

DIEHL

ANNUAL REPORT

2017



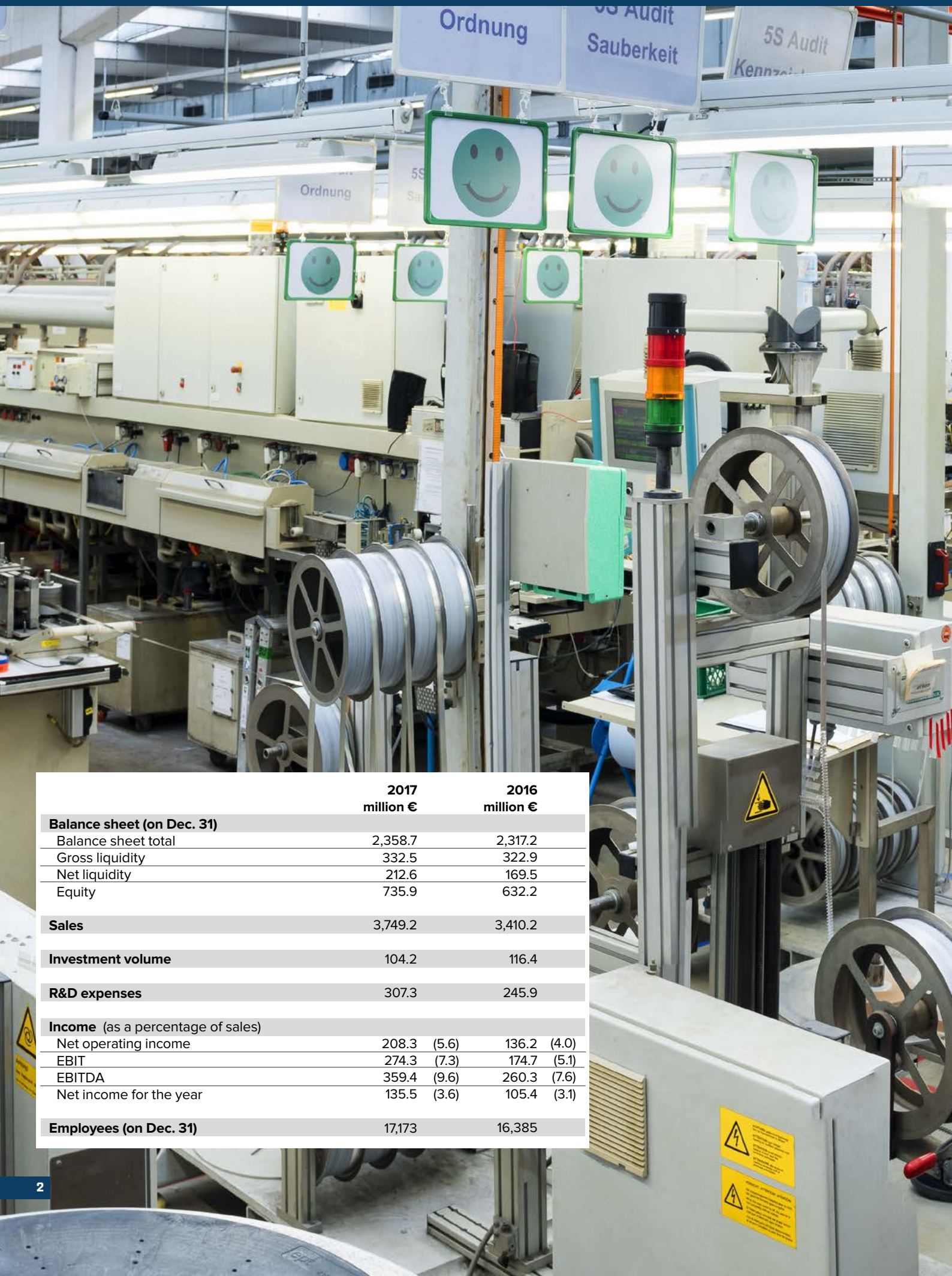


IN MEMORY OF
Dr.-Ing. E.h. Dipl.-Ing. Thomas Diehl,

**Shareholder, Supervisory Board Member, Chief Executive Officer
and highly esteemed head of our company, who left us much too
early on April 16, 2017.**

Our company's employees mourn
together with his family and
his wife Ursula who shared his life
for more than 40 years.

KEY BUSINESS FIGURES



	2017		2016
	million €		million €
Balance sheet (on Dec. 31)			
Balance sheet total	2,358.7		2,317.2
Gross liquidity	332.5		322.9
Net liquidity	212.6		169.5
Equity	735.9		632.2
Sales	3,749.2		3,410.2
Investment volume	104.2		116.4
R&D expenses	307.3		245.9
Income (as a percentage of sales)			
Net operating income	208.3	(5.6)	136.2 (4.0)
EBIT	274.3	(7.3)	174.7 (5.1)
EBITDA	359.4	(9.6)	260.3 (7.6)
Net income for the year	135.5	(3.6)	105.4 (3.1)
Employees (on Dec. 31)	17,173		16,385

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**THE STRENGTH
TO OPERATE
FLEXIBLY.**

Electroplating at Diehl Metal
Applications in Berlin.



Strong growth in sales and income

In fiscal year 2017, corporate sales increased by 9.9% to € 3,749.2 million so that last year's sales target of € 3.6 billion was clearly exceeded. Except for Metering, all corporate divisions contributed to that growth. The number of employees also increased by 788 persons, i.e. 4.8%, to 17,173 employees.

The generated EBIT of € 274.3 million was distinctly above the 2016 figure of € 174.7 million. It is, however, to be taken into account that the previous year's figure included a one-off expenditure item of € 49.1 million for the complete transfer of the remaining adjustment amount to the accrual for pensions, which was not the case in 2017.

For the first time in years, the **Metal Corporate Division** saw sales growth again. This was attributable to the worldwide positive economic development in all relevant sectors and to the rise in metal prices. Gratifying growth was also achieved, in all segments, when looking at the processing business alone.

The **Controls Corporate Division** could continue its growth course in the traditional business with the household appliance industry, due above all to the latter's increased demand for improved equipment of their appliances with display and control systems as well as further series run-ups.

Against the background of a challenging security-policy scenario, the **Defence Corporate Division** again succeeded in increasing its sales and the number of employees. The order backlog of the high-tech equipment-maker also rose in 2017.

As expected, the **Aviation Corporate Division** – previously Aerosystems, renamed Diehl Aviation in spring 2018 – continued its gratifying growth course. This was due to the ongoing growth of the aviation sector as a whole and the continued production run-up of the A350 XWB wide-body aircraft, of which Airbus overall delivered 78 units in 2017.

The **Metering Corporate Division** could not continue the growth course of previous years. Despite positive market signals and the medium- to long-term trend toward remote readout of consumption data, this was due, among other things, to the fact that orders from key customers fell again considerably short of expectations.



The Diehl Executive Board.

Noticeable rise in R&D expenses

In the year under review, the group invested a total of € 104.2 million (previous year: € 116 million). R&D expenses rose distinctly to € 307.3 million (2016: € 245.9 million). This was attributable, among other things, to the further increase in development expenses in the field of cabin equipment at Diehl Aviation.

The limited partnership Diehl Stiftung & Co. KG is managed by Diehl Verwaltungs-Stiftung, the general partner. Executive Board and Supervisory Board are the organs of Diehl Verwaltungs-Stiftung.

Supervisory Board

Dipl.-Ing. Karl Diehl († January 19, 2008)
Honorary Chairman

Dipl.-Kfm. Peter Diehl († February 6, 2016)
Vice Chairman

Dr.-Ing. E.h. Thomas Diehl († April 16, 2017)

Dr. rer. pol. Klaus Maier
Chairman

RA Werner Diehl
Vice Chairman

Dipl.-Ing. Markus Diehl (from July 1, 2017)

Dr. rer. nat. Herbert Fehrecke

Dipl.-Ing. (FH) Werner Reinl

Executive Board

Dr.-Ing. E.h. Thomas Diehl († March 16, 2017)
President and Chief Executive Officer
Corporate Department Technology

Dr.-Ing. Karl Tragl (from May 1, 2018)
Chief Executive Officer
Corporate Department Technology

Dipl.-Wirtsch.-Ing. Wolfgang Weggen
Vice Chief Executive Officer
Corporate Department Finance and Controlling

Dipl.-Kfm. Claus Günther
Corporate Division Defence

Dipl.-Kfm. Frank Gutzeit
Corporate Division Metering

Dr.-Ing. Heinrich Schunk
Corporate Division Metall

Dr.-Ing. Michael Siedentop
Corporate Division Controls

Dipl.-Kfm. Dr.-Ing. Martin Sommer
Corporate Department Human Resources

Dipl.-Ing. (FH) Rainer von Borstel
Corporate Division Aerosystems

Senior Vice Presidents

Dr. rer. nat. Elisabeth Hauschild
External Relations (from October 1, 2017)

Dipl.-Staatsw. Bernd Joeris
Corporate Matters (from October 1, 2017)

Organizational status as of June 2018

Metall

Diehl Metall Stiftung & Co. KG
Corporate Division Board

Dr.-Ing. Heinrich Schunk (P)
Dipl.-Sozw. Manuela Kallinowsky
(from May 1, 2017)
Dipl.-Wirtsch.-Ing. Dieter Landgraf
(from May 1, 2017)
Dipl.-Kfm. Rainer Wehn

Diehl Metall Messing
Diehl Metall Schmiedetechnik
Röthenbach a. d. Pegnitz

Diehl Augé Découpage
Besançon/Frankreich

Diehl do Brasil Metalúrgica
São Paulo/Brasilien

Diehl Metal Applications
Berlin
Teltow

Diehl Metal India
Pune/Indien

Diehl Metall (Shenzhen)
Shenzhen/China

Diehl Power Electronic
Siaugues Sainte-Marie/Frankreich

Diehl SynchroTec
Manufacturing
Wuxi/China

Diehl Werkzeugbau Seebach
Seebach

Franconia Industries
Meriden, Connecticut/USA

SMH Süddeutsche Metall-
handels-gesellschaft
Röthenbach a. d. Pegnitz

Sundwiger Messingwerk
Hemer

The Miller Company
Meriden, Connecticut/USA

ZIMK
Zehdenick Innovative Metall- und
Kunststofftechnik
Zehdenick

Controls

Diehl AKO Stiftung & Co. KG
Corporate Division Board

Dr.-Ing. Michael Siedentop (P)
Josef Fellner

Diehl AKO
Wangen
Nürnberg

Diehl Controls Polska
Namysłow/Polen
Wrocław/Polen

Diehl Controls (Nanjing)
Nanjing/China

Diehl Controls North America
Naperville, Illinois/USA

Diehl Controls Mexico
Querétaro/Mexiko

Diehl Connectivity Solutions
Nürnberg
Wangen

Defence

Diehl Defence GmbH & Co. KG
Corporate Division Board

Dipl.-Kfm. Claus Günther (P)
Dipl.-Betriebsw. (BA) Thomas Bodenmüller
Dr. rer. nat. Rainer Kroth
(until February 28, 2018)
Dipl.-Ing. (BA) Helmut Rauch

Diehl Defence GmbH & Co. KG

Überlingen
Röthenbach a. d. Pegnitz
Nonnweiler
Büro Berlin-Steglitz
Büro Koblenz
Büro Abu Dhabi/V.A.E.
Büro Bangkok/Thailand

AIM Infrarot-Module

Heilbronn

Diehl & Eagle-Picher

Röthenbach a. d. Pegnitz

Diehl Retrofit Missile Systeme

Überlingen

DynITEC

Troisdorf

EuroSpike

Röthenbach a. d. Pegnitz

JUNGHANS Microtec

Dunningen

JUNGHANS T2M

La Ferté Saint Aubin/Frankreich

PARSYS

Schrobenhausen

RAM-System

Ottobrunn

Aviation

Diehl Aviation Holding GmbH
Corporate Division Board

Dipl.-Ing. (FH) Rainer von Borstel (P)
Dipl.-Ing. Dipl.-Wirtsch.-Ing. Harald Mehring
(from July 1, 2017)
Dipl.-Ing. (FH) Hans-Peter Traber
Dr. rer. pol. Christoph Weigand

Diehl Aviation

Büro Abu Dhabi/V.A.E.
Büro Seattle, Washington/USA
Büro Charleston, South Carolina/USA
Büro Montreal, Quebec/Kanada

Diehl Aviation Gilching

Gilching
Dresden

Diehl Aviation Laupheim

Laupheim
Hamburg
Tianjin/China
Toulouse/Frankreich
Nyírbátor/Ungarn
Debrecen/Ungarn

Diehl Aviation Hamburg

Hamburg

Diehl Aerospace

Überlingen
Frankfurt am Main
Nürnberg
Donauwörth
Hamburg
Rostock
Seattle, Washington/USA
Toulouse/Frankreich
Sterrett, Alabama/USA

Diehl Aerospace Asia Pacific

Singapur

Metering

Diehl Metering GmbH
Corporate Division Board

Dipl.-Kfm. Frank Gutzeit (P)
Dr.-Ing. Christof Bosbach
(from March 1, 2017)
Inf.-Bw. (VWA) Thomas Gastner
Bw. (FH) Jean-François Marguet
Dr.-Ing. Robert Westphal
(until March 31, 2017)

Diehl Metering/Deutschland

Ansbach
Nürnberg
Apolda

Diehl Metering/China

Jinan
Shanghai

Diehl Gas Metering

Ansbach

Diehl Metering/Dänemark

Esbjerg

Diehl Metering/Großbritannien

Rochdale

Diehl Metering/V.A.E.

Dubai

Diehl Metering/Österreich

Wien

Diehl Metering/Polen

Bažanowice

Diehl Metering/Frankreich

Saint-Louis
Nanterre
Villeurbanne

Diehl Metering/Singapur

Diehl Metering/Spanien

Madrid

Diehl Metering/Schweden

Rosersberg

Diehl Metering/USA

Naperville

P = President

Organizational status as of June 2018

General Economic Conditions

After the relatively strong economic growth of 1.9% in Germany in fiscal year 2016, the German economy further expanded by 2.2% in 2017. So, the positive prevailing mood and the ongoing strong growth of the German economy continue to characterize the situation. According to the council of experts, the German economy sees a strong upswing. While expectations were still somewhat restrained 12 months ago, the situation has notably improved in the course of the year due to the recovery of global economic activity and the flourishing export activity of the German industry. The January monthly report of the Deutsche Bundesbank pointed out that a major share of the strong growth is accounted for by private consumption which, in turn, is driven by the favorable employment and income prospects of the consumers.

That positive development must not, however, hide the fact that the German economy is still confronted with numerous risks, such as the continuously rising energy and raw-material prices with their negative consequences for production in Germany as well as the continuing uncertainties connected with the Brexit, the political course of the East European EU members and the monetary policy stability in the Euro currency zone. The effects of the protectionist measures the US government is pushing ahead to protect their own companies can also not be foreseen.

Overall, the global mood indicators show increasing optimism. According to the Federal Ministry of Economic Affairs, the national economies in the Euro zone, the United States and Japan are on a solid growth course. China's economy is again developing more steadily whereas Russia and Brazil have overcome their recession.

Business Development of the Diehl Group

Sales and income (EBIT) are still the major control parameters for business development on corporate level.

The corporate group took advantage of the positive general mood of the economy in the year under review and recorded strong growth. The group achieved sales of € 3,749.2 million, 9.9% more than the previous year, hence, distinctly more than the budget of € 3.6 billion. Apart from Metering, all corporate divisions, above all Aviation, Metall and Controls, contributed to that growth. Defence developed favorably and recorded growth again.

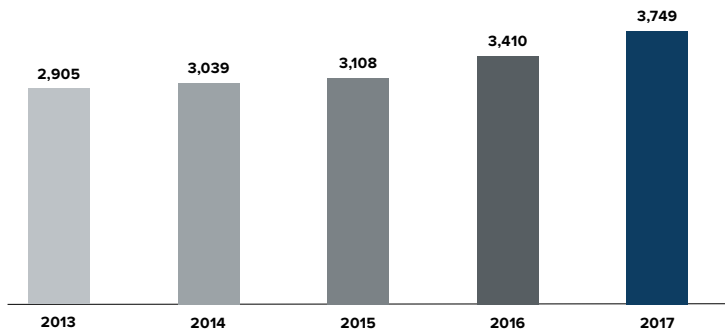
The number of employees increased by 788 persons – i.e. 4.8% – to 17,173 by December 31, 2017. This was due above all to the continued personnel build-up at Aviation (331) – especially in Laupheim and Hungary for the A350 XWB program – and Controls (324) where the capacities in Mexico and Poland were increased for expansion of the appliance activities. The Metall corporate division increased

its personnel strength at DMA in Berlin to prepare for further expansion of its e-mobility business. Changes to the basis of consolidation did not influence the reporting date comparison.

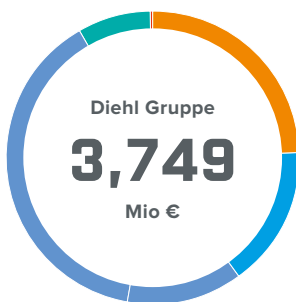
The forecast increases in sales and income were exceeded in 2017. The EBIT, at € 274.3 million, was distinctly above the previous year's € 174.7 million. However, it has to be taken into account that the 2016 figure included a one-off expenditure item of € 49.1 million from the complete allocation of the remaining adjustment to the pension reserves, which is not the case in the year under review. In 2017, structural adjustments worth € 12.4 million affected the income.

FISCAL YEAR 2017

SALES (in million euros)

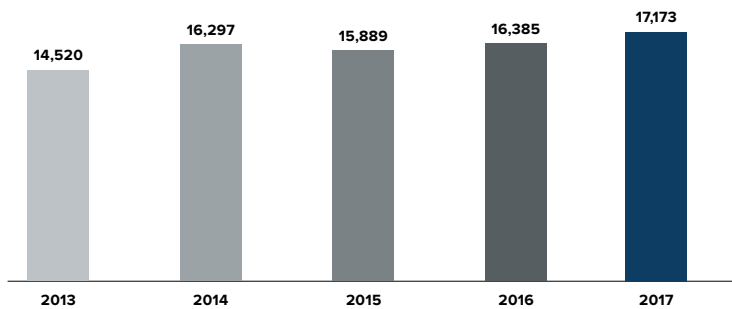


SALES PER CORPORATE DIVISION (in million euros)

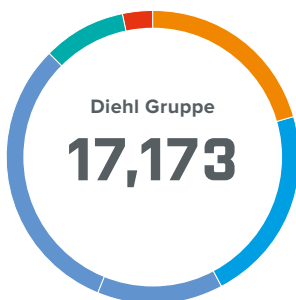


Division	Sales (Mio €)	Percentage
Metall	917	24.5%
Controls	558	14.9%
Defence	456	12.2%
Aviation	1,532	40.8%
Metering	275	7.3%
Other	11	0.3%

EMPLOYEES



EMPLOYEES PER CORPORATE DIVISION



Division	Employees	Percentage
Metall	3,420	20.0%
Controls	3,834	22.3%
Defence	2,341	13.6%
Aviation	5,342	31.1%
Metering	1,685	9.8%
Other	551	3.2%

Special Aspects of the Financial Situation And Risk Management

The corporate group's balance sheet total increased by € 41.4 million to € 2,358.7 million in 2017. Fixed assets rose by € 11.4 million through additional investments in tangible assets on account of the good order situation. The decline in intangible assets in the fixed assets was due to scheduled goodwill depreciation. The decrease in inventories of € 25.5 million resulted from continuous amortization of capitalized development work in the Aviation Corporate Division and increased deliveries at the end of the year. Consequently, there was a rise in receivables at December 31, 2017 over the previous year. On the liabilities side, the shareholders' equity increased by € 103.7 million to € 735.9 million due to the still good earnings situation, and thus the equity ratio rose from 27.3% in 2016 to 31.2%. The further increase in accruals for pensions by € 24.1 million largely results from the change of the interest parameters over 2016. Advances received on account of orders declined by € 15.6 million. In 2017, they were for the first time separated on the assets side from the inventories.

The previous year's figures were adjusted accordingly. The positive cash flow was used for the further repayment of liabilities, especially liabilities to banks, so that the liabilities were reduced by a total of € 69.2 million.

The operating cash flow rose by € 79.8 million to € 204.9 million, which, after deduction of the cash flow from investment activities of € 92.4 million, leads to a free cash flow of € 112.5 million. The cash flow from financing activities, at € 108.4 million, was negative due to the repayment of financial liabilities.

Advance Investments

In the year under review, the group invested a total of € 104.2 million (addition to tangible and intangible assets), compared with € 116 million in 2016. Thus, this value has been essentially level in recent years. A major portion of this amount was again invested in the Metall, Aviation and Controls corporate divisions. The Metall Division focused its investments on the new horizontal extrusion press in Röthenbach as well as strip electroplating facilities and stamping machines at DMA in Berlin for expanding e-mobility. Aviation still concentrated on capacity expansion for the A350 XWB project and its strategic expansion in Hungary. Controls continued set-up of its sites in Poland and Mexico. Metering invested above all in new tooling and facilities for production run-up of new products in Germany, France and Poland.

R&D expenses rose distinctly to € 307.3 million (compared with € 245.9 million in 2016). This was due, among other things, to the further rise in development expenses at Diehl Aviation in the field of cabin equipment. Development of the next-generation antiship missile started by Diehl Defence together with its industrial partner Saab as well as the Rolling Airframe Missile (RAM) Block 2B upgrade within the context of transatlantic cooperation with Raytheon to secure technological leadership in the field of guided missiles also contributed to the increase. Metering focused on further development of ultrasonic technology and the associated measurement technology as well as expansion of the radio system.

Corporate Legal Changes

Dr.-Ing. E.h Thomas Diehl, shareholder, member of the Supervisory Board and CEO, died on April 16, 2017 at the age of 66. Mr. Werner Diehl as well as the shareholders of the fourth generation – Dr. Alexander Diehl, Ms. Stephanie Haas, Mr. Markus Diehl, Ms. Laura Diehl, Ms. Carla Diehl as well as Mr. Konstantin Diehl – continue the family-owned company's business. Moreover, the Shareholders and Supervisory Board decided to strengthen the Executive Board by appointing a CEO in fiscal year 2018.

In the year under review, there were some important corporate legal changes as well:

With effect from February 1, 2017, Diehl Defence Holding GmbH, management company for the Diehl Group's defence business, and the largest business unit within the corporate division – Diehl BGT Defence GmbH & Co. KG (DBD) – were merged to form Diehl Defence GmbH & Co. KG (DDK). Thus, DDK is the corporate division's new management company. All affiliated companies are concentrated under Diehl Defence Holding GmbH. The new structure makes the corporate division more effective and fit for the future.

With effect from May 8, 2017, Diehl Defence GmbH & Co. KG took over the share of the US partner Raytheon Missile Systems Company in their joint company Diehl Raytheon Missile Systeme GmbH. The company renamed Diehl Retrofit Missile Systeme GmbH continues its business, i.e. the marketing, modernization as well as worldwide logistics and life cycle support for Sidewinder AIM-9L missiles.

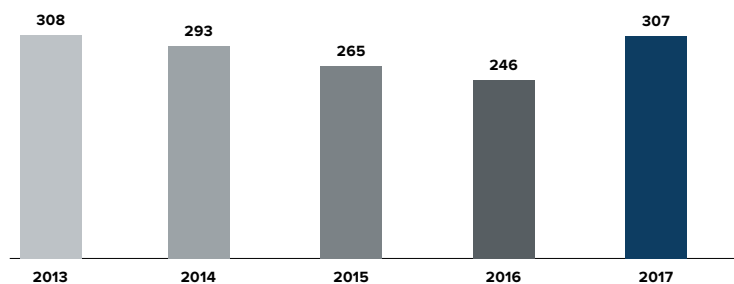
At the beginning of 2018, the liquidation of Diehl Hellas Monoprosopi Eteria Periorismenis Efthinis in Athens was completed. Thus, the company has ceased to exist.

Diehl Ventures GmbH acquired an interest in the Austrian Symvaro GmbH located in Klagenfurt in early 2018. This company specializes in easy and efficient water meter data management, thus supporting Metering's digitization projects.

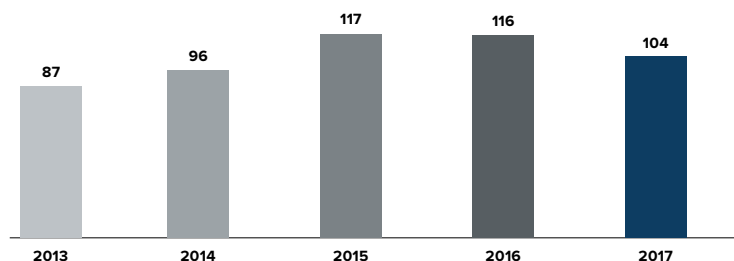
Since April 10, 2018, Diehl Aerosystems with its business units Diehl Aircabin, Diehl Comfort Modules and Apparatebau Gauting operates under the new brand of Diehl Aviation at all locations. The re-branding simultaneously marked the beginning of further organizational integration of the corporate division in the course of the year. Diehl Aerospace – a joint venture with Thales – will continue to operate under its existing name.

Details about the described general business development are provided in the following for the individual corporate divisions:

R&D EXPENSES (in million euros)



INVESTMENTS (in million euros)





THE STRENGTH TO OPERATE FLEXIBLY.

“Press-fit connections are durable and robust. That’s what our customers using a reliable and solder-free connection technology appreciate.”

Heike Woldt, Head of Product Management Press-Fit Technology, Diehl Metal Applications, Berlin.

The Metall Corporate Division saw sales growth for the first time in years. This was attributable to the worldwide positive economic development in all relevant sectors and to the rise in metal prices. Gratifying growth was also achieved, in all segments, when looking at the processing business alone.

The rods and tubes business segment produces high-quality semi-finished metal products in Röthenbach. The range comprises standard brasses as well as new innovative alloys for highly complex technical applications, for example in electrical engineering and the automotive industries. Quantitative growth was recorded with new products for the automotive and sanitary industries and sales success was achieved in the conventional rods segment, also primarily for applications in the automotive industry. The large-scale investment in a new extrusion press in Röthenbach – a central future investment for the corporate division in Germany – is in the implementation phase. Initial trial pressings have already been carried out successfully.

The forgings business segment – a renowned supplier of brass and steel synchronizer rings and drop-forged parts to the international automotive industry – again achieved higher sales in Europe due to run-up of further steel-synchronizer ring projects. Sales in the business with local customers in China continue to grow, thus improving our prospects to increasingly share in the growth of the Chinese automotive market. Positive



expectations are also associated with the economic development in Brazil after years of decline in economic activity as well as with the launch of some customer projects at Diehl Metal India. The cooperation with Schaeffler for the production of synchronization systems in China has also developed favorably. After the joint development of a synchronization system, initial acquisition efforts on system and component level have been successful. Investments in this segment continue to focus on automation and capacity expansion in steel synchronizer ring production to stabilize our position as world market leader in the field of synchronizer ring production and as competent component manufacturer with system expertise in the optimization and development of tailor-made solutions for automotive transmissions.

The business segment Diehl Metal Applications (DMA), with electroplating and stamping production at the German and French locations, a rolling mill in Germany, as well as a sales and service centers in the U.S. and in China, offers a fully integrated

value-added chain from alloy development to future-oriented metal-plastic compound systems for electronic and electrotechnical applications. In the year under review, the positive development in the automotive industry led to a high level of capacity utilization in the company throughout the entire value added chain, especially in stamping and plating. The growth is due above all to the rising demand for driver assistance systems and thus the increasing electrification of automobiles. In view of this, the focus of investment activity was again on capacity expansion in stamping and plating as well as further automation of cell contact system production.

In the rolled-products sector, which comprises the Sundwiger Messingwerk as well as the sales and service center at The Miller Company in the U.S., Diehl could also profit from the increasing demand for strip material for the electrification of automobiles.

Throughout the year, that market was stable on a high level.

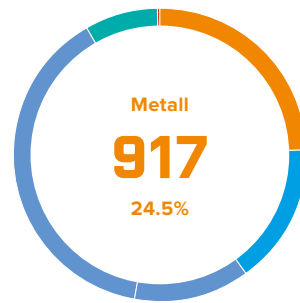
METALL



Production facility for cell contact systems for alternative drives at Zehdenick.

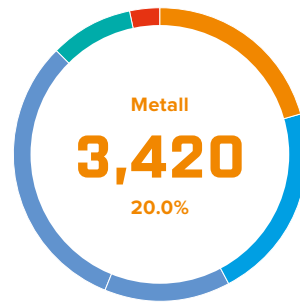
Based on the forecasts for the economic development in the current fiscal year, we expect continued growth for 2018 in the markets relevant for Diehl. The South American market is expected to recover soon. Further growth will focus on the marketing of steel synchronizer rings and increasingly on parts for the advancing electrification as well as alternative vehicle drives. The incipient change in the automotive sector toward e-mobility and autonomous driving represents a challenge for suppliers of the automotive industry, being both an opportunity and a risk.

DIEHL METALL SALES (in million euros)



Controls	Defence	Aviation	Metering	Other
558	456	1,532	275	11
14.9%	12.2%	40.8%	7.3%	0.3%

EMPLOYEES AT DIEHL METALL



Controls	Defence	Aviation	Metering	Other
3,834	2,341	5,342	1,685	551
22.3%	13.6%	31.1%	9.8%	3.2%



As consumer demand in America, Europe and Asia remained high, the corporate division continued its traditional business growth within the household appliance industry. Above all, this was due to the increased demand of improved display and control systems with additional functions and the resulting use of high-quality electronic assemblies. Further series run-ups also contributed to the noticeable increase in sales in the year under review.

The Appliance Europe business unit with the companies Diehl AKO and Diehl Controls Polska continued its positive development from previous years. Considering the growth achieved and in preparation for further growth, the Namysłów production site in Poland was expanded. Since spring 2017, a noticeably increased production floor space has been available for new production start-ups. Diehl Controls is focused on customer-specific application developments and the production of electronic controls for stoves, washing machines, dryers, dishwashers and refrigerators for the latest appliance generations of the international white goods industry.



SMART AND NETWORKED.

“We offer tailored solutions for smart devices in a networked world.”

Michael Huhn, Director Project & Product Management at Diehl Connectivity Solutions in Nürnberg.

Khanh Nguyen-Kim works in production at the Wangen site.



Due to strong consumer demand, business was negatively influenced by the massive shortage of electronic components in the world markets. As a result, Controls incurred additional costs in procurement and delivery bottlenecks occurred here and there. To ensure the ability to deliver at all Controls sites, close monitoring of supply chains and regular coordination with customers and suppliers worldwide was required. However, the shortage of some components will continue to affect the current fiscal year.

Strong growth was also recorded by the Appliance Asia (Diehl Controls Nanjing) business unit. The Asian market continues to grow and OEM orders continuously increase.

The Appliance Americas business unit with the companies Diehl Controls North America and Diehl Controls Mexico saw

stable business development. The growth started with a renowned power tools manufacturer at the Querétaro site in Mexico and continued to expand in 2017. Meanwhile, production has reached the capacity limit. The objective is to expand the range of customers beyond our established core business within household appliance manufacturers.

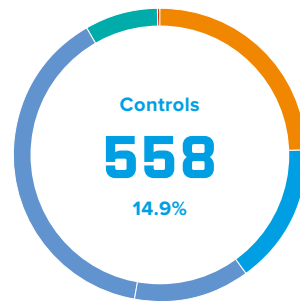
As the demand for air-to-water heat pumps is rising in the European market, business with drive controls for brushless motors has increased as planned. In order to be able to focus on these customers, the sales and development activities in Europe were combined to form the strategic business segment "Drive Solutions."



The development of business with innovative solutions for solar power consumption optimization has been restrained so far and fell considerably short of expectations. As Diehl Connectivity Solutions (DCS) did not achieve the targeted objectives, activities will be realigned in the course of the current year. The strategic focus of realignment will be on the interconnection devices for small and medium-sized businesses.

The pricing pressure on the suppliers of the household appliance manufacturers remains high. Therefore, it is essential for Diehl Controls to continue to ensure its competitive abilities at all locations through continuous improvement programs. This is supported by continuously high investments and an expansion of activities beyond the core business.

DIEHL CONTROLS SALES (in million euros)



Metall	Defence	Aviation	Metering	Other
917	456	1,532	275	11
24.5%	12.2%	40.8%	7.3%	0.3%

EMPLOYEES AT DIEHL CONTROLS



Metall	Defence	Aviation	Metering	Other
3,420	2,341	5,342	1,685	551
20.0%	13.6%	31.1%	9.8%	3.2%



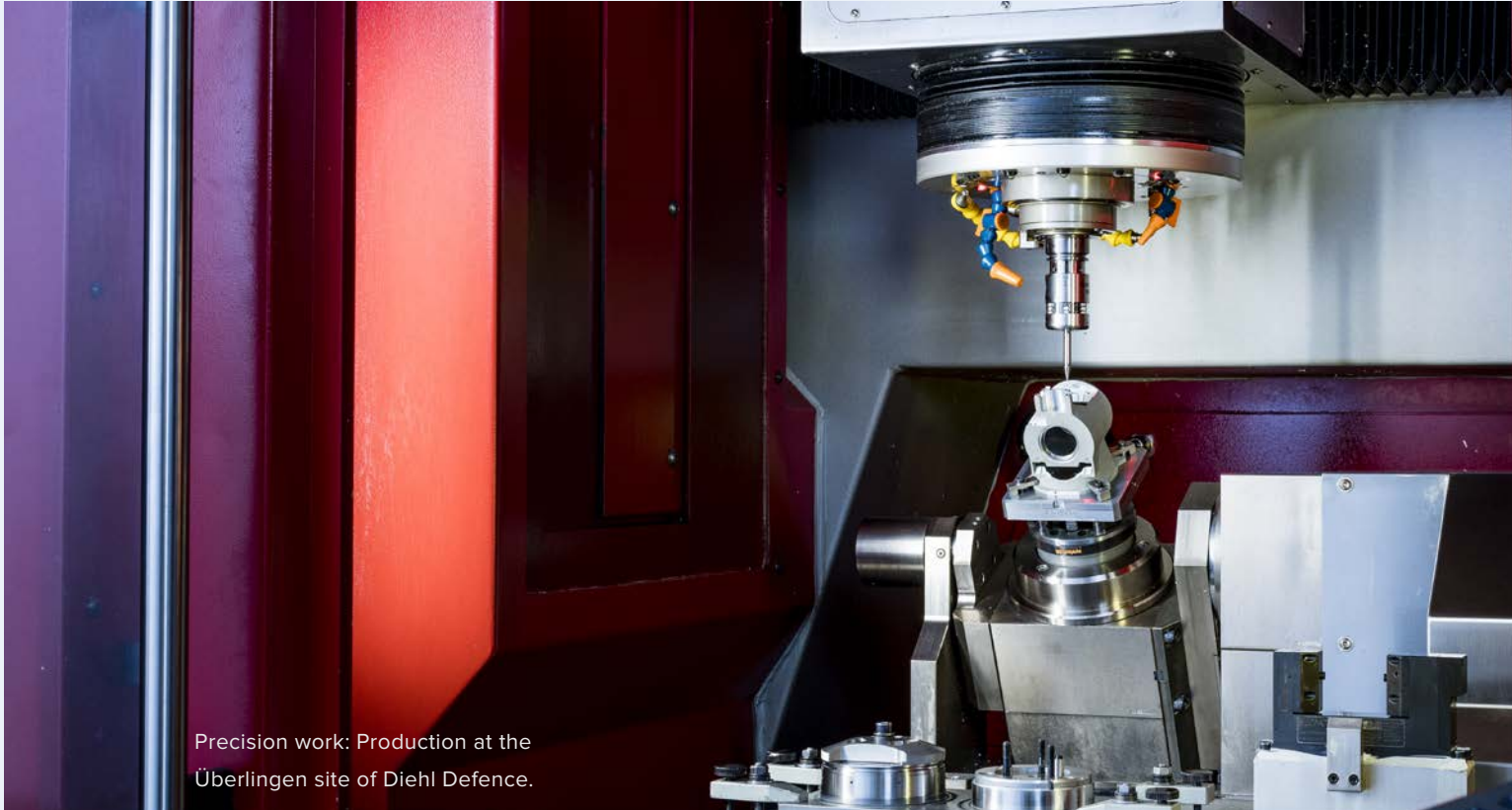
THE FREEDOM TO THINK LONG TERM.

“We test our products under real conditions, thus ensuring that they meet all customer requirements.”

Andre Selz, head of the Center of Competence for Test Technology & System Integration at Diehl Defence, Überlingen.

The global threat situation is still characterized by a large number of international trouble spots and areas of conflict. In view of increasing hybrid forms of conflict (cyber attacks) in addition to asymmetric conflicts, the defence environment is growing even more complex and unstable. Political expectations facing the armed forces are enormous, especially with regard to capabilities covering the entire range of military conflict management. By contrast, the business conditions for defence companies in Germany have not improved despite rising budgets. The German government's restrictive export policy remains in place; national development projects are exceptions and buy solutions dominate procurements. Armaments cooperation initiatives (e.g. with France or Norway) could open up new prospects for industry. However, the political debate in Germany not only endangers exports to third-party countries but also tarnishes the reputation of German companies as reliable suppliers of NATO partners and their defence industry. In spite of this challenging scenario, Diehl Defence once again was able to increase its sales and its workforce.

As a high-tech equipment manufacturer in the fields of air defence, guided missiles, ammunition, as well as training and protection systems, Diehl Defence GmbH & Co. KG reported a good level of incoming orders. Major sales items in the division comprise the RBS15 heavy antiship missile, the RAM (Rolling Airframe Missile) transatlantic cooperation program for shipboard defence, the licensed production of the Spike guided missile for the European NATO countries as well as



Precision work: Production at the Überlingen site of Diehl Defence.

the traditional Sidewinder business. The next-generation antiship missile development started together with Saab as well as the continued RAM upgrading within the longstanding transatlantic cooperation with Raytheon provide the basis for maintaining our technological leadership in the field of guided missiles.

In view of the planned participation in the national air defence system TLVS and success in export business, Diehl Defence also made further progress as a system provider in ground-based air defence. Sales decreases in 2017 resulted from national program delays and export shortfalls.

Business development at Junghans Microtec GmbH – acting jointly with the French subsidiary Junghans T2M SAS as a leading supplier of ammunition fuzes and safe/arm units for rockets, guided

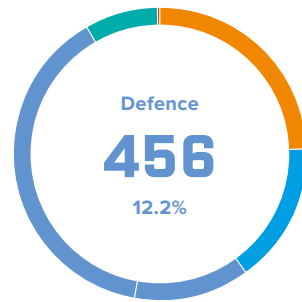
missiles, ammunition and torpedoes – remained at the previous year's level and continued to increase at the French subsidiary due to the favorable export business.

Sustained business development was achieved by concluding multi-year basic contracts with Nato and equivalent countries. Both companies are concentrating their self-financed research and development on expanding the product portfolio focusing on mortar and artillery fuzes.

AIM Infrarot-Module GmbH continued its development activities in all product areas thereby safeguarding its international competitive edge among the leading component suppliers of thermal imagers and seeker heads. In-house R&D expenses were level with the previous year while the volume of externally financed research and development

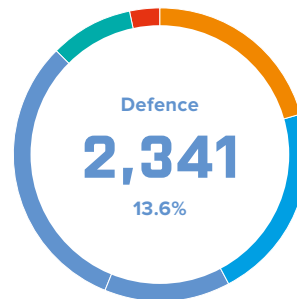
DEFENCE

DIEHL DEFENCE SALES (in million euros)



Metal	Controls	Aviation	Metering	Other
917	558	1,532	275	11
24.5%	14.9%	40.8%	7.3%	0.3%

EMPLOYEES AT DIEHL DEFENCE



Metal	Controls	Aviation	Metering	Other
3,420	3,834	5,342	1,685	551
20.0%	22.3%	31.1%	9.8%	3.2%

projects increased noticeably. Besides expanding its presence in the traditional markets in Europe and the U.S. as well as increased efforts in Asia, AIM counts above all on the relatively new pillar of space-based IR applications to achieve further growth. The company's sales rose in the year under review; the number of employees remained level.

Overall, the corporate division's strategy aiming at flexible adaptation to current market conditions by focusing on numerous product-specific cooperation programs with different partners has proved successful. Within the context of a digitization campaign, potentials are being analyzed with the objective of both optimizing existing business fields and developing new business models.



LIVING A COOPERATIVE CULTURE.

“People sit in a plane for up to 18 hours. How does light contribute to the passengers’ well-being? And how to make flying a real experience? We at Diehl Aerospace in Nürnberg have given this a lot of thought.”

Dirk-Achim Schevardo, Business Development Manager
for Cabin Systems at Diehl Aerospace in Nürnberg.

As expected, the Aerosystems Corporate Division – renamed Diehl Aviation in spring 2018 – continued its gratifying growth course in 2017. The reason for the ongoing growth of the aviation sector as a whole: the two large customers Airbus and Boeing alone achieved an order backlog of more than 13,000 units at the end of 2017.

The corporate division’s growth was strongly influenced by the continued production run-up of the A350 XWB wide-body aircraft, of which Airbus overall delivered 78 units in 2017. With total of 15 work packages, Diehl is one of the largest suppliers in this program. Especially the A320 family as well as the A330 and A350 XWB aircraft and the Boeing 737, 787 and 777 are highly in demand by the customers. However, demand for the world’s largest passenger aircraft, the A380, in which Diehl is also involved with various work packages, has fallen short of expectations for several years. Only 15 A380 aircraft were delivered in 2017. Positive is, however, the fact that further recent commitments to buy A380 aircraft from the key customer Emirates will ensure the program’s continuation for some years.



The current weak demand in the A380 market segment is actually compensated by the business development in the standard fuselage segment up to 200 passengers and by the A350 XWB. Regardless of the manufacturers' high order backlog, the market in other segments is currently cooling down. Thus, the trend that no basically new civil aviation programs will be launched in the near future has continued, apart from the possible program start for a new Boeing medium-range aircraft. Hence, the overall prospects for Diehl Aviation regarding new business with aircraft manufacturers are very restricted in the years to come. This development underlines the significance of the new cabin retrofit business field with direct marketing to airlines. In 2017, Diehl Aviation further expanded the network with partners for this business, such as the French company Sabena Technics. In the future, the capabilities of both companies will be

united in an alliance to be able to offer joint retrofit solutions for A350 XWB cabins. The market for Diehl Aviation's military products still is rather sluggish. For a procurement program of the German government for a heavy transport helicopter, which still is rather vague, two U.S. manufacturers are possible candidates. The question of a possible participation of the German aviation industry is still open.

After the extensive building activities in recent years at the locations in Hamburg, Laupheim and Nýrbátor (Hungary), the focus of the corporate division's activities was on further reducing the complexity of and on improving the processes within the company. Further growth was recorded in connection with the capacity expansion at the Hungarian subsidiary in Nýrbátor. This also includes a service center in Debrecen since September 2017 whose expansion is currently being pushed ahead. In Hungary, Diehl Aviation



“As a partner of the aviation industry, we provide worldwide 24/7 technical support and services for our customers.” Madeleine Dörfer, Head of Customer Care at Diehl Aviation in Dresden.

employs more than 600 persons. The objective of the corporate division’s re-branding decided in 2017 is to further consolidate the division and to concentrate its market presence.

The new umbrella brand Diehl Aviation was for the first time presented to the public at the Aircraft Interiors Expo in Hamburg in April 2018.

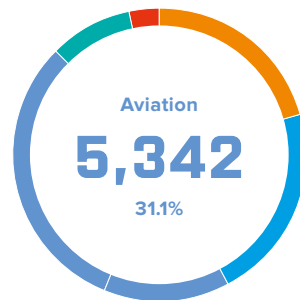
For 2018, Diehl Aviation expects a stabilization of the high A350 XWB production level, the major growth driver in previous years. In view of this and also of the development forecast for other market segments, the corporate division expects growth to slow down in 2018.

DIEHL AVIATION SALES (in million euros)



Metall	Controls	Defence	Metering	Other
917	558	456	275	11
24.5%	14.9%	12.2%	7.3%	0.3%

EMPLOYEES AT DIEHL AVIATION



Metall	Controls	Defence	Metering	Other
3,420	3,834	2,341	1,685	551
20.0%	22.3%	13.6%	9.8%	3.2%



In the year under review, the Metering Corporate Division could not continue its growth course of previous years. Despite positive market signals and the medium- to long-term trend toward remote reading of consumption data, this was due, among other things, to the fact that orders from key customers fell again considerably short of expectations. Moreover, business in China overall did not yet meet the expectations. However, demand in the Middle East markets rose again, also in France. Regardless of the impact of adverse environmental influences in the Caribbean, a large-scale order could be secured at the end of the fiscal year, providing for delivery of ultrasonic water meters with radio readout over several years.

WE PAVE THE WAY FOR DIGITIZATION WITH FUTURE- ORIENTED SOLUTIONS.

“We can tell you how to achieve efficiency increases and prevent damage by providing large amounts of data in smart networks.”

Sina Seebach, IT Project Manager at Diehl Metering in Ansbach.



Anne-Sophie Truchassou, Head of Mechanical Research & Development, develops innovative water metering technologies at Diehl Metering in France.

In order to improve the competitive situation and achieve growth again, the corporate division has vigorously pursued its innovation and technology offensive. Besides the further organizational consolidation of the German locations, this also includes the development of new production processes and consistent expansion of strategically important sites in China and Poland. In this context, operational sales activities were taken up in the U.S., presence in the Scandinavian markets was reorganized and a new sales office was opened in Southern China.

When looking at customer segments, growth concentrated on gas. Above all delivery for the French large-scale order for gas meters with radio readout started in 2016 was noticeable here. Besides mechanical gas meters which are remotely readable due to our own radio technology, the AERIUS static gas meter is offered for special applications. Its microthermal measuring principle is independent from air pressure and temperature and continuously transmits precise measurement results. The integrated communication feature enables data readout via radio

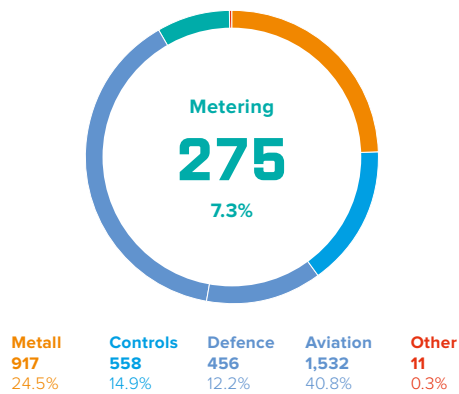
or M-Bus. Owing to standardized data exchange, water, heating/cooling, gas, and electricity consumption can be read on the same system platform.

Sales in the water utility segment did not meet the expectations despite market success in France and Austria as well as rising demand in Southern China because fewer orders were received from key customers. In addition to high-quality mechanical water meters which can be read remotely by means of a radio adapter module, innovative meters based on ultrasonic technology with integrated radio technology were in demand, especially by customers from the Middle East and the Caribbean. A new interesting large-scale order could be secured in France covering not only the delivery of highly modern radio modules but also the development and integration of communications standards. The Thermal Energy customer segment, however, continues to be characterized by the expiry of a long-standing partnership so that no growth could be achieved there.

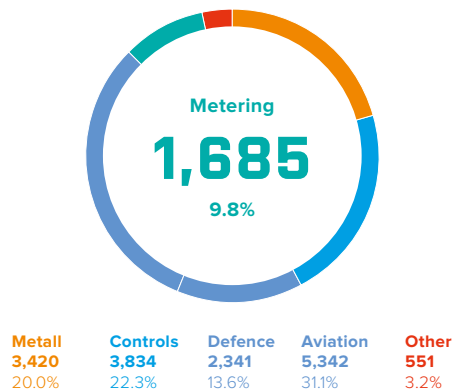
In development, the focus still was on further development of ultrasonic technology and the associated improvement of measurement technology, expansion of our radio system as well as the range of software and services offered. One example that shows the success of these efforts is the new generation of the HYDRUS ultrasonic water meter which sets standards in terms of dynamics and accuracy due to its improved measurement technology. In the context of digitization and the resulting market potentials, work concentrates above all on improving data transmission options and the corresponding applications. Here the foundations could be laid for a new generation of the two-way radio technology enabling the integration of further third-party radio technologies and thus completely new platform concepts. In order to further strengthen the division's innovative power and to faster implement good ideas, the organizational unit Diehl Metering NEO was established to consistently keep an eye on the benefit of an innovation and thus its value for the customer.

Thanks to the corporate division's strong international presence, its high innovative power and technological strength as well as the visible success of its innovation and technology offensive, Metering feels excellently prepared for successfully opening up further market potentials, also against the background of a sustainable handling of increasingly scarce resources, digitization and urbanization. Sales growth is therefore expected for 2018.

DIEHL METERING SALES (in million euros)



EMPLOYEES AT DIEHL METERING



Opportunities, Risks and Outlook

According to all relevant assessments, the economic situation remains promising; but we also see clouds on the horizon. The Diehl Group's business is confronted with numerous risks. For example, it is currently impossible to predict what measures the US government could take to protect American trade interests and what effects they will have on the respective trading partners. Added to this is the difficult situation in the EU which has been in permanent crisis mode for years – from the euro and refugee crisis to dealing with Russia in Ukraine and Syria all the way to the Brexit vote. In view of the member states' division, the further deepening of the EU sought by France and Germany no longer seems to be vigorously pursued. In the medium term, the increasingly close cooperation of individual EU countries in interest groups even calls into question the political and economic cohesion of the EU. Should the positive economic development come to a sudden end in this context, the Diehl Group would not be spared. Although the orientation of the company as a conglomerate has a stabilizing effect, Diehl is also affected by economic fluctuations. The risk management practiced in the Diehl Group on the basis of the management information system allows risks of an economic nature to be recorded and evaluated in good time so that countermeasures can be taken promptly.

The areas of activity also show a number of peculiarities:

About half the business volume of the Metall Corporate Division depends on the market prices for copper and zinc. High volatility which we have been faced with in recent years leads to fluctuations in sales, without any effect on the employment situation though. For this reason, sales forecasts are generally difficult to make here. The electricity price has a clear influence on the competitive situation. Here, the corporate division depends on

the government also and especially keeping an eye on energy-intensive companies when securing the economic future of Germany as a location for industry and trade. Diehl continues to rely on metal alloys because this versatile material will be indispensable in electric vehicles of the future and will also be used in many other areas of life.

Business with the white goods industry in the Controls division continues to be characterized by high pricing pressure. The number of customers is steadily decreasing as a result of the ongoing process of consolidation, which is exacerbating the pressure on suppliers. However, great professional expertise in the development of new controls and fast response times through the international production network enable Diehl to remain a sought-after and competitive partner for OEMs in the future. The Chinese market continues to be interesting, although it can no longer boast the growth rates of previous years, but continues to permit strong growth. In order to expand its customer base beyond its traditional core business with household appliance manufacturers, the Controls Corporate Division has begun working with a well-known manufacturer of power tools in the USA.

In view of the worldwide increase in tensions and the resulting demand to replenish the defence budget, which has been dwindling for years, the German defence technology business has been set in motion. Since the primacy of politics applies here exclusively, Diehl is dependent on the German government for national procurement as well as for approvals of defence exports. Diehl has been a reliable and successful partner of the Bundeswehr from the very beginning. The range of capabilities has been geared toward modern mission scenarios for years, which is why Diehl Defence is well positioned for future procurement projects – both nationally and internationally.

The aviation business remains interesting due to the further growth in passenger numbers. However, the increasing consolidation in the area of manufacturers and suppliers is raising the pressure on medium-sized and small suppliers, including Diehl Aviation. Competition on the supplier side will increase significantly and influence price developments accordingly. In addition, the supplier business for the international aviation industry is invoiced almost exclusively in dollars. Since the dollar exchange rate thus has a considerable influence on sales volumes and earnings, Diehl attaches great importance to hedging the dollar. The central financial department of the Diehl Stiftung & Co. KG ensures the reduction of the dollar risk following a defined strategy.

Intelligent measuring systems and modern measuring equipment provide the prerequisites for fluctuating renewable energies to be integrated into the power grid. Diehl Metering therefore sees itself in a growing market that remains highly attractive. Accurate measurement of energy consumption with automatic reading and transmission of measurement results using intelligent measuring devices (smart meters) is enjoying increasing popularity around the globe. Diehl Metering is currently concerned with a number of optimizations in terms of both local presence and technology which, overall, will further increase the company's effectiveness and secure its competitiveness. At present, business in the Middle East, the Caribbean, and Asia is of particular interest to Diehl Metering. And Diehl continues to have high hopes that the market in Germany will also develop in line with the requirements of the energy transition. Diehl Metering sees itself optimally prepared for this.

Digital transformation is omnipresent, also in the Diehl Group. That process launched by the Executive Board has initiated a paradigm shift in the company, which is to

lead to next-generation products and business processes. Diehl sees the digital transformation as an opportunity to align the current and future business even more closely with the needs of customers and partners. Diehl has established an organizational unit within the Group and within the corporate divisions to manage and advance this process.

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

Nürnberg, April 10, 2018

Diehl Verwaltungs-Stiftung

The Executive Board



Michael Schieber, system architect from corporate IT, Marcus Stein, system and landscape architect at Diehl Metall, and Lisa-Maria Mauthofer, Diehl Metall Controlling.

As of the balance sheet date, December 31, 2017, the Diehl Group employed a total of 17,173 people at its worldwide locations. A comparison with the previous year (16,385) shows an increase of 788 employees. The increase took place mainly at Controls in Mexico and Poland as well as Aviation in Laupheim and Hungary. Growth was also seen at the German locations, with 11,696 employees (11,400 in 2016). The domestic rate, at 68.1 %, was slightly lower than in the previous year (69.6 %).

The constant good economic prospects have a noticeable impact on the German labor market. The already tense situation in the area of specialists and executives has thus become even more acute and presents Diehl with ever greater challenges in the search for suitable employees. Diehl therefore relies more than ever on its own qualified vocational training within the Group as a proven basis for securing the next generation of employees. As in previous years, the number of junior staff hired remained at a consistently high level with 471 apprentices (2016: 484), 445 (456) of whom in Germany. They complete their training in 25 recognized training occupations together with 71 junior employees who undergo a dual course of studies in 13 different fields of study, combining study as well as practical and in-depth training phases at our locations. In addition, seven prospective specialists from other companies are trained at our training centers, acquiring the necessary basic and technical skills of their training occupation that cannot be offered by the respective associated partner.

Diehl wants to give young people from crisis regions the opportunity for training and thus a better integration into our society. Four young refugees from Somalia, Eritrea, and Syria are currently undergoing dual training at the Nürnberg location. Another refugee

from Gambia is currently being trained in Laupheim. The first contact with future junior staff usually happens at training fairs, at parents' evenings at schools or at company events (Open Day). Diehl invites around 300 students to our training centers every year to give them interesting insights into the world of work at Diehl during a one-week trial internship. The offer is also particularly aimed at young women. In addition, Diehl has participated for years in the „Girls' Day“ and the educational initiative „Girls for Technology Camp“ of the Educational Institute of the Bavarian Industry. The continued lively interest in the demanding and varied internships Diehl offers students in order to give them an insight into everyday working life and career opportunities at Diehl is a delight. If desired, cooperation with students can be intensified within the context of project-oriented seminar papers, bachelor or master theses. Applications can be submitted via the e-recruiting system.

The qualification of specialists and executives is of lasting importance to us. Diehl offers numerous measures for professional and personal advancement, for example specifically aimed at employees with potential for further tasks or at junior staff for whom Diehl enables a transfer of knowledge through experienced older colleagues. As a competing family-owned company, Diehl recruits exclusively on the basis of the relevant qualifications. In accordance with legal requirements, the proportion of women does not fall short of the already achieved quota.

The Diehl competence model which was developed more than ten years ago across the Group and updated some time ago has been very well received. The competence model provides an important orientation for leadership and cooperation and thus

influences the respective behavior of both executives and employees. With a total of 25 individual criteria and concrete, practical behavior descriptions, the catalog makes it possible to better recognize and develop the strengths of employees and executives so that they remain committed, unerring, and able to act even in new and difficult situations.

In 2017, the number of suggestions for improvements from the workforce increased significantly again – an expression of the employees' continuing great identification with their tasks and their high motivation to participate in our competition of good ideas. Approximately 4,400 proposals add up to considerable annual net savings of € 2.5 million.

Diehl is proud of the long-standing loyalty of many employees. Anniversaries are celebrated in order to acknowledge the commitment of the anniversary employees in the context of outstanding celebrations at the locations. In the year under review, 143 employees celebrated their 25th service anniversary, another 68 reached 40 years of service with the company, and two employees could even look back on 50 years of faithful service.

Diehl's success is based on the wealth of ideas, know-how, and dedication of our employees worldwide. The Executive Board would like to express its sincere thanks to all employees. We also want to thank the employee representatives for their always objective and constructive cooperation, which has led the company to sustainable and future-oriented solutions.



The Group's actions are characterized by a forward-looking and sustainable corporate culture. This also includes a common understanding at all levels of how to reconcile entrepreneurial success and responsible use of natural resources. It is the responsibility of each individual to ensure that all requirements are met at their workplace and in their environment and to additionally contribute new ideas and impulses for further improvements.

In the year under review, efforts again focused on measures to improve energy efficiency at the sites. At Sundwiger Messingwerk, for example, more than 200 MWh could be saved per year on two casting furnaces by converting the second furnace coil into an energy-saving coil. A further 300 MWh of electricity savings per year were achieved by replacing conventional lighting in the strip rolling mill

with modern LED spotlights. This results in a total reduction in CO₂ emissions of more than 400 tons per year. The Defence division also implemented important energy-saving measures in various modernization projects at the Mariahütte and Maasberg sites. This includes a new room heating distributor in the heating center at Maasberg, which now regulates and controls large sections of the plant more energy-efficiently. It also includes the installation of energy-efficient circulation pumps and heat meters from the Diehl Metering product range and new thermal insulation for the supply and return pipes in the boiler house. The extensive renovation of industrial glazing and roof surfaces at the Mariahütte site will clearly improve both the indoor climate and the ecological footprint of this plant. Further significant improvements could be achieved at the Heilbronn site by converting the production process at the hydrogen

continuous furnace at AIM. The metalization of conductor paths by screen printing consumes large amounts of hydrogen, nitrogen, and electricity. Thanks to optimized capacity planning and prefabrication of parts, it is now possible to put the furnace temporarily into standby mode. The savings for 2017 are 125 MWh of electricity and 30,000 m3 of hydrogen. And at Diehl Aviation in Laupheim, the energy efficiency of the entire facility could be more than doubled by means of a demand-dependent control system in the refrigeration plant. Savings: 200 MWh per year. The foreign locations also take great efforts in environmental protection; particularly the subject of improved energy efficiency is approached everywhere with inventiveness and a lot of vigor.



The Karl Diehl Foundation for People in Need celebrated its 30th anniversary in the year under review. Since its foundation, the aid organization for Nürnberg and the surrounding area – founded by Karl Diehl on his 80th birthday – has been able to help in over 12,500 specific individual cases. In the meantime, around 800 more fates are added each year. A total of about € 4 million has been spent on these purposes to date. Support in depressing situations has been granted to 12,500 people – often with their families. Concrete assistance in emergencies for which no state or charitable institution feels responsible – for whatever reason.

The Irmgard Diehl Children's Foundation can look back on ten years of successful work this year. Its help is aimed at abused, traumatized, socially disadvantaged, sick and handicapped children and young people from Central Franconia, Upper Franconia, and Swabia. Funding is provided above all for treatments in the medical/therapeutic sector, in particular treatment methods with horses, dogs, and dolphins, the costs of which are usually not covered by health insurers. Since the foundation was established, more than € 600,000 could be paid out in grants.

Work at the Pellerhof building in Nürnberg, which has been restored to its former splendor by Altstadtfreunde Nürnberg e.V. (Nürnberg's Old Town Friends) with the support of the Diehl family since 2008, has made good progress. With this reconstruction, which has been financed exclusively from donations, Nürnberg regains one of its great sights and German art history its probably most important arcade court.

With the special exhibition „Paper Treasure. The Diehl Dürer Collection – A gift to the city of Nürnberg”, the city presented to the interested public some outstanding works from its unique collection in the year under review. Over many years, Karl Diehl and his wife Irmgard Diehl assembled what is probably the largest collection of copper engravings, wood engravings, and etchings by perhaps Nürnberg's most important artist – Albrecht Dürer. A unique collection, which in later years was expertly supplemented by Inge Popp, Karl Diehl's partner of many years. The collection had been donated to the city of Nürnberg by the sons of Karl Diehl – in accordance with the wishes of their father.

**Consolidated
Financial Statements
as of December 31, 2017**

CONSOLIDATED BALANCE SHEET OF DIEHL VERWALTUNGS-STIFTUNG

(in K€)

ASSETS

	Dec. 31, 2017	Dec. 31, 2016
A. Fixed assets		
I. Intangible assets	18,560	22,898
II. Tangible assets	528,717	513,931
III. Financial assets	13,546	12,603
	<u>560,823</u>	<u>549,432</u>
B. Current assets		
I. Inventories		
1. Raw materials and supplies	278,071	267,480
2. Work in process	436,447	488,461
3. Finished goods and merchandise	133,685	128,518
4. Advance payments	2,379	7,187
5. Advance payments received	– 105,952	– 121,562
	<u>744,630</u>	<u>770,084</u>
II. Receivables and other assets		
1. Trade receivables	421,364	429,049
2. Receivables due from affiliated companies	120	22
3. Receivables due from companies in which participations are held	86,424	44,253
4. Other assets	99,312	86,438
	<u>607,220</u>	<u>559,762</u>
III. Securities		
Trade securities	1,255	1,221
IV. Cash, bank balances and checks	<u>331,196</u>	<u>321,708</u>
	<u>1,684,301</u>	<u>1,652,775</u>
C. Prepaid expenses	6,755	7,189
D. Deferred tax assets	106,146	106,961
E. Excess of plan assets over pension liabilities and similar obligations	643	872
	<u>2,358,668</u>	<u>2,317,229</u>

CONSOLIDATED INCOME STATEMENT OF DIEHL VERWALTUNGS-STIFTUNG FOR THE PERIOD JAN. 1 TO DEC. 31, 2017

(in K€)

	2017	2016
1. Sales	3,749,206	3,410,170
2. Decrease (increase) in finished goods and work in process	– 49,776	12,103
3. Capitalized services and material	8,726	9,966
4. Other operating income	125,965	120,765
5. Cost of materials and services :		
a) Cost of raw materials, supplies and purchased goods	– 1,777,957	– 1,638,102
b) Cost of purchased services	– 239,176	– 240,133
	<u>– 2,017,133</u>	<u>– 1,878,235</u>
6. Personnel expenses :		
a) Wages and salaries	– 822,583	– 773,360
b) Social security and pensions costs	– 159,991	– 155,212
– thereof for pensions :	– 8,440	– 10,841
	<u>– 982,574</u>	<u>– 928,572</u>
7. Amortization and depreciation of intangible and tangible assets	– 85,009	– 85,691
8. Other operating expenses	– 476,577	– 488,299
9. Income from investments	357	278
– thereof from affiliated companies :	155	83
10. Income from investments in associated companies	1,190	2,171
11. Other interest and similar income	3,246	31,139
– thereof from affiliated companies :	20	78
12. Write-down of financial assets and current securities	– 69	– 1
13. Interest and similar expenses	– 69,272	– 69,633
– thereof to affiliated companies :	– 1	– 1
14. Income tax	– 72,812	– 30,782
– thereof deferred taxes :	1,462	29,043
15. Earnings after tax	<u>135,468</u>	<u>105,379</u>
16. Net income for the year	<u>135,468</u>	<u>105,379</u>
– thereof part of other shareholders :	135,458	105,358

CONSOLIDATED CASH FLOW STATEMENT OF DIEHL VERWALTUNGSSTIFTUNG FOR THE PERIOD JAN. 1 TO DEC. 31, 2017

(in K€)

	2017	2016
Net income	135,468	105,379
Adjustment to reconcile net income between exchange rate as of 12/31/2016 and yearly average exchange rate	- 453	477
Depreciations / write-ups on fixed assets	84,362	83,924
Increase / decrease in accruals and provisions	- 29,109	59,194
Other non-cash expenses	3,299	- 29,026
Gains on disposals of assets related to investing activities	- 7,942	- 2,613
Increase / decrease in inventories, trade receivables and other assets	6,023	- 127,772
Increase / decrease in trade payables and other liabilities	- 35,466	21,772
Interest expenses/interest income	66,026	38,494
Other investment earnings	- 930	- 1,198
Income tax expenses	74,273	59,875
Income tax payments	- 81,955	- 74,908
Income from grants	- 8,676	- 8,473
Cash flow from operating activities	204,920	125,125
Disposals of tangible and intangible assets	16,331	7,405
Purchase of tangible and intangible assets	- 108,100	- 111,812
Acquisition of / disposals of financial assets	- 2,699	- 2,317
Sale of consolidated companies	0	1,500
Cash inflow to financial assets from short-term financial management	0	0
Cash outflow from financial assets from short-term financial management	- 33	- 37
Interest received	1,147	1,264
Dividends received	930	1,198
Cash flow from investing activities	- 92,424	- 102,799
Decrease in capital stock and payments from changes in shareholder loans	- 4,900	- 7,434
Dividends paid to shareholders	- 39,684	- 25,246
Decrease of bank liabilities and other financial liabilities	- 63,223	- 82,816
Increase of bank liabilities and other financial liabilities	5,648	383
Payments from grants	8,676	8,473
Interest paid	- 14,875	- 15,831
Cash flow from financing activities	- 108,358	- 122,471
Change in cash and cash equivalents	4,138	- 100,145
Effect of changes in exchange rates, changes in Group structure and changes due to valuations	8,568	1,472
Cash and cash equivalents at beginning of period	291,146	389,819
Cash and cash equivalents at end of period	303,852	291,146
<i>Cash and cash equivalents have been reduced by € 27.4 million (12/31/2016: € 30.6 million) of current liabilities due to banks.</i>		

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY OF DIEHL VERWALTUNGS-STIFTUNG

	Equity of parent company				Shares held by other shareholders		Shareholders' equity	
	Capital stock	Reserves	Retained earnings brought forward	Equity of parent company	Non-controlling interests in subgroup Diehl Stiftung & Co. KG	Non-controlling interests of other shareholders	Shares held by other shareholders	
(in K€)								
As of Dec. 31, 2016	511	161	1,642	2,314	580,474	49,458	629,932	632,246
Allocation to reserve		12	- 12		7,192		7,192	7,192
Distribution of earnings					- 15,093	- 8,699	- 23,792	- 23,792
Currency translation					- 6,737	- 389	- 7,126	- 7,126
Other changes					- 864	2	- 862	- 862
Changes to the consolidated group					- 6		- 6	- 6
Net income for the year			10	10	107,596	20,670	128,266	128,276
As of Dec. 31, 2017	511	173	1,640	2,324	672,562	61,042	733,604	735,928

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF DIEHL VERWALTUNGS-STIFTUNG FOR FISCAL YEAR 2017

I. General remarks

Diehl Verwaltungs-Stiftung, headquartered in Nürnberg, is registered in the commercial register of the Nürnberg Local Court under number HRA 11756.

The consolidated financial statements of the Diehl Group are prepared in accordance with the consolidation rules of the German Commercial Code.

The financial statements of all companies included in the consolidated financial statements are prepared pursuant to the accounting and valuation methods valid in the Diehl Group. Accounting for foreign companies is adjusted to the uniform accounting and valuation principles where this is material to give a true and fair view of the net assets, financial position and results of operations.

II. Basis of consolidation and associated companies

In addition to Diehl Verwaltungs-Stiftung, the consolidated financial statements include 46 domestic and 28 foreign companies, which are under direct or indirect control of Diehl Verwaltungs-Stiftung.

From fiscal year 2017, the group of fully consolidated companies is expanded by Diehl Retrofit Missile Systeme GmbH previously included as an associated company under the name of Diehl Raytheon Missile Systeme GmbH which was renamed in 2017. Diehl Hellas Monoprosopi Eteria Periorismenis Efthisis was liquidated in 2017.

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

Due to their minor significance for a true and fair view of the group's net assets, financial position and results of operations, 8 companies were not consolidated. Based on Art. 296, Para 1, no. 1 of the German Commercial Code, two companies were not included in the corporate

financial statements since their assets are limited to the respective company purpose.

An overview of share ownership and of the basis of consolidation is provided in an appendix to the notes.

III. Consolidation principles

For companies which were included in the consolidated financial statements as fully consolidated companies on December 31, 2009, the book value method is applied for capital consolidation.

For subsidiaries which were for the first time fully consolidated in the consolidated financial statements from January 1, 2010, the revaluation method is applied for capital consolidation, with assets and debts being stated at their full fair value and the acquisition value of the shareholding offset against the group's share of the equity of the consolidated company at the time of its acquisition. The resulting difference on the assets side is shown as goodwill.

The shares in associated companies are treated in accordance with the principles of the equity method of accounting. They are stated using the book value method at the date of their acquisition.

Intercompany profits and losses, sales, expenses and income as well as receivables and payables between fully consolidated companies are eliminated. Intercompany results with associated companies are not eliminated since their influence on the Group's overall situation is of minor significance.

Deferred taxation is made for consolidation operations affecting the results whenever diverging tax expenses are expected to be compensated for in future fiscal years.

IV. Accounting and valuation principles, foreign currency translation

To improve the clarity of representation, also with regard to international standards, advance payments received, at € 106.0 million, were in 2017 for the first time deducted from inventories. The previous year's figure (€ 121.6 million) was adjusted accordingly. Otherwise, the financial statements were still prepared on the basis of the following accounting and valuation principles.

1. Fixed assets

Acquired intangible assets are valued at acquisition cost, less scheduled or non-scheduled amortization. Normally, the useful life is 3 years, unless a different period is appropriate, e.g. due to the validity period of rights of use. A capitalized goodwill is amortized over a maximum period of 15 years. An amortization of goodwill over more than 5 years is based on the respective product life cycles and the expected market development.

Tangible assets are valued at the cost of acquisition or manufacture, less scheduled or non-scheduled depreciation. The production costs of self-constructed fixed assets also include proportional overhead expenses and depreciation in addition to direct costs. For new investments from 2010, the straight-line method of depreciation is used, for investments made before 2010 the declining-balance or straight-line method, depending on the tax opportunities. It is changed to the straight-line method when the latter results in higher depreciation amounts. Scheduled depreciation of buildings and parts of buildings is based on a useful life ranging from 2 to 50 years, depending on the extent of use. The useful life of technical equipment and machinery and that of other equipment, factory and office equipment ranges from 1 to 25 years. Low-value assets with acquisition costs of up to 410 euros are completely written off in Germany in the year of acquisition. Fixed values are defined for tools and fixtures. Extraordinary value reductions are taken into account by means of non-scheduled depreciation.

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

Shares in associated companies are valued using the equity method of accounting, starting with the book value. This calculation is based on the audited annual financial statements made available for each of these companies.

Interest-bearing **loans** are stated at their nominal values, non-interest bearing ones at their cash values.

Long-term marketable securities recorded under fixed assets are valued at the cost of acquisition or at the lower applicable value.

2. Current assets

Under **inventories**, raw materials and supplies as well as resales are valued at lower of cost or market value. The valuation of metal inventories at the lower of cost or market takes account of the contracted selling prices for the metal portion, if selling contracts already exist at the balance sheet date.

Work-in-process and finished goods are valued at cost. In addition to the direct cost of material and labor, proportional overheads are included.

Depreciation is made for stock and usability risks to an appropriate extent.

If at the time of preparing the balance sheet a need for devaluation is identified because costs are not covered completely by the proceeds, an appropriate markdown is made for the purpose of loss-free valuation.

Payments on account are stated at nominal value.

Receivables, other assets and liquid assets are always included in the balance sheet at their nominal value.

In the case of receivables, allowances are made to appropriately cover discernible individual risks through individual value adjustments and general credit risks as well as costs of collecting receivables through general

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF DIEHL VERWALTUNGS-STIFTUNG FOR FISCAL YEAR 2017

value adjustments. Interest-free receivables which will probably be received only after a period of 12 months are shown at their cash value.

Short-term marketable securities under current assets are valued at lower of cost or market value.

3. Accruals / liabilities

Accruals for pensions and similar liabilities are actuarially valued according to the modified entry-age normal method. Calculations are based on the 2005 G mortality tables published by Prof. Dr. Klaus Heubeck. Assumptions regarding the future development of particular parameters are taken into account in the valuation. Wage and salary increases of 2.80% p.a. and a dynamic pension increase of 1.65% p.a. have been taken as a basis. An interest rate of 3.68% p.a. as given by the German Central Bank for a remaining term of 15 years is used for the discounting of reserves.

Tax accruals and other accruals are set up to cover all contingent liabilities and discernible risks. They are stated in the amount expected to be required based on prudent commercial assessment (i.e. including future price and cost increases). Accruals with a residual term of more than one year are discounted.

If no valuation units are formed between metal purchase contracts and the metal portion of sales contracts, these items are checked for impending losses.

All **liabilities** are stated at the amount payable.

4. Foreign currency translation

The valuation date for fixed assets in foreign currencies is the day of purchase, while receivables and payables are valued on the day they accrue. Short-term assets and liabilities with a term of less than one year are converted at the average spot exchange rate on the balance sheet date. Receivables and liabilities with a remaining term of more

than one year are valued according to the imparity principle, using the average spot exchange rate.

The financial statements of the consolidated foreign companies in foreign currencies are translated at the rates valid on the balance sheet date. The individual equity items are converted at historical rates, the net income at the average rate of the year. The items of the income statement are converted at the average rate of the year. The difference between balance sheet date rate, historical rates and average rates is reported in the equity section of the subgroup Diehl Stiftung & Co. KG or in the shares of other third-party shareholders. Differences over the previous year's statement are taken into account without affecting the income.

Currency and metal-price risks are countered by a corporate-wide risk management strategy. Valuation units are created and documented in accordance with Art. 254 of the German Commercial Code. If they are hedged by forward transactions, the respective hedging rates are applied.

Receivables and liabilities in the same currency with nearly the same term are combined to form valuation units if they are of the same value.

Effective items of the valuation units created are reported in the balance sheet using the freezing method (compensatory valuation). For ineffective items, the imparity principle is applied. This means that positive market values are not shown in the balance sheet and provisions for contingent losses are set up for negative market values only if a negative balance results from a valuation unit or if an open item yields a loss.

V. Notes to the balance sheet

1. Fixed assets

Development of the individual fixed asset items and depreciations is shown in an appendix to the notes. The „changes“ column contains all changes to the initial amounts resulting from additions and disposals affecting the consolidated companies and from currency translation differences.

2. Receivables and other assets

A residual term of more than one year applies for the following amounts under the respective items:

	K€ 2017/12/31	K€ 2016/12/31
Trade receivables	688	464
Receivables from companies in which participations are held	231	293
Other assets	516	2,278

3. Deferred taxes

Deferred taxes (on the assets and liabilities side) result from valuation differences in the commercial and tax balance sheet, tax loss carryforwards as well as consolidation measures if the differences are compensated in the future. Deferred taxes on the assets and liabilities side are not balanced.

Deferred taxes are valued at uniform corporate tax rates of 12% to 16% (partnerships) or 27% to 31% (joint-stock companies) for domestic companies. For foreign subsidiaries, the individual national statutory tax rates (9% to 34%) are applied.

Deferred taxes on the assets side in the amount of K€ 106,146 mainly result from the creation of deferred taxes based on different valuation methods in the commercial and tax balance sheet (pension reserves and accruals

for anniversary bonuses, accruals for warranty expense, provision for contingent losses and other accruals, different discount rates for long-term accruals, different depreciation methods and periods, different valuation methods for foreign exchange positions), tax loss carryforwards as well as elimination of intercompany profits and losses in the fixed assets and inventories.

Deferred taxes on the liabilities side in the amount of K€ 12,033 mainly result from reserves only permissible under tax law (e.g. Art. 6b of the Income Tax Act), special tax depreciation as well as different valuation methods in the commercial and tax balance sheet.

	K€ as of 2017/12/31	K€ as of 2016/12/31	K€ variation
Deferred taxes on the assets side	106,146	106,961	- 815
Deferred taxes on the liabilities side	12,033	13,875	- 1,842

4. Shareholders' equity

The equity of the subgroup Diehl Stiftung & Co. KG consists of the liable limited liability capital of Diehl Stiftung & Co. KG, the reserves of Diehl Stiftung & Co. KG and the differences between the investment book value and the proportionate equity of the subsidiaries. The statement of changes in equity is prepared according to the principles of the German accounting standards DRS 22.

5. Accruals

Long-term marketable securities used to finance life work-time accounts are valued at their fair value and offset against the respective accruals in the amount of K€ 10,420 (inclusion of plan assets). The acquisition costs were K€ 8,936. Expenses and income each in the amount of K€ 759 were offset.

Receivables from pension liability insurances for deferred compensation are offset against pension reserves for

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF DIEHL VERWALTUNGS-STIFTUNG FOR FISCAL YEAR 2017

reinsured deferred compensation (inclusion of plan assets). The historical acquisition cost and the fair value of the receivables from offset pension liability insurances amount to K€ 11,047. The settlement amount of the pension reserve offset for reinsured deferred compensation corresponds to the asset value from the pension liability insurance (K€ 11,047). Expenses and income in the amount of K€ 340 were offset.

Coverage capital for insolvency insurance of life work-time accounts in the amount of K€ 4,685 was offset against the corresponding accruals in the amount of K€ 4,094. The remaining coverage capital of K€ 592 was shown as excess of plan assets over post-employment benefit liability. Expenses and income in the amount of K€ 256 were offset.

Furthermore, coverage capital for insolvency insurance of working-time accounts in the amount of K€ 10,692 was offset against the corresponding accruals. Expenses and income in the amount of K€ 841 were offset.

Moreover, receivables from pension liability insurances to secure partial retirement balances with a fair value and historical acquisition cost of K€ 274 were offset against the related liabilities from outstanding settlement worth K€ 223. The excess of plan assets over pension liability was K€ 51.

In addition, other assets worth K€ 12,594 were offset against pension reserves.

Other accruals mainly include accruals for warranty expense, for outstanding invoices, for management bonuses and gratuities, for contractual penalties, for long-term working time accounts, for accrued overtime, for severance pay, for paid release from work and job creation companies (without partial retirement), for outstanding vacation pay, for service anniversaries and paid educational leave.

6. Liabilities

The total amount of liabilities and the breakdown of liabilities based on their remaining term are shown in an appendix to the notes.

The total amount of **liabilities due to banks** runs to K€ 7,817 and is secured by pledged accounts and land charges.

Other liabilities include the following items:

	K€ 2017/31/12	K€ 2016/31/12
Social security liabilities	6,824	5,423
Tax liabilities	38,403	30,632

7. Derivative financial instruments and valuation units

For its business activities, the Diehl Group uses forward contracts to manage the risks arising from the fluctuations in currencies and metal prices between the balance sheet date and the settlement date.

Forward exchange transactions are concluded by the companies with Diehl Stiftung & Co. KG. The latter, in turn, concludes appropriate forward exchange contracts with banks, which are essentially identical regarding value and term. The conclusion of such contracts is based on uniform guidelines, subject to internal controls and restricted to business in foreign currencies.

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

in million € Type	Market values		Nominal- volume
	positive	negative	
Forward exchange contracts			
USD	85	3	1,964
PLN	1	0	32
CNY	0	0	13
GBP	0	0	8
MXN	0	1	6
Other currencies	0	0	3
Commodity futures contracts			
Nonferrous metals exchange	4	3	66

The nominal volume is the total of all buying and selling values of derivative financial instruments.

The market value of forward exchange and commodity futures contracts is calculated on the basis of a comparison between the forward (futures) contract value applicable at the balance sheet date for the remaining contract term and the contracted value (market-to-market method).

The residual amount is covered by valuation units.

Forward exchange transactions are conducted to hedge business in foreign currencies and valuation units are created to cover the risks on the balance sheet date, worth € 86 million. Micro and macro hedges as well as portfolio hedges are employed in the valuation of foreign currency positions. Foreign currency receivables (€ 181.2 million), liquid assets (€ 37.8 million), foreign currency liabilities (€ 30.0 million), firmly contracted business not yet included in the balance sheet (€ 1,485.2 million) and transactions expected with high probability (€ 292.2 million) are included in the valuation units. Transactions expected with high probability mainly concern orders on hand. Basically, opposite changes in value/cash flows of these underlying and hedging transactions will presumably balance completely in the course of the following three fiscal years.

The business transactions summarized in valuation units are subject to the same risk. Accordingly, it is to be expected that opposite changes in value of the underlying and hedging transactions will in the future balance completely for the respective risk hedged. The prospective effectiveness of hedging relationships is determined on every balance sheet date by means of the critical- terms-match method, ensuring that the value-determining factors (nominal value, term, currency) for the underlying transaction and the hedging instrument are identical. Therefore, the individual hedging relationships are each rated as effective for the entire hedging period. The same applies for retroactive determination of the previous effectiveness. Here, too, it is proved by the critical-terms-match method that all value-determining factors of the hedged part of the underlying business and the hedging part of the hedging instruments are identical. In these cases, there can be no ineffectiveness that is relevant for the balance sheet with regard to the valuation units.

Metal price risks in connection with metal procurement and metal sales contracts (pending business) result from the

change in the prices of primary metals, scraps and semi-finished products between the date of contract conclusion and performance. Purchase and sales contracts not covered by corresponding physical transactions are hedged by appropriate exchange positions.

Commodity futures and forward contracts are concluded to hedge metal price risks (pending business). Micro and portfolio hedges are employed in valuation. The risks covered by portfolio hedges are highly homogeneous. The contract volume of hedging transactions is chosen so that it agrees with the contract volume of the underlying transactions – related to the respective primary metal portion.

Underlying and hedging transactions are included in the valuation units with the following market values (futures contract value applicable at the balance sheet date compared with the contracted value):

Metals Dec. 31, 2017	Market value in million €
Pending procurement transactions	– 0.7
Hedged by commodity futures	1.5
Pending sales transactions	– 2.7
Hedged by commodity futures	2.7

The changes in value of the pending sales and procurement transactions are hedged over a period of up to 24 months for the valuation units.

Opposite changes in value of these underlying and hedging transactions will presumably balance completely in the next two years. The effectiveness of the valuation units employed is measured by means of the „dollar-offset method“ in a cumulated form, taking into account given risk limits. The „dollar-offset method“ compares the cumulated market value changes of the underlying transactions with the cumulated market value changes of the hedging transactions in absolute amounts of money from the designated date. The „dollar-offset test“ is carried out on every balance sheet date.

A provision of € 0.2 million was set up on the balance sheet date. Risks worth € 5.5 million were hedged by micro/portfolio hedges, thus avoiding corresponding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF DIEHL VERWALTUNGS-STIFTUNG FOR FISCAL YEAR 2017

negative value changes on the balance sheet date.

Transactions expected with high probability with a volume of € 5.2 million were included in the evaluation units.

8. Contingent liabilities

On the balance sheet date, there were liabilities on guarantees in the amount of € 17.3 million (2016: € 10.5 million) and liabilities under warranties worth € 20 million (2016: € 39 million).

On the balance sheet date, there were contingent liabilities due to affiliated companies in the amount of € 31.2 million (2016: € 40 million).

In view of the business development of the individual companies towards which contingent liabilities exist, no related claims are expected to be raised.

Indirect pension liabilities are not shown in the balance sheet. The respective missing amount – € 4.6 million (2016: € 6.3 million) – due to affiliated, non-consolidated companies is included in the contingent liabilities (liabilities from warranty contracts).

9. Other financial commitments

Financial commitments from long-term contracts amount to € 815 million. They relate above all to commitments from quantity contracts for Metall for which prices have not yet been finally fixed (purchasing), commitments under rental and leasing contracts, offset obligations, obligations to pay back development cost subsidies as well as commitments from commodity futures contracts (Metall).

On the balance sheet date, there were other financial commitments to affiliated companies in the amount of € 40 million (2016: € 42 million).

VI. Notes to the income statement

1. Sales

Sales break down as follows:

in million € 2017	Total	Domestic	Foreign
Corporate Division Metall	917	425	492
Corporate Division Controls	558	95	463
Corporate Division Defence	456	248	208
Corporate Division Aviation	1,532	663	869
Corporate Division Metering	275	52	223
Services/other	11	11	0
Total:	3,749	1,494	2,255

in million € 2016	Total	Domestic	Foreign
Corporate Division Metall	829	391	438
Corporate Division Controls	517	88	429
Corporate Division Defence	435	301	134
Corporate Division Aviation	1,322	652	670
Corporate Division Metering	292	58	234
Services/other	15	12	3
Total:	3,410	1,502	1,908

Foreign sales are mainly generated in Europe, China and North America.

2. Other operating income

Includes income from foreign currency translation in the amount of € 8.8 million (2016: € 11.7 million).

3. Amortization and depreciation

Non-scheduled depreciation in the amount of € 1.2 million was made. This concerned the items „Amortization and depreciation on intangible assets and tangible assets“ in the income statement as well as “Income from associated companies”.

4. Other operating expenses

Other operating expenses include other taxes in the amount of € 6.7 million (2016: € 7.4 million) as well as expenses from foreign currency translation in the amount of € 7.7 million (2016: € 14.7 million).

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

The item other interest and similar income includes income from the discounting of accruals in the amount of € 2.0 million (2016: € 29.1 million).

The item interest and similar expenses includes expenses from the discounting of accruals in the amount of € 46.6 million (2016: € 45.8 million).

6. Taxes on income

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

7. Income/expenses relating to other accounting periods

Other operating income includes income relating to other accounting periods in the amount of € 64.3 million, mainly resulting from the use of particular accruals and the reversal of accruals not made use of.

Expenses relating to other accounting periods amounted to € 6.3 million.

8. Income and expenses of extraordinary size and significance

Major individual items result from the sale of fixed assets in the amount of € 8.5 million in other operating income and from structural adjustments in the amount of € 12.4 million in other operating expenses.

VII. Other information

1. Explanations concerning the cash flow statement

The cash flow statement is prepared using the indirect method in accordance with the German accounting standards DRS 21. Cash holdings include cash and cash equivalents after deduction of liabilities to banks due at any time.

Payments to shareholders include distributed profits to third-party shareholders as well as withdrawals for taxation of the shareholders of Diehl Stiftung & Co. KG.

2. Employees

	Annual average	
	2017	2016
Corporate Division Metall	3,334	3,284
Corporate Division Controls	3,747	3,343
Corporate Division Defence	2,245	2,226
Corporate Division Aviation	5,116	4,662
Corporate Division Metering	1,686	1,705
Services/other	410	392
Staff members	16,538	15,612
Apprentices	425	434
Total:	16,963	16,046

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF DIEHL VERWALTUNGS-STIFTUNG FOR FISCAL YEAR 2017

3. Fees paid for services provided by auditors

(in K€) Type	Group auditor	Other auditors
Annual audit services	1,409	84
Audit-related services	54	5
Tax consultation services	178	25
Other services	127	0
Total:	1,768	114

4. Events after the reporting period

No events of special importance, having an impact on the group's net assets, financial position and results of operations, occurred with the companies included in the consolidated financial statements between the balance sheet date – December 31, 2017 – and April 10, 2018.

5. Information required pursuant to Art. 314, Para 1, no. 6 of the German Commercial Code

Total remunerations for the members of the Executive Board amounted to K€ 5,916 in the reporting period. The emoluments of former members of the Executive Board and their surviving dependants amounted to K€ 703. Pension obligations to these persons amounted to K€ 9,845. Remunerations for the Supervisory Board members amounted to K€ 948.

6. Proposal for the appropriation of earnings

The Executive Board proposes to add an amount of K€ 12 to the capital maintenance reserve in order to really maintain the foundation's assets.

7. Special regulations for business partnerships

Due to their inclusion in and publication of the consolidated financial statements, the following business partnerships are relieved from the obligation to publish their audited annual financial statements pursuant to Art. 264b of the German Commercial Code:

Diehl AKO Stiftung & Co. KG, Wangen im Allgäu, Diehl Defence GmbH & Co. KG, Überlingen, Diehl Metall Stiftung & Co. KG, Röthenbach a. d. Pegnitz, Diehl Röthenbach GmbH & Co. KG, Nürnberg, Diehl Stiftung & Co. KG, Nürnberg, and Sundwiger Messingwerk GmbH & Co. KG, Hemer.

Nürnberg, April 10, 2018

Diehl Verwaltungs-Stiftung

The Executive Board

STOCK OWNERSHIP OF THE GROUP AS OF DECEMBER 31, 2017

1. Consolidated Companies

Name and registered office of company	Share in capital %
Production and sales companies	
Germany	
AIM Infrarot-Module GmbH, Heilbronn	50.0
Apparatebau Gauting Gesellschaft mit beschränkter Haftung, Gauting	100.0
Diehl Aerospace GmbH, Überlingen	51.0
Diehl Aircabin GmbH, Laupheim	94.0
Diehl AKO Stiftung & Co. KG, Wangen im Allgäu	100.0
Diehl Defence GmbH & Co. KG, Überlingen	100.0
Diehl Comfort Modules GmbH, Hamburg	100.0
Diehl Connectivity Solutions GmbH, Nürnberg	100.0
Diehl & Eagle-Picher Gesellschaft mit beschränkter Haftung, Röthenbach	55.0
DIEHL Gas Metering GmbH, Ansbach	100.0
Diehl Metal Applications GmbH, Röthenbach a. d. Pegnitz	100.0
Diehl Metall Stiftung & Co. KG, Röthenbach a. d. Pegnitz	100.0
Diehl Metering GmbH, Ansbach	98.8
Diehl Metering Systems GmbH, Nürnberg	100.0
Diehl Retrofit Missile Systeme GmbH, Überlingen	100.0
Diehl Service Modules GmbH, Hamburg	100.0
Diehl Werkzeugbau Seebach GmbH, Seebach	100.0
DynITEC GmbH, Troisdorf	58.8
JUNGHANS Microtec GmbH, Dunningen	55.0
SMH Süddeutsche Metallhandels-gesellschaft mit beschränkter Haftung, Nürnberg	100.0
Sundwiger Messingwerk GmbH & Co. KG, Hemer	100.0
Zehdenick Innovative Metall- und Kunststofftechnik GmbH, Zehdenick	100.0
Other countries	
Diehl Aerospace, Inc., Birmingham / Alabama, USA	100.0
Diehl Aerospace Pte. Ltd., Singapore	100.0
Diehl Aircabin Hungary Kft., Nyirbátor, Hungary	100.0
Diehl Augé Découpage SAS, Besançon, France	100.0
Diehl Controls (Nanjing) Co. Ltd., Nanjing, China	100.0
Diehl Controls México S.A. de C.V., El Marqués / Querétaro, Mexiko	100.0
Diehl Controls North America Inc., Wilmington, Delaware, USA	100.0
Diehl Controls Polska Sp. z o.o., Namysłów, Poland	100.0
Diehl do Brasil Metalúrgica Limitada, São Paulo, Brazil	100.0
Diehl Metal India Private Limited, Pune, Maharashtra, India	100.0
Diehl Metall (Shenzhen) Co. Ltd., Shenzhen, China	100.0
Diehl Metering ApS, Esbjerg, Denmark	100.0
Diehl Metering GesmbH, Wien, Austria	100.0
Diehl Metering (Jinan) Co. Ltd., Jinan, China	100.0

Name and registered office of company	Share in capital %
Production and sales companies	
Other countries (continuation)	
Diehl Metering LLC, Wilmington / Delaware, USA	100.0
Diehl Metering S.A.S., Saint-Louis, France	100.0
Diehl Metering Sp. z o.o., Bazanowice, Poland	100.0
DIEHL POWER ELECTRONIC SAS, Siaugues Sainte Marie, France	100.0
Diehl SynchroTec Manufacturing (Wuxi) Co., Ltd., Wuxi, Jiangsu, China	100.0
Franconia Industries, Inc., Albany / New York, USA	100.0
Junghans T2M SAS, La Ferté Saint-Aubin, France	100.0
The Miller Company, Meriden / Connecticut, USA	100.0
Management, property and other companies	
Germany	
Afelixa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	94.0
Diehl Aerosystems-Holding GmbH, Nürnberg	100.0
Diehl Aerosystems-Interior-Holding GmbH, Nürnberg	100.0
Diehl Assekuranz Rückversicherungs- und Vermittlungs-AG, Nürnberg	100.0
Diehl Ausbildungs- und Qualifizierungs-GmbH, Nürnberg	100.0
Diehl Beteiligungen GmbH, Nürnberg	100.0
Diehl Controls Nürnberg Verwaltungs GmbH, Nürnberg	100.0
Diehl Defence Land Systems GmbH, Freisen	100.0
Diehl Defence Holding GmbH, Überlingen	100.0
Diehl Defence Verwaltungs-GmbH, Überlingen	100.0
DIEHL Informatik GmbH, Nürnberg	100.0
Diehl Röthenbach GmbH & Co. KG, Nürnberg	100.0
Diehl Röthenbach Verwaltungs GmbH, Nürnberg	100.0
Diehl Stiftung & Co. KG, Nürnberg	0.0
Diehl Track Gesellschaft mit beschränkter Haftung, Nürnberg	100.0
Diehl Ventures GmbH, Nürnberg	100.0
GEBRÜDER JUNGHANS GESELLSCHAFT MIT BESCHRÄNKTER HAFTUNG, Röthenbach a. d. Pegnitz	95.8
GMD Beteiligungs GmbH, Nürnberg	100.0
Goma GmbH, Röthenbach a. d. Pegnitz	100.0
Gummiwerk Blankenheim GmbH, Nürnberg	100.0
Integra Vermögensverwaltungs- und Beteiligungsgesellschaft mbH, Nürnberg	100.0
Neubrandenburger Fahrzeugwerke GmbH, Nürnberg	100.0
Pyrotechnische Fabrik (PYF) GmbH, Röthenbach a. d. Pegnitz	100.0
Sundwiger Messingwerk Verwaltungs GmbH, Hemer	100.0
Other countries	
Diehl Americas, Inc., Wilmington / Delaware, USA	100.0

STOCK OWNERSHIP OF THE GROUP AS OF DECEMBER 31, 2017

1. Consolidated Companies (continuation)

Name and registered office of company	Share in capital %
Management, property and other companies	
Other countries	
Diehl Iberia Sistemas, S.A., Sevilla, Spain	100.0
Diehl Metal Applications France SAS, Besançon, France	100.0
DIEHL METERING INDUSTRIA DE SISTEMA DE MEDICAO LTDA, Recife, Brazil	100.0
Hydrometer Verwaltungsgesellschaft mbH, Wien, Austria	100.0
Metares SAS i. L., Saint-Louis, France	100.0

2. Affiliated companies

Management, property and other companies	
Diehl Metering AB, Stockholm, Sweden	100.0
Diehl Metering FZE, Dubai, United Arab Emirates	100.0
Diehl Metering Limited, Halifax / West Yorkshire, Great Britain	100.0
Diehl Metering Pte. Ltd., Singapore	100.0
Diehl Metering S.L., Madrid, Spain	100.0
Diehl Metering S.R.L., Milano, Italy	100.0
Diehl Middle East GmbH, Nürnberg	100.0
FFT Fahrzeugbau und Fahrzeugtechnik GmbH, Nürnberg	100.0
Heinrich Diehl Gedächtnisfonds Gesellschaft mit beschränkter Haftung, Nürnberg	100.0
Mausser-Werke Oberndorf Unterstützungskasse Gesellschaft mit beschränkter Haftung, Oberndorf am Neckar	100.0

3. Associated companies (equity accounting)

Name and registered office of company	Share in capital %
EuroSpike GmbH, Röthenbach a.d. Peg.	40.0
GIWS Gesellschaft für Intelligente Wirksysteme mbH, Nürnberg	50.0
LOG GmbH, Bonn	25.0
PARSYS GmbH, Schrobenhausen	50.0
RAM-SYSTEM Gesellschaft mit beschränkter Haftung, Ottobrunn	50.0
ROCKETHOME GmbH, Köln	25.1

4. Investments (share in capital \geq 20%)

Diehl Kuwait General Trade & Contracting W.L.L., Dasman, Kuwait	49.0
HIL Industrie-Holding GmbH, Bonn	33.3
OEM Defence Services SAS, Elancourt, France	20.0
OEMServices SAS, Tremblay en France, France	25.0
Schramberger Wohnungsbau, Gesellschaft mit beschränkter Haftung, Schramberg	24.1
Troisdorf Genehmigungshaltergesellschaft mbH, Troisdorf	20.0

CONSOLIDATED STATEMENT OF FIXED ASSETS OF DIEHL VERWALTUNGS-STIFTUNG

(in K€)

	Cost of acquisition/manufacture						
	As of Dec. 31, 2016	Changes	Additions	Write-ups	Disposals	Transfers	As of Dec. 31, 2017
I. Intangible assets							
1. Acquired concessions, industrial property rights and licenses	110,284	– 651	5,492	0	983	2,844	116,986
2. Goodwill	218,144	– 1,751	6	0	0	0	216,399
3. Advance payments	2,791	0	1,680	0	13	– 2,496	1,962
	331,219	– 2,402	7,178	0	996	348	335,347
II. Tangible assets							
1. Real property, corporeal rights in real property and buildings, including buildings on real property of third parties	532,672	– 2,594	7,680	0	23,193	6,328	520,893
2. Technical equipment and machinery	803,795	– 4,767	28,354	0	13,026	19,594	833,950
3. Other equipment, factory and office equipment	492,627	145	31,911	0	9,357	6,674	522,000
4. Advance payments and assets under construction	45,039	199	29,532	0	148	– 32,944	41,678
	1,874,133	– 7,017	97,477	0	45,724	– 348	1,918,521
III. Financial assets							
1. Shares in affiliated companies	3,679	18	0	0	18	0	3,679
2. Shares in associated companies	6,471	– 2,308	1,017	1,625	0	0	6,805
3. Other investments	2,674	0	640	0	640	0	2,674
4. Loans to companies in which participations are held	718	0	0	0	159	0	559
5. Long-term securities	5	0	0	0	0	0	5
6. Other loans	3,714	0	1,844	0	3	0	5,555
	17,261	– 2,290	3,501	1,625	820	0	19,277
Gesamt	2,222,613	– 11,709	108,156	1,625	47,540	0	2,273,145

Amortization/Depreciation

Net book value

As of Dec. 31, 2016	Changes	Additions	Write-ups	Disposals	Transfers	Diff. between exchange rate as of Dec. 31 and yearly average rate	As of Dec. 31, 2017	As of Dec. 31, 2017	As of Dec. 31, 2016
94,629	- 145	8,110	0	941	0	- 97	101,556	15,430	15,655
213,692	- 1,751	3,290	0	0	0	0	215,231	1,168	4,452
0	0	0	0	0	0	0	0	1,962	2,791
308,321	- 1,896	11,400	0	941	0	- 97	316,787	18,560	22,898
346,869	- 1,133	9,117	- 1,276	16,018	0	- 32	337,527	183,366	185,803
651,387	- 3,696	38,571	0	12,482	203	- 262	673,721	160,229	152,408
361,946	- 165	25,921	- 33	8,890	- 203	- 20	378,556	143,444	130,681
0	0	0	0	0	0	0	0	41,678	45,039
1,360,202	- 4,994	73,609	- 1,309	37,390	0	- 314	1,389,804	528,717	513,931
2,701	18	0	0	18	0	0	2,701	978	978
0	0	1,007	0	0	0	0	1,007	5,798	6,471
1,955	0	0	0	0	0	0	1,955	719	719
0	0	0	0	0	0	0	0	559	718
2	0	0	- 1	0	0	0	1	4	3
0	0	68	0	0	0	- 1	67	5,488	3,714
4,658	18	1,075	- 1	18	0	- 1	5,731	13,546	12,603
1,673,181	- 6,872	86,084	- 1,310	38,349	0	- 412	1,712,322	560,823	549,432

RESIDUAL TERMS OF LIABILITIES AS OF DECEMBER 31, 2017

(in K€)

Liabilities:	Total As of Dec. 31, 2017	Of which with a residual term of up to 1 year	Of which with a residual term of more than 1 year	Of which with a residual term of more than 5 years
1. Liabilities due to banks	119,877	60,652	59,225	7,326
2. Trade payables	312,775	312,772	3	0
3. Payables due to affiliated companies	457	457	0	0
4. Payables due to companies in which participations are held	40,025	22,686	17,339	0
5. Other liabilities	145,340	137,483	7,857	4,052
TOTAL	618,474	534,050	84,424	11,378

Liabilities:	Total As of Dec. 31, 2017	Of which with a residual term of up to 1 year	Of which with a residual term of more than 1 year	Of which with a residual term of more than 5 years
1. Liabilities due to banks	153,386	63,437	89,949	11,400
2. Trade payables	332,059	332,059	0	0
3. Payables due to affiliated companies	612	612	0	0
4. Payables due to companies in which participations are held	44,423	28,459	15,964	0
5. Other liabilities	157,170	148,626	8,544	5,355
TOTAL	687,650	573,193	114,457	16,755

Independent Auditor's Report

To Diehl Verwaltungs-Stiftung, Nürnberg

Audit Opinions

We have audited the consolidated financial statements of Diehl Verwaltungs-Stiftung, Nürnberg, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31st, 2017 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the financial year from January 1st to December 31st, 2017 and notes to the consolidated financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the group management report of Diehl Verwaltungs-Stiftung for the financial year from January 1st to December 31st, 2017.

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 requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Group as at December 31st, 2017 and of its financial performance for the financial year from January 1st to December 31st, 2017 in compliance with German Legally Required Accounting Principles, 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.

Pursuant to § 322 Abs. 3 Satz 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 Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB 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 of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

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 the requirements of German commercial law, and 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 German Legally Required Accounting Principles. In addition the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, 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

Continuation Independent Auditor's Report

related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

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 audit 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

§ 317 HGB 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 audit 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 audit 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 audit 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 German Legally Required Accounting Principles.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit 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 audit 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.

München, May 8, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Peter Bartels
Wirtschaftsprüfer
(German Public Auditor)

Thorsten Dzulko
Wirtschaftsprüfer
(German Public Auditor)

During 2017, the Executive Board regularly informed the Supervisory Board about the course of business, the situation of the corporate group, and important individual business transactions. The questions and decisions resulting from this reporting were discussed comprehensively in meetings. The Supervisory Board was especially concerned with the market orientation of the corporate group and corporate divisions as well as the financial and earnings situation. For these issues, the Supervisory Board again received the Advisory Board's esteemed advice.

The Advisory Board comprises:

Prof. Dr. Nikolaus Schweickart, Chairman,
former Chairman of ALTANA Kulturstiftung gGmbH and
former CEO of ALTANA AG,

Mr. Klaus Probst, Vice Chairman,
former CEO of Leoni AG, Chairman of the Supervisory
Board of Leoni AG,

Dr. Olaf Berlien,
CEO of Osram Licht AG,

RA Karlhermann Jung,
attorney and notary public (ret.), former long-standing
member of the Supervisory Board of Diehl Verwaltungs-
Stiftung,

Mr. Claus Mänz-Siebje,
former Chairman of the Supervisory Board of Diehl
Verwaltungs-Stiftung.

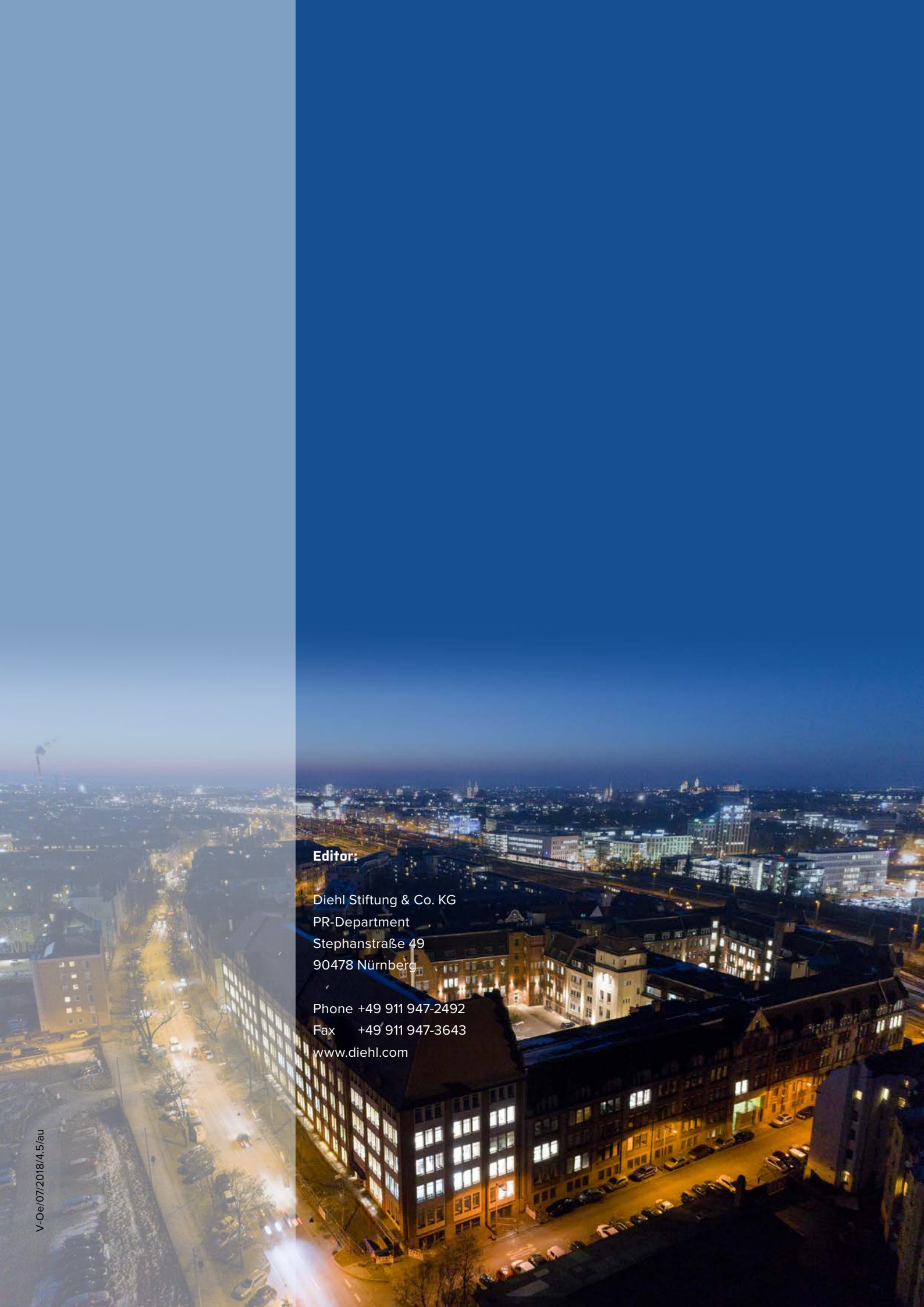
The Consolidated Financial Statements and the Group Management Report of Diehl Verwaltungs-Stiftung were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft and certified without qualification. The Supervisory Board has taken note of the audit result.

The Supervisory Board would like to express its thanks to the Advisory Board, the Executive Board, the members of the Works Councils, and all employees of the corporate group for the work performed in the past fiscal year.

For the Supervisory Board

Dr. Klaus Maier
Chairman

Nürnberg, May 8, 2018



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