer for which the customer has already paid or to which Dürr has a claim. This relates to contracts for which customer payments received or due exceed the project status. Regular progress payments are typically agreed in the mechanical and plant engineering sector based on the progress of the project. In most cases a customer payment is already due before work commences. This results in the customer having to prefinance the project in the ordinary course of business. During the project, further payments are invoiced based on project milestones reached. In the 2018 reporting period, there were no notable deviations from this typical relationship between performance and customer payment. This is reflected in the disclosure of the balance

as a contract liability. The acquisition of MEGTEC/Universal entities had an impact on the contract assets of € 19,149 thousand and of € 16,622 thousand on contract liabilities. Other than this, there are no significant changes to the balances from contract assets and liabilities.

31. TRADE PAYABLES → table 3.63

32. BOND, BONDED LOAN AND OTHER FINANCIAL LIABILITIES

All interest-bearing liabilities of the Group are shown in this item.
→ table 3.64

3.63 — TRADE PAYABLES

€ k	Total	Current	Total non-current	Medium-term	Long-term
Trade payables	501,835	500,868	967	927	40
(2017)	(390,326)	(389,830)	(496)	(408)	(88)
Trade payables due from entities accounted for using the equity method	535	535	–	–	–
(2017)	(203)	(203)	(–)	(–)	(–)
December 31, 2018	502,370	501,403	967	927	40
(December 31, 2017)	(390,529)	(390,033)	(496)	(408)	(88)

3.64 — FINANCIAL LIABILITIES

€ k	Total	Current	Total non-current	Medium-term	Long-term
Bond	298,597	–	298,597	298,597	–
(2017)	(298,027)	(–)	(298,027)	(298,027)	(–)
Bonded loan	299,361	–	299,361	199,574	99,787
(2017)	(299,258)	(–)	(299,258)	(99,753)	(199,505)
Liabilities to banks	1,002	1,002	–	–	–
(2017)	(1,875)	(1,875)	(–)	(–)	(–)
Finance lease liabilities	7,182	1,907	5,275	4,532	743
(2017)	(5,810)	(1,347)	(4,463)	(3,497)	(966)
Sundry financial liabilities	17,139	9,587	7,552	7,552	–
(2017)	(17,625)	(9,524)	(8,101)	(8,101)	(–)
December 31, 2018	623,281	12,496	610,785	510,255	100,530
(December 31, 2017)	(622,595)	(12,746)	(609,849)	(409,378)	(200,471)

Sundry financial liabilities primarily contain loans from employees of German HOMAG Group entities and liabilities for deferred interest for the bond and the bonded loan.

Financing of the Group

Bond

In March 2014, Dürr AG issued an unsubordinated bond of € 300,000 thousand with a coupon of 2.875 % and an issue price of 99.221 %. It was paid out to the Dürr Group and first listed on April 3, 2014. The bond has a term of seven years and cannot be terminated prematurely. It was issued to institutional and private investors outside of the US. The bond has not been rated.

Bonded loan

On March 24, 2016, Dürr issued a bonded loan of € 300,000 thousand. The funds were received on April 6, 2016. The total volume is split into three tranches with terms of five, seven and ten years, and thus results in the maturity profile being spread more broadly. The average interest rate amounts to around 1.6 % p.a. for tranches with both fixed and variable interest terms. The bonded loan was arranged by Commerzbank AG, Landesbank Baden-Württemberg and UniCredit Bank AG and signed by numerous banks both within and outside of Germany. The funds serve to generally fund the Company and to strengthen strategic liquidity.

Dürr AG syndicated loan

Effective March 21, 2014, Dürr AG concluded a syndicated loan with a term until March 21, 2019. The syndicate of banks comprises Baden-Württembergische Bank, Commerzbank AG, Deutsche Bank AG, UniCredit Bank AG, HSBC Trinkaus & Burkhardt AG, BNP Paribas and KfW IPEX-Bank GmbH.

The syndicated loan does not include any collateral on fixed and current assets and is intended for general corporate financing. It consists of a cash line of € 250,000 thousand and a bank guarantee of € 215,000 thousand. The latter is used for guarantees and warranties in the operating business. It was possible to extend the new loan agreement at no additional cost by up to two years until March 21, 2021. The two extension options for one year each were exercised. The syndicated loan thus now has a term until March 21, 2021. Premature termination of the syndicated loan is possible if

the agreed-upon financial covenants or other terms of the loan are infringed and a two-third majority of the lending banks vote in favor of termination. The agreed financial covenant was complied with on all the specified measurement dates. Interest on the syndicated loan is payable at the matching refinancing rate plus a variable margin.

Other loans

As of September 30, 2017, the loan to finance Dürr Campus properties in Bietigheim-Bissingen with a carrying amount of € 34,198 thousand was repaid prematurely. An early repayment penalty was not incurred as the fixed-interest term had expired.

Credit lines and bank guarantees

At the end of the reporting period, € 153,707 thousand (prior period: € 143,282 thousand) of the bank guarantee of Dürr AG's syndicated loan had been utilized. Furthermore, there is an option to temporarily use the cash line of up to € 50,000 thousand as a bank guarantee. The cash line of the syndicated loan of Dürr AG was not utilized in the 2018 and 2017 reporting periods. In addition, Dürr has bilateral credit lines of € 9,344 thousand in place (useable for working capital or bank guarantees), bank guarantee facilities of € 537,751 thousand as well as smaller credit lines with various banks and insurance firms. The credit lines and bank guarantee facilities are not bound to any particular purpose and serve to generally fund the Group as well as project management.

3.65 — CREDIT LINES AND BANK GUARANTEES

€ k	Dec. 31, 2018	Dec. 31, 2017
Total amount of credit lines/bank guarantees available	1,072,095	963,593
Total amount of credit lines/bank guarantees utilized	317,288	300,606
thereof due within one year	152,175	180,383
thereof due in more than one year	165,113	120,223

33. SUNDRY FINANCIAL LIABILITIES

Obligations from options of € 176,958 thousand (prior period: € 209,729 thousand) relate to the sundry financial liabilities recognized under the domination and profit and loss transfer agreement

with HOMAG Group AG for the acquisition of shares as well as to pay the compensation entitlements. The options also relate to non-controlling interests of € 37,239 thousand (prior period: € 35,282 thousand).

3.66 — SUNDRY FINANCIAL LIABILITIES

€ k	Total	Current	Total non-current	Medium-term	Long-term
Derivative financial liabilities	7,573	7,232	341	341	-
(2017)	(6,271)	(4,975)	(1,296)	(1,296)	(-)
Obligations to employees	97,619	94,407	3,212	3,212	-
(2017)	(98,242)	(93,844)	(4,398)	(4,398)	(-)
Obligations from options	214,767	213,543	1,224	1,224	-
(2017)	(245,011)	(245,011)	(-)	(-)	(-)
Liabilities from contingent purchase price installments	9,532	9,532	-	-	-
(2017)	(9,675)	(9,445)	(230)	(230)	(-)
Other financial liabilities	24,473	22,984	1,489	1,459	30
(2017)	(30,517)	(29,242)	(1,275)	(1,229)	(46)
December 31, 2018	353,964	347,698	6,266	6,236	30
(December 31, 2017)	(389,716)	(382,517)	(7,199)	(7,153)	(46)

34. INCOME TAX LIABILITIES AND OTHER LIABILITIES

3.67 — INCOME TAX LIABILITIES

€ k	Total	Current	Total non-current	Medium-term	Long-term
Income tax liabilities	34,970	30,806	4,164	4,164	-
(2017)	(50,405)	(43,694)	(6,711)	(6,711)	(-)
December 31, 2018	34,970	30,806	4,164	4,164	-
(December 31, 2017)	(50,405)	(43,694)	(6,711)	(6,711)	(-)

3.68 — OTHER LIABILITIES

€ k	Total	Current	Total non-current	Medium-term	Long-term
Tax liabilities not relating to income taxes	62,361	62,357	4	4	–
(2017)	(50,541)	(50,534)	(7)	(7)	(–)
Liabilities relating to social security	8,085	8,085	–	–	–
(2017)	(7,712)	(7,712)	(–)	(–)	(–)
Obligations to employees	60,989	60,561	428	202	226
(2017)	(61,866)	(61,449)	(417)	(417)	(–)
Remaining other liabilities	11,469	11,290	179	179	–
(2017)	(11,654)	(11,450)	(204)	(204)	(–)
December 31, 2018	142,904	142,293	611	385	226
(December 31, 2017)	(131,773)	(131,145)	(628)	(628)	(–)

35. SHARE-BASED PAYMENT

There is a share-based long-term incentive (LTI) program in place for the members of the Board of Management of Dürr AG and top level managers of the Dürr Group. The program takes the form of tranches that are issued every year and have a term of three years each. The payments will be made upon expiry of the contractual term in each case after the following annual general meeting.

Under the program, the beneficiaries receive an individually fixed number of phantom Dürr shares (performance share units). As of December 31, 2018, 254,250 phantom shares had been issued (prior period: 117,000 shares). At the end of the term of the incentive program, the benefits accrued are settled in cash. The settlement is calculated on the number of phantom shares, the rounded share price on the closing date (share price multiplier) and an EBIT multiplier based on the average EBIT margin generated over the term of the arrangement. There is a cap for the EBIT multiplier. Payment is capped individually in each case.

In the 2018 reporting period, expenses of € 849 thousand (prior period: € 4,678 thousand) were recorded under administrative expenses for the LTI program. The amounts reported under sundry financial liabilities as of December 31, 2018 came to € 5,302 thousand (prior period: € 6,744 thousand).

36. OTHER NOTES ON FINANCIAL INSTRUMENTS

Measurement of financial instruments by category

Based on the relevant items of the statement of financial position, the relationship between the categories of financial instruments pursuant to IFRS 9, classification pursuant to IFRS 7 and the carrying amounts of financial instruments are presented in → [table 3.69](#).

CONSOLIDATED FINANCIAL STATEMENTS
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3.69 — MEASUREMENT OF FINANCIAL INSTRUMENTS BY CATEGORY

		Amount recognized at		
€ k	Carrying amount as of Dec. 31, 2018	Amortized cost	Fair value (not through profit or loss)	Fair value (through profit or loss)
ASSETS				
Cash and cash equivalents	655,042	655,042	–	–
Trade receivables due from third parties	593,644	593,644	–	–
Trade receivables due from entities accounted for using the equity method	9,380	9,380	–	–
Other financial assets	10,186	–	2,306	7,880
Sundry financial assets	53,043	33,531	–	19,512
Derivative financial assets				
Derivatives not used for hedging	623	–	–	623
Derivatives used for hedging	3,068	–	2,163	905
LIABILITIES				
Trade payables	502,370	502,370	–	–
Bond	298,597	298,597	–	–
Bonded loan	299,361	299,361	–	–
Liabilities to banks	1,002	1,002	–	–
Other financial liabilities	17,139	17,139	–	–
Finance lease liabilities ²	7,182	–	–	–
Obligations from options	214,767	176,958	37,239	570
Liabilities from contingent purchase price installments	9,532	–	–	9,532
Other non-derivative financial liabilities	122,092	122,092	–	–
Derivative financial liabilities				
Derivatives not used for hedging	1,124	–	–	1,124
Derivatives used for hedging	6,449	–	4,775	1,674
THEREOF COMBINED BY MEASUREMENT CATEGORY IN ACCORDANCE WITH IFRS 9				
Financial assets measured at amortized cost	1,291,597	1,291,597	–	–
Investments in equity instruments measured at fair value through other comprehensive income	2,306	–	2,306	–
Financial assets measured at fair value through profit or loss	628	–	–	628
Investments in equity instruments measured at fair value through profit or loss	27,387	–	–	27,387
Financial liabilities measured at amortized cost	1,424,701	1,417,519	–	–
Financial liabilities measured at fair value	48,465	–	37,239	11,226

CONSOLIDATED FINANCIAL STATEMENTS
Notes to the consolidated financial statements

€ k	Carrying amount as of Dec. 31, 2017 ¹	Amount recognized at			
		Cost	Amortized cost	Fair value (not through profit or loss)	Fair value (through profit or loss)
ASSETS					
Cash and cash equivalents	659,911	–	659,911	–	
Trade receivables due from third parties	524,187	–	524,187	–	–
Trade receivables due from entities accounted for using the equity method	9,157	–	9,157	–	–
Other non-derivative financial instruments					
Held-for-trading financial assets	19,513	–	–	–	19,513
Held-to-maturity investments	2,996	–	2,996	–	–
Available-for-sale financial assets	4,393	4,393	–	–	–
Sundry financial assets	167,069	–	167,069	–	–
Derivative financial assets					
Derivatives not used for hedging	496	–	–	–	496
Derivatives used for hedging	5,432	–	–	4,436	996
LIABILITIES					
Trade payables	390,529	–	390,529	–	–
Bond	298,027	–	298,027	–	–
Bonded loan	299,258	–	299,258	–	–
Liabilities to banks	1,875	–	1,875	–	–
Other financial liabilities	17,625	–	17,625	–	–
Finance lease liabilities ²	5,810	–	–	–	–
Obligations from options	245,011	–	209,729	35,282	–
Liabilities from contingent purchase price installments	9,675	–	–	–	9,675
Other non-derivative financial liabilities	128,759	–	128,759	–	–
Derivative financial liabilities					
Derivatives not used for hedging	452	–	–	–	452
Derivatives used for hedging	5,819	–	–	4,607	1,212
THEREOF COMBINED BY MEASUREMENT CATEGORY IN ACCORDANCE WITH IAS 39					
Held-for-trading financial assets	20,009	–	–	–	20,009
Loans and receivables	1,360,324	–	1,360,324	–	–
Held-to-maturity investments	2,996	–	2,996	–	–
Available-for-sale financial assets	4,393	4,393	–	–	–
Financial liabilities measured at fair value	45,409	–	–	35,282	10,127
Financial liabilities measured at amortized cost	1,351,612	–	1,345,802	–	–

¹ The figures for December 31, 2017 were adjusted due to the first-time application of IFRS 15.

² Finance lease liabilities are accounted for pursuant to IAS 17 "Leases" and are therefore not included in any of the above categories.

In order to make the fair value measurement of financial instruments comparable, a fair value hierarchy has been established in IFRSs with the following three levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2)

- Inputs that are not based on observable market data (level 3)

The financial instruments measured at fair value by the Dürr Group break down as follows according to the fair value hierarchy levels:

3.70 — ALLOCATION TO THE FAIR VALUE HIERARCHY LEVELS

€ k	Dec. 31, 2018	Fair value hierarchy		
		Level 1	Level 2	Level 3
ASSETS AT FAIR VALUE – NOT THROUGH PROFIT OR LOSS				
Other financial assets	2,306	–	–	2,306
Derivatives used for hedging	2,163	–	2,163	–
ASSETS AT FAIR VALUE – THROUGH PROFIT OR LOSS				
Other financial assets	7,880	–	–	7,880
Sundry financial assets	19,512	5	–	19,507
Derivatives not used for hedging	623	–	623	–
Derivatives used for hedging	905	–	905	–
LIABILITIES AT FAIR VALUE – NOT THROUGH PROFIT OR LOSS				
Obligations from options	37,239	–	–	37,239
Derivatives used for hedging	4,775	–	4,775	–
LIABILITIES AT FAIR VALUE – THROUGH PROFIT OR LOSS				
Obligations from options	570	–	–	570
Liabilities from contingent purchase price installments	9,532	–	–	9,532
Derivatives not used for hedging	1,124	–	1,124	–
Derivatives used for hedging	1,674	–	1,674	–

€ k	Dec. 31, 2017	Fair value hierarchy		
		Level 1	Level 2	Level 3
ASSETS AT FAIR VALUE – NOT THROUGH PROFIT OR LOSS				
Derivatives used for hedging	4,436	–	4,436	–
ASSETS AT FAIR VALUE – THROUGH PROFIT OR LOSS				
Held-for-trading financial assets	19,513	6	–	19,507
Derivatives not used for hedging	496	–	496	–
Derivatives used for hedging	996	–	996	–
LIABILITIES AT FAIR VALUE – NOT THROUGH PROFIT OR LOSS				
Obligations from options	35,282	–	–	35,282
Derivatives used for hedging	4,607	–	4,607	–
LIABILITIES AT FAIR VALUE – THROUGH PROFIT OR LOSS				
Liabilities from contingent purchase price installments	9,675	–	–	9,675
Derivatives not used for hedging	452	–	452	–
Derivatives used for hedging	1,212	–	1,212	–

As of the end of each reporting period, an assessment is made as to whether there were reclassifications between the different hierarchy levels or measurement categories. No reclassifications were made between the fair value hierarchy levels or measurement categories in the 2018 reporting period.

Measurement at fair value of the financial instruments of levels 1, 2 and 3 held as of December 31, 2018 gave rise to the following total gains and losses:

3.71 — TOTAL GAINS AND LOSSES ON ASSETS

€ k	2018	2017
RECOGNIZED IN PROFIT OR LOSS		
Investments in equity instruments measured at fair value through profit or loss (IFRS 9)	-478	-
Held-for-trading financial assets (IAS 39)	-	449
Derivative financial instruments	1,492	1,158
RECOGNIZED IN EQUITY		
Derivative financial instruments	2,171	5,047

3.72 — TOTAL GAINS AND LOSSES ON LIABILITIES

€ k	2018	2017
RECOGNIZED IN PROFIT OR LOSS		
Liabilities from contingent purchase price installments	-87	-83
Obligations from options	1,129	-
Derivative financial instruments	-2,792	-1,585
RECOGNIZED IN EQUITY		
Obligations from options	-761	-6,790
Derivative financial instruments	-3,650	-131

3.73 — DEVELOPMENT OF LEVEL 3 OF THE FAIR VALUE HIERARCHY OF ASSETS

€ k	2018	2017
As of December 31, prior period	19,507	-
Adjustments IFRS 9	10,795	-
As of January 1	30,302	-
Changes in the consolidated group	-132	-
Exchange difference	1	-
Additions	-	19,058
Change in fair value	-478	449
As of December 31	29,693	19,507

With the introduction of IFRS 9, other investments and non-consolidated Group entities in the category were reclassified to the fair value category and taken into account in the opening balance. For further information on financial assets, we refer to → [note 6](#). The changes in the fair value of the assets reported in level 3 were reported in the investment result in profit or loss.

3.74 — DEVELOPMENT OF LEVEL 3 OF THE FAIR VALUE HIERARCHY OF LIABILITIES

€ k	2018	2017
As of December 31, prior period	44,957	30,231
Adjustments IFRS 9	1,699	-
As of January 1	46,656	30,231
Additions	1,196	9,007
Disposals	-230	-1,154
Change in fair value	-281	6,873
As of December 31	47,341	44,957

Valuation techniques

The fair value of the derivative financial assets and liabilities allocated to level 2 of the fair value hierarchy is based on daily observable spot foreign exchange rates and interest yield curves. In connection with IFRS 13 “Fair Value Measurement”, both the counterparty credit risk and own risk of default have been taken into account during measurement. Input factors to take into account for the counterparty credit risk are credit default swaps (CDSs), observable on the markets, of the credit institution involved in the respective transaction. If there is no CDS for a single credit institution, a synthetic CDS is derived from other observable market data (such as rating information). The counterparty credit risk is minimized by diversifying the portfolio and selecting the counterparties carefully.

3.75 — FAIR VALUES OF INVESTMENTS IN EQUITY INSTRUMENTS AND OPTIONS

€ k	Dec. 31, 2018			Dec. 31, 2017		
	Carrying amount	Sensitivity analysis		Carrying amount	Sensitivity analysis	
		+10 %	–10 %		+10 %	–10 %
ADAMOS GmbH	2,000	2,154	1,914	2,000	–	–
Parker Engineering Co., Ltd.	7,880	8,445	7,315	1,956	–	–
SBS Ecoclean GmbH	19,507	19,507	19,507	19,507	19,507	19,507
HOMAG eSolution GmbH – Option	1,196	1,243	1,148	–	–	–

To calculate its own risk of default, the Dürr Group uses information received from credit institutions and insurance companies to derive a synthetic CDS for the Group.

The fair value of the options, other financial assets and contingent purchase price installments allocated to level 3 in the fair value hierarchy is calculated based on contractual arrangements or internal data. This primarily includes historical results, accounting data and forward-looking planning data of each company on which the amount of the financial liabilities depends.

The fair value of financial assets is derived from contractual arrangements of a selling price and a fixed interest component. The assumptions are regularly reviewed and adjusted if necessary. If applicable, unwinding effects resulting from a convergence with the maturity date are also included in the valuation.

Sensitivity level 3

The fair value of ADAMOS GmbH is primarily based on the free cash flows expected for the coming years.

For calculating the fair value of the 15 % investment in SBS Ecoclean GmbH, the Group does not currently expect any performance-related contractual clauses that may have a positive impact on the value to apply.

The calculation of the fair value of Parker Engineering Co., Ltd. is largely based on estimates by management on the development of

the future free cash flows of the company. The value of the related put option is based on the company's pro rata equity and would fluctuate by 10 % upward or downward in the event of an assumed change.

The measurement of the option for the acquisition of further shares of HOMAG eSolution GmbH is based on the distributable capital of future years until 2021.

From investments held in the portfolio, dividends of € 105 thousand were recognized in the 2018 reporting period.

Fair values of financial instruments carried at amortized cost

→ Table 3.76 shows the fair value of the financial assets and liabilities carried at cost or amortized cost. The fair value of financial instruments not carried at amortized cost approximates their carrying amount.

Cash and cash equivalents, trade receivables, sundry financial assets, trade payables, other non-derivative financial liabilities and overdraft facilities mostly fall due within the short term. Consequently, their carrying amounts at the end of the reporting period approximate their fair value.

Dürr currently recognizes equity interests of € 29,693 thousand (prior period: € 23,900 thousand), of which € 4,393 thousand was held at cost in the prior period.

The fair value of non-current liabilities is based on the current interest rate for borrowing at similar terms and conditions with comparable due date and credit rating. With the exception of the bond, bonded loan and obligations from options, the fair value of liabilities approximates the carrying amount.

3.76 — FAIR VALUES OF FINANCIAL INSTRUMENTS CARRIED AT AMORTIZED COST

€ k	Dec. 31, 2018		Dec. 31, 2017	
	Fair value	Carrying amount	Fair value	Carrying amount ¹
ASSETS				
Cash and cash equivalents	655,042	655,042	659,911	659,911
Trade receivables due from third parties	593,644	593,644	524,187	524,187
Trade receivables due from entities accounted for using the equity method	9,380	9,380	9,157	9,157
Other non-derivative financial instruments				
Sundry financial assets	33,531	33,531	167,069	167,069
Held-to-maturity investment (IAS 39)	–	–	3,050	2,996
LIABILITIES				
Trade payables	502,370	502,370	390,529	390,529
Bond	314,250	298,597	320,490	298,027
Bonded loan	298,445	299,361	295,402	299,258
Liabilities to banks	1,002	1,002	1,875	1,875
Sundry financial liabilities	17,139	17,139	17,625	17,625
Finance lease liabilities	7,619	7,182	6,342	5,810
Obligations from options	180,857	176,958	219,123	209,729
Other non-derivative financial liabilities	122,092	122,092	128,759	128,759
THEREOF COMBINED BY MEASUREMENT CATEGORY IN ACCORDANCE WITH IFRS 9/IAS 39				
Financial assets measured at amortized cost (IFRS 9)	1,291,597	1,291,597	–	–
Loans and receivables (IAS 39)	–	–	1,360,324	1,360,324
Held-to-maturity investments (IAS 39)	–	–	3,050	2,996
Financial liabilities measured at amortized cost	1,436,155	1,417,519	1,373,803	1,345,802

¹ The figures for December 31, 2017 were adjusted due to the first-time application of IFRS 15.

The fair value of the bond (fair value hierarchy level 1) is calculated by multiplying the nominal value with the quoted price at the end of the reporting period. As of December 31, 2018, the bond was quoted at 104.75 % (prior period: 106.83 %), which is equal to a market value of € 314,250 thousand (prior period: € 320,940 thousand). The fair value of the bonded loan (fair value hierarchy level 2) and finance lease liabilities (fair value hierarchy level 2) is determined by discounting the cash flows as of the measurement date with discount rates with matching terms.

The obligations from options measured at amortized cost (level 3 in the fair value hierarchy) relate to the sundry financial liabilities recognized under the domination and profit and loss transfer agreement with HOMAG Group AG for the acquisition of shares as well as to pay the compensation entitlements. The financial liabilities are

recognized in profit or loss in the subsequent measurement. The expected term of the arbitration proceedings as well as the expected amount of the compensation payment and cash settlement determine the measurement of the option. Both the term of the arbitration proceedings as well as the expected amount of the compensation payment and cash settlement remain unchanged on the prior period. The fair value is determined using a net present value model based on the contractually agreed cash settlement including compensation payment as well as the legal minimum interest rate and a discount rate with a matching term. The difference between the fair value and the carrying amount is due to the fact that the fair value takes into account changes in the actual interest rate environment, while the discount rate used for measurement at amortized cost remains mostly unchanged over the term.

Net gains and losses by measurement category

3.77 — NET GAINS AND LOSSES BY MEASUREMENT CATEGORY 2018

€ k	From interest	From subsequent measurement			From disposals	Net gain or loss
		At fair value	Currency translation	Impairment		
Financial assets measured at amortized cost	5,899	–	–3,096	–1,907	–177	719
Financial assets measured at fair value through profit or loss	52	–751	–	–	–	–699
Investments in equity instrument measured at fair value through profit or loss	–	–478	–	–	–	–478
Financial liabilities measured at amortized cost	–25,019	–	10	–	–	–25,009
Financial liabilities measured at fair value through profit or loss	–87	1,129	–	–	–	1,042
Total	–19,155	–100	–3,086	–1,907	–177	–24,425

3.78 — NET GAINS AND LOSSES BY PREVIOUS MEASUREMENT CATEGORIES 2017

€ k	From interest	From subsequent measurement			From disposals	Net gain or loss
		At fair value	Currency translation	Impairment		
Loans and receivables	5,924	–	–2,633	–2,486	–1,970	–1,165
Held-to-maturity investments	167	–	–	–	–	167
Available-for-sale financial assets	–	–	–	–520	446	–74
Financial liabilities measured at fair value through profit or loss	–83	–1,746	–	–	–	–1,829
Financial liabilities measured at amortized cost	–26,490	–	32	–	–	–26,458
Total	–20,482	–1,746	–2,601	–3,006	–1,524	–29,359

Financial assets which are subject to an enforceable master netting arrangement or a similar agreement

Some derivative financial instruments concluded with credit institutions are subject to certain contractual netting agreements which allow the Dürr Group, in the event of a credit institution filing for insolvency, to offset certain financial assets against certain financial liabilities.

**3.79 — DERIVATIVE FINANCIAL ASSETS SUBJECT TO
NETTING AGREEMENTS, ENFORCEABLE MASTER
NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS**

€ k	Dec. 31, 2018	Dec. 31, 2017
Gross amounts of financial assets	3,691	5,928
Gross amounts of financial liabilities netted in the statement of financial position	–	–
Net amounts of financial assets reported in the statement of financial position	3,691	5,928
Associated amounts from financial instruments not netted in the statement of financial position	–2,972	–3,455
Net amount	719	2,473

**3.80 — DERIVATIVE FINANCIAL LIABILITIES SUBJECT TO
NETTING AGREEMENTS, ENFORCEABLE MASTER
NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS**

€ k	Dec. 31, 2018	Dec. 31, 2017
Gross amounts of financial liabilities	7,573	6,271
Gross amounts of financial assets netted in the statement of financial position	–	–
Net amounts of financial liabilities reported in the statement of financial position	7,573	6,271
Associated amounts from financial instruments not netted in the statement of financial position	–2,972	–3,455
Net amount	4,601	2,816

Pledges

At the end of the reporting period, financial assets of € 2,348 thousand (prior period: € 4,238 thousand) were mainly pledged as collateral for cash deposits.

**37. NOTES TO THE CONSOLIDATED
STATEMENT OF CASH FLOWS**

The consolidated statement of cash flows shows how the cash and cash equivalents changed in the 2018 reporting period as a result of cash received and paid and thus provides information on the sources and use of cash and cash equivalents. The consolidated statement of cash flows prepared in accordance with IAS 7 “Statement of Cash Flows” makes a distinction between the cash flows from operating, investing and financing activities.

The cash presented in the statement of cash flows contains all of the Group’s cash and cash equivalents, i.e., cash in hand, checks and bank balances, with an original term to maturity of less than three months. The risk provision to be recognized on cash and cash equivalents under IFRS 9 is eliminated from non-cash income and expenses in the statement of cash flows.

Cash of € 190,331 thousand (prior period: € 85,633 thousand) is restricted due to the restrictions on capital transfers, mainly in some Asian countries.

Cash flow from operating activities

The cash flow from operating activities is derived indirectly from the earnings of the Group. Income tax payments are added to earnings before income taxes which is also adjusted for net interest and non-cash items. The latter includes amortization and depreciation of non-current assets, the profit from entities accounted for using the equity method and the net gain or loss on the disposal of property, plant and equipment. To derive the cash flow from operating activities, changes in the items of the statement of financial position that result from operating activities are then considered. Effects from foreign currency translation and changes in the consolidated group are eliminated. Changes in operating assets and liabilities contained in the consolidated statement of cash flows therefore do not necessarily match the changes in the related items of the consolidated statement of financial position.

The amortization and depreciation reported in the consolidated statement of cash flows is € 478 thousand (prior period: € 565 thousand) lower because that amount is already included in the net interest or investment result.

Income of € 22,986 thousand generated in the prior period from the sale of the Dürr Ecoclean Group, which is included in earnings before taxes, was eliminated from the cash flow from operating activities and presented in the cash flow from investing activities. The cash flow from operating activities contains effects of € 24,888 thousand from non-recourse financing and premature settlement of letters of credit (prior period: € 28,012 thousand).

3.81 — OTHER NON-CASH INCOME AND EXPENSES

€ k	2018	2017
Expenses or income from contingent purchase price installments	-87	-83
Impairment on financial assets and other investments	-827	-770
Currency translation differences and other	1,218	3,932
Total	304	3,079

Cash flow from investing activities

The cash flow from investing activities is derived from actual cash flows. This relates mainly to the cash outflows for investments made in non-current assets and business combinations. Cash outflows for the acquisition of property, plant and equipment are divided into € 19,472 thousand (prior period: € 17,843 thousand) for expansion investments and € 28,937 thousand (prior period: € 47,277 thousand) for replacement investments. Cash inflows arise from the disposal of non-current assets and interest received. Investments in non-current assets in connection with concluding or extending finance leases while simultaneously recognizing corresponding liabilities are not disclosed as these do not involve any cash outflow.

In the 2018 reporting period, the Dürr Group did not have any cash and cash equivalents from the disposal of other financial assets (prior period: € 5,920 thousand). Repayments from time deposits result in cash inflows of € 138,287 thousand (prior period: cash outflows of € 46,563 thousand). Among others, they were used to pay the purchase price for MEGTEC/Universal.

The purchase price for MEGTEC/Universal of € 125,340 thousand contains cash and cash equivalents of € 19,567 thousand. The purchase price of other acquisitions in the prior period (€ 4,828 thousand) contained cash and cash equivalents of € 375 thousand.

In the prior period, the sale of the Cleaning and Surface Processing activity resulted in a cash inflow after deduction of the derecognized cash and cash equivalents of the Dürr Ecoclean Group of € 108,517 thousand. The assets subsequently sold in the 2018 reporting period resulted in a cash outflow of € 634 thousand.

Cash flow from financing activities

The cash flow from financing activities is also derived from actual cash flows. It contains dividends and cash paid to shareholders and non-controlling interests, interest paid for the bond, the bonded loan and the other financing activities. It also includes the payments made to settle liabilities under the terms of finance leases and other non-current loans. The line item, "Change in current bank liabilities and other financing activities", mainly contains cash inflows and outflows from overdraft facilities.

As of September 30, 2017, the remaining loan to finance Dürr Campus properties in Bietigheim-Bissingen of € 34,198 thousand was repaid prematurely.

In the 2018 reporting period, the Dürr Group acquired further shares in HOMAG Group AG. The purchase price for these shares was € 34,802 thousand. In the prior period, the Group acquired an additional 24 % of the shares in Benz GmbH Werkzeugsysteme and its subsidiary in the USA. The purchase price for these shares was € 6,457 thousand. Furthermore, the Dürr Group acquired the remaining 12.4 % of the shares in Dürr thermea GmbH and the outstanding shares of 45.4 % of HOMAG KOREA CO., LTD. The purchase price for the further tranches amounted to € 120 thousand and € 1,038 thousand. Furthermore, there was an additional cash outflow of € 740 thousand from purchase price obligations related to the acquisition of Dürr Cyplan GmbH. Pursuant to IAS 7 "Statement of Cash Flows", the cash outflow for the additional shares was contained in the cash flow from financing activities under the item "Cash paid for transactions with non-controlling interests", as the entities were already previously fully consolidated in the Dürr Group.

Interest paid includes the payment of guaranteed dividends to the outside HOMAG Group AG shareholders, as the conclusion of the domination and profit and loss transfer agreement has led to the situation where outside shareholders according to IFRS accounting are not considered as owners of non-controlling interests.

According to the amendments to IAS 7 "Statement of Cash Flows", the reconciliation in → [table 3.82](#) presents the changes in liabilities from financing activities. These are defined as liabilities whose cash inflows and outflows are recognized in the statement of cash flows as cash flows from financing activities. This includes liabilities related to the acquisition of non-controlling interests. Assets that serve to hedge non-current liabilities are also presented here.

The Group has unused credit lines and bank guarantees of € 754,807 thousand (prior period: € 662,987 thousand). The credit lines and bank guarantee facilities are not bound to any particular purpose and serve to generally fund the Group as well as project management. For more information on the financing of the Group, please refer to → [note 32](#). A breakdown by division of the Dürr Group of the cash flows from operating activities, investing activities and financing activities can be found in → [note 38](#). An explanation of the statement of cash flows can be found in the section on “Financial development” in the combined management report.

3.82 — CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES 2018

€ k	Carrying amount as of Jan. 1	With cash effect	With non-cash effect					Carrying amount as of Dec. 31
			Exchange difference	Changes in the consolidated group	Addition	Changes in fair value	Other changes	
Bond	298,027	–	–	–	–	–	570	298,597
(2017)	(297,474)	(–)	(–)	(–)	(–)	(–)	(553)	(298,027)
Bonded loan	299,258	–	–	–	–	–	103	299,361
(2017)	(299,156)	(–)	(–)	(–)	(–)	(–)	(102)	(299,258)
Sundry financial liabilities	10,137	–1,284	–25	–	–	–	–	8,828
(2017)	(49,423)	(–40,192)	(14)	(578)	(–)	(–)	(314)	(10,137)
Finance lease liabilities	5,810	–1,056	–26	45	2,507	–	–98	7,182
(2017)	(8,480)	(–3,071)	(–176)	(119)	(458)	(–)	(–)	(5,810)
Liabilities from options	153,787	–3,497	–	–	1,196	4,362	–	155,848
(2017)	(146,944)	(–3,617)	(–)	(–)	(–)	(6,790)	(3,670)	(153,787)
Liabilities from contingent purchase price installments for non-controlling interests	9,090	–	–	–	–	87	–	9,177
(2017)	(740)	(–740)	(–)	(–)	(9,007)	(83)	(–)	(9,090)
Liabilities from accrued interest	9,363	–9,092	–	–	9,244	–	–202	9,313
(2017)	(9,317)	(–9,317)	(–)	(–)	(9,363)	(–)	(–)	(9,363)
Total 2018	785,472	–14,929	–51	45	12,947	4,449	373	788,306
(Total 2017)	(811,534)	(–56,937)	(–162)	(697)	(18,828)	(6,873)	(4,639)	(785,472)

Other notes

38. SEGMENT REPORTING

The segment reporting was prepared according to IFRS 8 “Operating Segments”. Based on the internal reporting and organizational structure of the Group, the data contained in the consolidated financial statements is presented by division. The presentation of segments is designed to provide details on the results of operations, net assets and financial position of individual activities.

The reporting is based on the divisions of the Group. As of December 31, 2018, the Dürr Group consisted of the Corporate Center and five operating divisions, each with global responsibility for its products and results. Paint and Final Assembly Systems plans and builds paint systems and final assembly lines for the automotive industry. Application Technology develops and manufactures products and systems for the automated application of paint, sealants and adhesives. Clean Technology Systems mainly specializes in exhaust gas purification systems. Measuring and Process Systems offers balancing and diagnostics equipment and testing, assembly and filling technology. Woodworking Machinery and Systems develops and produces machinery and systems for woodworking. The Corporate Center mainly comprises the holdings Dürr AG and

Dürr Technologies GmbH as well as Dürr IT Service GmbH, which performs IT services throughout the Group. A detailed description of the activities of the individual divisions can be found in the section “The Group at a glance” in the combined management report. Transactions between the divisions are carried out at arm’s length.

The basis for segment reporting in accordance with IFRS 8 is the same as that used internally. Management monitors the sales revenues and the EBIT from each of its five divisions separately for the purpose of making decisions about resource allocation and evaluating operating segment performance as well as the development of the segments. Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Sales revenues from contracts with customers are accounted for pursuant to IFRS 15 for every division and divided into sales revenues recognized over time and recognized at a point in time. The Woodworking Machinery and Systems division alone largely recognizes sales revenues from contracts with customers when control is transferred, which is related to the high degree of standardization of the machines and the resulting potential alternative uses. All other divisions primarily generate their sales revenues over time due to the conditions of their contracts.

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3.83 — SEGMENT REPORTING

€ k	Paint and Final Assembly Systems	Application Technology	Clean Technology Systems ¹	Measuring and Process Systems	Woodworking Machinery and Systems	Total segments	Recon- ciliation ²	Dürr Group
2018								
Sales revenues recognized over time from contracts with customers	1,178,864	487,111	204,428	292,467	240,674	2,403,544	–	2,403,544
Sales revenues recognized at a point in time from contracts with customers	56,808	165,450	22,272	159,686	1,057,663	1,461,879	31	1,461,910
Sales revenues from lease agreements	–	–	–	4,362	–	4,362	–	4,362
Sales revenues with other divisions	1,222	6,797	1,655	3,905	217	13,796	–13,796	–
Total sales revenues	1,236,894	659,358	228,355	460,420	1,298,554	3,883,581	–13,765	3,869,816
thereof from services	351,124	224,548	57,445	135,994	276,524	1,045,635	–6,599	1,039,036
EBIT	55,964	67,958	–14,973	59,735	86,231	254,915	–21,414	233,501
Earnings from entities accounted for using the equity method	–	–	–	2,005	4,839	6,844	–	6,844
Cash flow from operating activities	116,964	13,419	9,478	31,308	45,401	216,570	–54,296	162,274
Cash flow from investing activities	–3,910	–8,209	–110,824	–4,510	–35,736	–163,189	133,040	–30,149
Cash flow from financing activities	3,238	–4,524	120,646	–21,541	–20,138	77,681	–211,722	–134,041
Amortization and depreciation	–14,427	–11,403	–6,110	–8,244	–38,947	–79,131	–3,455	–82,586
Impairment of intangible assets and property, plant, and equipment	–	–	–10,421	–	–362	–10,783	–	–10,783
Other non-cash income and expenses	344	44	614	548	–624	926	–622	304
Additions to intangible assets	3,023	2,641	50,301	1,733	12,437	70,135	2,447	72,582
Additions to property, plant and equipment	5,419	9,110	1,842	4,821	28,829	50,021	895	50,916
Investments in entities accounted for using the equity method	–	–	–	19,720	15,998	35,718	–	35,718
Assets (as of Dec. 31)	600,956	547,771	319,075	438,085	919,974	2,825,861	–317	2,825,544
Liabilities (as of Dec. 31)	613,316	283,758	171,773	178,940	446,165	1,693,952	178,096	1,872,048
Employees (as of Dec. 31)	3,472	2,246	1,472	2,279	6,593	16,062	250	16,312

¹ The amounts reported for Clean Technology Systems contain the figures of the MEGTEC/Universal entities as of the date of first-time consolidation October 5, 2018, taking into account the effects from the subsequent measurement of hidden reserves and liabilities in the context of the purchase price allocation.

² The number of employees, amortization and depreciation, impairment losses, additions to intangible assets and property, plant and equipment and non-cash income and expenses as well as sales revenues from contracts with customers reported in the reconciliation column relate to the Corporate Center. The figures for the 2017 reporting period were adjusted due to the first-time application of IFRS 15.

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3.83 — SEGMENT REPORTING

€ k	Paint and Final Assembly Systems	Application Technology	Clean Technology Systems	Measuring and Process Systems	Woodworking Machinery and Systems	Total segments	Reconciliation ¹	Dürr Group
2017								
Sales revenues recognized over time from contracts with customers	1,043,738	437,861	155,391	314,096	258,619	2,209,705	–	2,209,705
Sales revenues recognized at a point in time from contracts with customers	131,426	184,522	30,253	186,622	960,175	1,492,998	67	1,493,065
Sales revenues from lease agreements	–	–	–	10,416	–	10,416	–	10,416
Sales revenues with other divisions	2,031	4,597	3,664	6,424	78	16,794	–16,794	–
Total sales revenues	1,177,195	626,980	189,308	517,558	1,218,872	3,729,913	–16,727	3,713,186
thereof from services	286,287	222,303	43,840	137,698	264,560	954,688	–7,673	947,015
EBIT	70,384	64,798	3,331	64,287	82,994	285,794	1,227	287,021
Earnings from entities accounted for using the equity method	–	–	–	1,183	2,441	3,624	–	3,624
Cash flow from operating activities	–35,847	50,933	–11,548	55,358	107,089	165,985	–46,204	119,781
Cash flow from investing activities	–15,758	–27,805	–716	75,390	–22,987	8,124	–25,345	–17,221
Cash flow from financing activities	–28,816	–9,526	4,353	–135,478	–77,527	–246,994	94,757	–152,237
Amortization and depreciation	–14,295	–11,647	–2,683	–7,636	–37,240	–73,501	–4,698	–78,199
Impairment of intangible assets and property, plant, and equipment	–	–	–	–	–	–	–2,496	–2,496
Other non-cash income and expenses	–303	–5	319	–271	–329	–589	3,668	3,079
Additions to intangible assets	3,193	4,890	1,626	1,253	9,148	20,110	2,470	22,580
Additions to property, plant and equipment	19,013	21,347	2,197	4,469	17,039	64,065	1,513	65,578
Investments in entities accounted for using the equity method	–	–	–	18,194	12,578	30,772	–	30,772
Assets (as of Dec. 31)	653,405	541,617	132,278	440,976	837,044	2,605,320	1,662	2,606,982
Liabilities (as of Dec. 31)	595,485	330,273	70,917	210,368	422,321	1,629,364	217,509	1,846,873
Employees (as of Dec. 31)	3,457	2,063	603	2,279	6,371	14,773	201	14,974

¹ The number of employees, amortization and depreciation, impairment losses, additions to intangible assets and property, plant and equipment and non-cash income and expenses as well as sales revenues from contracts with customers reported in the reconciliation column relate to the Corporate Center. The figures for the 2017 reporting period were adjusted due to the first-time application of IFRS 15.

3.84 — RECONCILIATION OF SEGMENT FIGURES TO THE FIGURES OF THE DÜRR GROUP

€ k	2018	2017
EBIT of the segments	254,915	285,794
EBIT of the Corporate Center	-22,830	401
Elimination of consolidation entries	1,416	826
EBIT of the Dürr Group	233,501	287,021
Investment result	7,117	1,813
Interest and similar income	6,570	6,091
Interest and similar expenses	-27,508	-27,664
Earnings before income taxes	219,680	267,261
Income taxes	-56,175	-67,643
Profit of the Dürr Group	163,505	199,618
€ k	Dec. 31, 2018	Dec. 31, 2017
Segment assets	2,825,861	2,605,320
Assets of the Corporate Center	982,100	983,471
Elimination of consolidation entries	-982,417	-981,809
Cash and cash equivalents	655,042	659,911
Time deposits and other short-term securities	544	139,010
Sundry financial assets (IFRS 9)/ Held-for-trading financial assets (IAS 39)	19,507	19,507
Investments in entities accounted for using the equity method	35,718	30,772
Income tax receivables	28,151	20,035
Deferred tax assets	49,893	35,343
Total assets of the Dürr Group	3,614,399	3,511,560
Segment liabilities	1,693,952	1,629,364
Liabilities of the Corporate Center	208,053	242,003
Elimination of consolidation entries	-29,957	-24,494
Bond and bonded loan	597,958	597,285
Liabilities to banks and sundry financial liabilities	18,141	19,500
Finance lease liabilities	7,182	5,810
Income tax liabilities	34,970	50,405
Deferred tax liabilities	91,949	91,165
Total liabilities of the Dürr Group¹	2,622,248	2,611,038

¹ Consolidated total assets less total equity

Regional segmentation

Sales revenues are allocated to regions based on the location of the project or delivery locations. The Group's assets are allocated on the basis of the location of the subsidiary reporting these assets. In accordance with IFRS 8.33 they include all non-current assets of the Group except for financial instruments and deferred tax assets.
→ [table 3.85](#)

In the 2018 reporting period, sales revenues in the PR China came to € 823,343 thousand (prior period: € 845,912 thousand).

In the 2018 reporting period, 9.0 % of consolidated net sales revenues were generated with one customer compared to 7.6 % in the prior period. The second- and third-largest customers accounted for 4.3 % (prior period: 5.0 %) and 3.4 % (prior period: 3.2 %) respectively. The net sales revenues with these customers are attributable to all divisions aside from the third-largest customer, with which no net sales revenues were generated in the Woodworking Machinery and Systems division. Entities that are known to be under common control are considered as one customer.

39. RELATED PARTY TRANSACTIONS

Related parties comprise members of the Supervisory Board and the Board of Management.

Some members of the Supervisory Board of Dürr AG hold high-ranking positions in other entities. Transactions between these entities and the Dürr Group are carried out at arm's length. For further information about members of the Board of Management and the Supervisory Board of Dürr AG, please refer to → [note 43](#).

Related parties include entities accounted for using the equity method and non-consolidated subsidiaries of the Dürr Group as well as entities for which Dürr represents an associate.

In the 2018 reporting period, there were transactions between the Dürr Group and its related parties of € 176,429 thousand (prior period: € 174,743 thousand). These mainly result from the regular project business and are primarily attributable to Homag China Golden Field Ltd. As of December 31, 2018, outstanding receivables from related parties totaled € 6,211 thousand (prior period:

3.85 — REGIONAL SEGMENTATION

€ k	Germany	Other European countries	United States	Other North/Central American countries	South America	Asia/Africa/Australia	Dürr Group
2018							
Sales revenues with customers	609,412	1,184,449	626,387	199,709	86,309	1,163,550	3,869,816
Additions to property, plant and equipment	37,550	4,937	3,335	322	558	4,214	50,916
Non-current assets (as of Dec. 31)	690,967	190,891	159,910	17,244	11,377	72,458	1,142,847
Employees (as of Dec. 31)	8,152	2,567	1,497	530	341	3,225	16,312
2017							
Sales revenues with customers	485,880	1,089,989	663,180	263,655	78,626	1,131,856	3,713,186
Additions to property, plant and equipment	41,603	7,066	4,347	738	184	11,640	65,578
Non-current assets (as of Dec. 31)	690,198	177,476	103,300	3,593	12,513	67,009	1,054,089
Employees (as of Dec. 31)	7,830	2,361	954	440	313	3,076	14,974

€ 9,925 thousand), while liabilities to related parties amounted to € 4,559 thousand (prior period: € 1,358 thousand). Both the receivables and liabilities are current. Prepayments received of € 30,102 thousand (prior period: € 43,640 thousand) from related parties are also included in the statement of financial position.

40. CONTINGENT LIABILITIES

3.86 — CONTINGENT LIABILITIES

€ k	Dec. 31, 2018	Dec. 31, 2017
Notes payable	–	19,650
Obligations from warranties and guarantees	9,225	10,171
Collateral pledged for third-party liabilities	72	184
Other	702	3,571
	9,999	33,576

The Dürr Group assumes that these contingent liabilities will not lead to any liabilities or cash outflows.

41. OTHER FINANCIAL OBLIGATIONS

3.87 — OTHER FINANCIAL OBLIGATIONS

€ k	Dec. 31, 2018	Dec. 31, 2017
Future minimum payments for operating leases	103,355	89,845
Future minimum payments for finance leases	7,654	6,400
Purchase obligation for property, plant and equipment	11,221	3,360
	122,230	99,605

Obligations for the acquisition of property, plant and equipment primarily include obligations for the expansion of a location in Poland. In addition to the obligations listed in → table 3.87, there are purchase commitments stemming from procurement agreements on a customary scale.

Rent and lease agreements

Operating leases

Besides liabilities, provisions and contingent liabilities, the Group has other financial obligations, in particular from rental and lease agreements for buildings, furniture and fixtures, office space and vehicles.

3.88 — NOMINAL VALUES OF FUTURE MINIMUM PAYMENTS FOR OPERATING LEASES

€ k	Dec. 31, 2018	Dec. 31, 2017
Less than one year	31,200	26,170
Between one and five years	52,474	44,657
More than five years	19,681	19,018
	103,355	89,845

The terms of these leases are mainly between less than one year and ten years, in some cases the contracts have a term of more than 15 years. Operating leases partly contain extension options and, to a lesser extent, price adjustment clauses which are based on consumer price indices.

In the 2018 reporting period, expenses of € 36,599 thousand (prior period: € 34,770 thousand) were recorded in the statement of income for operating leases.

Finance leases

The Group has entered into finance lease agreements for various items of property, plant and equipment. Leased assets are pledged as security for the obligations from the related finance lease. → **Table 3.89** shows a reconciliation of the future minimum lease payments to liabilities.

3.89 — NOMINAL VALUES OF FINANCE LEASES

€ k	Dec. 31, 2018			Dec. 31, 2017		
	Minimum lease payments	Interest contained in the lease payments	Finance lease liabilities	Minimum lease payments	Interest contained in the lease payments	Finance lease liabilities
Less than one year	2,120	213	1,907	1,589	242	1,347
Between one and five years	4,783	251	4,532	3,821	324	3,497
More than five years	751	8	743	990	24	966
	7,654	472	7,182	6,400	590	5,810

42. RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS

The Group operates in countries in which there are political and economic risks. These risks did not have any material effect on the Group in the 2018 reporting period. The Dürr Group may be involved in litigation, including product liability, in the ordinary course of business. There are no matters pending that the Board of Management expects to be material in relation to the Group's business or financial position. Provision has been made for expected litigation costs. The Group is generally exposed to financial risks. These include mainly credit risks, liquidity risks and exposure to interest rate changes or currency risks. The regulations for a Group-wide risk policy are set forth in the Group's guidelines. Detailed information on the risk management system of the Dürr Group can be found in the "Risk report" in the combined management report.

Credit risk

Credit risk relates to the possibility that business partners may fail to meet their obligations in a transaction involving non-derivative and derivative financial instruments and that capital losses could be incurred as a result.

For a risk provision to be recognized pursuant to IFRS 9, the credit risks of the individual debtors are firstly segmented using common credit risk characteristics. Determining the risk provisioning requires a diversified analysis of the debtors. Information on delayed payment and current market information, such as credit default swaps, future assessments by management and external ratings, among other things, are used for the analysis. This involves dividing the respective debtors into important and less important debtors measured in terms of the volume of the business relationship. As the economic development of the Dürr Group hinges to a large extent on the willingness of the automotive industry to invest, some automotive manufacturers are for example classified as important debtors. Despite their modest number, the Dürr Group generates a significant portion of sales revenues in business with these debtors. Using the simplified approach, this information is processed and used to derive risk provision rates. These are applied throughout the Group as provision matrices. With the general approach, the risk provision rates for important debtors are calculated on an individual basis. However, for less important debtors, clusters are formed to calculate the risk provision rates.

The quantification of the expected credit losses primarily relates to three risk parameters: Probability of default, loss given default and exposure at default. Depending on the debtor and maturity, the calculated amount of the risk provision rates ranges from between 0 % and 3.25 %. The credit risks and associated risk provision rates are regularly reviewed and adjusted accordingly. No adjustments were made to the estimation approach for the risk provision rates in the 2018 reporting period.

In order to minimize the credit risk, credit ratings are performed for new customers, while the payment patterns of regular customers are analyzed on an ongoing basis. The Dürr Group uses respective terms of payment as well as credit insurance policies such as letters of credit, trade credit insurance policies and federal government guarantees to further limit the risk of default. The maximum credit risk is shown by the carrying amount of financial assets recognized in the statement of financial position.

Further explanations on the impairment of financial assets can be found in → [note 7](#).

3.90 — RECEIVABLES SECURED AGAINST DEFAULT

€ k	Dec. 31, 2018	Dec. 31, 2017
Letters of credit	21,583	7,866
Trade credit insurance policies	1,130	823
	22,713	8,689

In connection with the investment of liquid funds, investments as part of financial asset management and the portfolio of derivative financial assets, the Group is exposed to losses from credit risks should the credit institutions and companies fail to meet their obligations. The Dürr Group manages the resulting risk position by diversifying the portfolio and selecting the counterparties carefully. No cash and cash equivalents, investments of active asset management or derivative financial assets were past due on account of credit defaults.

Dependence on few customers

By concentrating on business in the automotive industry, a significant portion of the Group's receivables are due from comparably few automobile manufacturers. Generally these receivables are not

secured by bank guarantees or other collateral. As of December 31, 2018, 30.6 % (prior period: 40.1 %) of the trade receivables were due from ten customers. Owing to its customers' group structure with international subsidiaries, the Dürr Group does not see any concentration of credit risk from its business relations with individual debtors or groups of debtors despite the fact that its business is concentrated on a relatively small number of customers. Due to the various divisions each with its own different customer base, the level of diversity displayed among the Group's customers is high compared to other automotive suppliers.

Liquidity risk

Liquidity risk is the risk that the Group may not be in a position to meet its obligations in the future, or to meet them at a reasonable price, when they fall due.

The liquidity situation is secured by available cash and cash equivalents as well as the credit lines which the Group can draw on. The situation is monitored and managed by means of a liquidity plan with a planning horizon of 18 months, coupled with a short-term liquidity forecast.

In addition, use of cross-border cash pooling structures has improved the structure of the statement of financial position through liquidity pooling, reduced the volume of borrowed funds and thus helped to enhance the financial result. At the same time, the liquidity situation has become more transparent. Moreover, excess liquidity at individual entities within the Group can be used to finance the cash needs of other Group entities internally.

The syndicated loan agreement of Dürr AG, which expires on March 21, 2021, can be terminated prematurely by the banking syndicate if an agreed financial covenant is breached. The financial covenant includes certain targets relating to the gearing ratio. In the 2018 reporting period, the financial covenant was complied with as of each cut-off date. For additional information, please refer to → [note 32](#).

There are also financial guarantees of € 2,703 thousand (prior period: € 3,648 thousand). The financial guarantees were issued as part of sales financing to customers. The Group does not currently expect this to result in any significant cash outflows.

→ [Table 3.91](#) shows the contractually agreed (undiscounted) interest and principal payments for financial liabilities.

Foreign currency risk

Currency risks exist in particular where receivables or liabilities are carried or will arise in the ordinary course of business in a currency other than the functional currency of the entity. Foreign exchange risks are hedged where they affect the cash flows of the Group. Foreign exchange risks that do not affect the cash flows of the Group (i.e., the risks from translating the items from the statement of financial position of foreign operations to the euro, the Group's reporting currency), however, are generally not hedged. Forward exchange transactions are entered into to hedge exchange rate fluctuations from cash flows relating to forecast purchase and sales transactions with original terms of up to 84 months (prior period: 84 months).

Regarding the presentation of market risks, IFRS 7 "Financial Instruments: Disclosures" requires sensitivity analyses showing how profit or loss and equity would have been affected by hypothetical changes in the relevant risk variables. The periodic effects are determined by relating the hypothetical changes of the risk variables to the financial instruments as of the end of the reporting period. The presentation is based on the assumption that the portfolio at the end of the reporting period was representative for the whole year. Currency risks as defined by IFRS 7 arise from financial instruments that are denominated in a currency other than the functional currency and are of a monetary nature; exchange differences from the translation of financial statements to the Group's currency are not taken into account. All currencies other than the functional currency in which the Dürr Group holds financial instruments are relevant risk variables.

Material non-derivative monetary items which constitute currency risks for the Group are cash, trade receivables and payables as well as contract assets. Non-derivative financial instruments which could give rise to currency risks are usually hedged by derivative financial instruments that are accounted for as fair value hedges. In the process, both the change in the non-derivative financial instrument and the change in the value of the derivative financial instrument are recognized in profit or loss. In addition, Dürr is exposed to currency risks from derivatives that are embedded, in accordance with IAS 39, in effective cash flow hedges of fluctuation in payments caused by exchange rates. Exchange rate changes concerning the currencies underlying these transactions affect the currency reserve in equity and the fair value of the hedges.

CONSOLIDATED FINANCIAL STATEMENTS
Notes to the consolidated financial statements

3.91 — INTEREST AND PRINCIPAL PAYMENTS FOR FINANCIAL LIABILITIES

		Cash flows			
€ k	Carrying amount as of Dec. 31, 2018	Current	Total non-current	Medium-term	Long-term
Non-derivative financial liabilities					
Trade payables	502,370	501,403	967	927	40
Bond	298,597	8,625	317,250	317,250	–
Bonded loan	299,361	4,478	321,744	215,744	106,000
Liabilities to banks	1,002	1,002	–	–	–
Sundry financial liabilities	17,139	9,587	7,552	7,552	–
Finance lease liabilities	7,182	2,120	5,534	4,783	751
Obligations from options	214,767	213,543 ¹	1,224	1,224	–
Liabilities from contingent purchase price installments	9,532	9,532	–	–	–
Sundry financial liabilities	122,092	117,391	4,701	4,671	30
Derivative financial liabilities					
Derivatives not used for hedging	1,124	1,112	12	12	–
Derivatives used for hedging	6,449	6,120	329	329	–

		Cash flows			
€ k	Carrying amount as of Dec. 31, 2017	Current	Total non-current	Medium-term	Long-term
Non-derivative financial liabilities					
Trade payables	390,529	390,033	496	408	88
Bond	298,027	8,625	325,875	325,875	–
Bonded loan	299,258	4,325	325,610	116,293	209,317
Liabilities to banks	1,875	1,877	–	–	–
Sundry financial liabilities	17,625	9,524	8,101	8,101	–
Finance lease liabilities	5,810	1,589	4,811	3,821	990
Obligations from options	245,011	245,011 ¹	–	–	–
Liabilities from contingent purchase price installments	9,675	9,445	230	230	–
Sundry financial liabilities	128,759	123,086	5,673	5,627	46
Derivative financial liabilities					
Derivatives not used for hedging	452	434	18	18	–
Derivatives used for hedging	5,819	4,541	1,278	1,278	–

¹ The cash flows for obligations from options relate primarily to the sundry financial liability recognized under the domination and profit and loss transfer agreement with HOMAG Group AG. The expected cash flows were classified as current. However, the options can also be exercised with differing terms. For additional information, please refer to note 7.

The analyses of the Group's sensitivity to fluctuations in foreign exchange rates use the currency pairs that are relevant for the Dürr Group. This involves projecting the impact of a hypothetical 10 % appreciation, or depreciation respectively, of the euro against the US dollar, the Chinese renminbi, the Danish krone, the Czech koruna as well as an appreciation and depreciation of the US dollar against the Mexican peso and the Chinese renminbi. → [table 3.92](#)

Interest rate risk

Interest rate risks arise from fluctuations in interest rates that could have a negative impact on the net assets, financial position and results of operations of the Group. Interest rate fluctuations lead to changes in net interest and in the carrying amounts of the interest-bearing assets.

The Dürr Group concluded interest rate swaps with a nominal value of € 100 million to hedge against the interest rate risk from the variable tranches of the bonded loan. The changes in cash flows from the hedged transactions resulting from changes in the Euribor rate are offset by changes in cash flows from the interest rate swaps. The aim of the hedging measures is to transform the variable-rate

financial liabilities into fixed-interest financial liabilities and thus to hedge the risks in the cash flow from the financial liabilities. Credit risks are not hedged. A hypothetical increase in the interest rates of 25 base points per year would have caused a € 113 thousand increase in the fair value of the interest rate swaps and equity. A hypothetical decrease in the interest rates of 25 base points per year would have caused a € 1 thousand decrease in the fair value of the interest rate swaps and equity.

The Dürr Group has cash and cash equivalents that are subject to fluctuation in interest rates as of December 31, 2018. A hypothetical increase in these interest rates of 25 base points per year would have caused a € 1,278 thousand (prior period: € 1,580 thousand) increase in interest income. A hypothetical decrease of 25 base points per year would have caused a € 1,278 thousand (prior period: € 1,580 thousand) decrease in interest income.

Other price risks

In the presentation of market risks, IFRS 7 also requires disclosures on the effects of hypothetical changes in the risk variables on the price of financial instruments. The main risk variables include stock

3.92 — IMPACT ON THE STATEMENT OF INCOME AND EQUITY

€ k	Dec. 31, 2018		Dec. 31, 2017	
	Impact on the statement of income	Impact on the hedge reserve in equity	Impact on the statement of income	Impact on the hedge reserve in equity
EUR/CNY				
EUR +10 %	-1,739	2,657	-1,598	4,942
EUR -10 %	2,166	-3,185	1,996	-5,942
EUR/CZK				
EUR +10 %	-54	-2	-1,251	49
EUR -10 %	71	3	1,535	-61
EUR/DKK				
EUR +10 %	446	-541	-272	142
EUR -10 %	204	669	441	-167
EUR/USD				
EUR +10 %	-445	4,834	-1,928	4,715
EUR -10 %	609	-5,852	2,377	-5,690
USD/CNY				
USD +10 %	420	-201	-173	-854
USD -10 %	-508	250	216	1,056
USD/MXN				
USD +10 %	1,421	-1,980	2,272	-4,152
USD -10 %	-1,899	2,442	-2,767	5,108

market prices and indices. Please refer to → [note 36](#) for more information on the price risk of the financial assets, equity instruments, options and the liabilities from contingent purchase price installments disclosed as a level 3 financial instrument.

Use of derivative financial instruments

Derivative financial instruments are used in the Group to minimize the risks concerning changes in exchange rates and interest rates on cash flows and the change in fair value of receivables and liabilities. Hedging allows the amount of the expected cash inflow/outflow in the functional currency to be estimated in advance. This generally involves fully hedging all payments for which there is significant economic risk from changes in the exchange and interest rate. The Dürr Group is exposed to a replacement risk in the event of non-performance by counterparties (credit institutions) relating to the financial instruments. Derivative financial instruments are only entered into to hedge the operating business and to hedge loans. In hedging the operating business, derivative financial instruments are entered into on the basis of an internal estimate of progress and payment dates. In order to ensure the effectiveness of the hedging relationships, various features/parameters, such as expected date and volume of payment between the hedged item and corresponding hedge are reviewed and adjusted if necessary. Any ineffectiveness may result, for example, from various different credit risks and delays in contract processing. However, any hedges entered into are expected to be highly effective in offsetting changes in fair value or cash flows. They are assessed on an ongoing basis to determine that they actually have been highly effective throughout the periods for which they were designated. All financial derivatives

as well as the respective hedged transactions are subject to regular internal control and measurement in accordance with the directive of the Board of Management. The hedged transactions are primarily included in the following items of the statement of financial position: Trade receivables and trade payables, contract assets, dividend payments and the interest hedge for the bonded loan. The hedging relationships from cash flow and fair value hedges did not result in any significant ineffectiveness. The changes in value of the hedged transactions therefore run counter to the developments of derivatives.

At the inception of the hedge, the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge are formally documented. This documentation contains identification of the hedging instrument, the related hedged item or transaction, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or the hedged item's cash flows attributable to the hedged risk.

Depending on their market value at the end of the reporting period, derivative financial instruments are reported under sundry financial assets (positive market value) or sundry financial liabilities (negative market value) respectively. → [table 3.93](#)

The fair value of the financial instruments was estimated using the following methods and assumptions. The fair values of the forward exchange contracts were estimated at the present value of cash flows on the basis of the difference between the contractually agreed

3.93 — SCOPE AND FAIR VALUE OF FINANCIAL INSTRUMENTS

€ k	Nominal value		Positive market value		Negative market value		Change in the fair value to recognize ineffectiveness	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Interest rate swaps in connection with cash flow hedges	100,000	200,000	–	124	–323	–585	–323	–461
Forward exchange contracts	488,146	459,838	3,691	5,804	–7,250	–5,686	–3,058	74
thereof in connection with cash flow hedges	135,818	266,797	2,163	4,312	–4,452	–4,022	–2,289	290
thereof in connection with fair value hedges	67,526	94,627	905	996	–1,674	–1,212	–769	–216
thereof not used for hedging	284,802	98,414	623	496	–1,124	–452	–	–

3.94 — NOMINAL VALUES OF HEDGING INSTRUMENTS

€ k	Total	Current	Total non-current	Medium-term	Long-term
Interest rate swaps in connection with cash flow hedges	100,000	–	100,000	100,000	–
(2017)	(200,000)	(100,000)	(100,000)	(100,000)	(–)
Forward exchange contracts	488,146	455,782	32,364	32,364	–
(2017)	(459,838)	(412,405)	(47,433)	(47,433)	(–)
thereof in connection with cash flow hedges	135,818	127,088	8,730	8,730	–
(2017)	(266,797)	(229,938)	(36,859)	(36,859)	(–)
thereof in connection with fair value hedges	67,526	67,526	–	–	–
(2017)	(94,627)	(85,009)	(9,618)	(9,618)	(–)
thereof not used for hedging	284,802	261,168	23,634	23,634	–
(2017)	(98,414)	(97,458)	(956)	(956)	(–)

forward exchange rates and the forward rate prevailing at the end of the reporting period. The fair values of the interest hedges are estimated as the discounted value of expected future cash flows based on current market parameters.

3.95 — AVERAGE RATES AND INTEREST FOR DERIVATIVE FINANCIAL INSTRUMENTS CONCLUDED FOR SIGNIFICANT CURRENCY PAIRS AND INTEREST HEDGES

€ k	Average rates		Closing rates	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Interest hedge	1.2675 %	1.115 %	–	–
EUR/CNY	8.1032	8.0262	7.8600	7.8327
EUR/CZK	25.8726	25.6482	25.7240	25.5850
EUR/DKK	7.4821	7.4942	7.4675	7.4453
EUR/USD	1.1876	1.1820	1.1453	1.1988
USD/CNY	6.7399	6.7630	6.8628	6.5338
USD/MXN	20.4610	19.2873	19.6626	19.6922

Accounting and disclosure of derivative financial instruments and hedge accounting

Currency hedges that clearly serve to hedge future cash flows from foreign exchange transactions and which meet the requirements of IAS 39 in terms of documentation and effectiveness are accounted for as cash flow hedges. Such derivative financial instruments are recognized at fair value. Changes in fair value that impact hedge effectiveness are recognized directly in other comprehensive income until the hedged item is realized. Upon realization of the future transaction (hedged item), the effects recorded in other comprehensive income are transferred to profit or loss and recognized in sales revenues or cost of sales, other operating income and expenses or in net interest in the statement of income.

In the 2018 reporting period, the determination methods did not result in any significant inefficiencies for fair value and cash flow hedges. Any inefficiencies are disclosed in sales revenues or cost of sales in the statement of income. The reclassification amount did not contain any significant result for which the hedged item was no longer expected.

The effect on earnings (before income taxes) expected for the 2019 reporting period from the amounts recognized in other comprehensive income at the end of the reporting period comes to € 2,683 thousand. In subsequent reporting periods, accumulated effects on earnings of € 105 thousand are expected.

3.96 — DISCLOSURES OF FORWARD EXCHANGE CONTRACTS IN CASH FLOW HEDGES

€ k	Change in the fair value of the hedged item		Hedge reserve		Reclassification from hedge reserve to profit or loss			
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Hedged items in profit or loss		Hedged items no longer expected	
					Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Interest rate swaps	323	461	-271	-445	-181	-64	-	-
Forward exchange contracts	-2,289	-290	-2,517	1,020	188	-25	-	-

3.97 — DISCLOSURES OF FORWARD EXCHANGE CONTRACTS IN FAIR VALUE HEDGES

€ k	Carrying amount of the hedged items		Cumulative fair value hedge adjustment		Statement of financial position item		Change in value of the hedged item	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Assets	15,769	-	-11	-	Trade receivables	Trade receivables	-11	-
Liabilities	4,090	-	9	-	Trade payables	Trade payables	9	-

3.98 — RECONCILIATION HEDGE RESERVE IN EQUITY

€ k	2018	2017
As of January 1	575	-10,706
Exchange difference	-23	141
Additions and changes in value	-2,856	11,252
Reclassification to other statement of financial position items	-477	-201
Reclassification in profit or loss thereof	-7	89
Sales revenues	-	-
Cost of sales	-183	25
Other operating income	-	-
Other operating expense	-5	-
Interest income	-	-
Interest expenses	181	64
As of December 31	-2,788	575

In the 2018 reporting period, no hedging options were used; for forward exchange contracts, no distinction was made between forward and cash elements.

The changes in the fair value of all derivative financial instruments that do not meet the requirements for hedge accounting in accordance with IAS 39 are recognized in profit or loss at the end of the reporting period.

43. OTHER NOTES

Declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG

The declaration of compliance prescribed by Sec. 161 AktG was submitted by the Board of Management and the Supervisory Board of Dürr AG in Bietigheim-Bissingen on December 12, 2018, and made accessible to the shareholders on the internet. For additional information, please refer to the combined management report.

Headcount

The number of employees in the Dürr Group breaks down as of December 31, 2018 and as an average over the 2018 reporting period as shown in → tables 3.99 and 3.100.

3.99 — EMPLOYEES AS OF THE END OF THE REPORTING PERIOD

	Dec. 31, 2018	Dec. 31, 2017
Industrial employees	7,750	7,073
Salaried employees	7,610	6,967
Employees without interns/trainees/others	15,360	14,040
Interns/trainees/others	952	934
Total employees	16,312	14,974

3.100 — AVERAGE HEADCOUNT DURING THE YEAR

	2018	2017
Industrial employees	7,393	6,977
Salaried employees	7,230	6,893
Employees without interns/trainees/others	14,623	13,870
Interns/trainees/others	970	937
Total employees	15,593	14,807

Fees payable to the auditor of the consolidated financial statements

→ Table 3.101 shows the audit fees payable to the auditor of the consolidated financial statements Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft recorded as an expense for the reporting period.

3.101 — AUDITOR'S FEES

€ k	2018	2017
Audit of the financial statements	1,503	1,519
Other attest services	29	170
Tax advisory services	224	335
Other services	52	370
	1,808	2,394

Auditor's fees relate to the audit of the consolidated financial statements and the separate financial statements of Dürr AG and its affiliated companies included in the consolidated financial statements. Auditor's fees also include fees for voluntary audits of separate financial statements of € 88 thousand (prior period: € 94 thousand).

Further fees for non-audit services comprise fees for other attest services, for tax advisory services and for other services. They amounted to € 260 thousand in the 2018 reporting year (prior period: € 875 thousand). In the prior period, the majority was attributable to advisory services in connection with projects in the area of Industrial Internet of Things (IIoT) and to attest services relating to the sale of the Cleaning and Surface Processing business activity.

Subsequent events

There were no extraordinary events that took place between the end of the reporting period and the publication of this report.

Authorization for issue and publication of the consolidated financial statements as of December 31, 2018

The consolidated financial statements and combined management report of Dürr AG prepared by the Board of Management as of December 31, 2018 were authorized for issue to the Supervisory Board at the meeting of the Board of Management on March 12, 2019 and are scheduled for publication in the 2018 annual report on March 22, 2019.

MEMBERS OF THE BOARD OF MANAGEMENT

Ralf W. Dieter
CEO

- Carl Schenck AG, Darmstadt¹ (Chairman)
- Dürr Systems AG, Stuttgart¹ (Chairman)
- HOMAG Group AG, Schopfloch^{1,2} (Chairman)
- iTAC Software AG, Montabaur¹ (Chairman)
- Körber AG, Hamburg
- Schuler AG, Göppingen²
- » Dürr Paintshop Systems Engineering (Shanghai) Co. Ltd., Shanghai, PR China¹ (Supervisor)

Carlo Crosetto
Member of the Board of Management – Chief Financial Officer

- Carl Schenck AG, Darmstadt¹
- Dürr Systems AG, Stuttgart¹
- HOMAG Group AG, Schopfloch^{1,2}

Pekka Paasivaara
Member of the Board of Management (since January 1, 2019)

- Deutsche Messe AG, Hanover (since January 1, 2019)
- » Stiles Machinery, Inc., Grand Rapids, Michigan, USA¹ (Chairman)

Dr. Jochen Weyrauch
Member of the Board of Management

▪ Membership in statutory supervisory boards
» Membership in comparable German and foreign control bodies (of business entities)
¹ Group boards
² listed

The members of the Board of Management were remunerated as shown in → **table 3.102.**

3.102 — REMUNERATION OF THE BOARD OF MANAGEMENT

€ k	2018	2017
Short-term employee benefits (excluding share-based payment)	4,394	5,494
Post-employment benefits	868	821
Termination benefits	-	-
Share-based payments	1,475	2,092
	6,737	8,407

Former members of the Board of Management received pension payments of € 550 thousand in the 2018 reporting period (prior period: € 550 thousand). Pension provisions for this group of persons amounted to € 604 thousand as of December 31, 2018 (prior period: € 669 thousand). The remuneration includes the Board of Management of Dürr AG.

Individualized disclosures on the remuneration of the members of the Board of Management are presented in the section “Compensation report” in the combined management report.

MEMBERS OF THE SUPERVISORY BOARD

Karl-Heinz Streibich^{1,4,5}

Supervisory Board member, Frankfurt

Chairman of the Management Board of Software AG,
Darmstadt (until July 31, 2018)

Chairman since January 1, 2018

- Deutsche Telekom AG, Bonn⁶
- Deutsche Messe AG, Hanover (until July 31, 2018)
- Siemens Healthineers AG, Munich⁶ (since March 1, 2018)
- WITTENSTEIN SE, Igersheim

Hayo Raich^{1,3,4}

Full-time Chairman of the Group Works Council of Dürr AG,
Stuttgart

Full-time Chairman of the Works Council of Dürr Systems AG,
Stuttgart, at the Bietigheim-Bissingen site

Deputy Chairman

- Dürr Systems AG, Stuttgart (Deputy Chairman)

Richard Bauer^{1,4,5}

Supervisory Board member, Wentorf near Hamburg

Additional Deputy Chairman since January 1, 2018

- Körber AG, Hamburg (Chairman)

Mirko Becker^{2,3}

Full-time member of the Group Works Council of Dürr AG,
Stuttgart

Full-time member of the Works Council of Dürr Systems AG,
Stuttgart, at the Bietigheim-Bissingen site

Dr. Rolf Breidenbach

President and CEO of HELLA GmbH & Co. KGaA, Lippstadt
(since January 1, 2018)

Prof. Dr. Dr. Alexandra Dürr^{2,5}

Professor for medical technology at Sorbonne Université
and ICM (Institut du Cerveau et de la Moelle épinière), Paris,
France

Gerhard Federer²

Independent consultant, Gengenbach

- HOMAG Group AG, Schopfloch⁶ (Additional Deputy Chairman)

Carmen Hettich-Günther^{3,4}

Full-time Chairwoman of the Group Works Council of
Homag Group AG, Schopfloch

Full-time Chairwoman of the Works Council of HOMAG GmbH,
Schopfloch

- HOMAG GmbH, Schopfloch (Deputy Chairwoman)
- HOMAG Group AG, Schopfloch⁶ (Deputy Chairwoman)

Thomas Hohmann³

Head of Personnel at Dürr Systems AG, Stuttgart

Dr. Anja Schuler

Member of the Supervisory Board, Zurich, Switzerland

- HOMAG Group AG, Schopfloch⁶

Dr. Martin Schwarz-Kocher^{2,3}

General manager of IMU Institut GmbH, Stuttgart

Dr. Astrid Ziegler^{1,3}

Head of Department for Industrial, Structural and Energy Policy on
the Board of Management of IG Metall, Frankfurt/Main

- Pfeiderer Deutschland GmbH, Neumarkt/Oberpfalz

Dr.-Ing. E.h. Heinz Dürr

Honorary Chairman of the Supervisory Board

¹ Member of the Executive Committee and
Personnel Committee

² Member of the Audit Committee

³ Employee representative

⁴ Member of the Mediation Committee

⁵ Member of the Nomination Committee

⁶ listed

▪ Membership in statutory supervisory boards

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→ **Table 3.103** shows a breakdown into components of the remuneration of individual Supervisory Board members in the 2018 reporting period.

3.103 — REMUNERATION OF THE SUPERVISORY BOARD 2018

€	Basic remuneration	Remuneration for committee membership	Attendance fees ³	Variable remuneration	Total
Karl-Heinz Streibich, Chairman since January 1, 2018	120,000	7,500	8,000	51,000	186,500
(2017)	(60,000)	(10,000)	(8,000)	(30,750)	(108,750)
Klaus Eberhardt (until December 31, 2017), Chairman	–	–	–	–	–
(2017)	(120,000)	(15,000)	(8,000)	(61,500)	(204,500)
Hayo Raich* ^{1,2} , Deputy Chairman	63,000	5,000	8,600	25,500	102,100
(2017)	(63,000)	(5,000)	(8,600)	(30,750)	(107,350)
Richard Bauer (since May 5, 2017) Deputy Chairman since January 1, 2018	60,000	5,000	6,000	25,500	96,500
(2017)	(26,667)	(–)	(2,000)	(13,667)	(42,334)
Mirko Becker* ²	40,000	10,000	8,000	17,000	75,000
(2017)	(40,000)	(10,000)	(10,000)	(20,500)	(80,500)
Dr. Rolf Breidenbach (since January 1, 2018)	40,000	–	5,000	17,000	62,000
(2017)	(–)	(–)	(–)	(–)	(–)
Prof. Dr. Dr. Alexandra Dürr	40,000	10,000	8,000	17,000	75,000
(2017)	(40,000)	(15,000)	(9,000)	(20,500)	(84,500)
Gerhard Federer ¹	53,125	39,500	21,000	17,000	130,625
(2017)	(50,000)	(38,000)	(20,000)	(20,500)	(128,500)
Prof. Dr.-Ing. Holger Hanselka (until May 5, 2017)	–	–	–	–	–
(2017)	(16,667)	(–)	(3,000)	(8,542)	(28,209)
Carmen Hettich-Günther* ^{1,2}	62,500	12,000	23,000	32,000	129,500
(2017)	(58,750)	(10,500)	(21,000)	(35,500)	(125,750)
Thomas Hohmann*	40,000	–	5,000	17,000	62,000
(2017)	(40,000)	(–)	(6,000)	(20,500)	(66,500)
Dr. Anja Schuler ¹	50,000	4,500	15,000	17,000	86,500
(2017)	(50,000)	(3,000)	(16,000)	(20,500)	(89,500)
Dr. Martin Schwarz-Kocher* ²	40,000	10,000	8,000	17,000	75,000
(2017)	(40,000)	(10,000)	(10,000)	(20,500)	(80,500)
Dr. Astrid Ziegler* ²	40,000	5,000	8,000	17,000	70,000
(2017)	(40,000)	(5,000)	(8,000)	(20,500)	(73,500)
Total	648,625	108,500	123,600	270,000	1,150,725
(2017)	(645,084)	(121,500)	(129,600)	(324,209)	(1,220,393)

* Employee representative

¹ Also member of the Supervisory Board of Dürr Systems AG or HOMAG Group AG and HOMAG GmbH

² These employee representatives have declared that they will transfer their remuneration to the Hans-Böckler Foundation in keeping with the guidelines of the German Federation of Trade Unions.

³ For Supervisory Board and committee meetings

44. STATEMENT OF CHANGES IN NON-CURRENT ASSETS

3.104 — INTANGIBLE ASSETS

€ k	Goodwill	Franchises, industrial rights and similar rights	Capitalized development costs	Prepayments for intangible assets	Dürr Group
Accumulated cost as of January 1, 2017	401,600	279,076	75,216	21,818	777,710
Exchange difference	-5,209	-2,042	-26	2	-7,275
Changes in the consolidated group	-	2,778	-	-	2,778
Additions	160	7,287	8,077	7,056	22,580
Disposals	-	-4,974	-132	-	-5,106
Reclassification to assets held for sale	-	-106	19	-	-87
Reclassifications	-	9,172	2,085	-6,819	4,438
Accumulated cost as of December 31, 2017	396,551	291,191	85,239	22,057	795,038
Exchange difference	1,137	202	-11	-7	1,321
Changes in the consolidated group	-	31,277	-	-	31,277
Additions	49,129	4,509	14,524	4,420	72,582
Disposals	-	-4,056	-1,155	-192	-5,403
Reclassifications	-	13,787	4,232	-18,075	-56
Accumulated cost as of December 31, 2018	446,817	336,910	102,829	8,203	894,759
Accumulated amortization and impairment as of January 1, 2017	-	125,077	39,384	2,116	166,577
Exchange difference	-	-1,049	-21	-	-1,070
Amortization for the year	-	22,958	12,662	-	35,620
Impairment losses for the year	-	1,483	-	-	1,483
Disposals	-	-4,838	-132	-	-4,970
Reclassification to assets held for sale	-	136	17	-	153
Reclassifications	-	5,311	-	-772	4,539
Accumulated amortization and impairment as of December 31, 2017	-	149,078	51,910	1,344	202,332
Exchange difference	-	-2	-9	-	-11
Changes in the consolidated group	-	4	-	-	4
Amortization for the year	-	25,495	9,892	-	35,387
Impairment losses for the year	-	-	10,670	-	10,670
Disposals	-	-3,842	-1,123	-	-4,965
Reclassifications	-	143	-	-143	-
Accumulated amortization and impairment as of December 31, 2018	-	170,876	71,340	1,201	243,417
Net carrying amount as of December 31, 2018	446,817	166,034	31,489	7,002	651,342
Net carrying amount as of December 31, 2017	396,551	142,113	33,329	20,713	592,706
Net carrying amount as of January 1, 2017	401,600	153,999	35,832	19,702	611,133

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3.105 — PROPERTY, PLANT AND EQUIPMENT

€ k	Land, land rights and buildings including buildings on third-party land	Investment property	Technical equipment and machines	Other equipment, furniture and fixtures	Prepayments and assets under construction	Dürr Group
Accumulated cost as of January 1, 2017	347,191	43,643	77,024	152,552	11,671	632,081
Exchange difference	-7,922	-	-2,117	-4,217	-436	-14,692
Changes in the consolidated group	202	-	449	78	45	774
Additions	27,652	736	10,037	20,117	7,036	65,578
Disposals	-840	-457	-5,021	-10,843	-562	-17,723
Reclassification to assets held for sale	267	-	39	-328	-2	-24
Reclassifications	7,007	-	6,292	1,628	-10,460	4,467
Accumulated cost as of December 31, 2017	373,557	43,922	86,703	158,987	7,292	670,461
Exchange difference	473	-	73	94	30	670
Changes in the consolidated group	15,942	-	5,220	1,212	30	22,404
Additions	13,328	124	4,911	20,513	12,040	50,916
Disposals	-78	-251	-2,009	-4,953	-206	-7,497
Reclassifications	4,194	-	886	783	-5,807	56
Accumulated cost as of December 31, 2018	407,416	43,795	95,784	176,636	13,379	737,010
Accumulated depreciation and impairment as of January 1, 2017	71,941	22,979	35,222	86,474	224	216,840
Exchange difference	-992	-	-1,083	-2,316	3	-4,388
Depreciation for the year	14,603	1,187	7,666	19,123	-	42,579
Impairment losses for the year	-	-	375	259	379	1,013
Disposals	-315	-424	-3,905	-9,621	-539	-14,804
Reclassification to assets held for sale	-2	-	41	-54	-	-15
Reclassifications	-10	-	1	622	-	613
Accumulated depreciation and impairment as of December 31, 2017	85,225	23,742	38,317	94,487	67	241,838
Exchange difference	-81	-	118	12	-	49
Changes in the consolidated group	-	-	-	49	-	49
Depreciation for the year	15,167	924	9,472	21,636	-	47,199
Impairment losses for the year	-	-	113	-	-	113
Disposals	-36	-74	-782	-4,310	-67	-5,269
Reclassifications	11	-	-16	5	-	-
Accumulated depreciation and impairment as of December 31, 2018	100,286	24,592	47,222	111,879	-	283,979
Net carrying amount as of December 31, 2018	307,130	19,203	48,562	64,757	13,379	453,031
Net carrying amount as of December 31, 2017	288,332	20,180	48,386	64,500	7,225	428,623
Net carrying amount as of January 1, 2017	275,250	20,664	41,802	66,078	11,447	415,241

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3.106 — FINANCIAL ASSETS

€ k	Investments in entities accounted for using the equity method	Other investments	Securities classified as non-current assets	Other loans	Dürr Group
Accumulated cost as of January 1, 2017	33,178	3,144	9,388	602	46,312
Exchange difference	-2,770	13	-	-	-2,757
Additions	816	2,000	6	-	2,822
Disposals	-452	-18	-6,398	-	-6,868
Reclassifications	-	-15	-2,996	-	-3,011
Accumulated cost as of December 31, 2017	30,772	5,124	-	602	36,498
Adjustments IFRS 9	-	6,402	-	-	6,402
Accumulated cost as of January 1, 2018	30,772	11,526	-	602	42,900
Exchange difference	2,489	-	-	-	2,489
Additions	2,457	1	-	-	2,458
Disposals	-	-187	-	-	-187
Change in value	-	-478	-	-	-478
Reclassifications	-	-257	-	-	-257
Accumulated cost as of December 31, 2018	35,718	10,605	-	602	46,925
Accumulated write-downs as of January 1, 2017	452	198	433	602	1,685
Exchange difference	-	13	-	-	13
Depreciation for the year	-	-	45	-	45
Impairment losses for the year	-	520	-	-	520
Disposals	-452	-	-478	-	-930
Accumulated write-downs as of December 31, 2017	-	731	-	602	1,333
Disposals	-	-187	-	-	-187
Reclassifications	-	-125	-	-	-125
Accumulated write-downs as of December 31, 2018	-	419	-	602	1,021
Net carrying amount as of December 31, 2018	35,718	10,186	-	-	45,904
Net carrying amount as of December 31, 2017	30,772	4,393	-	-	35,165
Net carrying amount as of January 1, 2017	32,726	2,946	8,955	-	44,627

45. LIST OF GROUP SHAREHOLDINGS

3.107 — LIST OF GROUP SHAREHOLDINGS

Name and location	Share in capital %*	Equity** in € k	Result for the year** in € k
A. FULLY CONSOLIDATED SUBSIDIARIES			
GERMANY			
Benz GmbH Werkzeugsysteme, Haslach im Kinzigtal	100.0	17,010	2,546
Carl Schenck AG, Darmstadt ^{1,2}	100.0	94,960	–
DUALIS GmbH IT Solution, Dresden ¹	100.0	290	–
Dürr Assembly Products GmbH, Püttlingen ^{1,2}	100.0	5,981	–
Dürr International GmbH, Stuttgart ^{1,2}	100.0	12,428	–
Dürr IT Service GmbH, Stuttgart ^{1,2}	100.0	30	–
Dürr Somac GmbH, Stollberg ^{1,2}	100.0	5,015	–
Dürr Systems AG, Stuttgart ^{1,2}	100.0	145,363	–
Dürr Systems Wolfsburg GmbH, Wolfsburg ^{1,2}	100.0	1,566	–
Dürr Technologies GmbH, Stuttgart ^{1,2}	100.0	304,408	–
Dürr thermea GmbH, Bietigheim-Bissingen	100.0	182	110
HOMAG Automation GmbH, Lichtenberg/Erzgebirge ^{1,2}	100.0	15,488	–
HOMAG Bohrsysteme GmbH, Herzebrock-Clarholz	100.0	42,585	6,570
HOMAG eSOLUTION GmbH, Schopfloch	51.0	1,803	291
HOMAG Finance GmbH, Schopfloch	100.0	62,839	14,411
HOMAG GmbH, Schopfloch ^{1,2}	100.0	86,546	–
Homag Group AG, Schopfloch ¹	63.9	106,207	–
HOMAG Kantentechnik GmbH, Lemgo ^{1,2}	100.0	19,602	–
HOMAG Plattenaufteiltechnik GmbH, Calw ^{1,2}	100.0	14,025	–
iTAC Software AG, Montabaur	100.0	6,623	–3,128
LOXEO GmbH, Stuttgart ^{1,2}	100.0	25	–
Luft- und Thermochnik Bayreuth GmbH, Goldkronach ^{1,2}	100.0	2,700	–
MTS Environmental GmbH, Maintal	100.0	16	–630
Olivia Grundstücksverwaltungsgesellschaft mbH & Co. KG, Pullach im Isartal ⁵	0.0	2,234	237
Schenck RoTec GmbH, Darmstadt ^{1,2}	100.0	9,226	–
Schenck Technologie- und Industriepark GmbH, Darmstadt ^{1,2}	100.0	12,540	–
SCHULER Consulting GmbH, Pfalzgrafenweiler ¹	100.0	15	–
tapio GmbH, Nagold ^{1,2}	100.0	971	–
Torwegge Holzbearbeitungsmaschinen GmbH, Schopfloch	100.0	13	–2
Weinmann Holzbausystemtechnik GmbH, St. Johann	75.9	2,259	–846
OTHER EUROPEAN COUNTRIES			
AGRAMKOW Fluid Systems A/S, Sønderborg/Denmark	100.0	–3,610	3,728
Carl Schenck Machines en Installaties B.V., Rotterdam/Netherlands	100.0	892	184
Carl Schenck spol. s r.o., Modřice/Czech Republic	100.0	633	110
CPM Automation d.o.o. Beograd, Belgrade/Serbia	100.0	163	–7
CPM S.p.A., Beinasco/Italy	51.0	21,756	6,203
Datatechnic S.A.S., Uxegney/France	100.0	10,779	2,515
Duerr Cyplan Limited, Aldermaston/UK	100.0	2,115	–947

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Name and location	Share in capital %*	Equity** in € k	Result for the year** in € k
Dürr Ltd., Warwick/UK	100.0	6,307	-536
Dürr Poland Sp. z o.o., Radom/Poland	100.0	11,230	1,978
Dürr Systems Czech Republic a.s., Ledec nad Sázavou/Czech Republic	100.0	4,670	74
Dürr Systems Makine Mühendislik Proje İthalat ve İhracat Ltd. Şirketi, İzmit-Kocaeli/Turkey	100.0	742	88
Dürr Systems S.A.S., Guyancourt/France	100.0	20,228	508
Dürr Systems Spain S.A.U., San Sebastián/Spain	100.0	10,632	5,706
Dürr Systems spol. s r.o., Bratislava/Slovakia	100.0	679	326
Dürr Universal Europe Ltd., Hinckley/UK	100.0	4,905	-32
Homag (Schweiz) AG, Höri/Switzerland	100.0	3,535	1,932
HOMAG AUSTRIA Gesellschaft m.b.H., Oberhofen am Irrsee/Austria	100.0	1,450	675
HOMAG DANMARK A/S, Galtén/Denmark	100.0	1,981	616
HOMAG ESPAÑA MAQUINARIA, S.A., Llinars del Vallès (Barcelona)/Spain	100.0	1,941	559
HOMAG France S.A.S., Schiltigheim/France	100.0	5,735	2,763
HOMAG Group Trading SEE EOOD, Plovdiv/Bulgaria	100.0	923	264
HOMAG ITALIA S.p.A., Giussano/Italy	100.0	5,271	2,004
HOMAG MACHINERY BARCELONA SA, L'Ametlla del Vallès/Spain	100.0	5,268	2,016
HOMAG POLSKA Sp. z o.o., Środa Wielkopolska/Poland	100.0	24,160	5,658
HOMAG Services Poland Sp. z o.o., Środa Wielkopolska/Poland	100.0	1,687	121
HOMAG U.K. LTD., Castle Donington/UK	100.0	6,023	2,415
MEGTEC Environmental Limited, Standish/UK	100.0	3,850	20
MEGTEC IEPG BV, Amsterdam/Netherlands	100.0	22,225	-6
MEGTEC Systems AB, Gothenburg/Sweden	100.0	9,109	67
MEGTEC Systems S.A.S., Lisses/France	100.0	12,961	113
Olpidürr S.p.A., Novegro di Segrate/Italy	65.0	5,345	150
OOO "Homag Russland", Moscow/Russia	100.0	1,395	449
OOO Dürr Systems RUS, Moscow/Russia	100.0	351	97
Schenck Industrie-Beteiligungen AG, Glarus/Switzerland	100.0	16,711	1,703
Schenck Italia S.r.l., Paderno Dugnano/Italy	100.0	466	10
Schenck Limited, Warwick/UK	100.0	2,090	272
Schenck S.A.S., Jouy-le-Moutier/France	100.0	9,086	3,543
Stimas Engineering S.r.l., Turin/Italy	51.0	135	8
Verind S.p.A., Rodano/Italy ³	50.0	7,355	1,230
NORTH AMERICA/CENTRAL AMERICA			
BENZ INCORPORATED, Hickory, North Carolina/USA	100.0	1,879	508
Dürr de México, S.A. de C.V., Santiago de Querétaro/Mexico	100.0	13,141	2,148
Dürr Inc., Southfield, Michigan/USA	100.0	108,795	-4,902
Dürr MEGTEC Holdings Inc., De Pere, Wisconsin/USA	100.0	32,216	-67
Dürr MEGTEC LLC, De Pere, Wisconsin/USA	100.0	59,040	438
Dürr Systems Inc., Southfield, Michigan/USA	100.0	121,291	6,103
Dürr Universal Inc., Stoughton, Wisconsin/USA	100.0	33,728	-1,063
Dürr Universal S. de R.L. de C.V., San Luis Potosí/Mexico	100.0	8,352	371
HOMAG CANADA INC., Mississauga, Ontario/Canada	100.0	4,195	1,367
Homag Machinery North America, Inc., Grand Rapids, Michigan/USA	100.0	-1,144	-990
iTAC Software Inc., Southfield, Michigan/USA	100.0	394	187

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3.107 — LIST OF GROUP SHAREHOLDINGS

Name and location	Share in capital %*	Equity** in € k	Result for the year** in € k
MEGTEC Energy & Environmental LLC, De Pere, Wisconsin/USA	100.0	3,118	–
MEGTEC India Holdings LLC, De Pere, Wisconsin/USA	100.0	2,778	–
MEGTEC Systems Australia Inc., Wilmington, Delaware/USA	100.0	738	4
MEGTEC Turbosonic Inc., Waterloo/Canada	100.0	8,237	–315
MEGTEC Turbosonic Technologies Inc., De Pere, Wisconsin/USA	100.0	11,554	–7
MTS Asia Inc., De Pere, Wisconsin/USA	100.0	8,966	–
Schenck Corporation, Deer Park, New York/USA	100.0	65,216	929
Schenck México, S.A. de C.V., Mexico City/Mexico	100.0	568	22
Schenck RoTec Corporation, Southfield, Michigan/USA	100.0	6,679	2,167
Schenck Trebel Corporation, Deer Park, New York/USA	100.0	12,529	545
STILES MACHINERY, INC., Grand Rapids, Michigan/USA	100.0	23,179	12,377
Test Devices Inc., Hudson, Massachusetts/USA	100.0	4,529	245
Universal AET Holdings, LLC, Stoughton, Wisconsin/USA	100.0	1,129	–
Universal Silencer Mexico II LLC, Stoughton, Wisconsin/USA	100.0	82	–
Universal Silencer Mexico LLC, Stoughton, Wisconsin/USA	100.0	8,149	–
SOUTH AMERICA			
AGRAMKOW do Brasil Ltda., Indaiatuba/Brazil	100.0	–9	–1,467
CPM DO PERNAMBUCO MANUTENÇÃO DE MÁQUINAS E EQUIPAMENTOS LTDA., Goiana/Brazil	99.0	438	427
Dürr Brasil Ltda., São Paulo/Brazil	100.0	12,187	1,670
HOMAG INDÚSTRIA E COMÉRCIO DE MÁQUINAS PARA MADEIRA LTDA., Taboão da Serra/Brazil	100.0	2,050	156
Irigoyen 330 S.A., Buenos Aires/Argentina	100.0	46	–
VERIND BRASIL SERVICOS E SOLUCOES LTDA. – EPP, Betim/Brazil ³	100.0	953	153
AFRICA/ASIA/AUSTRALIA			
AGRAMKOW Asia Pacific Pte. Ltd., Singapore/Singapore	100.0	812	–8
Dürr (Thailand) Co., Ltd., Bangkok/Thailand	100.0	2,466	87
Dürr Africa (Pty.) Ltd., Port Elizabeth/South Africa	100.0	3,856	2,532
Dürr India Private Ltd., Chennai/India	100.0	4,876	1,715
Dürr Japan K.K., Tokyo/Japan	100.0	–708	–8
Dürr Korea Inc., Seoul/South Korea	100.0	10,601	–2,042
Dürr Paintshop Systems Engineering (Shanghai) Co. Ltd., Shanghai/PR China	100.0	86,321	39,214
Durr Systems (Malaysia) Sdn. Bhd., Petaling Jaya/Malaysia	100.0	1,432	–37
Dürr Systems Maroc sarl au, Tangier/Morocco	100.0	405	135
DURR VIETNAM COMPANY LIMITED, Ho Chi Minh City/Vietnam	100.0	–	–
EPE Fund 3 (RF) (Pty) Ltd., Port Elizabeth/South Africa ³	100.0	10	–
HOMAG Equipment Machinery Trading LLC, Dubai/United Arab Emirates ⁴	49.0	–596	–155
HA (THAILAND) CO. LTD., Bangkok/Thailand	100.0	377	50
HA MALAYSIA SDN. BHD., Puchong/Malaysia	100.0	–267	120
HOMAG Arabia FZE, Dubai/United Arab Emirates	100.0	–210	–73
HOMAG ASIA PTE LTD, Singapore/Singapore	100.0	1,155	1
Homag Australia Pty. Limited, Sydney/Australia	100.0	3,757	837
Homag India Private Limited, Bangalore/India	100.0	4,398	658
Homag Japan Co., Ltd., Higashiosaka/Japan	100.0	6,389	901
HOMAG KOREA CO., LTD., Seoul/South Korea	100.0	3,715	335
Homag Machinery (Shanghai) Co. Ltd., Shanghai/PR China	81.3	23,152	9,436

3.107 — LIST OF GROUP SHAREHOLDINGS

Name and location	Share in capital %*	Equity** in € k	Result for the year** in € k
HOMAG NEW ZEALAND LIMITED, Auckland/New Zealand	100.0	10	5
HOMAG VIETNAM COMPANY LIMITED, Ho Chi Minh City/Vietnam	100.0	-4	-47
Luhlaza Industrial Services (Pty) Ltd., Port Elizabeth/South Africa ³	75.0	769	215
MEGTEC Systems India Private Ltd., Pune/India	100.0	2,883	-70
MEGTEC Systems Shanghai Ltd., Shanghai/PR China	100.0	4,380	274
MEGTEC Thermal Energy & Environmental (Shanghai) Ltd., Shanghai/PR China	100.0	2,184	-1
PT Durr Systems Indonesia, Jakarta/Indonesia	100.0	805	-51
Schenck RoTec India Limited, Noida/India	100.0	7,522	1,162
Schenck Shanghai Machinery Corp. LTD, Shanghai/PR China	100.0	30,677	5,866
Shanghai Shenlian Testing Machine Works Co., Ltd., Shanghai/PR China	100.0	223	-7
Universal Acoustic & Emission Technologies Pvt. Ltd., Pune/India	100.0	1,275	74
Universal Silencer (Shanghai) Co. Ltd., Shanghai/PR China	100.0	-12	1
B. NON-CONSOLIDATED SUBSIDIARIES			
Aviva Vermögensverwaltung GmbH i.L., Munich/Germany	100.0	-1,077	-2
Futura GmbH, Schopfloch/Germany	100.0	25	-
Prime Contractor Consortium FAL China, Stuttgart/Germany	50.0	-	-
Unterstützungseinrichtung der Carl Schenck AG, Darmstadt, GmbH, Darmstadt/Germany	100.0	1,133	-5
C. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD			
HOMAG CHINA GOLDEN FIELD LIMITED, Hong Kong/PR China	25.0	50,028	12,688
Nagahama Seisakusho Ltd., Osaka/Japan	50.0	41,075	4,022
D. OTHER INVESTMENTS			
ADAMOS GmbH, Darmstadt/Germany	14.3	8,428	-4,438
Fludicon GmbH, Darmstadt/Germany	1.4	-	-
HeatMatrix Group B.V., Utrecht/Netherlands	13.4	1,572	49
Parker Engineering Co., Ltd., Tokyo/Japan	10.0	73,099	3,832
SBS Ecoclean GmbH, Stuttgart/Germany	15.0	133,749	3,981

* Investment pursuant to Sec. 16 AktG

** German entities HGB figures, foreign entities IFRS figures, figures for 100% capital share

¹ Profit and loss transfer agreement with the respective parent company

² Exemption pursuant to Sec. 264 (3) HGB

³ Controlling influence as a result of contractual arrangements to control the relevant activities

⁴ 100% share in voting right

⁵ Power to affect the variable returns

Bietigheim-Bissingen, March 12, 2019

Dürr Aktiengesellschaft
The Board of Management


Ralf W. Dieter


Carlo Crosetto


Pekka Paasivaara


Dr. Jochen Weyrauch

INDEPENDENT AUDITOR'S REPORT

To Dürr Aktiengesellschaft

Report on the audit of the consolidated financial statements and of the group management report

OPINIONS

We have audited the consolidated financial statements of Dürr Aktiengesellschaft, Stuttgart, and its subsidiaries (the Group), which comprise the consolidated statement of income and the consolidated statement of comprehensive income for the reporting period from January 1 to December 31, 2018, the consolidated statement of financial position as of December 31, 2018, the consolidated statement of cash flows and the consolidated statement of changes in equity for the reporting period from January 1 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Dürr Aktiengesellschaft for the reporting period from January 1 to December 31, 2018, which has been combined with the management report ("group management report"). In accordance with the German legal requirements, we have not audited the content of the group non-financial statement included in the "Sustainability" section of the group management report as well as the disclosures in the "Other information on corporate governance" section and the Corporate Governance Declaration.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ("Handelsgesetzbuch": German Commercial Code) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2018, and of its financial performance for the reporting period from January 1 to December 31, 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the group non-financial statement included in the "Sustainability" section of the group management report as well as the disclosures in the "Other information on corporate governance" section and the Corporate Governance Declaration.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the Group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the reporting period from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. Impairment testing of goodwill

Reasons why the matter was determined to be a key audit matter:

Goodwill is subject to an annual impairment test. As a rule, the basis of the measurements is the present value of future cash flows of the cash-generating unit to be measured to which goodwill was allocated. The measurements are based on budgetary planning of the cash-generating units for four detailed planning years.

The discounting is based on the weighted average cost of capital (WACC) of the respective cash-generating unit. The inputs used in the calculation of the discounting rate are partly based on estimated market expectations and are, therefore, also subject to judgment.

The result of these measurements depends chiefly on the future cash inflows of each company estimated by the executive directors as well as the discount rate used and is, therefore, subject to uncertainty.

Auditor's response:

The subsidiaries' budgets are consolidated by division and reviewed and approved by the Board of Management in a multi-stage process. The Supervisory Board approves the budget for the following year and acknowledges the long-term planning for the next three years. For our audit we relied on these internal controls and reviewed their effectiveness. Our assessment was based, among other things, on a comparison with general and industry-specific market expectations as well as management explanations regarding the significant value drivers in the budgets and forecasts. We also compared the plans for consistency with the forecast information provided in the group management report. We also analyzed the budget-to-actual comparison of the prior-period planning on the basis of a target-actual deviation analysis. We assessed the underlying valuation models for the determination of net realizable value in terms of methodology and re-performed the calculations with the assistance of internal valuation specialists. We assessed the derivation of the risk-adjusted discount rate with the involvement of our internal experts by analyzing the peer group, comparing market data with external evidence and examining the clerical accuracy. We also checked the results of the impairment test for plausibility using our own sensitivity analyses.

Our audit procedures did not lead to any reservations relating to the assessment of goodwill impairment.

Reference to related disclosures:

The Company's disclosures on the impairment of goodwill in terms of the recognition and measurement policies applied in accounting as well as the associated judgements are contained in notes 1 and 18 of the notes to the consolidated financial statements.

2. Revenue recognition over time and accounting for construction contracts pursuant to IFRS 15 (Revenue from Contracts with Customers)

Reasons why the matter was determined to be a key audit matter:

Sales revenues from customer-specific construction contracts are generally calculated according to the progress towards complete satisfaction of a performance obligation pursuant to IFRS 15. This involves recognizing sales revenues and the planned contract margin in line with the degree to which the contract has been completed. The degree of completion is calculated on the basis of the costs incurred relative to the total estimated costs.

The application of revenue recognition over time pursuant to IFRS 15 requires substantial exercise of judgment, particularly related to the estimate of the total costs of a contract and the consideration of contract modifications and project risks.

Auditor's response:

With respect to the first-time application of IFRS 15, we obtained an understanding of the processes implemented by Dürr in response to the new standard. In assessing the contract analysis performed by the executive directors, we evaluated in particular whether the requirements to recognize revenue over time have been met based on construction contracts. We relied on a controls-based approach during the audit and examined the underlying corporate processes and tested controls relevant for the processing and accounting of construction contracts, particularly for the calculation of contract values, the processes for the estimate of contract costs as well as the reporting and allocation of accrued costs. We also tested the control mechanisms in the area of contract acceptance and planning as well as in the area of budgeting and cost control for their proper functioning. To identify anomalies in the development of margins over the course of the year and to recognize them compared to the prior period, we performed analyses of the planned costs and changes in contract values. With regard to the status of completion and the assessment of the risks associated with the contract, we obtained management's evaluation of the significant contracts.

Furthermore, we performed the following substantive procedures for specific construction contracts:

- Compared the contract values underlying the revenue calculation with the respective customer contracts;
- Analyzed the contract costs planned and planning costs used underlying the determination of the degree of completion of the individual construction contracts, during which we reviewed the quality of budgets on the basis of target-actual analyses;
- Verified whether the material and production costs recognized for each construction contract were allocated properly and in the correct period, during which we primarily verified the allocation of costs in terms of their amount and the related project using orders, evidence of services as well as supplier invoices;
- Obtained evidence from third parties for selected projects (for example external confirmations of significant receivables and customer prepayments);
- Checked that the sales revenues had been entered in the right amount in particular by comparing a sample of the transaction prices with their applicable contractual bases.

Our audit procedures did not lead to any reservations regarding the revenue recognition over time and accounting of construction contracts according to IFRS 15.

Reference to related disclosures:

The Company's disclosures on the recognition and measurement policies applied in accounting with regard to the revenue recognition over time and accounting of construction contracts according to IFRS 15 are contained in notes 6, 7, 8, 21 and 22 of the notes to the consolidated financial statements.

3. Recognition and measurement of income tax provisions and deferred taxes

Reasons why the matter was determined to be a key audit matter:

The Dürr Group operates in different legal systems coupled with the complexity of changing tax law as well transfer pricing issues. The calculation of provisions for income tax obligations as well as the accounting assessment and measurement of deferred and uncertain tax items requires that the executive directors of

Dürr Aktiengesellschaft exercise judgment for the assessment of subject matters related to tax and must perform estimates regarding income tax risks.

In the context of accounting and measurement of deferred tax items, an assessment of future usability of the tax loss carryforwards as well as other deferred tax assets from temporary differences is necessary. The recognition of deferred tax assets for tax loss carryforwards depends on the usability of losses in each country due to country-specific provisions on the one hand, and, on the other, on budget assumptions for future taxable income. Particularly the corporate planning regarding the future taxable income is subject to judgment to a high degree. The executive directors make estimates regarding the economic development of every taxable entity, which is affected by the current and future market environment.

Auditor's response:

Due to the complexity in the area of tax provisions, we consulted internal experts from our tax department with expertise in the relevant local legal systems and provisions in our audit. We also assessed the correspondence with the responsible tax authorities, analyzed and reviewed the assumptions for the calculation of income tax provisions on the basis of their knowledge and experience in the current application of the relevant legal provisions by the authorities and courts.

To assess the recognition and measurement of deferred taxes at Group companies, we considered, among other things, the underlying processes for complete reporting and measurement of deferred taxes as well as to avoid or detect and correct errors. In addition, we verified the identification and quantification of deviations between the recognition and measurement of assets and liabilities according to income tax provisions and financial reporting in accordance with IFRSs as well as the calculation of the deferred taxes with regard to these deviations using the corresponding tax rate. For the impairment testing of deferred tax assets from temporary differences as well as from loss carryforwards, we verified using samples whether tax forecasts were derived from corporate planning, the Group-wide planning horizon was used to assess the usability of tax loss carryforwards and the respective country-specific tax requirements for the use of loss carryforwards were observed.

In the course of our substantive audit procedures for uncertain tax items, we assessed the compliance with the relevant local tax law of assessments made by the legal representative for tax implications of significant business transactions or events in the 2018 reporting period, from which uncertain tax items may result or could influence the measurement of existing uncertain tax items. In particular, this includes the income tax implications arising from the acquisition or disposal of company shares, corporate restructuring as well as findings from tax field audits.

Our audit procedures did not lead to any reservations regarding the recognition and measurement of income tax provisions and deferred taxes.

Reference to related disclosures:

The Company's disclosures on the accounting policies for income tax provisions and deferred taxes are contained in notes 7 and 17 of the notes to the consolidated financial statements.

4. Accounting treatment of the acquisition of the MEGTEC/Universal entities including the purchase price allocation

Reasons why the matter was determined to be a key audit matter:

With the acquisition of MEGTEC/Universal entities, Dürr Aktiengesellschaft acquired an operationally active group that is included in Dürr Aktiengesellschaft's consolidated financial statements by way of full consolidation.

The fair values resulting from the remeasurement of recognized assets and the identification of acquired assets as well as the difference between the purchase price and the net assets of the MEGTEC/Universal entities measured at fair value are significant for the consolidated financial statements of Dürr Aktiengesellschaft. Furthermore, the remeasurements of the acquired assets and liabilities are subject to estimation and judgment uncertainties as the measurement of the acquired intangible assets (e.g., customer base, technology and brand name) is dependent on the corporate planning of the acquired entities.

Auditor's response:

Based on our knowledge of the business of the MEGTEC/Universal entities and the explanation and plans of the Board of Management, we verified the identification of the assets and liabilities in the course of the purchase price allocation.

During our audit procedures in connection with determining the fair values of the acquired assets and liabilities, we also consulted internal valuation experts. This largely involved us assessing the discounted cash flow measurement model used by the Company and verifying the clerical accuracy. We assessed the derivation of the discount rate and its individual components by analyzing the peer group, comparing market data with external evidence and verifying the clerical accuracy of the calculation. We discussed the planning assumptions used in the cash flow planning of the individual assets and liabilities with management and assessed the significant planning assumptions.

We also examined the completeness of the disclosures in the notes to the consolidated financial statements according to the regulations of IFRS 3.

Our audit procedures in connection with the accounting treatment of the acquisition of the MEGTEC/Universal entities did not lead to any reservations.

Reference to related disclosures:

The Company's disclosures on the accounting treatment of the MEGTEC/Universal entities are contained in note 18 of the notes to the consolidated statements.

OTHER INFORMATION

The Supervisory Board is responsible for the Report of the Supervisory Board. Otherwise, the executive directors are responsible for other information. Other information particularly comprises the following components of the annual report: The Chairman's letter, the Report of the Supervisory Board, the section "Dürr on the capital market", the disclosures made in the annual report in the Responsibility Statement contained in the consolidated financial statements, the group non-financial statement included in the "Sustainability" section of the group management report as well as the disclosures in the "Other information on corporate governance" section and the Corporate Governance Declaration. We received a version of this 'Other information' by the time this auditor's report was issued.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately

presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF 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 an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect 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 professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of 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 opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) 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 these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on 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 the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We

are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions;

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides;
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor of the consolidated financial statements by the annual general meeting on May 9, 2018. We were engaged by the Supervisory Board on November 16, 2018. We have been the group auditor of Dürr Aktiengesellschaft without interruption since the 2002 reporting period.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Marco Koch.

Stuttgart, 12 March 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft



Marbler
Wirtschaftsprüfer
(German Public Auditor)



Koch
Wirtschaftsprüfer
(German Public Auditor)

INDEPENDENT AUDITOR'S LIMITED ASSURANCE REPORT

The assurance engagement performed by Ernst & Young (EY) relates exclusively to the German version of the group non-financial statement 2018 of Dürr Aktiengesellschaft. The following text is a translation of the original German Independent Assurance Report.

To Dürr Aktiengesellschaft, Stuttgart

We have performed a limited assurance engagement on the group non-financial statement of Dürr Aktiengesellschaft according to § 315b HGB ("Handelsgesetzbuch": German Commercial Code), consisting of the disclosures in the combined management report which are marked with a line in the margin and the abbreviation "NFD" for the reporting period from 1 January 2018 to 31 December 2018 (hereafter group non-financial statement).

MANAGEMENT'S RESPONSIBILITY

The legal representatives of the Company are responsible for the preparation of the group non-financial statement in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility includes the selection and application of appropriate methods to prepare the group non-financial statement as well as making assumptions and estimates related to individual disclosures, which are reasonable in the circumstances. Furthermore, the legal representatives are responsible for such internal controls that they have considered necessary to enable the preparation of a group non-financial statement that is free from material misstatement, whether due to fraud or error.

AUDITOR'S DECLARATION RELATING TO INDEPENDENCE AND QUALITY CONTROL

We are independent from the Company in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other professional responsibilities in accordance with these requirements.

Our audit firm applies the national statutory regulations and professional pronouncements for quality control, in particular the by-laws regulating the rights and duties of Wirtschaftsprüfer and vereidigte Buchprüfer in the exercise of their profession [Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer] as well as the IDW Standard on Quality Control 1: Requirements for Quality Control in audit firms [IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW QS 1)].

AUDITOR'S RESPONSIBILITY

Our responsibility is to express a limited assurance conclusion on the group non-financial statement based on the assurance engagement we have performed.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB). This Standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether the group non-financial

statement of the Company has been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB. In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the auditor's professional judgment.

Within the scope of our assurance engagement, which has been conducted between December 2018 and March 2019, we performed amongst others the following assurance and other procedures:

- Inquiries of employees regarding the selection of topics for the group non-financial statement, the risk assessment and the concepts of Dürr for the topics that have been identified as material,
- Inquiries of employees responsible for data capture and consolidation as well as the preparation of the group non-financial statement, to evaluate the reporting processes, the data capture and compilation methods as well as internal controls to the extent relevant for the assurance of the group non-financial statement,
- Identification of likely risks of material misstatement in the group non-financial statement,
- Inspection of relevant documentation of the systems and processes for compiling, analyzing and aggregating data in the relevant areas, e.g. compliance and employees in the reporting period and testing such documentation on a sample basis,
- Analytical evaluation of disclosures in the group non-financial statement,
- Inquiries and inspection of documents on a sample basis relating to the collection and reporting of selected qualitative information and data,
- Evaluation of the presentation of disclosures in the group non-financial statement.

ASSURANCE CONCLUSION

Based on our assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the group non-financial statement of Dürr Aktiengesellschaft for the period from 1 January 2018 to 31 December 2018 has not been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

INTENDED USE OF THE ASSURANCE REPORT

We issue this report on the basis of the engagement agreed with Dürr Aktiengesellschaft. The assurance engagement has been performed for the purposes of the Company and the report is solely intended to inform the Company as to the results of the assurance engagement and must not be used for purposes other than those intended. The report is not intended to provide third parties with support in making (financial) decisions.

ENGAGEMENT TERMS AND LIABILITY

The "General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms]" dated 1 January 2017 are applicable to this engagement and also govern our relations with third parties in the context of this engagement (www.de.ey.com/general-engagement-terms). In addition, please refer to the liability provisions contained there in no. 9 and to the exclusion of liability towards third parties. We assume no responsibility, liability or other obligations towards third parties unless we have concluded a written agreement to the contrary with the respective third party or liability cannot effectively be precluded.

We make express reference to the fact that we do not update the assurance report to reflect events or circumstances arising after it was issued unless required to do so by law. It is the sole responsibility of anyone taking note of the result of our assurance engagement summarized in this assurance report to decide whether and in what way this result is useful or suitable for their purposes and to supplement, verify or update it by means of their own review procedures.

Munich, 12 March 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Nicole Richter
Wirtschaftsprüferin
(German Public Auditor)

Annette Johnne
Wirtschaftsprüferin
(German Public Auditor)

RESPONSIBILITY STATEMENT BY MANAGEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the combined management report

includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.



Ralf W. Dieter



Carlo Crosetto



Pekka Paasivaara



Dr. Jochen Weyrauch

Bietigheim-Bissingen, March 12, 2019

TEN-YEAR SUMMARY

4.1 — TEN-YEAR SUMMARY DÜRR GROUP¹

		2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Incoming orders	€ million	3,930.9	3,803.0	3,701.7	3,467.5	2,793.0	2,387.1	2,596.8	2,684.9	1,642.2	1,184.7
Orders on hand	€ million	2,577.2	2,449.4	2,568.4	2,465.7	2,725.3	2,150.1	2,316.8	2,142.7	1,359.1	1,002.4
Sales revenues	€ million	3,869.8	3,713.2	3,573.5	3,767.1	2,574.9	2,406.9	2,399.8	1,922.0	1,261.4	1,077.6
Gross profit on sales	€ million	855.5	857.2	858.3	828.0	591.1	487.3	437.8	331.4	237.5	210.8
Overhead costs (incl. R&D costs)	€ million	-612.9	-601.8	-605.5	-566.4	-359.5	-280.7	-262.9	-225.5	-201.6	-202.5
EBITDA	€ million	326.9	367.7	360.3	348.2	262.9	230.4	205.4	127.1	54.6	25.6
EBIT	€ million	233.5	287.0	271.4	267.8	220.9	203.0	176.9	106.5	36.6	5.7
Financial result	€ million	-13.8	-19.8	-13.3	-23.3	-16.2	-18.4	-29.2	-20.7	-24.1	-17.9
EBT	€ million	219.7	267.3	258.1	244.5	204.7	184.6	147.7	85.8	12.5	-12.2
Income taxes	€ million	-56.2	-67.6	-70.3	-78.0	-54.4	-43.7	-36.3	-21.6	-5.4	-13.5
Net income/loss	€ million	163.5	199.6	187.8	166.6	150.3	140.9	111.4	64.3	7.1	-25.7
Profit/loss attributable to Dürr AG shareholders	€ million	157.1	192.6	181.9	161.6	149.8	140.1	107.2	61.9	6.3	-26.9
STOCK											
Earnings per share	€	2.27	2.78	2.63	2.34	2.17	2.03	1.55	0.90	0.10	-0.39
Dividend per share	€	1.00 ²	1.10	1.05	0.93	0.83	0.73	0.57	0.30	0.08	0.00
Book value per share (Dec. 31)	€	14.12	12.80	11.70	10.08	8.89	7.29	6.13	5.19	4.53	4.26
Operating cash flow per share	€	2.34	1.73	3.29	2.50	4.21	4.76	1.70	1.85	0.80	1.38
Closing price (Dec. 31)	€	30.53	53.28	38.18	36.80	36.63	32.41	16.88	8.50	5.97	4.25
Number of shares (weighted average)	thousand	69,202	69,202	69,202	69,202	69,202	69,202	69,202	69,202	69,202	69,202
Market capitalization (Dec. 31)	€ million	2,113	3,687	2,642	2,547	2,535	2,243	1,168	588	413	294
INCOME STATEMENT											
Gross margin	%	22.1	23.1	24.0	22.0	23.0	20.2	18.2	17.2	18.8	19.6
EBITDA margin	%	8.4	9.9	10.1	9.2	10.2	9.6	8.6	6.6	4.3	2.4
EBIT margin	%	6.0	7.7	7.6	7.1	8.6	8.4	7.4	5.5	2.9	0.5
EBT margin	%	5.7	7.2	7.2	6.5	8.0	7.7	6.2	4.5	1.0	-1.1
Interest coverage		11.5	13.4	13.7	10.7	12.6	10.7	6.0	5.0	1.5	0.3
Tax rate	%	25.6	25.3	27.2	31.9	26.6	23.7	24.6	25.1	43.3	-
CASH FLOW											
Operating cash flow	€ million	162.3	119.8	227.4	173.0	291.3	329.1	117.6	127.9	55.4	95.4
Free cash flow	€ million	78.4	14.3	129.9	62.8	221.1	261.9	65.9	91.8	22.9	63.7
Capital expenditure (property, plant & equipment and intangible assets)	€ million	74.4	88.0	81.9	102.3	54.9	51.2	32.5	23.4	16.6	21.4
Change in net financial status	€ million	-144.0	17.6	47.1	-38.4	-112.7	183.8	44.9	28.2	20.6	37.4
BALANCE SHEET											
Non-current assets (Dec. 31)	€ million	1,244.3	1,110.1	1,125.3	1,182.0	1,124.2	590.9	551.9	529.0	462.3	452.6
Current assets (Dec. 31)	€ million	2,370.1	2,401.4	2,223.2	1,804.6	1,851.9	1,400.9	1,255.8	1,132.0	754.1	515.5
of which cash and cash equivalents (Dec. 31)	€ million	655.0	659.9	724.2	435.6	522.0	458.5	349.3	298.6	252.3	103.9

OTHER
Ten-year summary Dürr Group

		2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Equity (with non-controlling interests) (Dec. 31)	€ million	992.2	900.5	831.0	714.4	725.8	511.4	432.1	364.3	319.4	301.4
Non-current liabilities (Dec. 31)	€ million	786.1	787.3	843.3	585.0	643.1	394.8	402.6	401.9	328.2	201.1
of which pension obligations (Dec. 31)	€ million	50.1	49.8	51.8	49.7	53.7	49.8	53.5	57.8	55.9	55.1
Current liabilities (Dec. 31)	€ million	1,836.2	1,823.8	1,674.2	1,687.2	1,607.3	1,085.7	973.0	894.8	568.8	465.6
Financial liabilities (Dec. 31)	€ million	623.3	622.6	654.5	350.9	426.5	271.1	286.1	286.2	232.3	104.0
Total assets (Dec. 31)	€ million	3,614.4	3,511.6	3,348.5	2,986.7	2,976.1	1,991.8	1,807.7	1,661.0	1,216.5	968.1
Net financial status (Dec. 31)	€ million	32.3	176.3	176.5	129.4	167.8	280.5	96.7	51.8	23.6	3.0
Net financial debt/EBITDA		— ³	— ³	— ³	— ³	— ³	— ³	— ³	— ³	— ³	— ³
Gearing (Dec. 31)	%	–3.4	–24.3	–27.0	–22.1	–30.1	–121.5	–28.8	–16.6	–8.0	–1.0
Net working capital (Dec. 31)	€ million	441.4	373.7	194.4	236.8	87.6	–33.1	98.6	32.6	27.3	57.4
Days working capital	days	41.1	36.2	27.2	22.6	12.2	–4.9	14.8	6.1	7.8	19.2
Days sales outstanding	days	56.1	51.7	47.3	51.9	67.8	47.6	51.9	61.5	52.5	62.4
Inventory turnover	days	49.8	44.4	40.4	37.0	51.0	22.1	21.7	23.3	21.1	20.9
Equity assets ratio (Dec. 31)	%	79.7	81.1	73.8	60.4	64.6	86.5	78.3	68.9	69.1	66.6
Degree of asset depreciation (Dec. 31)	%	38.5	36.1	34.3	32.1	30.7	43.9	48.4	48.8	56.9	56.9
Depreciation expense ratio	%	6.4	6.5	6.7	6.4	4.2	4.3	4.2	3.3	4.1	4.3
Asset coverage (Dec. 31)	%	142.9	152.0	148.8	109.9	121.8	153.3	151.2	144.8	140.1	111.0
Asset intensity (Dec. 31)	%	34.4	31.6	33.6	39.6	37.8	29.7	30.5	31.8	38.0	46.8
Current assets to total assets (Dec. 31)	%	65.6	68.4	66.4	60.4	62.2	70.3	69.5	68.2	62.0	53.2
Cash ratio (Dec. 31)	%	35.7	36.2	43.3	26.4	32.6	42.4	35.9	33.4	44.4	22.3
Quick ratio (Dec. 31)	%	66.5	64.8	89.8	80.8	85.7	104.5	107.3	103.3	113.3	91.7
Equity ratio (Dec. 31)	%	27.4	25.6	24.8	23.9	24.4	25.7	23.9	21.9	26.3	31.1
Return on equity	%	16.5	22.2	22.6	23.3	20.7	27.6	25.8	17.6	2.2	–8.5
Capital employed (CE) (Dec. 31)	€ million	971.9	738.9	670.6	590.6	571.5	266.4	373.0	350.8	339.7	339.7
ROCE	%	24.0	38.6	41.1	45.3	38.7	76.2	47.4	30.4	10.8	1.7
Weighted average cost of capital (WACC)	%	9.00	7.88	7.20	6.98	5.78	6.69	6.58	7.64	8.10	8.08
Economic value added (EVA)	€ million	76.0	142.7	142.5	146.2	121.6	124.3	99.3	47.7	–1.9	–23.4
EMPLOYEES/R&D											
Employees (Dec. 31)		16,312	14,974	15,235	14,850	14,151	8,142	7,652	6,823	5,915	5,712
Cost per employee (year average)	€	–67,188	–68,725	–67,100	–67,000	–64,800	–65,200	–64,900	–62,700	–59,300	–57,200
Sales per employee (year average)	€	248,176	250,772	237,000	260,000	262,900	301,900	327,100	299,200	218,300	183,100
R&D ratio	%	3.1	3.1	3.0	2.6	2.2	1.8	1.6	1.5	2.0	2.4
R&D employees (Dec. 31)		782	713	695	667	619	248	199	180	162	157
R&D expenditure	€ million	–121.0	–116.7	–105.9	–97.1	–55.4	–43.0	–37.2	–29.5	–25.8	–25.9
R&D cost capitalized	€ million	14.5	9.6	12.4	11.5	5.5	3.4	3.1	2.7	3.6	2.5
Amortization of R&D cost capitalized	€ million	–9.9	–12.7	–13.1	–10.4	–4.3	–3.9	–6.1	–4.0	–3.3	–3.3

All figures according to IFRS

¹ Please note the information on page 55 concerning the figures and comparability with prior years.

² Dividend to be proposed at the annual general meeting

³ Since 2009, the Group has had a positive net financial status.

GLOSSARY

Technology and products

A

Adaptive manufacturing

In adaptive manufacturing, the production processes adapt autonomously to new tasks and are self-optimizing. This relies on the machines being digitally connected and their data evaluated.

Application technology

General term for all products related to the application of paint and high-viscosity materials, e.g. painting robots, paint atomizers, and color change systems.

B

Balancing technology

Rotating components such as wheels and turbines must be tested for imbalances. Any imbalance is then removed since it would otherwise cause vibrations or oscillations.

Big data

Large volumes of data are collected in digitized and connected production systems, for example by means of sensors. The analysis of this data enables production to be optimized and flexibilized.

D

Digital service

Digital services use operating data to optimize production operations and increase system availability. One example of this is predictive maintenance. In this, an app provides early notification when maintenance work is due for a system or when a component has to be replaced. Users of our machines and plant can source digital services via the digital marketplaces LOXEO and tapio.

Dip-coating

Process for applying the first prime coat that protects against corrosion. To coat the interior of the body as well, it is immersed. The coating is applied with the aid of an electric field.

Drying oven

Tunnel-like systems for curing freshly applied coats of paint.

E

End of line

Area in final vehicle assembly where the assembled cars are tested and prepared for shipping.

Engineering

Development and design of machinery and plants. At Dürr, engineering often involves developing technical solutions that are geared to customers' specific production goals.

F

Filling systems

Equipment designed for filling vehicles with the necessary operating media (e.g. brake fluid, refrigerant) in the course of their final assembly. Filling systems are also employed for charging refrigerators, air conditioners and heat pumps with refrigerant.

G

Glueing technology

Manufacturing process, in which parts such as the sheetmetal components of a car are joined together by means of adhesives.

H

High-speed rotating atomizer

Atomizers ensure a uniform distribution of the spray jet in paint application processes. High rotation atomizers rely on a bell-shaped disk revolving at up to 70,000 r.p.m. Due to this design, the paint fed to the center of the disk is accelerated and separated into fine threads which dissolve into minuscule droplets as they are propelled off the disk.

I

IIoT/Industrial Internet of Things

The term Industrial Internet of Things refers to the use of the Internet of Things in industrial production. The Internet of Things is the digital connection of, and communication between, smart machines and appliances via the internet.

IIoT platform

Higher-level software system that collects and evaluates big data, i.e. large volumes of production data. To that end, the machines from one or more production systems are fitted with sensors. The sensors capture the operating data (e.g. material consumption, cycle time) and transmit it to the IIoT platform. Data evaluation on the IIoT platform enables plant operators to gain a better understanding of their production processes and identify potential for optimization.

Industry 4.0

Industry 4.0 refers to the digitization and networking of industrial production. It is aimed at creating a 'Smart Factory' in which production and logistics systems largely organize themselves.

L

Light vehicles

Cars and light trucks.

Lightweight design

Lightweight design refers to the practice of building cars with weight minimization in mind. The vehicle's fuel consumption and CO2 emissions can thus be reduced. Low-weight materials such as magnesium, titanium or synthetic fiber composites are becoming increasingly widespread to reduce vehicle weight.

O

Overspray

Excess paint that does not land on the surface being sprayed.

S

Sealing

Process for sealing welding seams created when car body parts are joined. Sealing also includes the application of an undercoating that protects against rock impact.

T

Test systems

End of line systems test the functions of fully assembled vehicles, e.g. headlights and ABS.

Financial

A

Asset coverage

A ratio that indicates the extent to which shareholders' equity covers non-current assets.

$$\frac{\text{equity}}{\text{non-current assets}} \times 100 (\%)$$

Asset intensity

A ratio that indicates the relative weight of non-current assets in total assets. High asset intensity means high fixed costs and high levels of capital tied up.

$$\frac{\text{non-current assets}}{\text{total assets}} \times 100 (\%)$$

C

Capital employed

This is the capital used within the enterprise that is not subject to interest payable to external creditors. It is calculated by deducting liabilities from total non-current and current assets. However, all interest-bearing items are excluded.

D

Days sales outstanding

This ratio indicates the average length of time in days that capital is tied up in receivables.

$$\frac{\text{receivables} \times 360}{\text{sales revenues}}$$

The same method can be used to calculate the average length of time that capital is tied up in inventories and in net working capital.

E

Equity assets ratio

A ratio that indicates the extent to which shareholders' equity and non-current liabilities cover non-current assets.

$$\frac{\text{equity} + \text{non-current liabilities}}{\text{non-current assets}} \times 100 (\%)$$

F

Free cash flow

Free cash flow is the cash flow from operating activities remaining after deducting capital expenditures and net interest paid and received, and represents the amount of cash that is freely available to pay a dividend and to pay off debt.

G

Gearing

This is the ratio of net financial debt to shareholders' equity and net financial debt. The higher the relative weight of net financial debt, the higher the reliance on external lenders. However, a high gearing is not necessarily negative if the interest paid does not reduce profits excessively.

I

Interest coverage

An interest coverage ratio of <1 indicates that the company is not able to meet its interest payments from operating earnings.

$$\frac{\text{earnings before tax} + \text{net interest expense}}{\text{net interest expense}}$$

L

Liquidity ratios: cash ratio and quick ratio

These two liquidity ratios show the degree to which current liabilities are covered by cash and cash equivalents (and other current assets). They serve to measure a company's solvency.

$$\frac{\text{cash and cash equivalents}}{\text{current liabilities}} \times 100 (\%)$$

$$\frac{\text{cash and cash equivalents} + \text{short-term trade receivables}}{\text{current liabilities}} \times 100 (\%)$$

N

Net financial status

This represents the balance of the financial liabilities (without financial leases) reported in the balance sheet after deducting liquid funds. If a company's liquid funds exceed its financial liabilities, it is de facto debt free.

$$\text{financial liabilities} - \text{liquid funds}$$

Net Working Capital (NWC)

This is a measure of the net funding required to finance current assets. Negative NWC is beneficial since it implies that sales are prefinanced by suppliers and customers. For the Dürr Group, the prepayments received from customers are an important factor affecting NWC.

$$\text{inventories} + \text{trade receivables} - \text{trade payables}$$

R

Return on Capital Employed (ROCE)

This measures the rate of return on the capital tied up in a company's operating assets (for instance in machinery and equipment, inventories, accounts receivable) and is the ratio of earnings before interest and taxes (EBIT) to capital employed.

$$\frac{\text{EBIT}}{\text{capital employed}} \times 100 (\%)$$

Return on Equity (ROE)

This is the rate of return earned on shareholders' equity. It should exceed the rate of return on a comparable investment.

$$\frac{\text{earnings after taxes}}{\text{shareholders' equity}} \times 100 (\%)$$

Return on Investment (ROI)

This ratio serves to measure how efficiently a company employs the total resources at its disposal.

$$\frac{\text{earnings after taxes} + \text{interest expense}}{\text{total assets}} \times 100 (\%)$$

FINANCIAL CALENDAR

March 22, 2019

Publication annual
report 2018

May 10, 2019

Annual general
meeting, Bietigheim-
Bissingen

May 17, 2019

Interim statement
for the first quarter
of 2019

August 7, 2019

Interim financial
report for the first
half of 2019

November 7, 2019

Interim statement for
the first nine months
of 2019

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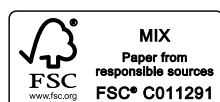
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The English translation of our 2018 annual report is
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shall prevail.

Forward-looking statements

This annual report includes forward-looking statements about future developments. As is the case for any business activity conducted in a global environment, such forward-looking statements are always subject to uncertainty. Our information is based on the conviction and assumptions of the Board of Management of Dürr AG, as developed from the information currently available. However, the following factors may affect the success of our strategic and operating measures: geopolitical risks, changes in general economic conditions (especially a prolonged recession), exchange rate fluctuations and changes in interest rates, new products launched by competitors, and a lack of customer acceptance for new Dürr products or services, including growing competitive pressure. Should any of these factors or other imponderable circumstances arise, or should the assumptions underlying the forward-looking statements prove incorrect, actual results may differ from those projected. Dürr AG undertakes no obligation to provide continuous updates of forward-looking statements and information. Such statements and information are based upon the circumstances as of the date of their publication.



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