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FLEXIBLY.
Cornelia Schubert Industrial Engineering – Head of Business Excellence.

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# Stable sales on high level – income affected by one-off effects

In FY 2018, corporate sales – at € 3,693.5 million – were slightly below the previous year's record value (€ 3,749.2). The strong growth of 2017 could not be continued; however, sales stabilized on a high level. Growth was recorded by both Metering and Defence. The total number of employees increased by 125 persons, or 0.7%, to 17,298.

The generated EBIT of  $\leqslant$  215.3 million was below the 2017 value of  $\leqslant$  274.3 million. It is, however, to be taken into account that the decline was accounted for by one-off expenditures for accruals for pensions and accruals for restructuring measures.

Sales in the **Metall Corporate Division** were almost level. When looking at the processing business alone, the previous year's values were reached again or even exceeded in the Business Field Extruded and Drawn Products as well as in the Business Field Diehl Metal Applications. Sales in the Business Field Forgings were, however, distinctly below the 2017 level.

Diehl Controls saw a drop in orders from major customers in the household appliance industry which were confronted with marked declines in sales in important markets. Moreover, the continuous shortage of special electronic components on the world market led to noticeable additional costs in procurement, long lead times and delivery bottlenecks.

Diehl Defence continued to expand its defence business. After years of stabilization, the Corporate Division's development and production facilities at the individual locations are now used to capacity. Despite individual losses in export business, the Corporate Division continued its stable sales growth course. Income, too, increased the third time in a row.

In the year under review, the **Aviation Corporate Division** did not continue its growth course of several years so that sales remained level. This was due to the fact that some market segments and programs important for Diehl fell short of expectations as weak demand for large-capacity aircraft such as the A380 (production stop was announced for 2021) and A330neo continued.

# CORPORATE MANAGEMENT



The Metering Corporate Division

resumed the growth course it had pursued until 2015 and increased sales as planned. This pleasant development was due above all to the increasing trend toward remote readout of consumption data.

In 2018, **capital spending** amounted to a total of € 118.5 million (after € 104.2 million in 2017). In the multi-year comparison, this was a new record value. **R&D** expenses also rose distinctly from € 307.3 million in 2017 to € 325.2 million.

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. nat. Herbert Fehrecke (from Oct. 1, 2018) Chairman

Dr. rer. pol. Klaus Maier (until Sept. 30, 2018) Chairman

RA Werner Diehl Vice Chairman

Dipl.-Ing. Markus Diehl

Dipl.-Ing. (FH) Werner Reinl

#### **Executive Board**

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

Dr.-Ing. Christof Bosbach (from Sept. 1, 2018) Corporate Division Metering

Dipl.-Kfm. Claus Günther Corporate Division Defence

Dipl.-Kfm. Frank Gutzeit (until Aug. 31, 2018) 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

Dipl.-Staatsw. Bernd Joeris Corporate Affairs

Verw.-Betriebswirt (VWA) Michael Prymelski Corporate Communications (from May 1, 2019)



# Metall

Diehl Metall Stiftung & Co. KG Corporate Division Board

Dr.-Ing. Heinrich Schunk (P) Dipl.-Sozw. Manuela Kallinowsky Dipl.-Wirtsch.-Ing. Dieter Landgraf Dipl.-Kfm. Rainer Wehn

# **Controls**

Diehl AKO Stiftung & Co. KG Corporate Division Board

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

Diehl Metall Messing Diehl Metall Schmiedetechnik

Röthenbach a. d. Pegnitz

**Diehl Advanced Mobility** Zehdenick

Diehl Augé Découpage

Besançon/France

Diehl do Brasil Metalúrgica

São Paulo/Brazil

**Diehl Metal Applications** 

Berlin Teltow

**Diehl Metal India** 

Pune/India

Diehl Metall (Shenzhen)

Shenzhen/China

**Diehl Power Electronic** Siaugues Sainte-Marie/France

Diehl SynchroTec

Manufacturing

Wuxi/China

Diehl Werkzeugbau Seebach

Seebach

Franconia Industries

Naperville, Illinois/USA

SMH Süddeutsche Metall-

handelsgesellschaft

Röthenbach a. d. Pegnitz

Sundwiger Messingwerk

Hemer

The Miller Company

Meriden, Connecticut/USA

Diehl AKO

Wangen Nürnberg

**Diehl Controls Polska** 

Namysłow/Poland Wrocław/Poland

Diehl Controls (Nanjing)

Nanjing/China

**Diehl Controls North America** 

Naperville, Illinois/USA

**Diehl Controls Mexico** 

Querétaro/Mexico

Diehl Connectivity Solutions

Nürnberg Wangen

# Defence Aviation Metering

Diehl Defence GmbH & Co. KG Corporate Division Board

Dipl.-Kfm. Claus Günther (P) Dipl.-Betriebsw. (BA) Thomas Bodenmüller Dr. rer. nat. Rainer Kroth (until 28.02.2018) Dipl.-Ing. (BA) Helmut Rauch Diehl Aviation Holding GmbH Corporate Division Board

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

Diehl Metering GmbH Corporate Division Board

Dr.-Ing. Christof Bosbach (P from 01.09.2018) Dipl.-Kfm. Frank Gutzeit (P) (until 31.08.2018) Inf.-Bw. (VWA) Thomas Gastner Bw. (FH) Jean-François Marguet

#### **Diehl Defence**

Überlingen Röthenbach a. d. Pegnitz Nonnweiler Büro Berlin-Steglitz Büro Koblenz Büro Abu Dhabi/U.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/France

# **PARSYS**

Schrobenhausen

# **RAM-System**

Ottobrunn

#### **Diehl Aviation**

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

# **Diehl Aviation Gilching**

Gilching Dresden

# **Diehl Aviation Laupheim**

Laupheim Hamburg Tianjin/China Toulouse/France Nyírbátor/Hungary Debrecen/Hungary

# **Diehl Aviation Hamburg**

Hamburg

Überlingen

#### **Diehl Aerospace**

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

# **Diehl Aerospace Asia Pacific**

Singapore

#### 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

Bażanowice

#### Diehl Metering/Frankreich

Saint-Louis Nanterre Villeurbanne

# Diehl Metering/Singapur

# Diehl Metering/Spanien

Madrid

# Diehl Metering/Schweden

Rosersberg

# Diehl Metering/USA

Naperville

#### **General economic conditions**

After nine years of remarkable growth in Germany, economic activity slowed down noticeably. Initial fears that the German economy could slip into a recession in the fourth quarter of the year did not come true though. According to calculations of the Federal Statistical Office, a growth rate of 1.5% was achieved despite the downturn at the end of 2018. However, the positive development has lost momentum compared to prior years. The reason for this is the decline in demand in foreign business - above all in automotive production and in the manufacturing sector – whereas domestic economic activity proved to be extremely stable. In the ninth consecutive year of growth since 2010, economic development thus still was above the average of 1.2% of the past ten years according to the Federal Statistical Office.

For 2019, the German Central Bank also expects positive impulses against the background of the employment situation, which is still excellent, and the strong increase in wages with its effects on private consumption. According to the German council of economic experts, the number of persons in employment will continue to rise and wage dynamics will remain high. The Ifo Institute for Economic Research and the DIW (German Institute for Economic Research) expect a continuation of the noticeably slowed growth. The German government has also considerably lowered its growth forecast for the current year. In the new 2019 annual economic report, the Ministry of Economics only expects growth of 0.5% whereas the autumn forecast of the German government still expected growth of 1.8%. Reasons for this distinct downward revision include the

weakening world economy, temporary production problems in the automotive and chemical industries, the decrease in exports in important sales markets as well as the deadlocked Brexit situation. However, according to the German council of economic experts, a recession is not to be expected for the moment in view of the robust domestic economic activity. Nevertheless, the worldwide increasing political uncertainties make forecasts more and more difficult. In all, normalization is presumably to be expected after a period of economic boom according to the DIW. However, with the reservation that a disordered Brexit, a further government debt crisis in the euro zone, a trade war between the U.S. and other national economies as well as the risk of a growth slowdown in China going beyond current expectations do not occur.

# Business development of the Diehl Group

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

The Diehl group's sales of € 3,693.5 million were just below the previous year's record value (€ 3,749.2 million), hence also below the sales forecast of € 3.8 billion. The strong growth of 2017 could not be continued; however, sales stabilized on a high level. In 2018, growth was recorded by both Metering and Defence whereas Aviation, Controls and also Metall sales decreased. Defence and Metering are on a stable growth course again.

The number of employees increased by 125 persons – i.e. 0.7% – to 17,298 by December 31, 2018. A noticeable increase in personnel especially in the

Defence (168) and Aviation (138) Corporate Divisions was accompanied by a decrease at the Controls location in Mexico (175).

Both the sales and income targets were not achieved in the year under review. The EBIT, at € 215.3 million, was below the previous year's € 274.3 million. However, it has to be taken into account that the 2018 figure includes one-off expenditures for application of the new mortality table to adjustment of the accruals for pensions and accruals for restructuring measures as well as a positive effect resulting from the settlement of a legal dispute. Extra costs accruing from the price increase for electronic components, performance and cyclical effects in the automotive business as well as export sales for which Defence did not receive a permit also contributed to the reduction in income.

# **FISCAL YEAR 2018**

# 3,749 3,694 3,039 3,108

2016

# SALES PER CORPORATE DIVISION (in million Euros)



2015

Metall 913 24.7%

2014

Controls **533** 

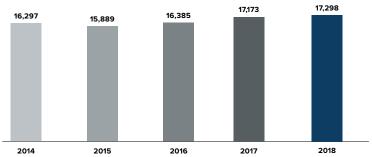
**Defence 464** 12.6% **Aviation 1.476** 40.0%

Metering 297 8.0% **Other 11** 0.3%

2017

2018

# **EMPLOYEES**



# **EMPLOYEES PER CORPORATE DIVISION**



Metall 3,468 20.1% Controls 3,614 **Defence 2,509** 14.6%

**Aviation 5,480** 31.3%

Metering 1,679 9.8% Other **548** 3.2%

# Special Aspects of the Financial Situation and Risk Management

The corporate group's balance sheet total increased by € 75.2 million to € 2,433.9 million in 2018. On the assets side, fixed assets rose by € 21.7 million, especially through investments in the expansion of production capacities and through the acquisition of software licenses under intangible assets. Inventories and advances paid rose by a total of € 140.2 million, above all in connection with large-scale orders. These higher advance expenditures could be overcompensated by an increase in advances received on account of orders by € 159.9 million to € 265.9 million. Receivables and other assets rose by € 21.2 million to € 628.5 million due to the balance sheet date

On the liabilities side, the shareholders' equity increased by  $\in$  29.9 million to  $\in$  765.9 million due to the good earnings situation, and thus the equity ratio rose from 31.2% in 2017 to 31.5%. The rise in accruals mainly resulted from the increase in accruals for pensions by  $\in$  46.6 million, due above all to the interest parameter changes and application of the new mortality tables from Prof. Dr. Heubeck. Liabilities fell in FY 2018 by  $\in$  16.4 million to  $\in$  602.1 million, especially liabilities due to our suppliers.

Liquid assets increased by  $\leqslant$  46.0 million to  $\leqslant$  377.2 million so that, after deduction of current financial liabilities of  $\leqslant$  20.4 million, cash and cash equivalents amounted to  $\leqslant$  356.7 million compared to  $\leqslant$  303.9 million in FY 2017.

The operating cash flow rose by  $\in$  16.9 million to  $\in$  221.8 million, which, after deduction of the negative cash flow from investment activities of  $\in$  112.1 million, led to a free cash flow of  $\in$  109.7 million. The outflow of  $\in$  57.3 million from the cash flow from financing activities led to an improvement of  $\in$  51.0 million over the previous year which contributed essentially to the rise in cash and cash equivalents.

#### **Advance investments**

In the year under review, the group invested a total of € 118.5 million (addition to tangible and intangible assets), compared to € 104.2 million in 2017. In the multi-year comparison, this was a new record value. As in previous years, a major portion of this amount was again invested in the Metall, Aviation and Controls Corporate Divisions. However, Defence and Metering investments were also noticeably above the previous year's values. In the Metall division, investments mainly focused on internationalization, for instance, in China in synchronizer ring production and in the growth technologies stamping and plating for sensors as well as in the growing segment of cell contact systems for alternative drive systems. Aviation continued to invest in the infrastructure at the Hungarian production site in Nýirbátor (new logistics

building) and in the set-up of an engineering and support center at the neighboring Debrecen site. While Controls investments centered on the modernization of production procedures and start-up of new projects, Metering especially invested in the ongoing innovation and technology offensive. Defence investments mainly concentrated on expansion, rationalization and modernization.

With a view to securing the future, R&D expenditure also rose distinctly from € 307.3 million in 2017 to € 325.2 million in 2018, due above all to continuously high development costs in the field of cabin equipment at Diehl Aviation. At Diehl Defence, various development projects were in the focus, for example, the modern guided VULCANO ammunition developed jointly with the Italian partner Leonardo and laser-based protection systems for military aircraft and helicopters. At Metering, investment activity centered on the further development of ultrasonic technology and associated measurement engineering as well as expansion of the radio system.

# **Corporate Legal Changes**

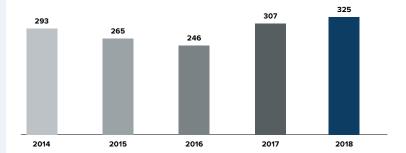
In the year under review, there were again some important corporate legal changes:

At the beginning of the year, Diehl Ventures GmbH acquired an interest in the Austrian company Symvaro GmbH in Klagenfurt, specializing in easy and efficient administration of water meter data. Diehl Metering has thus increased its digitization efforts.

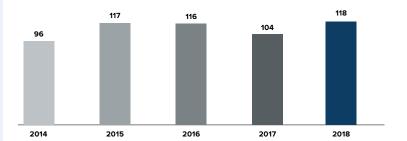
Since the spring of 2018, all locations of Diehl's aviation division with the business units Diehl Aircabin, Diehl Comfort Modules and Apparatebau Gauting do business under the name of Diehl Aviation, and hence bear the names Diehl Aviation Laupheim, Diehl Aviation Gilching and Diehl Aviation Hamburg. The new uniform designation simultaneously marked the start of a further organizational integration of the Corporate Division. Diehl Aerospace as a joint venture with the French partner Thales has continued to operate under its existing name.

# **FISCAL YEAR 2018**

# **R&D EXPENSES (in million Euros)**



# **INVESTMENTS (in million Euros)**



# **GROUP MANAGEMENT REPORT 2018**





Christa Rost, rods and tubes sales team at Diehl Metall in Röthenbach

everyday life."

Sales in the Metall Corporate Division were almost level in 2018. This was due, among other things, to a slight rise in metal prices. When looking at the processing business alone, the previous year's figures were reached again or even exceeded in the Business Field Extruded and Drawn Products as well as in the Business Field Diehl Metal Applications. Sales in the Business Field Forgings were, however, distinctly below the 2017 level.

The Business Field Extruded and Drawn Products provides a broad product portfolio of high-quality semi-finished metal products made of standard brasses as well as new innovative alloys for demanding applications in numerous industries. Quantitative growth was again recorded with new products for the automotive and sanitary industries. The large-scale investment, a new extrusion press in Röthenbach – a central future investment for the Corporate Division in Germany – will soon start standard operation.

The Business Field Forgings - a renowned supplier of brass and steel synchronizer rings to the international automotive industry and drop-forged parts for safe drinking-water applications – could not continue its successful growth achieved in Europe and China in previous years. In Europe, sales of both brass and steel synchronizer rings were noticeably below the prior year's level. This decline was mainly attributable to the loss of an important order as well as restrained economic activity in the automotive sector because of the introduction of a uniform test procedure for consumption and exhaust-gas emission measurement (WLTP = Worldwide harmonized Light



vehicles Test Procedure). In China, too, the business field saw a decline in sales for the first time after years of very successful growth as market conditions deteriorated, affecting both sales with the German main customer and with the local Chinese OEMs. However, the cooperation with the Schaeffler Group for the production of synchronization systems for the Chinese market continued to develop favorably. Initial joint projects are being implemented. The situation in Brazil still is difficult for the Business Field Forgings. The positive economic situation of the first half in 2018 unfortunately did not continue so that a decline in sales over 2017 was also recorded here. However, positive expectations are associated with the launch of some customer projects in India. Investments in this segment focus on the expansion of steel synchronizer ring production in China to be able to execute current orders in the automotive field.

The Business Field Diehl Metal Applications (DMA), with electroplating and stamping production at the German and French locations, offers a fully integrated value-added chain from alloy development to the production of applicationspecific, current-carrying solutions or future-oriented metal-plastic compound systems for electronic and electrotechnical applications. In the year under review, the trend towards more electronics in automobiles led to a high level of capacity utilization throughout the entire value-added chain in this segment. In order to take this increase into account, the focus of investment activity was on further capacity expansion in the technology fields of stamping and plating for equipment with additional driver assistance systems as well as in the growing product field of cell contact systems for alternative drive systems. Especially in the e-mobility future market, the segment continues to expand its activities and combines its capabilities



with the partner LEONI to jointly offer system solutions for power and voltage transmission in e-vehicles. The rolled products sector could also profit from the increasing demand for strip material for the electrification of automobiles.

Based on the forecasts for the economic development in the current fiscal year, Diehl Metall expects different developments for 2019 in the markets relevant for Diehl. Growth will increasingly focus on further applications pushing the advancing electrification of automobiles and alternative drive systems. Business with synchronizer rings in Europe is developing in the opposite direction. This is why the marketing of steel synchronizer rings in China as well as set-up and expansion of new applications is to be pushed ahead with. The incipient change in the automotive sector toward e-mobility and autonomous driving represents a challenge for suppliers of the automotive industry, still being both an opportunity and a risk for Diehl Metall in 2019.

# DIEHL METALL SALES (in million Euros)



Controls 14.4%

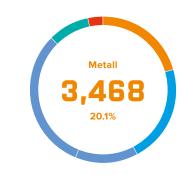
Defence

Aviation 1.476 297 40.0%

Metering 8.0%

Other **11** 0.3%

#### **EMPLOYEES AT DIEHL METALL**



Controls 3.614

Defence 2.509

Aviation 5.480

Metering 1.679

Übriges 548



# **CONTROLS**

In FY 2018, Diehl Controls sales and income both remained below the 2017 level. This was due to the decline in orders from major customers in the household appliance industry which were confronted with marked sales declines in important markets. Especially in the second half of 2018, an increasing unease became apparent among consumers in Europe. However, demand also decreased noticeably in the previously constantly growing Chinese market, which was a result of the slowing construction boom. Moreover, the continuous shortage of special electronic components on the world market led to noticeable additional costs in procurement and delivery bottlenecks. Only the close monitoring of supply chains, regular coordination with customers and suppliers worldwide as well as the set-up of safety stocks currently ensure the required ability to deliver at all Diehl Controls sites.

Thus, the number of employees in all regions has decreased as a result of the required adjustments. The decline in sales primarily affected the Appliance Europe business unit with its companies Diehl AKO and Diehl Controls Polska.





Diehl Controls business is about customer-specific application developments of electronic controls for stoves, cooktops, washing machines, dryers, dishwashers and refrigerators for the latest appliance generations of the international white goods industry.

A decline was also recorded by the "Appliance Asia" (Diehl Controls Nanjing) business unit. The consumption restraint that occurred in connection with large household appliances in China, was not foreseeable as such and is presumably a side effect of the slowing construction boom. Whether that trend will continue or even intensify can hardly be predicted at the moment.

Business of "Appliance Americas", comprising the companies Diehl Controls North America and Diehl Controls Mexico, was also below the 2017 level, even though not comparable with the decline in Europe. Fortunately, a renowned manufacturer of commercial washing machines in the U.S. could be won as important new customer in the field of professional appliances. Related product development is performed at Diehl Controls in Mexico where initial projects will go into production from 2020.

As expected, the European market for airto-water heat pumps has developed
favorably; in Germany this was mainly
influenced by the ongoing boom in the
building sector. Business with drive
controls for brushless motors for these
pumps, which is managed by the Drive
Solutions business segment, is therefore
gaining momentum. The field of air
conditioning also developed positively as
an important new customer for frequency
converters could be won.

# **CONTROLS**



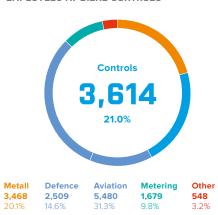
The prospects for Diehl Connectivity Solutions (DCS), whose activities were realigned in 2018, are very good. As the strategic focus is on IoT solutions for small and medium-sized plant and machine manufacturers, growth is expected to be achieved in a future-oriented business.

Diehl Controls does not expect recovery of demand for large household appliances in Europe and China before mid-2019. It will be essential that key customers in the respective markets call off deliveries. Regardless of this, the pricing pressure on the suppliers remains high so that Diehl Controls still focuses on the continuous improvement programs at all locations to ensure its competitive ability.

# DIEHL CONTROLS SALES (in million Euros)



# **EMPLOYEES AT DIEHL CONTROLS**







In FY 2018, Diehl Defence succeeded in further stabilizing its defence business. After years of stabilization, the Corporate Division's development and production capacities at the various locations are utilized well. Despite individual losses in export business, the Corporate Division continued its stable sales growth course. Income, too, could be increased the third time in a row.

The defence sector usually develops independently from the general economic situation. Decisive factors are the European and international security situation as well as tensions and an increasing number of crises in various countries and regions. In view of these developments, the German defence industry as part of the national security and defence system will have to take on more responsibility again. Political decisions were taken to provide the necessary financial preconditions for launching large-scale procurement programs. Despite this rising domestic demand, defence companies in Germany continue to depend on export business to be able to maintain capabilities and know-how. So, the further tightening of export permit regulations by the federal government represents a risk for the competitive and cooperative abilities of the German security and defence industry.

# **GROUP MANAGEMENT REPORT 2018**

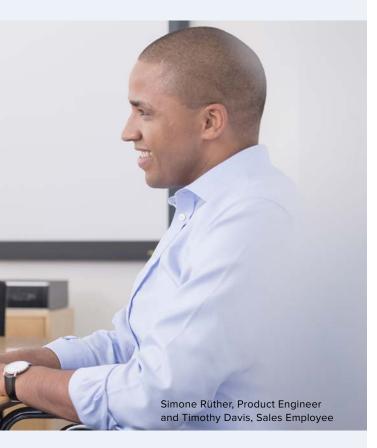


As high-tech company in the fields of ground-based air defence, guided missiles, ammunition, as well as training and protection systems, Diehl Defence GmbH & Co. KG succeeded in further increasing the high order backlog in the year under review. In spite of national program delays and firmly planned exports which did not materialize due to missing export permits, sales could be stabilized on the previous year's level and even increased slightly. Developments and production in the transatlantic RAM (Rolling Airframe Missile) program as well as orders for the Sidewinder, Spike and PARS guided missile programs repeatedly played a major role. In ground-based air defence, the company established itself as a system provider. Besides delivery of initial launcher systems to the Swedish armed forces, this is supported above all by another export order for several

complete systems. The participation in the tactical air defence system of the Bundeswehr as well as the national need for shortrange and very short-range protection provide good opportunities for further growth in the future. The same applies for the increasing need for long-range, high-precision artillery ammunition. With the development of the modern VULCA-NO guided ammunition within a German-Italian intergovernmental memorandum of understanding, Diehl sets standards together with the partner company Leonardo. Successful development work on laser-based protection systems for military aircraft and helicopters, which can also be used for protection against unmanned aerial vehicles, offers further growth potential.

Together with its French subsidiary Junghans T2M SAS, Junghans Microtec GmbH is a leading supplier of high-tech fuzes in Europe and international markets. The company offers a comprehensive portfolio of mechanical and electronic fuzes as well as safe/arm units for rockets, guided missiles, ammunition and torpedoes. Delays in national orders could be compensated for by European export demand so that the volume of orders received exceeded the prior year's level. Compared with FY 2017, overall business development was positive, which was reflected by a slight increase in sales, higher income and a larger number of employees.

# **DEFENCE**



With an increase in sales, AIM Infrarot-Module GmbH, a leading component supplier of thermal imagers and seeker heads for missiles, continued its growth course. The company persistently continued its development activities in all product areas to secure its international competitive position. With its infrared technology, AIM has successfully established itself in the space-based applications market.

As part of an economically strong, independent and family-owned technology group, Diehl Defence contributes to living in a safe environment. The sustainable strategy of product-specific cooperations with selected strong partners again proved successful. Various projects were started in 2018, accompanied by intensive digital awareness training for all executive staff, to generate entrepreneurial added value by digital solutions.

# DIEHL DEFENCE SALES (in million Euros)



 Metall
 Controls
 Aviation
 Metering
 Other

 913
 533
 1,476
 297
 11

 24.7%
 14.4%
 40.0%
 8.0%
 0.3%

#### **EMPLOYEES AT DIEHL DEFENCE**



 Metall
 Controls
 Aviation
 Metering
 Other

 3,468
 3,614
 5,480
 1,679
 548

 20.1%
 21.0%
 31.3%
 9.8%
 3.2%





In the year under review, the Aviation Corporate Division did not succeed in continuing the strong growth it had seen for several years while sales stabilized on the prior's level. This is surprising, at first glance, in view of the positive development of deliveries by the worldwide dominating aircraft manufacturers Airbus and Boeing. Airbus alone delivered 800 aircraft in the year under review, among them as much as 93 A350 XWB aircraft (after 78 in 2017) which are boosting Diehl aviation sales. Nevertheless, other market segments and programs important to Diehl fell short of expectations. For example, the weak demand for large-capacity aircraft like the A380 (only 12 planes were delivered in 2018; production stop was announced for 2021) and the A330neo continued. Moreover, ongoing problems in the worldwide industrial supply chain dampen the rise in aircraft deliveries. However, the aircraft manufacturers still stick to their forecast of rising production rates especially for the A320 family and the Boeing 737.

In FY 2018, the Corporate Division deepened the cooperation with the partner Lufthansa Technik for the cabin retrofit market segment and started delivery of large cabin monuments for the so-called "high-density solution" to the partner. This is a completely newly developed cabin monument for the Airbus A320 family, integrating the rear kitchen and disabled accessible double toilet facilities in a single cabin element,



which enables a noticeable reduction in weight and at least six additional passenger seats.

The global presence of Diehl Aviation has been enhanced as well. Since 2018, newly founded Diehl sites in Charleston, South Carolina (USA), and in Montreal (Canada) have supported the interfaces with local OEM customers in the on-site support network. Furthermore, the infrastructure at the Hungarian production site in Nýirbátor was expanded through a new logistics building. Set-up of an engineering and support center (ESC) at the neighboring Debrecen site continued; it was officially opened in the current year. The Diehl Aviation ESC in Debrecen will support the Corporate Division - whose development and production sites are mainly located in Germany, except for Nýirbátor - in engineering, however also in administration, program management, customer services and

purchasing. By 2020, up to 150 employees will work at Debrecen. For the Chinese market, too, a declaration of intent was signed with the aviation supplier AVIC on a strategic cooperation for the local market.

It was of great importance to Diehl Aviation in 2018 that it won a work package for emergency lighting power supply on board the Boeing 787 aircraft. However, re-tendering procedures for existing work packages and order placement with several suppliers in the future, as planned by the manufacturers, will have negative effects for us. The scope of existing work packages is at least in part put into question for the future. Moreover, no new marketing opportunities emerged in the year under review. Definite plans for a new passenger aircraft from Boeing - the only new project of the established commercial aircraft manufacturers - are not expected before mid-2019. New products in the military aviation market in which Diehl Aviation could participate are just going through the study phase.

The objective of the Corporate Division's re-branding with introduction of the new umbrella brand Diehl Aviation in April 2018 is to further consolidate the division and to concentrate its market presence. In this connection, a new organization structure was also introduced subsequently, enabling enhanced operational optimization of the processes.

The realignment will also include restructuring measures. Diehl Aviation is working continuously on enhancing its competitive abilities and on a future-oriented market positioning. For FY 2019, Diehl Aviation expects business development to continue on the same high level. However, ramp-up of the A350 line already levels off due to protracted

# **AVIATION**



production at Airbus. Here, it will be decisive to what extent A380 production phaseout will be compensated for by the run-up of other aircraft programs.

# DIEHL AVIATION SALES (in million Euros)



Metall 913 24.7% Controls 533 14.4% **Defence 464** 12.6% Metering 297 8.0% Other

**11** 0.3%

# **EMPLOYEES AT DIEHL AVIATION**



Metall 3,468 20.1%

**Controls 3,614** 21.0%

**Defence 2,509** 14.6%

Metering 1,679 9.8% Übriges **548** 3.2%



# **METERING**

In the year under review, the Metering Corporate Division resumed the growth course it had pursued until 2015 and increased sales as planned. This pleasant development was due above all to the increasing trend toward remote readout of consumption data. For Diehl Metering, remote readout is the major driver for investments in data-based business models and the incentive for its consistent strategic orientation as a solution provider. In order to open up new market potentials in the context of digitalization, the existing partner network has been continuously expanded. In the year under review, new cooperations could be entered into, for example, with Microsoft Azure. Moreover, the longstanding technology partnership with the Fraunhofer Society was further intensified. The objective of an organizational realignment started in 2018, which shows first signs of success, is to put more focus on the customer, to improve Diehl Metering's global positioning and to efficiently combine its capabilities. Thus, growth could, for instance, be achieved through large-scale orders from the Middle East and in the emerging North America business. Business in European core markets was weaker though - above all with the key customers in Germany and France. And China business also fell short of expectations.



# WE PAVE THE WAY FOR DIGITIZATION WITH FUTUREORIENTED SOLUTIONS.

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

Stefan Räder, Regional Manager at Diehl Metering.



When looking at customer segments, growth concentrated on gas and water. This was to a considerable extent attributable to the delivery of gas meters with radio readout under a French multi-year, large-scale contract. The sales increase in the "water" customer segment resulted from the strong demand from customers in the Middle East and in the Caribbean. In addition to innovative meters based on ultrasonic technology with integrated radio technology, especially high-quality mechanical water meters, which can be read remotely by means of a radio adapter module, were in demand from globally acting customers. The "thermal energy" customer segment continued to be characterized by the

expiry of a long-standing partnership and unfavorable regulatory changes in China so that again no growth was achieved there. Due to a decline in orders from key customers in Germany and France, the "measurement services provider" segment could also not contribute to overall growth.

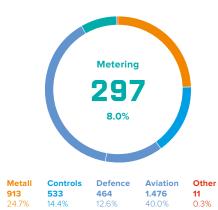
To achieve its strategic goals, the Corporate Division persistently continued its innovation and technology offensive in 2018. The focus remained on further development of ultrasonic measurement technology, on radio systems as well as improvements regarding the software and services offered. A typical example of this is the new generation of the

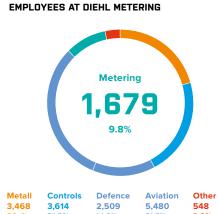
# **METERING**

HYDRUS ultrasonic water meter which will set new standards in terms of dynamics and accuracy due to its improved measurement technology. In addition to the further development of radio systems, the promising "MIOTY" LPWAN (low-power, wide-area network) technology featuring long range, high energy efficiency, high interference resistance and scalability has been developed in the context of the intensified cooperation with the Fraunhofer Society. This technology is a networking concept with the focus on large network coverage and low energy consumption. It is a new worldwide standard not restricted to metering applications.

Thanks to the Corporate Division's strong international presence, its high innovative power and technological strength and the resumed growth course, 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 again for 2019.

# DIEHL METERING SALES (in million Euros)







The results of the DIHK business survey at the beginning of the year show that clouds are gathering on the horizon for German companies in the current year. Business expectations in all sectors of the economy are assessed as significantly worse and economic policy conditions are increasingly regarded as a risk factor. For the third time in a row, employment prospects are declining slightly. Everything is indicating a slower pace. It is not possible to predict how the continuing smoldering trade conflicts, the Brexit and the elections to the European Parliament will affect consumer sentiment though. After nine years of growthin Germany, the positive economic development has begun to stagnate, and the Diehl Group has also not been spared. In addition, the 2018 collective bargaining agreement will result in a strong pay increase and more "time sovereignty" for employees. A wage dispute is smoldering at the Hamburg site. Although the orientation of the company as a technology conglomerate has a stabilizing effect, Diehl is also affected by economic fluctuations in some corporate divisions. The risk management practiced in the Diehl Group on the basis of the management information system allows risks of an economic nature to be recognized in good time so that countermeasures can be taken promptly.

The areas of activity of the company show a number of peculiarities:

About half of the business volume in the Metall Corporate Division depends on the market prices for copper and zinc. High volatility leads to fluctuations in sales, without any effect on the employment situation though. Sales forecasts are therefore generally difficult for Diehl Metall to make. The electricity price is of significant importance for the competitive capacity especially at our German Metall locations. There is a risk here that the energy-intensive German metal manufacturing companies could suffer from considerable disadvantages in international competition in view of the politically

desired leading role of Germany in terms of renewable energies. Components made of metal alloys are indispensable for e-mobility and driver assistance systems. The core business of the Corporate Division remains the automotive market, but with significant growth in electrification in the automotive business. An decline is expected in the classic automotive business due to the economic situation. Diehl therefore continues to rely on metal as a versatile and proven material for which new areas of application are constantly found.

Supply business with the white goods industry in the Controls division continues to be characterized by high pricing pressure and simultaneously a shortage of certain electronic components. Consolidations in the field of international household appliance manufacturers and a stagnating market in Europe have exacerbated this pressure even further. Despite recent declines, the Chinese market for household appliances remains interesting. With its recognized competence in the development of new control systems and operating elements in combination with the advantages of an international manufacturing network, Diehl provides good prerequisites for staying a sought-after and competitive partner for OEMs in the future as well as for positioning itself permanently in the Extend-the-Core business, such as drive controls for heat pumps.

In view of the worldwide trouble spots and tensions, the German government has decided to reverse the trend in Bundeswehr financing, which is to take account of the need for equipment maintenance and ammunition stockpiling, etc. Even though the 2014 goal agreed with the NATO partners to raise the Alliance's so-called NATO quota, the share of defence spending in the gross domestic product, to 2 % is unlikely to be achieved, the commitment to 1.5 % for 2024 is undoubtedly a further significant step within NATO's target corridor. Diehl has

been a reliable and successful partner of the Bundeswehr since its foundation. For years, the range of capabilities has been geared toward modern mission scenarios as well as national and alliance defence. Therefore, Diehl Defence is very well positioned for the currently increasing procurement of classic and new defence technology products – nationally and internationally. The primacy of politics, which is reflected by the Federal Government's still restrictive export licensing policy, applies exclusively to defence exports.

The aviation business remains interesting due to continuously rising passenger numbers and high order backlogs of the manufacturers. However, competition on the supplier side continues to increase, and the increasing consolidation of the industry as well as insourcing efforts of the manufacturers are raising the pressure especially on medium-sized and small suppliers, including Diehl Aviation. New aviation programs are not foreseeable right now. Following the significant reduction in A380 production rates in recent years, Airbus has now announced that it will stop A380 production in 2021. No unplanned major effects on earnings are expected for the fiscal year 2019. The supplier business for the international aviation industry is invoiced almost exclusively in dollars. This leads to a considerable influence of the dollar exchange rate on sales volume and earnings. The corporate finance department of Diehl Stiftung & Co. KG ensures the reduction of this risk following a defined strategy.

The worldwide Metering market is still characterized by high attractiveness because smart measuring systems and modern measuring equipment provide the prerequisites for systematically evaluating data for customers, thus making effective resource management possible. For many years, Diehl Metering has been one of the innovative and efficient players in the industry due to its consistent orientation

as a solution provider for products and services for the remote readout of consumption data. With the innovation and technology offensive launched in the year under review, the Corporate Division further strengthened its capabilities toward networking through radio network solutions in order to further increase the company's capacity and to be able to offer overall solutions for customers in competition.

The digital transformation will be pushed ahead in the corporate divisions and in a corporation-wide group as previously understood. For Diehl, the digital transformation is an opportunity to further develop the existing business in a customer-oriented manner, to offer new, data-driven business models and to enhance the capabilities of the organization and processes.

Due to the established risk management system, the risks existing in the corporate divisions are regarded as controllable from the Diehl Group's perspective. The declining overall economic growth will undoubtedly impair the positive development of the Diehl Group, although there are indications that the group's positioning as a community of opportunities and risks will once again prove its worth. Due to the economic and structural challenges, the group will maintain it's 2018 sales level in 2019, with moderately lower earnings.

Nürnberg, April 10, 2019 Diehl Verwaltungs-Stiftung

The Executive Board



As of the balance sheet date, December 31, 2018, the Diehl Group employed a total of 17,298 people at its worldwide locations. Compared to the previous year (17,173), this represents an increase of 125 employees (0.7%). A significant increase in the number of employees, in particular as a result of new hires in the Corporate Divisions Defence (168) and Aviation (138), was accompanied by a reduction at Controls in Mexico (175). Growth was also seen at the German locations, with 11,646 employees on the balance sheet date (11,446 in the previous year). The increase of 200 persons in Germany was mainly due to new hires at Defence and Aviation. The domestic rate was 67.3%.

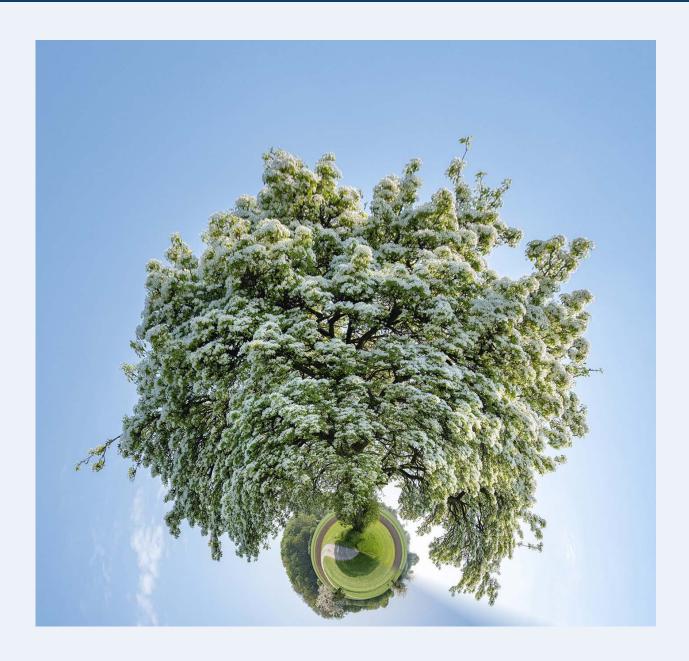
Despite the decline in economic activity, the situation on the German labor market has not yet eased, which is also due to the demographic development. Diehl therefore continues to rely on its own qualified vocational training within the group as a proven basis for securing the next generation of employees. As in previous years, the number of junior staff hired remained at a consistently high level with 468 apprentices (2017: 471), 435 (445) of whom in Germany. They complete their training in 26 recognized training occupations together with 78 junior employees who undergo a dual course of studies in 15 different fields of study, combining study as well as practical and in-depth training phases at our locations. In addition, 16 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 continues to give young people from crisis regions the chance to get qualified vocational training with subsequent employment in the group in order to enable them to integrate optimally into society. To this end, six young refugees from Eritrea and Syria are currently undergoing dual vocational training at the Nürnberg, Laupheim, and Hamburg sites. Within the scope of diverse Diehl training marketing activities, initial contacts with students are usually made at training fairs, but also at special events of the schools or at events in the company itself

(open day). Throughout Germany, around 350 students are invited to the sites each year to gain an interesting insight into the world of work and the training occupations offered by Diehl as part of a one-week trial internship. In order to also get young women interested in technical professions, Diehl has been involved in the "Girls' Day" and the "Girls for Technology Camp" educational initiative of the Bildungswerk der Bayerischen Wirtschaft e. V. (Educational Institute of the Bavarian Industry) for many years.

The qualification of specialists and executives is of lasting importance for Diehl. Numerous measures are offered for professional and personal advancement, for example to employees with the potential for higher-level duties. 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.

Diehl's success is based on the impressive dedication and inventiveness of our employees. 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



In-house environmental protection at Diehl includes all measures that deal with the planning, control, monitoring, and improvement of operational processes from an environmental point of view. The proven management systems at the group's worldwide locations harmonize entrepreneurial success and the responsible use of natural resources, thus forming the basis of all activities.

It is primarily the employees making a major contribution to the success of environmentally conscious thinking in the company and ensuring continuous improvements at their workplaces through their active commitment and a high level of personal responsibility.

As in past years, efforts again focused on measures to improve energy efficiency at the sites in the year under review. For example, the use of waste heat from two melting furnaces in heat recovery plants at the Diehl Metall foundry in Röthenbach will save around 600 MWh per year in the future. Further savings of a comparable magnitude were achieved through new thermal insulation of the roof in the

toolmaking area, the installation of a modern ceiling radiant heating system and the conversion of the hot water supply system from high to low pressure. The new thermal insulation of a building roof at the Defence site in Mariahütte, the conversion of the heating system and installation of a new building management system also made it possible to bring an older production building up to date in terms of energy efficiency. In the course of ongoing maintenance measures, the previous factory lighting in Mariahütte was partly replaced with the latest LED technology. The energy savings achieved this way amounted to about one third of the previous consumption. The installation of modern LED lamps has also led to a significant reduction in energy consumption at other locations, such as Metal in Zehdenick and Wuxi in China, Controls in Wangen, Aviation in Hungary, and Defence in Röthenbach and Überlingen.

Diehl Aviation was also able to reduce energy requirements at the Laupheim site by about 40 percent by installing new LED lighting in the production and logistics areas. In addition, a newly developed multi-use system was introduced in Laupheim to replace the previous cardboard packaging used for transporting large composite panels for lavatories and galleys to the customer in Hamburg. This eliminates around 2,500 kilograms of cardboard waste per year. The subjects of energy efficiency improvement and packaging savings will continue to be the focus at all locations.



The charitable Karl Diehl Foundation for People in Need has been active in Nürnberg and the surrounding area for decades to support people in desperate situations. The relief organization is firmly established in the social network of the region and provides aid in around 800 individual cases every year whenever no other public or charitable organizations feel responsible – for whatever reason.

The Irmgard Diehl Children's Foundation could look back on ten years of successful work in the year under review. 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.

Completion of the building shell was celebrated at Nürnberg's Pellerhof in the summer of the year under review. After ten years of construction, the former world-famous Renaissance courtyard has been restored to its former splendor thanks to the impressive commitment of Nürnberg's Old-Town Friends. The beginning of the reconstruction work was made possible by a start-up financing from Karl Diehl on the occasion of his 100th birthday. His son Werner Diehl has continued to support the Old-Town Friends in this project with considerable sums ever since. Some finishing and embellishment work is still to be done, but the atmospheric setting of the magnificent courtyard already impresses visitors.

Consolidated
Financial Statements
as of December 31, 2018

# CONSOLIDATED BALANCE SHEET OF DIEHL VERWALTUNGS-STIFTUNG

(in K€)

### **ASSETS**

100210		
	Dec. 31, 2018	Dec. 31, 2017
A. Fixed assets		
A. Fixeu assets		
I. Intangible assets	22,815	18,560
3		.,
II. Tangible assets	545,479	528,717
III. Financial assets	14,182	13,546
	582,476	560,823
B. Current assets		
b. Current assets		
I. Inventories		
Raw materials and supplies	312,653	278,07
2. Work in process	430,262	436,447
3. Finished goods and merchandise	162,961	133,68!
4. Advance payments	84,931	2,379
5. Advance payments received	- 265,880	- 105,952
	724,927	744,630
II. Receivables and other assets		101.00
1. Trade receivables	429,002	421,364
2. Receivables due from affiliated companies	3	120
Receivables due from companies in which participations are held     Other assets	103,346	86,424
4. Other assets	96,112 628,463	99,312 607,220
	020,403	007,220
W 6 39		
III. Securities  Trade securities	1,291	1,255
nade secundes	1,291	1,23
IV. Cash, bank balances		
and checks	377,156	331,196
	1,731,837	1,684,30
C. Prepaid expenses	6,745	6,75
D. Deferred tax assets	112,475	106,146
D. Deletted lax assets	112,475	100,140
E. Excess of plan assets over pension liabilities and similar obligations	321	643
2. 2.0000 0. plan docodo ovo, ponejon nazimioo ana omina. ozniganono	2,433,854	2,358,668

### SHAREHOLDERS' EQUITY AND LIABILITIES

SHAREHOLDERS EQUITY AND LIABILITIES		
	Dec. 31, 2018	Dec. 31, 2017
A. Shareholders' equity		
I. Capital of Diehl Verwaltungs-Stiftung		
1. Capital stock	511	51
2. Reserves	185	173
3. Retained earnings	1,642	1,640
	2,338	2,324
II. Shares held by other shareholders		
1. Capital of subgroup Diehl Stiftung & Co. KG	696,786	672,562
2. Other minority interests	66,746	61,042
	763,532	733,604
	765,870	735,928
B. Accruals and provisions		
1. Accruals for pensions and similar obligations	610,282	563,678
2. Tax accruals	9,630	16,105
3. Other accruals and provisions	429,001	408,314
	1,048,913	988,097
C. Liabilities		
1. Liabilities due to banks	122,293	119,87
2. Trade payables	292,028	312,77!
3. Payables due to affiliated companies	913	457
4. Payables due to companies in which participations are held	47,736	40,02
5. Other liabilities	139,100	145,340
	602,070	618,474
D. Deferred income	6,330	4,136
E. Deferred tax liabilities	10,671	12,033
	2,433,854	2,358,668

# CONSOLIDATED INCOME STATEMENT OF DIEHL VERWALTUNGS-STIFTUNG FOR THE PERIOD JAN. 1 TO DEC. 31, 2018

(in K€)

(111 1/4	e)		
		2018	2017
1.	Sales	3,693,515	3,749,206
2.	Increase (Decrease) in finished goods and work in process	13,833	- 49,776
3.	Capitalized services and material	10,565	8,726
4.	Other operating income	110,550	125,965
_	Coat of materials and somitors :		
5.	Cost of materials and services :	- 1,738,600	- 1,777,957
	<ul><li>a) Cost of raw materials, supplies and purchased goods</li><li>b) Cost of purchased services</li></ul>	- 1,738,600 - 243,251	- 1,777,957 - 239,176
	b) Cost of purchased services	- 1,981,851	- 2,017,133
		1,301,031	2,017,133
6.	Personnel expenses :		
	a) Wages and salaries	- 857,372	- 822,583
	b) Social security and pensions costs	- 173,640	- 159,991
	- thereof for pensions :	- 16,247	- 8,440
		- 1,031,012	- 982,574
7.	Amortization and depreciation of intangible and		
	tangible assets	- 91,964	- 85,009
8.	Other operating expenses	- 508,424	- 476,577
9.	Income from investments	351	357
٥.	- thereof from affiliated companies :	98	155
10.	Income from investments in associated companies	- 282	1.190
11.	Other interest and similar income	3,647	3,246
	- thereof from affiliated companies :	21	20
12.	Write-down of financial assets and current securities	- 2	- 69
13.	Interest and similar expenses	- 83,018	- 69,272
	– thereof to affiliated companies :	- 1	<b>–</b> 1
14.	Income tax	- 68,597	- 72,812
	- thereof deferred taxes :	7,738	1,462
		,	, -
15.	Earnings after tax	67,311	135,468
16.	Net income for the year	67,311	135,468
	– thereof part of other shareholders :	67,298	135,458

### CONSOLIDATED CASH FLOW STATEMENT OF DIEHL VERWALTUNGS-STIFTUNG FOR THE PERIOD JAN. 1 TO DEC. 31, 2018

(in K€)

Kej		
	2018	2017
Net income	67,311	135,468
Adjustment to reconcile net income between exchange rate as of 12/31/2018 and yearly average exchange		- 453
Depreciations / write-ups on fixed assets	92,891	84,362
Increase / decrease in accruals and provisions	9,425	- 29,109
Other non-cash expenses	- 4,773	3,299
Gains on disposals of assets related to investing activities	- 294	- 7,942
Increase / decrease in inventories, trade receivables and other assets	- 153,861	6,023
Increase / decrease in trade payables and other liabilities	135,660	- 35,466
Interest expenses / interest income	79,371	66,026
Other investment earnings	- 1,231	- 930
Income tax expenses	76,335	74,273
Income tax payments	- 68,211	- 81,955
Income from grants	- 10,861	- 8,676
Cash flow from operating activities	221,822	204,920
Disposals of tangible and intangible assets	5,171	16,331
Purchase of tangible and intangible assets	- 118,433	- 108,100
Acquisition of / disposals of financial assets	- 1,988	- 2,699
Cash outflow from financial assets from short-term financial management	- 36	- 33
Interest received	1,976	1,147
Dividends received	1,231	930
Cash flow from investing activities	- 112,079	- 92,424
Decrease in capital stock and payments from changes in shareholder loans	0	- 4,900
Dividends paid to shareholders	- 46,236	- 39,684
Decrease of bank liabilities and other financial liabilities	- 28,923	- 63,223
Increase of bank liabilities and other financial liabilities	23,246	5,648
Payments from grants	10,861	8,676
Interest paid	- 16,277	- 14,875
Cash flow from financing activities	- 57,329	- 108,358
Change in cash and cash equivalents	52,414	4,138
	,	,
Effect of changes in exchange rates, changes in Group structure and changes		
due to valuations	423	8,568
Cash and cash equivalents at beginning of period	303,852	291,146
Cash and cash equivalents at beginning or period  Cash and cash equivalents at end of period	356,689	303,852
Cash and Cash equivalents at end of period	350,069	303,632
Cash and cash equivalents have been reduced by € 20.4 million (12/31/2017: € 27.4 million) of curr	rent liabilities	
Cash and cash equivalents have been reduced by $\leqslant$ 20.4 million (12/31/2017: $\leqslant$ 27.4 million) of curl due to banks and other short-term financial liabilities.	rent liabilities	
	rent liabilities	

# STATEMENT OF CHANGES IN CONSOLIDATED EQUITY OF DIEHL VERWALTUNGS-STIFTUNG

	Capital stock	Reserves	Retained earnings brought	Equity of parent company	Capital of
			forward		Non-controlling interests before net income
(in K€)					
As of Dec. 31, 2017	511	173	1,640	2,324	
Allocation to reserve		12	- 12		6,567
Distribution of earnings					
Currency translation					- 2,130
Other changes					24
Net income for the year			14	14	
As of Dec. 31, 2018	511	185	1,642	2,338	4,461

Shareholders'	Non-controlling interests					
equity	Shares held	ubgroup Diehl Stiftung & Co. KG other non-controlling interests			subgroup Diehl Stiftung & Co. KG	
	by other share holders	Total	Profits / losses due to non-controlling interests	Non-controlling interests before net income	Total	Profits / losses due to non-controlling interests
735,928	733,604	61,042			672,562	
						- 6,567
- 35,432	- 35,432	- 19,064		- 19,064	- 16,368	- 16,368
- 1,924	- 1,924	206		206	- 2,130	
- 13	- 13	- 37		- 37	24	
67,311	67,297	24,599	24,599		42,698	42,698
765,870	763,532	66,746	24,599	- 18,895	696,786	19,763

### 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 44 domestic and 28 foreign companies, which are under direct or indirect control of Diehl Verwaltungs-Stiftung.

The companies GMD Beteiligungs GmbH and Diehl Aviation Interiors Holding GmbH as well as Diehl Aviation Holding GmbH and Diehl Aviation Interiors Holding GmbH were merged.

Seven domestic shareholdings were included in the consolidated financial statements as associated companies. In FY 2018, the group of associated companies was expanded to include Diehl VC GmbH.

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

As in previous years, the financial statements were 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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF DIEHL VERWALTUNGS-STIFTUNG FOR FISCAL YEAR 2018

appropriate, e.g. due to the validity period of rights of use. A capitalized goodwill is amortized over a maximum period of 15 years.

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 decliningbalance 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 3 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 800 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.

Advances paid and received are stated at nominal value. Advances received are deducted from the inventories in accordance with Art. 268, para 5, sentence 2 of the German Commercial Code.

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 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 2018 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 2.90% p.a. and a dynamic pension increase of 1.65% p.a. have been taken as a basis. An interest rate of 3.21 % 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 1 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€ 12/31/2018	K€ 12/31/2017
Trade receivable	1,545	688
Receivables from companies in which participations are held	225	231
Other assets	593	516

### 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 28% 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€ 112,475 mainly result from the creation of deferred

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF DIEHL VERWALTUNGS-STIFTUNG FOR FISCAL YEAR 2018

taxes based on different valuation methods in the commercial and tax balance sheet (pension reserves, tax loss carryforwards, other accruals, different depreciation methods and valuation methods and periods different in fixed and current assets) as well as elimination of intercompany profits and losses in the fixed assets and inventories.

receivables from offset pension liability insurances amount to K $\in$  11,716. The settlement amount of the pension reserve offset for reinsured deferred compensation corresponds to the asset value from the pension liability insurance (K $\in$  11,716). Expenses and income in the amount of K $\in$  181 were offset.

Deferred taxes on the liabilities side in the amount of  $K \in 10,671$  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.

Coverage capital for insolvency insurance of life work-time accounts in the amount of  $K \in 4,782$  was offset against the corresponding accruals in the amount of  $K \in 4,461$ . The remaining coverage capital of  $K \in 321$  was shown as excess of plan assets over post-employment benefit liability. Expenses and income in the amount of  $K \in 311$  were offset. Moreover, receivables from pension liability insurances to secure partial retirement balances with a fair value and historical acquisition cost of  $K \in 103$  were offset against the related liabilities from outstanding settlement worth  $K \in 172$ .

	K€ as of 12/31/2018	K€ as of 12/31/2017	K€ variation
Deferred taxes on the assets side	112,475	106,146	6,329
Deferred taxes on the liabilities side	10,671	12,033	- 1,362

In addition, other assets worth K€ 11,698 were offset against pension reserves.

### 4. Shareholders' equity

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

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 Standard DRS 22.

### 6. Liabilities

### 5. Accruals

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

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  $K \in \{0,214\}$  (inclusion of plan assets). The acquisition costs were  $K \in \{0,248\}$ . Expenses and income each in the amount of  $K \in \{0,248\}$  were offset.

The total amount of **liabilities due to banks** runs to  $K \in 6,646$  and is secured by pledged accounts and land charges.

Receivables from pension liability insurances for deferred compensation are offset against pension reserves for reinsured deferred compensation (inclusion of plan assets). The historical acquisition cost and the fair value of the

### "Other liabilities" include the following items:

	K€	K€
	12/31/2018	12/31/2017
Social security liabilities	6,920	6,824
Tax liabilities	39,892	38,403

### 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 $\in$ Type	Market values positive negative		Nominal- volume
Forward exchange contracts			
USD	14	82	1,878
PLN	0	0	31
CNY	0	0	13
MXN	1	0	12
GBP	0	0	11
Other currencies	0	0	3
Commodity futures contracts Nonferrous metals exchange	1	1	71

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).

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 € 15 million. Micro and macro hedges as well as portfolio hedges are employed in the valuation of foreign currency positions. Foreign currency receivables (€ 226.6 million), liquid assets (€ 46.1 million), foreign currency liabilities (€ 56.0 million), firmly contracted business not yet included in the balance sheet (€ 1,418.1 million) and transactions expected with high probability (€ 202.4 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 by December 2020.

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-termsmatch 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 semifinished 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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF DIEHL VERWALTUNGS-STIFTUNG FOR FISCAL YEAR 2018

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, 2018	Market value in million €
Pending procurement transactions	0
Hedged by commodity futures	0.3
Pending sales transactions	2.3
Hedged by commodity futures	- 1.2

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  $\in$  0.02 million was set up on the balance sheet date. Risks worth  $\in$  2.2 million were hedged by micro/portfolio hedges, thus avoiding corresponding negative value changes on the balance sheet date. Transactions expected with high probability with a volume of  $\in$  7.9 million were included in the evaluation units.

### 8. Contingent liabilities

On the balance sheet date, there were liabilities on guarantees in the amount of  $\leqslant$  23.5 million (2017:  $\leqslant$  17.3 million) and liabilities under warranties worth  $\leqslant$  59.9 million (2017:  $\leqslant$  20 million).

On the balance sheet date, there were contingent liabilities due to affiliated companies in the amount of  $\leqslant$  77.2 million (2017:  $\leqslant$  31.2 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  $- \in 4.3$  million (2017:  $\in 4.6$  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 € 904.9 million. They relate above all to commitments from open purchase orders and from quantity contracts for Metall (purchasing) for which prices have not yet been finally fixed, commitments under rental and leasing contracts, commitments from commodity futures contracts (Metall), offset obligations as well as obligations to pay back development cost subsidies.

On the balance sheet date, there were other financial commitments to affiliated companies in the amount of  $\in$  42 million (2017:  $\in$  40 million).

### VI. Notes to the income statement

#### 1. Sales

Sales break down as follows:

in million € 2018	Total	Domestic	Foreign
Corporate Division Metall	913	429	484
Corporate Division Controls	533	89	444
Corporate Division Defence	464	268	196
Corporate Division Aviation	1,476	613	863
Corporate Division Metering	297	50	247
Services/other	11	11	0
Total:	3,694	1,460	2,234

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

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  $\in$  8.7 million (2017:  $\in$  8.8 million).

### 3. Amortization and depreciation

Non-scheduled depreciation in the amount of  $\leqslant$  3.2 million was made. This concerned the items "Amortization and depreciation on intangible assets and tangible assets" in the income statement.

### 4. Other operating expenses

Other operating expenses include other taxes in the amount of  $\in$  6.6 million (2017:  $\in$  6.7 million) as well as expenses from foreign currency translation in the amount of  $\in$  12.2 million (2017:  $\in$  7.7 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  $\leq$  1.5 million (2017:  $\leq$  2.0 million).

The item interest and similar expenses includes expenses from the discounting of accruals in the amount of  $\leqslant$  59.0 million (2017:  $\leqslant$  46.6 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  $\leqslant$  43.5 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  $\in$  11.9 million.  $\in$  5 million of that amount were accounted for by the adjustment to the mortality tables published by Prof. Dr. Klaus Heubeck.

# 8. Income and expenses of extraordinary size and significance

Major individual items result from the sale of fixed assets in the amount of  $\in$  7.5 million in Other operating income and from structural adjustments in the amount of  $\in$  40 million in Other operating expenses.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF DIEHL VERWALTUNGS-STIFTUNG FOR FISCAL YEAR 2018

### 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 Standard 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

	Annua 2018	l average 2017
Corporate Division Metall	3,407	3,334
Corporate Division Controls	3,688	3,747
Corporate Division Defence	2,354	2,245
Corporate Division Aviation	5,285	5,116
Corporate Division Metering	1,684	1,686
Services/other	423	410
Staff members	16,841	16,538
Apprentices	425	425
Total:	17,266	16,963

### 3. Fees paid for services provided by auditors

in K€ Type	Group auditor	Other auditors
Annual audit services	1,353	113
Audit-related services	57	44
Tax consultation services	950	0
Other services	35	25
Total:	2,395	182

### 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, 2018 – and April 10, 2019.

# 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  $K \in 5,821$ in the reporting period. The emoluments of former members of the Executive Board and their surviving dependants amounted to  $K \in 717$ . Pension obligations to these persons amounted to  $K \in 11,024$ . Remunerations for the Supervisory Board members amounted to  $K \in 1,084$ .

### 6. Proposal for the appropriation of earnings

The Executive Board proposes to add an amount of  $K \in 12$  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, 2019

Diehl Verwaltungs-Stiftung

The Executive Board

# STOCK OWNERSHIP OF THE GROUP AS OF DECEMBER 31, 2018

# 1. Consolidated Companies

Name and registered office of company	Share in capital %
Production and sales companies	
Germany	
AIM Infrarot-Module GmbH, Heilbronn	50.0
Diehl & Eagle-Picher Gesellschaft mit beschränkter Haftung, Röthenbach	55.0
Diehl Aerospace GmbH, Überlingen	51.0
Diehl AKO Stiftung & Co. KG, Wangen im Allgäu	100.0
Diehl Aviation Gilching GmbH, Gauting	100.0
Diehl Aviation Hamburg GmbH, Hamburg	100.0
Diehl Aviation Laupheim GmbH, Laupheim	94.0
Diehl Connectivity Solutions GmbH, Nürnberg	100.0
Diehl Defence GmbH & Co. KG, Überlingen	100.0
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 Metallhandelsgesellschaft 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 Pte. Ltd., Singapore	100.0
Diehl Aerospace, Inc., Birmingham / Alabama, USA	100.0
Diehl Augé Découpage SAS, Besançon, France	100.0
Diehl Aviation Hungary Kft., Nyírbátor, Hungary	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 (Jinan) Co., Ltd., Jinan, China	100.0
Diehl Metering ApS, Esbjerg, Denmark	100.0
Diehl Metering GesmbH, Wien, Austria	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., Bażanowice, Poland	100.0
DIEHL POWER ELECTRONIC SAS, Siaugues Sainte Marie, France	100.0
Diehl SynchroTec Manufacturing (Wuxi) Co., Ltd., Wuxi, Jiangsu, China	100.0
Franconia Industries, Inc., Albany / New York, USA	100.0
Junghans T2M SAS, La Ferté Saint-Aubin, France	100.0
The Miller Company, Meriden / Connecticut, USA	100.0
Management, property and other companies	
Germany	
Afelixa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	94.0
Diehl Assekuranz Rückversicherungs- und Vermittlungs-AG, Nürnberg	100.0
Diehl Ausbildungs- und Qualifizierungs-GmbH, Nürnberg	100.0
Diehl Aviation Holding GmbH, Nürnberg	100.0
Diehl Beteiligungen GmbH, Nürnberg	100.0
Diehl Controls Nürnberg Verwaltungs GmbH, Nürnberg	100.0
Diehl Defence Holding GmbH, Überlingen	100.0
Diehl Defence Land Systems GmbH, Freisen	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	95.9
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
Diehl Iberia Sistemas, S.A., Sevilla, Spain	100.0
Diehl Metal Applications France SAS, Besançon, France	100.0

## STOCK OWNERSHIP OF THE GROUP AS OF DECEMBER 31, 2018

# 1. Consolidated Companies (continuation)

Name and registered office of company	Share in capital
Management, property and other companies	
Other countries (continuation)	
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
Mauser-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 %
Diehl VC GmbH, Nürnberg	49.6
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 ≥ 20%)

Diehl Kuwait General Trade & Contracting W.L.L. i.L., Dasman, Kuwait	49.0
HIL Industrie-Holding GmbH i.L., 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						As of	
	Dec. 31, 2017	Changes	Additions	Write-ups	Disposals	Transfers	Dec. 31, 2018	
I. Intangible assets	•							
1. Acquired concessions, industrial								
property rights and licenses	116,986	255	12,744	0	798	1,728	130,915	
2. Goodwill	216,399	602	0	0	2,650	0	214,351	
		002	· ·	Ŭ	2,000	Ů		
3. Advance payments	1,962	- 4	1,568	0	0	- 1,636	1,890	
	335,347	853	14,312	0	3,448	92	347,156	
	,		,		·		,	
II. Tangible assets								
Real property, corporeal rights in real								
property and buildings, including								
buildings on real property of third parties	520,893	- 158	5,097	0	6,711	2,470	521,591	
Technical equipment and machinery	833,950	<b>–</b> 78	32,053	0	15,163	38,480	889,242	
2. Teermeen equipment and macrimery	000,000	, 0	02,000	ŭ	10,100	30, 100	000,212	
3. Other equipment, factory and office								
equipment	522,000	<b>–</b> 979	26,818	0	21,867	- 19,615	506,357	
4. Advance payments and assets under								
construction	41,678	- 103	40,198	0	20	- 21,427	60,326	
	1,918,521	- 1,318	104,166	0	43,761	<b>- 92</b>	1,977,516	
	.,,.	,,	,		,		.,,	
III. Financial assets								
Shares in affiliated companies	3,679	0	0	0	0	0	3,679	
Cria. co iii aiiiiiatea companico	0,070		•		·	·	3,070	
2. Shares in associated companies	6,805	0	481	- 100	0	0	7,186	
3. Other investments	2,674	0	933	0	0	0	3,607	
5. Other investments	2,071		333	Ŭ		Ŭ	3,007	
4. Loans to companies in which								
participations are held	559	0	0	0	108	0	451	
5. Long-term securities	5	0	0	0	0	0	5	
6. Other loans	5,555	– 14	747	0	306	0	5,982	
	19,277	- 14	2,161	- 100	414	0	20,910	
Total	2,273,145	- 479	120,639	- 100	47,623	0	2,345,582	

Amortiz	zation/Dep	reciation						Net book	value
As of Dec. 31, 2017	Changes	Additions	Write-ups	Disposals	Transfers	Diff. between exchange rate as of Dec. 31 and yearly average rate	As of Dec. 31, 2018	As of Dec. 31, 2018	As of Dec. 31, 2017
101,556	32	9,180	0	727	- 16	6	110,031	20,884	15,430
215,231	602	1,127	0	2,650	0	0	214,310	41	1,168
0	0	0	0	0	0	0	0	1,890	1,962
316,787	634	10,307	0	3,377	- 16	6	324,341	22,815	18,560
337,527	1	9,099	0	3,400	513	- 3	343,737	177,854	183,366
673,721	165	42,909	0	14,948	13,370	- 55	715,162	174,080	160,229
378,556	<b>–</b> 576	29,649	0	20,607	<b>–</b> 13,867	<b>– 17</b>	373,138	133,219	143,444
376,550	- 576	29,649	0	20,607	- 13,867	- 17	3/3,136	133,219	143,444
0	0	0	0	0	0	0	0	60,326	41,678
1,389,804	- 410	81,657	0	38,955	16	<b>– 75</b>	1,432,037	545,479	528,717
2,701	0	0	0	0	0	0	2,701	978	978
1,007	0	1,063	0	0	0	0	2,070	5,116	5,798
1,955	0	0	0	0	0	0	1,955	1,652	719
0		0	0	0	0	0	0	454	550
0	0	0	0	0	0	0	0	451	559
1	0	1	0	0	0	0	2	3	5 100
67	- 1	0	- 66	0	0	0	0	5,982	5,488
5,731	- 1	1,064	- 66	0	0	0	6,728	14,182	13,546
1,712,322	223	93,028	- 66	42,332	0	- 69	1,763,106	582,476	560,823

# RESIDUAL TERMS OF LIABILITIES AS OF DECEMBER 31, 2018

(in K€)

Liabilities:	Total As of Dec. 31, 2018	Of which with a residual term of up to 1 year		Of which with a residual term of more than 5 years
1. Liabilities due to banks	122,293	60,635	61,658	18,278
2. Trade payables	292,028	292,028	0	0
3. Payables due to affiliated companies	913	913	0	0
4. Payables due to companies in which participations				
are held	47,736	25,981	21,755	0
5. Other liabilities	139,100	131,621	7,479	4,212
TOTAL	602,070	511,178	90,892	22,490

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

### 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, 2018 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, 2018 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, 2018.

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, 2018 and of its financial performance for the financial year from January 1st to December 31st, 2018 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

#### (Continuation Independent Auditor's Report)

Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, 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 manag-

ment 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 15, 2019

PricewaterhouseCoopers GmbH

Wirtschaftsprüfungsgesellschaft

Dr. Peter Bartels Thorsten Dzulko

Wirtschaftsprüfer Wirtschaftsprüfer

(German Public Auditor) (German Public Auditor)

During 2018, 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,

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

Dr. Jakob Baer (from July 1, 2019), former CEO of KPMG Switzerland,

Dr. Olaf Berlien, CEO of Osram Licht AG,

Dr. Johannes Bußmann (from July 1, 2019), CEO of Lufthansa Technik AG

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

Mr. Claus Mänz-Siebje (until June 30, 2019) 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. Herbert Fehrecke Chairman

Nürnberg, May 15, 2019

