Annual Report 2018

The Quality Connection

LEONI

This Annual Report is published in German and English.
In case of doubt or conflict, the German language version will prevail.

LEONI is a global provider of products, solutions and services for energy and data management in the automotive sector and other industries.

The value chain encompasses wires, optical fibers, standardised cables, special cables and assembled systems as well as intelligent products and smart services.

As an innovation partner and solutions provider, LEONI supports its customers with pronounced development and systems expertise.

Shareholders' letter

Dear shareholders,

2018 was a year of two halves for LEONI: With the tailwind of a buoyant market, our business performed well and partly somewhat better than expected in the first six months. In the second half, the setting for the automotive and component supply industry became considerably gloomier. International trade disputes, the uncertainty about Brexit, a weaker economy in China and the effects of the WLTP testing procedure curbed the car markets and therefore also the demand for LEONI product. The ramp-up of production for a high-volume vehicle model for which LEONI will be supplying product and internal factors, such as advance spending on new customer projects, increased raw material prices and a less favourable product mix in the Wire & Cable Solutions Division, additionally exerted greater-than-expected pressure on our result. The situation aggravated substantially in the fourth quarter, especially so in the Wiring Systems Division. Extensive problems arose with a large-scale production start at our new facility in Mexico, meaning that we could ensure supply to our customer only at major, additional cost. Furthermore, the performance of some other wiring systems plants deteriorated, and savings targets were not met to the expected extent.

Overall, the LEONI Group generated a slight sales increase and income of € 5.1 billion, but earnings before interest and taxes were down significantly to a very disappointing figure of € 144 million. It was therefore substantially short of the previous year's corresponding figure of € 227 million, which included non-recurring income of € 30 million, and also significantly below the forecast that was adjusted as recently as the autumn. This weaker earnings situation and the ongoing, heavy capital expenditure also weighed on our free cash flow, which declined from a positive figure of € 11 million to a negative one of € 147 million. Considering the cash flow situation and the debt ratio, the Board of Directors and the Supervisory Board intend to deviate from their previous dividend policy and will propose to shareholders at the 2019 Annual General Meeting that the dividend for fiscal 2018 be suspended.

We shall be concentrating fully on stabilising the Company's performance so that we can return to a normal dividend level as quickly as possible. Fundamentally, LEONI has all the building blocks in place: our most important market, the automotive sector, is characterised by such areas of innovation as electromobility, autonomous driving and digitalization, which provide LEONI with great opportunity. And our own foundations are strong: first and foremost, our more than 92,000 staff worldwide, whose tremendous know-how and enthusiasm for our products and solutions cannot be overestimated. On behalf of the entire Board of Directors, I would like to sincerely thank them for their commitment. Another mainstay is close and trusting, in some cases decades-long collaboration with our customers. Thanks to our global footprint, we have a very much regionally-moulded understanding of customers and simultaneously an efficient development and production network. There is also our growing systems expertise, which enables us to develop and launch innovative, customised solutions.

LEONI does not expect the market to provide any tailwind this year. Macroeconomic conditions will probably remain challenging. Above all, however, we still face major challenges in ensuring the execution of our large order backlog in the Wiring Systems Division. In 2019, too, this will require ongoing, heavy pre-production spending and investment as well as underpinning of growth based on the orders already booked. In addition, there will be completion of the Wire & Cable Solutions Division's Factory of the Future in Roth, Germany, meaning that our capital expenditure ratio will again be at a level of around 5 percent. At our new wiring systems facility in Mexico, for which we have already applied initial and immediate stabilisation measures, we must again anticipate extensive, exceptional charges at least in the first half of the year. To resolve our problems with transparency and timely provision of information in our internal reporting system, we are stepping up installation of an SAP system, especially in the area of finance, that will incur additional costs.

» Aldo Kamper
CEO and President

Against this backdrop, we project consolidated sales of € 5.2 billion and another decrease in earnings to between € 100 and 130 million for 2019. This does not yet include spending on our VALUE 21 programme. We announced this performance and strategy-enhancement programme in the autumn of 2018 to stabilise our business, improve the basis for healthy growth, profitability and cash generation as well as to sharpen our focus on the future markets of electromobility, autonomous driving and digitalization. Our surprisingly poor performance in the fourth quarter underscores the need for comprehensive measures to improve and for the actions already launched. It is a matter of raising the potential for optimisation in both divisions – from the production processes to their procurement, distribution and administrative structures as well as the IT landscape and through to working capital management. The key is that these actions are comprehensive and structured; are stringently followed up and have lasting effect. We have targeted a timeframe of three years.

Building on stabilisation of our business and improved performance, we will then work on fleshing out our strategy to develop LEONI into a leading provider of intelligent energy and data management solutions. Enhancement of systems expertise will provide both our Wiring Systems Division and Wire & Cable Solutions Division with great prospects. In our Wiring Systems Division, whose business growth has recently significantly outpaced the market, we shall in future be more selective in accepting new projects with respect to their profitability. Initially, we intend thereby to raise the quality of earnings and cash flow as well as to limit expansion-related risks.

With these measures, we will firstly direct LEONI onto a calmer, more reliable track and then a clearly profit-oriented course towards being a provider of intelligent energy and data management solutions. Even though we expect our business to bottom out in 2019, we are convinced that our market and our inherent strengths provide excellent foundations for lastingly successful performance. LEONI's entire team will be working with focus and great determination on making sure that the commitment you, our esteemed shareholders, have shown LEONI is also rewarded again.

Nuremberg, 26 February 2019

Aldo Kamper
CEO and President

Company information

Company information

Supervisory Board report

» Dr.-Ing. Klaus Probst,
Chairman of the Supervisory Board

Dear Sir or Madam,

The Supervisory Board of LEONI AG dealt in depth with the situation and performance of the group of companies in fiscal 2018.

We diligently and dutifully fulfilled our tasks in accordance with statutory requirements, the provisions of the Company's Articles of Association, the German Corporate Governance Code and our rules of procedure, continuously advising the Board of Directors on its management of the Company and overseeing its work.

The collaboration between the Supervisory Board and the Board of Directors was at all times constructive, open and defined by mutual trust. The Board of Directors informed us regularly, immediately and comprehensively, both in writing and verbally, about all matters pertinent to LEONI. In particular, this included the strategy, planning, operating performance as well as the Group's current situation including its risk situation. The Board of Directors explained any deviation in business performance from the prepared planning in detail and involved the Supervisory Board in decisions of material importance. This also applied to the time after this reporting period ended when an unexpectedly sharp deterioration of earnings became evident.

We discussed all important matters thoroughly during our meetings of the Supervisory Board. The Board of Directors provided us with corresponding, comprehensive written reports in advance. The Supervisory Board's approval was obtained so far as this was required for certain measures in accordance with the rules of procedure. Key matters subject to approval included various investment projects, the establishment of a joint venture as well as authorisation for a new financing plan, which comprised a large syndicated loan and issuing more borrower's note loans. These decisions were on each occasion preceded by in-depth discussions, which were normally based on a corresponding submission or presentation from the Board of Directors.

The Board of Directors and the Supervisory Board also kept in close touch at all times outside their meetings. The chairmen of both boards consulted regularly, also at short notice and as warranted by events, on any matters requiring agreement. The number of fixed dates was raised significantly to onboard the new CEO. The entire Supervisory Board was informed in detail of the content of these discussions during its next meeting at the latest.

Main topics of discussion by the Supervisory Board
The Supervisory Board held six regular meetings during the 2018 financial year; specifically, on 30 January, 15 March, 3 May, 20 July, 18 September and 13 December. In addition, it met in an executive session to discuss matters without the members of the Board of Directors on 26 November 2018.

The employee representatives held a preliminary discussion prior to each Supervisory Board meeting. The shareholder representatives also held prior discussions on 3 May and 13 December 2018. The Supervisory Board was quorate on each occasion. One member had excused their absence from each of the three regular meetings and in one session a member could only participate part of the time for an important reason.

Apart from the executive session, all members of the Board of Directors attended each of the meetings so far as these did not cover topics requiring that they absent themselves. These topics included deliberations on Board of Directors matters, further clearing up of the fraud case uncovered in 2016 as well as the Supervisory Board's efficiency audit.

The matters discussed during the scheduled meetings regularly included the general business situation of the Group and both divisions, the financial situation based on the income statement and the balance sheet as well as key investments and development in terms of the number of employees. In particular, we considered the performance in terms of earnings and cash flow that fell significantly short of expectations from the third quarter as well as the necessary reactions. The Board of Directors launched a performance and strategy programme (VALUE 21) that we discussed thoroughly on the Strategy Committee, but also during our meeting on 13 December 2018. The programme is focused on operations as well as on measures to improve earnings quality and the liquidity situation. Yet, in the same vein, the programme also has a strategic dimension. Above all, this includes limiting growth in the Wiring Systems Division to a degree that is organisationally and financially attainable as well as proactively managing portfolios with respect to the two divisions' various business areas more than in the past. Both of the programme's aspects will occupy us even more in the upcoming reporting period.

Another key topic involved the Supervisory Board's efficiency audit, which was carried out with outside support during the year under report and which yielded various recommendations for action, which were geared to streamlining the Board's work and preparing for decision-making by the entire Board. In addition, there were such other measures as the introduction of a planning calendar, an annual strategy seminar and a Corporate Office. Specific implementation of these measures was approved during the executive session. Further details on this topic can be found in the Corporate Governance report.

The subject matter of the reporting period's first meeting on 30 January 2018 included, alongside regular agenda items, approval to set up a fourth LEONI facility in Mexico. Another key item involved the appointment to the vacant position of Chief Executive Officer following the departure of Dieter Bellé effective 31 January 2018. Having previously carried out a widespread selection process considering both internal and external candidates, we decided to fill the position with an outsider and to focus on a candidate with whom final talks about the succession based on predetermined parameters were to be held by the next meeting. At the same time, we approved a new, interim allocation of responsibilities for the period from 1 February 2018 until the future CEO assumed office. This decision divided the departments among the three remaining members, establishing that they were to manage the Company with equal authority. Chief Financial Officer Karl Gadesmann was appointed as acting spokesman for the Board of Directors and as Labour Director. We furthermore extended the mandate of Board member Bruno Fankhauser, whose contract would have expired at the end of 2018, until 31 December 2023. Elements of Board of Directors compensation were a further discussion point: we determined the targets for the short-term component of 2018 Board of Directors compensation. We furthermore decided upon the regular review of Board of Directors compensation to make adjustments to Board member contracts, which ensure equal treatment of the Board members as well as in their compensation and retirement benefit. With respect to its composition, the Supervisory Board approved changes to its competence profile and discussed amendments to the diversity concept for the Board of Directors and the Supervisory Board. We also sought information on the status of the Internal Control System; of risk management and of the Internal Audit and Compliance departments, of the trend in selling and administrative costs within the LEONI Group as well as the process for selecting the auditors as of the 2019 financial year. In addition, we looked at the oneLEONI project, which is intended to pool Group-wide skills and responsibility and serves, in division-overarching initiatives, to harmonise and standardise key processes as well as the progress in various projects of the IT department.

During the Supervisory Board's meeting on 15 March 2018, the members appointed Aldo Kamper as the new Chief Executive Officer of LEONI AG effective 1 October 2018. It was furthermore agreed to conduct talks with him about possibly assuming office sooner. Moreover, presentation, scrutiny and adoption of the financial statements and the summarised management report for LEONI AG and the Group for the 2017 financial year constituted a focal point of this meeting. Both sets of statements were approved without any objection after detailed deliberation. The Supervisory Board also discussed the 2017 annual report including the Supervisory Board report, the Corporate Governance report and the compensation report as well as the dividend proposal and the agenda for the Annual General Meeting on 3 May 2018. The Board also decided to carry out the pending efficiency audit with external support and to mandate Ernst & Young as the chosen consultants. Further items involved the risk aggregation for the years 2018 through 2022, the performance of Program Management and the pending, major projects of the Wiring Systems Division as well as the new financing plan for the LEONI Group, whereupon we approved signing of a syndicated loan by circular resolution at the end of May 2018. The Board of Directors also informed us on the status of the (meanwhile retracted) lawsuit against the election of Dr Klaus Probst as a member of the Company's Supervisory Board by shareholders at the 2017 Annual General Meeting, licence management and various organisational changes within LEONI AG.

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The third regular meeting of the Supervisory Board took place on 3 May 2018 after the Annual General Meeting. Primarily, we dealt with the strategic development of the Wire & Cable Solutions Division and approved the establishment of a joint venture for production of single-mode fibers. We furthermore authorised an increase in the amount to be invested in the Factory of the Future and the total allowance for additions to tangible assets in the 2018 financial year. In addition, we decided on a new version of the rules of procedure for the Board of Directors and on optimisation of our corporate governance with respect to decision-making and implementation. Detailed in this respect can be found in the Corporate Governance report.

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On 20 July 2018, the Supervisory Board again obtained information on the status of the oneLEONI project, realignment of the Corporate Strategy, Corporate Taxes and Corporate Process Management departments, the latest developments concerning diversity and succession management, the new, global power-of-attorney guideline as well as the LEONI OnFire programme, which aims to create a more agile corporate culture. Prior to the meeting, an agreement was furthermore reached with Aldo Kamper's existing employer on his earlier departure, whereupon it was decided to bring his appointment forward to 1 September 2018 as well as to end Karl Gadesmann's temporary role and the interim allocation of responsibilities on the Board of Directors as of that date. The Supervisory Board also received update on the implementation status of the actions recommended by the BDO consulting firm, which it had commissioned to conduct a review of the Corporate Finance and Treasury departments because of the fraud case uncovered in August 2016. In addition, we once again addressed licence management and approval for certain personnel-related decisions made by the Board of Directors at the level of senior management (Level 1 of the Group-wide grading system). We adopted an amendment to the rules of procedure for the Board of Directors to make the latter part of the duties of the Personnel Committee in future cases. Finally, we learned about the initial suggestions arising from the efficiency audit with Ernst & Young.

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During the Supervisory Board's meeting on 18 September 2018, which was held at our facility in Kitzingen, Germany, the Board approved the new allocation of responsibilities presented by the Board of Directors. Details in this respect can be found in the Corporate Governance report. We also approved the placement of borrower's note loans to increase financial flexibility. Based on the Audit Committee's recommendation for selection, the Supervisory Board furthermore decided to propose Deloitte GmbH Wirtschaftsprüfungsgesellschaft as auditors for fiscal 2019 to shareholders at the 2019 Annual General Meeting. Additional items included an update on the joint venture authorised in May 2018, on the status of clearing up the fraud case, on the Sustainability Report, on the Safety, Health & Environment department, on implementation of the suggestions in the BDO report for action with respect to the 2016 fraud case, on Iran-related business as well as on the performance of the LEONI share and its switch from the MDAX to the SDAX. Finally, we discussed Ernst & Young's closing report on the efficiency audit and the resulting conclusions, and we obtained an initial preview of work on a holistic Group strategy.

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During the executive session, which was held on 26 November 2018, we decided on measures to apply the actions recommended by Ernst & Young arising from the Supervisory Board's efficiency audit. Information in this respect can be found in the Corporate Governance report.

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The main focus of the Supervisory Board's meeting of 13 December 2018 was on the planning for fiscal 2019, the medium-term planning for 2020 and the subsequent years as well as the investment planning for 2019. Following comprehensive and constructive discussion, the members of the Board of Directors and of the Supervisory Board agreed to revise the presented planning as well as the medium-term planning by the January meeting to thereby take into account the latest knowledge of market and performance developments. Similarly, setting of the targets for fiscal 2019 Board of Directors compensation was postponed to the next meeting as this would be extrapolated from the corresponding planning. At the same time and following constructive discussion, we approved 90 percent of the amount of investment proposed for the 2019 financial year to be able to decide on the remaining share once the planning was finalised. Another focal point involved the CEO's first status report on preparing the VALUE 21 performance and strategy programme, which we subsequently discussed thoroughly. Upon the Audit Committee's recommendation, the Supervisory Board also approved the report by Ernst & Young on the findings of the audit of LEONI AG's systems to adhere to requirements concerning the signing of financial derivatives in accordance with Section 20 (1) of the German Securities Trading Act (WpHG) 2017 in its previous version and decided to update the Company's declaration pertaining to the German Corporate Governance Code pursuant to Section 161 of the German Public Stock Corporation Act (AktG). This is included in the statement on Corporate Governance. We also agreed to updates to the diversity concept for the Board of Directors and the Supervisory Board as well as amendment of the competence profile and the targets for composition of the Supervisory Board. Additional resolutions concerned the gender ratio and fulfilment of the target quotas for the Board of Directors and the Supervisory Board. Information in this regard is contained in the statement on Corporate Governance. There were also planned changes to the management board of a division and amendments to our rules of procedure, which resulted from the prior resolutions on the diversity concept and the competence profile as well as the findings of the external efficiency audit, such as revision of the Strategy Committee's role. The latter included new composition of the committee, which we carried out in a corresponding election. Further information on this is contained in the Corporate Governance report and the section on the Supervisory Board and Board of Directors. Another topic, finally, involved the Board of Directors' reporting on the status of the IDW audits PS 980, 981, 982 and 983 in the Compliance, Risk Management, Internal Control System and Internal Audit departments.

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An unexpectedly sharp deterioration of earnings became apparent after the period under report ended, which prompted us immediately upon finding this out to work hard on addressing cause and effect as well as applying instant actions and other measures going beyond the VALUE 21 programme discussed to date.

Work of the committees

The Supervisory Board of LEONI AG formed an Audit Committee, a Personnel Committee, a Nomination Committee and a Strategy Committee. These governance bodies prepare the topics to be addressed by the entire Supervisory Board and the resolutions on which the Board is to vote during its meetings. The composition of the committees is described in the section headed Supervisory Board and Board of Directors, while the Corporate Governance report provides information on the duties of the committees. Decision-making powers of the Supervisory Board are transferred to the committees to the extent permitted by law. In addition, there is the Arbitration Committee in compliance with Section 27 (3) of Germany's Co-determination Act (MitbestG). The committee chairmen reported regularly on their work during the Supervisory Board meetings.

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The **Audit Committee** convened for six regular meetings and one extraordinary meeting during the year under report. It dealt in depth with the 2017 financial statements and consolidated financial statements, the management and quarterly reports, the findings of the audit as well as the six-month report and prepared for nomination of the auditors for the 2018 financial year. Other topics covered the oversight and approval of permissible non-auditing services, the status of the external audit of the Governance, Risk and Compliance departments, the non-financial Group information statement, the findings of the IT audit as well as application of the new General Data Protection Regulation. The committee also once again addressed the actions recommended by the BDO consulting firm, which was commissioned by the Supervisory Board in 2016 because of the fraud case, and prepared the decision-making on the change of auditors for the 2019 financial year. It furthermore obtained up-to-date reports from the departments for Compliance, Information Security, Internal Control System, Risk Management, Taxes as well as safety at work, health and environmental protection at LEONI.

The **Personnel Committee** met on four occasions in 2018, one of which in the form of a conference call. Primarily, the committee worked on the appointment of a new chief executive officer.

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The **Strategy Committee** held three meetings during the past financial year. The principal topic was the strategy of the Group and of the two divisions. The committee furthermore worked on the strategic footprint planning of the Wiring Systems Division and the Wire & Cable Solutions Division's strategy in the data center market. Another focal point involved review of the committee's position and remit, which ultimately led to proposing to the Supervisory Board that, among other things, the responsibilities of the Strategy Committee be more explicit and that this be embedded in the rules of procedure. During its final meeting, members thoroughly discussed the new, annual strategy process, the introduction of a Group-wide M&A process, the Corporate Development Plan for the 2019 financial year as well as the VALUE 21 performance and strategy programme.

There was no cause for either a meeting of the **Nomination Committee** or convening of the **Arbitration Committee** pursuant to Section 27 (3) of Germany's Co-determination Act (MitbestG) during the reporting period.

Corporate Governance and Declaration of Conformity

The Supervisory Board again dealt in detail with Corporate Governance at LEONI, taking the German Corporate Governance Code as its guide, during the year under report. The Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act was updated in December 2018. With one exception, LEONI fulfils all the recommendations of the Code in its current version. Further details can be found in the current version of the Declaration of Conformity. This is included in the Corporate Governance report and statement on Corporate Governance.

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Audit of the annual financial statements

Upon the proposal by the Supervisory Board, which followed an Audit Committee recommendation, the Annual General Meeting of LEONI AG's shareholders on 3 May 2018 appointed Ernst & Young GmbH auditing company of Stuttgart as auditors for the 2018 financial year. The company audited and granted an unqualified certificate for the 2018 financial statements and the management report of LEONI AG as well as the consolidated financial statements and the Group management report. Ernst & Young have been auditors for the LEONI Group since 1987. The auditors responsible pursuant to Section 319a (1) sentence 4 of the German Commercial Code (HGB) were Udo Schuberth (starting with the 2013 financial statements) and Gero Schütz (starting with the 2012 financial statements). Ernst & Young had confirmed to the Chairman of the Supervisory Board and to the Audit Committee, before the Supervisory Board proposed the firm as auditors at the Annual General Meeting, that there are no circumstances that might compromise their independence or raise doubts about their independence. Ernst & Young also declared the extent to which, in the preceding financial year, services for the Company other than the audit were either performed or contractually agreed for the subsequent year.

The provisions of the German Commercial Code were applied to prepare the financial statements and the management report of LEONI AG. The International Financial Reporting Standards (IFRS) as they apply in the European Union as well as, additionally, the commercial law provisions under Section 315e (1) of the German Commercial Code (HGB) were applied to prepare the consolidated financial statements and the Group management report. The audit was conducted in accordance with Section 317 of the German Commercial Code (HGB) while observing the German principles of true and fair annual accounting of the Institute of Public Auditors in Germany, Incorporated Association (IDW). The auditors stated that the management reports appropriately describe the situation of LEONI AG and of the Group as well as the opportunities for and risks to future performance. The review of the risk management system as part of the audit found that the Board of Directors has taken suitable measures in keeping with those required under Section 91 (2) of the German Stock Corporation Act (AktG) to set up a monitoring system, and that this monitoring system is suited to early detection of developments that might threaten the Company's continued existence.

As part of its review, the Supervisory Board also reviewed the non-financial Group information statement that was to be prepared pursuant to Section 315b of the German Commercial Code (HGB) and found that it fulfils the existing requirements and no objections are to be raised. An external audit had previously confirmed that nothing was found that might cause the auditors to conclude that the non-financial Group information statement was not prepared in all material respects in accordance with Section 315c of the German Commercial Code (HGB).

The annual financial statements of the Company and of the Group, the management reports (including the non-financial Group statement) and the audit reports were available to all members of the Supervisory Board in good time. The Audit Committee pre-examined these documents during its meeting on 27 February 2019 and reported to the Supervisory Board in this regard during the latter's regular meeting on 28 February 2019. We subsequently discussed the financial statements and reports in depth. The auditing company's representatives took part in both meetings, provided information on the findings of their audits and were available to provide additional information. In particular, the findings of key audit matters for LEONI AG and the Group were presented: (I) recoverability of loans to associated companies and of receivables from associated companies, (II) Impairment test of goodwill and intangible assets and property, plant and equipment as well as (III) Income taxes – Recognition and measurement of deferred tax assets. The audit did not give rise to any objections.

The Supervisory Board approved the findings of the audit of the financial statements. The final result of the audits by the Audit Committee and the Supervisory Board of the annual financial statements and management reports of LEONI AG and the Group did not give rise to any objections. We approved the annual financial statements of LEONI AG and the consolidated financial statements for fiscal 2018 as prepared by the Board of Directors. The financial statements of LEONI AG have thus been duly adopted. The Supervisory Board supports the Board of Directors' suggestion to deviate from the Company's previous dividend policy and propose to shareholders at the 2019 Annual General Meeting not to pay out a dividend from the distributable profit of LEONI AG for the 2018 financial year.

Changes in personnel

Dieter Bellé, LEONI AG's Chief Financial Officer from the year 2000 and its Chief Executive Officer from 2015, left the Company on 31 January 2018 with the Supervisory Board's agreement. We once again thank him sincerely for his many years of successful work for and his great commitment to the Company. The Supervisory Board appointed Aldo Kamper as LEONI AG's new CEO on 15 March 2018. Kamper, who has an MBA as well as profound experience in the industrial and automotive segments, assumed his office on 1 September 2018. CFO Karl Gadesmann took on the role of spokesperson for the Board of Directors and Labour Director on an interim basis from 1 February to 31 August 2018. The Supervisory Board expressly thanks him for this additional commitment.

On 13 December 2018, Carmen Schwarz resigned her mandate as a member of LEONI AG's Supervisory Board by mutual agreement effective 13 January 2019. She is to be succeeded by Janine Heide, secretary of the IG Metall trade union at its Aachen office and resident in Bad Camberg. The application for her judicial appointment pursuant to Section 104 of the German Stock Corporation Act (AktG) was submitted to the Nuremberg local court on 19 December 2018. Janine Heide was appointed a member of the Supervisory Board as an employee representative (trade union representative) by a resolution on 15 January 2019. The Supervisory Board thanks Carmen Schwarz for her commitment and her personal dedication as member of the Supervisory Board. At the same time, it wishes Janine Heide every success in her new job.

Thanks to the Board of Directors and staff

The Supervisory Board thanks all members of the Board of Directors as well as staff for their commitment in the 2018 financial year, which presented LEONI with major challenges. In 2019, our Company will once again be operating in a demanding setting and will be additionally challenged by our newly launched VALUE 21 performance and strategy programme. The Supervisory Board wishes the Board of Directors and all members of staff every success with these impending tasks.

Nuremberg, 28 February 2019

Dr Klaus Probst
Chairman of the Supervisory Board

Supervisory Board and Board of Directors

Supervisory Board

Members of the Supervisory Board	Memberships of other statutory supervisory boards in Germany or of comparable domestic and foreign corporate governance bodies of economic entities
Chairman of the Supervisory Board **Dr.-Ing. Klaus Probst** | 65 | Heroldsberg former President & CEO of LEONI AG, retired	Grammer AG, Amberg (market-listed, chairman) Zapp AG, Ratingen (not market-listed, ordinary member)
1st Deputy Chairman of the Supervisory Board **Franz Spieß** [1] | 62 | Büchenbach 1st senior authorised signatory of the IG Metall trade union's office Schwabach	—
2nd Deputy Chairman of the Supervisory Board **Dr Werner Lang** | 51 | Ergersheim Managing Director of the MEKRA Lang group of companies, Ergersheim	MEKRA Lang Otomotiv Yan Sanayi A. S., Ankara, Turkey (not market-listed, chairman of the administrative board) Changchun MEKRA Lang FAWAY Vehicle Mirror Co, Ltd., Changchun, China (not market-listed, ordinary member of the administrative board) MEKRArus LLC. Ulyanovsk, Russia (not market-listed, chairman of the Supervisory Board)
Dr Elisabetta Castiglioni | 54 | London Managing Director and CEO at A1 Digital International GmbH, Vienna, Austria	Euskaltel S.A., Derio, Spain (market-listed, ordinary member of the Board of Directors) A1 Telekom Austria AG, Vienna, Austria (not market-listed, ordinary member of the Supervisory Board)
Wolfgang Dehen | 65 | Donaustauf former CEO of Osram Licht AG, retired	TÜV SÜD AG, Munich (not market-listed, ordinary member)
Mark Dischner[1] | 45 | Greding Chairman of the General Works Council of LEONI AG	Sparkasse Mittelfranken-Süd (not market-listed, member of the administrative board)
Dr Ulrike Friese-Dormann | 48 | Munich Lawyer, partner at Milbank LLP, Munich	—
Karl-Heinz Lach [1] | 60 | Eschweiler Workforce council chairman at LEONI Kerpen GmbH, Stolberg	—
Richard Paglia [1] | 52 | Allersberg Senior Vice President Global Purchasing Wire and Cable Solutions Division	—
Prof. Dr Christian Rödl | 49 | Nuremberg Lawyer, tax consultant, managing partner at Rödl & Partner, Nuremberg	Herrenknecht AG, Schwanau (not market-listed, ordinary member) UVEX Winter Holding GmbH & Co. KG (not market-listed, member of the board of shareholders)
Until 13/01/2019 **Carmen Schwarz** [1] | 44 | Ahaus First authorized representative IG Metall trade union, Arnsberg office	—
Inge Zellermaier [1] | 55 | Allersberg Paramedic, LEONI Kabel GmbH	—

[1] *Employee representative*

Committees of the Supervisory Board	
Arbitration Committee pursuant to Article 27 (3) of Germany's Co-determination Act (MitbestG)	Dr Klaus Probst (Chairman), Franz Spieß, Dr Werner Lang, Inge Zellermaier
Audit Committee	Prof. Dr Christian Rödl (Chairman), Richard Paglia, Dr Klaus Probst, Franz Spieß
Personnel Committee	Dr Klaus Probst (Chairman), Franz Spieß, Wolfgang Dehen, Mark Dischner
Nomination Committee	Dr Klaus Probst (Chairman), Dr Ulrike Friese-Dormann, Dr Werner Lang
Strategy Committee	Wolfgang Dehen (Chairman), Dr Elisabetta Castiglioni, , Karl-Heinz Lach, Richard Paglia, Dr Klaus Probst, Inge Zellermaier

Board of Directors

Karl Gadesmann
Chief Financial Officer,
member of the Board of Directors
since 1 October 2016

Karl Gadesmann (56) has a degree in business administration and started his career as tax consultant, auditor and partner at PricewaterhouseCoopers. From 2008, he took on various management tasks within the finance department of the Volkswagen Group. He subsequently served as CFO for the MAN Group as well as for Dräxlmaier, an automotive component supplier. He has been with LEONI AG as CFO since 2016.

Aldo Kamper
CEO as well as Labour Director,
member of the Board of Directors
since 1 September 2018

Aldo Kamper (48) studied business administration in Germany, the Netherlands and the United States. He joined OSRAM as Controller in 1994. Various positions at OSRAM Opto Semiconductors GmbH followed; among others as Vice President & General Manager of the LED and Specialty Lighting divisions. He became CEO of Osram Semiconductors GmbH in 2010. He has been the CEO of LEONI AG since 1 September 2018.

Martin Stüttem
is in charge of the Wiring Systems Division,
member of the Board of Directors
since 1 April 2017

Martin Stüttem (52) graduated in mechanical engineering and, from 1994, held various senior positions at Zeuna Stärker, Arvin Meritor and EMCON Technologies. In 2010, he moved to Faurecia where, after various management roles, he was most recently Vice President, Europe Division. Since 1 April 2017, he has been a member of the Board of Directors of LEONI AG with responsibility for the Wiring Systems Division.

Bruno Fankhauser
is in charge of the Wire & Cable Solutions Division,
member of the Board of Directors
since 1 February 2016

Bruno Fankhauser(47) studied business administration at the University of Bern, Switzerland and, following commercial positions within the Ascom Group, was appointed Managing Director of Typon Holding AG. In 2001, he joined the Studer Group as Chief Financial Officer, taking over as Chief Executive Officer in 2004. In 2006, he moved to the Management Board of the Wire & Cable Solutions Division of LEONI AG. He was appointed to the Board of Directors in 2016.

Annual review

2018

January

LEONI's President & CEO Dieter Bellé retires early on 31 January 2018

With the Supervisory Board's understanding, Dieter Bellé resigned his mandate as member and chairman of the Board of Directors effective 31 January 2018 and left the Board at that time.

February

LEONI decides to appoint outside candidate as CEO

The Supervisory Board announced that it would fill the CEO position that was vacant from 1 February 2018 with an external candidate. CFO Karl Gadesmann acted as spokesperson for the Board of Directors until the future CEO took office.

March

Launch of LEONiQ key technology

Under the motto of "From black box to customer dashboard", LEONI presented its LEONiQ key technology at the Hanover Trade Fair: an intelligent cable technology that can record and evaluate such parameters as temperature and mechanical stress along any given cable system. LEONiQ makes energy and data flows more efficient, secure and available. This does not just make the connected intelligent, but also connectivity itself.

April

LEONI opens third wiring systems plant in Serbia

In the city of Niš, LEONI officially opened its third wiring systems plant in Serbia. On a production space of approx. 20,000 m^2, the plant will make cable harnesses for one of the global manufacturers of premium vehicles. LEONI is investing about € 22 million in the production facility, which will create about 2,200 jobs by the end of 2019.

June

Topping-out of the Factory of the Future

With the topping-out ceremony upon shell construction of its Factory of the Future, LEONI set the next milestone on the way to its competence centre in Roth, Germany. Starting in 2019 and among other functions, the site will serve the development of state-of-the-art data cables for autonomous driving and solutions for even safer, more efficient and more reliable power distribution in electric vehicles. Once the main building is completed, the existing production in Roth will also gradually be relocated to the new site from 2019.

LEONI strengthens Group financing with syndicated loan

The Group's financing was realigned by agreeing a credit line amounting to € 750 million and a term of at least five years. This first syndicated loan for LEONI, which was agreed with eight well-known banks, replaced bilateral credit lines and provides us with flexible, financial scope for further business growth.

Collaboration with PARC

LEONI agreed collaboration with the PARC research and development company, which belongs to Xerox Corporation, to support its own digitalization solutions. PARC provides trail-blazing technologies in the areas of condition monitoring, predictive maintenance, system analysis, artificial intelligence as well as embedded sensor technology – and will thereby give LEONI important impetus for innovations in the field of energy and data solutions. Initial, joint research work is concentrating on realising intelligent cable systems.

September

Aldo Kamper joins as LEONI's new CEO

Aldo Kamper, an internationally experienced executive, took over as chairman of LEONI's Board of Directors and will contribute his profound experience in the industrial and automotive segments as well as support the Group's strategic development. The Dutchman, who was previously CEO of Osram Opto Semiconductors, is commercially and technologically minded in equal measure and will focus on innovation as well as profitable growth.

Switch into the SDAX

LEONI switched into the SDAX following Deutsche Börse's realignment of its indices. The criteria for remaining in the MDAX are no longer met because of the LEONI share's weak performance and the therefore significantly reduced market capitalisation.

October

Strategic partnership with Diehl

LEONI agreed to collaborate with Diehl, the Nuremberg-based technology group, in the growth market of electromobility. This strategic partnership is focused on battery systems for electric and hybrid vehicles. By pooling their expertise in wiring, connector systems, battery and heat management on the one hand and cell contact systems on the other, both companies will in future be able to offer system solutions for high-voltage battery systems in e-vehicles.

LEONI adjusts guidance for 2018

LEONI lowered its targets for 2018 given the increasingly volatile market setting and persistently heavy pre-production costs. The adjusted forecast covers consolidated sales, earnings before interest and taxes as well as, especially, free cash flow. Along with reduced amounts of product called forward by customers and pre-production spending on future customer projects, this also reflected higher raw material prices and the wind-down of production for a vehicle model supplied on a large scale.

November

LEONI launches its VALUE 21 performance and strategy programme

With VALUE 21, LEONI initiated a comprehensive, well structured, stringent and long-lasting strategy and performance enhancement programme. The objective is to sharpen the future corporate strategy, direct the Company towards healthy growth and improve both earnings quality and liquidity.

Borrower's note loans successfully placed

Among strong investor demand, LEONI issued a borrower's note loan on attractive terms. The offering was significantly oversubscribed, meaning that, instead of the originally planned € 200 million, a total of € 331 million with terms of five to ten years was placed. The proceeds will serve as long-term finance for the Group.

Corporate Governance report and and statement on Corporate Governance

Corporate Governance report pursuant to Section 3.10 of the Code

LEONI pursues the objective of responsible and transparent corporate governance based on statutory rules, LEONI AG's Articles of Association, the rules of procedure for the Board of Directors and Supervisory Board, and the German Corporate Governance Code ('Code'), which are considered in all decision-making processes. In compliance with the legal requirements for a German public company, LEONI AG has a dual management system that is characterised by the separation of personnel between the Board of Directors as the executive and corporate business management body and the Supervisory Board as the corporate monitoring body.

Shareholders and Annual General Meeting

Each share in LEONI AG on principle grants one vote. During the Annual General Meeting, all our shareholders were able to exercise their equal voting rights themselves or by their nominated proxies and enter into a dialogue with the members of both the Board of Directors and Supervisory Board on any agenda items. The invitation to the Annual General Meeting as well as the legally required reports and documents including the annual report are readily accessible for the shareholders on the Company's website together with the agenda in German as well as mostly also English. All other relevant information is published on LEONI's website and sent out upon request. Both the attendance and the voting results are published on the internet after the Annual General Meeting.

LEONI website
›› www.leoni.com

To make it easier for shareholders not in attendance to exercise their rights, voting right representatives are available during the Annual General Meeting to cast these votes as instructed. On the day of the Annual General Meeting, the internet service will be available on the website, subject to its technical availability, until the end of the general debate. Shareholders can also grant, amend or revoke power of proxy and instructions to the proxies appointed by the Company by using the internet service.

The CEO's speech and a presentation shown at the same time can be followed on the internet. This presentation will be available on our website www.leoni.com until the next Annual General Meeting.

Leadership and management by the Board of Directors

The Board of Directors is responsible for leading and managing LEONI AG. It acts in the interests of the Company with the aim of raising its enterprise value on a lasting basis. To do so, the Board develops a suitable strategy, agrees it with the Supervisory Board and ensures its implementation. Its duties also include effective opportunity and risk management as well as controlling and ensuring of compliance (observance of legal requirements and guidelines within the Company) throughout the Group.

The law and rules of procedure govern the collaboration and division of duties among members of the Board. The latter was revised during the reporting period, among other aims to enhance the principle of collegiality, adjust the list of transactions requiring approval and reassign responsibility for organisational and staffing decisions. The allocation of responsibilities was also updated because of the changes described hereinafter and adjusted to the respective composition.

The composition of the Board of Directors changed as follows in the 2018 financial year: On 31 January 2018, Dieter Bellé, in agreement with the Supervisory Board, resigned as member and chairman of the Board of Directors. The Supervisory Board decided to fill the CEO position that was vacant from 1 February 2018 with an outside candidate and, on 15 March 2018, appointed Aldo Kamper as the new CEO and Labour Director. He assumed his mandate, which initially runs to 31 December 2021, on 1 September 2018. Until he took office, Karl Gadesmann temporarily acted as spokesman for the Board of Directors and as Labour Director alongside his role as CFO.

The Board of Directors thus had the following members in 2018:

Bruno Fankhauser, Business economist (licentiatus rerum politicarum), 47	
First appointed: 2016	Appointed until: 31/12/2023
Areas of responsibility:	Head of the Wire & Cable Solutions Division, the Corporate Digitalization department (from 18/09/2018) as well as the Corporate Marketing department (until 18/09/2018)
Karl Gadesmann, Graduate in business administration, 56	
First appointed: 2016	Appointed until: 31/12/2019
Areas of responsibility:	Chief Financial Officer (CFO); head of the Corporate Accounting, Corporate Controlling, Corporate Data Protection, Corporate Finance & Treasury (new designation from 18/09/2018), Corporate Information Management, Corporate Information Security, Corporate Investor Relations (until 18/09/2018), Corporate Process Management (until 18/09/2018), Corporate Risk & Insurance, Corporate Taxes, Quality & Knowledge Management (until 18/09/2018), Purchasing & Facility Management and Corporate Internal Audit (01/02/2018 until 31/08/2018 and from 18/09/2018) departments; in the period from 01/02/2018 to 31/08/2018 also spokesman for the Board of Directors, Labour Director and head of the Corporate Legal, Corporate Compliance, Corporate Strategy, Corporate Communications, Corporate Human Resources Management and Human Resources departments
Aldo Kamper, (MBA), 48	
First appointed: 01/09/2018	Appointed until: 31/12/2021
Areas of responsibility:	Chief Executive Officer (CEO) and Labour Director as well as, from 01/09/2018, head of the Corporate Communications, Corporate Compliance, Corporate Human Resources Management, Human Resources, Corporate Legal and Corporate Strategy departments as well as, from 18/09/2018, head of the Corporate Marketing and Corporate Investor Relations departments
Martin Stüttem, Graduate of engineering, 52	
First appointed: 2017	Appointed until: 31/12/2020
Areas of responsibility:	Head of the Wiring Systems Division and of the Corporate Sustainability department as well as, from 18/09/2018, head of the Corporate Process Management, Corporate Quality & SHE Management and Quality & Knowledge Management departments
Dieter Bellé, Graduate in business administration, 62	
First appointed: 2000	Appointed until: 31/01/2018
Areas of responsibility:	until 31/01/2018, Chief Executive Officer (CEO) and Labour Director as well as head of the Corporate Legal, Corporate Compliance, Corporate Strategy, Corporate Communications, Corporate Internal Audit, Corporate Human Resources Management and Human Resources departments

All the information on the system for compensating members of the Board of Directors is contained in the compensation report.

Compensation report
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Further measures to improve corporate governance in the Group were applied in 2018. Among other changes, we revised the allocation of responsibilities in the management companies of the two divisions by setting up corresponding management boards under company law. This impacted on the articles of association, especially so the rules of procedure of these companies. Adoption of a global guideline regarding powers of representation and signing also improved the execution of decisions.

Work of the Supervisory Board

The Supervisory Board of LEONI AG monitors and advises the Board of Directors in running the Company. Its work is governed by the law, the Articles of Association, the Code and rules of procedure. The rules of procedure were slightly revised in 2018, especially with respect to the work and composition of the Supervisory Board of LEONI AG as well as the work and composition of some of its committees.

In accordance with the German Co-determination Act, the Supervisory Board has an equal number of six members representing employees and six members representing shareholders. Its composition is in line with the latest Code requirements concerning diversity and appropriate participation of women as well as other criteria that ensure qualified monitoring of and advice to the Board of Directors of LEONI AG. The Supervisory Board formulated a competence profile with targets for its composition, which is part of the Board's rules of procedure. This calls for the members who can successfully perform the duties of a supervisory board member of an industrial group that operates internationally based on their experience, professional expertise, independence, commitment, integrity and personality. It furthermore devised a diversity concept for the composition of the Board of Directors and the Supervisory Board. This concept was updated in 2018 and the competence profile for composition of the Supervisory Board was also adjusted. Information in this regard is to be found in the Corporate Governance statement.

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LEONI AG's Supervisory Board now comprises members who fulfil the conditions described above. The sufficient diversity with respect to differing career backgrounds, professional expertise and experience in accordance with the objectives for composition of the Supervisory Board is also given. More information on the composition of the Supervisory Board is to be found in the section headed Corporate Governance statement.

All shareholder representatives are independent within the meaning of Sections 5.4.1 and 5.4.2 of the Code. In particular, they are not in any personal or business relationship with LEONI AG, its corporate bodies, a controlling shareholder or an affiliated company, which may provide the basis for material and not merely temporary conflict of interests. In the opinion of the Supervisory Board, Dr Werner Lang's role as managing director of Lang Verwaltungsgesellschaft mbH, the general partner of MEKRA Lang GmbH & Co. KG, a LEONI AG customer, does not constitute such a conflict of interest. The Supervisory Board members do not exercise directorships or similar positions or advisory tasks for important competitors of the LEONI Group. No member of the Supervisory Board was older than 70 years when elected or has been on the Board for longer than 15 years.

Apart from these general criteria, the following requirements for the entire Board with respect to specific professional expertise are also fulfilled: At least one member has experience in the global corporate environment as well as knowledge of the regions and markets of importance to LEONI. At least one member has expertise in the automotive (supply) industry as well as experience with disruptive market developments. At least one independent member of the Supervisory Board furthermore has specialist expertise in the respective areas of accounting and auditing (financial expert) and more profound knowledge in the areas of international company law, compliance, risk management, antitrust law, the capital market as well as M&A. Altogether, the members of the Supervisory Board are familiar with the sector in which the Company operates. With respect to the proportion of women on the Supervisory Board, we refer to stipulations pursuant to Sections 76(4) and 111(5) of the German Stock Corporation Act (AktG) in the Corporate Governance statement.

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The members of LEONI AG's Supervisory Board each hold a maximum of three other supervisory board mandates at other companies or on supervisory bodies of companies that impose comparable requirements. A precise overview of the mandates held by all Supervisory Board members is provided in the section headed Supervisory Board and Board of Directors in the Annual Report.

Supervisory Board and Board of Directors
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To increase the efficiency of the Supervisory Board's work, an Audit Committee, Personnel Committee, Nomination Committee, Arbitration Committee and Strategy Committee are established, which, apart from the Nomination Committee and Arbitration Committee, met regularly during the year under report. The respective committee chairmen report during the Supervisory Board meetings on the work of their committees.

The Audit Committee has four members to be elected by the Supervisory Board – of whom two shareholder representatives and two employee representatives – one of whom the Supervisory Board appoints as chairman. The committee meets at least four times a year. The Audit Committee's chairman, Prof. Dr Christian Rödl, is independent and not simultaneously the chairman of the Supervisory Board; as a financial expert, he has professional knowledge in the fields of accounting and auditing. He has not been a member of LEONI AG's Board of Directors in recent years. The Audit Committee's task is to discuss and scrutinise in advance the annual financial statements, the consolidated financial statements, the management report and the Group management report, the report of the Board of Directors on relationships with affiliated companies (dependency report) as well as the Board of Directors' dividend proposal. The Audit Committee furthermore discusses the half-year and any quarterly financial reports with the Board of Directors. It considers matters concerning accounting and compliance, risk management, internal auditing and the Internal Control System including testing the effectiveness of the systems and measures that are respectively in place. The Audit Committee prepares the Supervisory Board's proposal to the shareholders at the Annual General Meeting for nomination of the auditors and presents the Supervisory Board with a correspondingly reasoned recommendation. It furthermore verifies the independence of the auditors and obtains the corresponding declaration of independence. It issues the audit mandate to the auditing company and agrees the fees with said auditors, determines the focal areas of the audit and monitors the auditing.

Alongside the chairman of the Supervisory Board as Committee chairperson, the Personnel Committee comprises his or her first deputy and as well as one Supervisory Board member elected as proposed by each of the shareholder and employee representatives. It meets at least twice a year. Its main tasks are to advise on the appointment and recall of the members of the Board of Directors, the compensation system for the Board of Directors, the principal elements of the employment contracts of the members of the Board of Directors as well as approving contracts with Supervisory Board members in accordance with Section 114 of the German Stock Corporation Act (AktG). The Personnel Committee's remit was broadened during the year under report. It now also judges on the approval for the Board of Directors' personnel-related decisions at the level of senior management (Level 1 of the Group-wide grading system).

The Nomination Committee has two further, shareholder-representative members in addition to the Supervisory Board chairman, who also chairs the committee. It is the committee's task to make recommendations to the Supervisory Board for its proposals to shareholders at the Annual General Meeting of suitable candidates to be elected to the Board on the shareholder side. The judgement on a candidate is made based on the competence profile prepared by the entire Supervisory Board, the targets concerning the Board's composition with respect to the diversity concept and a questionnaire.

To perform the duties set out in Section 31 (3), sentence 1 of Germany's Co-determination Act (MitbestG), the Supervisory Board has formed an Arbitration Committee pursuant to Section 27 (3) of the Co-determination Act that comprises the Supervisory Board chairman, his deputy as well as one member of the shareholder and one member of the employee side, each elected by a majority of votes of the Supervisory Board members on the employee and shareholder sides.

The Strategy Committee's role was revised during the reporting period. The Strategy Committee now comprises three members of the Supervisory Board to be elected from each of the shareholder representatives and employee representatives. The Supervisory Board elects a member to be the committee's chairman. The committee convenes at least twice per calendar year in addition to the whole committee's annual strategy meeting. Th Strategy Committee's duties were also revised. It deals in an advisory and preparatory capacity with the corporate strategy. Its principal tasks comprise advising the Board of Directors on the Company's strategic development and scrutiny thereof, preparing strategy meetings and decisions of the Supervisory Board on matters requiring consent concerning acquisitions, divestments, capital expenditure, organisational changes and restructuring as well as advising the Board of Directors on matters involving the corporate strategy and on projects of strategic relevance. The Strategy Committee's composition changed following the meeting of the Supervisory Board on 13 December 2018.

Supervisory Board and Board of Directors
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The section headed Supervisory Board and Board of Directors in the Annual Report provides information on the composition of the committees.

The Supervisory Board reviews the efficiency of its work on a regular basis. The efficiency audit took place in the 2018 financial year with the outside support of Ernst & Young in the form of a self-evaluation by questionnaire and complementary interviews with all Supervisory Board members. Based on the subsequent findings, the Supervisory Board decided to apply specific, recommended actions to raise efficiency. This included holding an annual meeting without the Board of Directors (executive session) to regularly review self-image and role perception, the setting up of a Corporate Office to further professionalise, the assignment to the Personnel Committee to review the system for compensating members of the Board of Directors and the assignment to the Nomination Committee to once again consider the competence profile, the allocation of responsibilities and the competence matrix in the upcoming reporting year as well as to offer annual training for members of the Supervisory Board.

The latter was a particular concern because the Supervisory Board considers further education to be an important element of its work. As far as required, the Company gives the Board's members adequate support in seeking, as is their personal responsibility, the training and further education required to perform their duties. According to the currently applicable Articles of Association, this also includes assumption of commensurate costs.

Further details of the way the Supervisory Board works as well as on the number and principal topics of the committee meetings in 2018 are comprehensively presented in the Supervisory Board report.

Supervisory Board report
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The Supervisory Board's composition changed to the extent that Carmen Schwarz declared on 13 December 2018 that she would be resigning her mandate by mutual agreement effective at the end of the day on 13 January 2019. Janine Heide succeeded her as a member of the Supervisory Board and an employee representative (trade union representative). She was appointed by a ruling of the local court of Nuremberg pursuant to Section 104 of the German Stock Corporation Act (AktG) on 15 January 2019. Details are contained in the Supervisory Board report. The compensation report provides information on the breakdown and amount of compensation for Supervisory Board members.

Compensation report
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Collaboration between the Board of Directors and Supervisory Board

The Board of Directors and Supervisory Board of LEONI AG collaborated closely and in mutual trust for the benefit of the Company in 2018. The Supervisory Board actively assisted and monitored the Board of Directors in its work. During the Supervisory Board meetings, the Board of Directors and Supervisory Board members discuss all key strategic decisions as well as transactions requiring consent extensively, openly and based on maintaining strict confidentiality. The Board of Directors keeps the Supervisory Board comprehensively informed on a regular and up-to-date basis about all relevant matters as well as the planning, business performance, the risk situation and the compliance measures.

In addition to the Supervisory Board meetings in which the members of the Board of Directors were present, the chairmen of the two boards regularly, also on short notice and as warranted by events, discuss all relevant, current matters. The Supervisory Board report also contains additional information on the collaboration between the Board of Directors and the Supervisory Board.

Supervisory Board report
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D&O insurance with an excess, which for the event of any single claim for damages involves at least 10 percent and a maximum of one and a half times the individual member's fixed annual compensation, was in place for members of the Board of Directors and the Supervisory Board during the year under report.

Compliance

LEONI AG's Compliance Management System is an elementary part of our commitment to entrepreneurial action. The objective is to prevent misconduct, avoid liability risks and to protect the Company's reputation. The Compliance Management System has three mainstays (prevent, detect and react), which in turn comprise a large number of processes, guidelines and measures. Details in this regard are to be found in the Group management report. Again, during the year under report, the Board of Directors dealt with the organisation and further development of all compliance matters and ensured implementation of the necessary measures. It regularly informed the Supervisory Board on the latest status. The latter monitored the corresponding activities. Furthermore, the Audit Committee regularly dealt with the content, organisation and further development of compliance.

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Transparency

LEONI AG informs its shareholders, the shareholder associations, financial analysts, the media and the interested public equally, promptly and comprehensively about the Company's performance and significant events, for which the Company makes use of a wide variety of media. All mandatory publications as well as extensive supplementary information are always made available without delay on LEONI's website. The publications, such as ad hoc announcements, media releases, interim and annual reports, are in every case issued in both German and English. LEONI AG always also broadcasts conference calls as well as the annual balance sheet press conference and the analyst conference live on the internet, where audio and video recordings are easily accessible for a limited period. The latest fiscal calendar, which provides information on the dates for all key releases and events, can also be viewed on the website.

Accounting and audit of financial statements

LEONI AG's consolidated financial statements for fiscal 2018 as well as its condensed consolidated interim financial statements in the half-year report are prepared in accordance with the International Financial Reporting Standards (IFRS). The individual financial statements of LEONI AG conform to the requirements of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG) as well as supplementary provisions of the Articles of Association.

On 3 May 2018, the Annual General Meeting appointed accountants Ernst & Young GmbH of Stuttgart as the auditors for the year under report. The nomination was preceded by an examination of independence. It was furthermore agreed with the auditor that the latter would inform the Supervisory Board without delay of findings and occurrences material to its duties that arise during execution of the audit. Accordingly, the auditors are obliged to advise the Supervisory Board, or note it in their audit report, if facts are discovered that point to incorrectness in the declaration pursuant to the Code submitted by the Board of Directors and the Supervisory Board. The audit for the 2018 financial year did not give any cause in this regard.

The auditors are given only limited mandate to provide non-audit services. Where necessary, certain non-audit services are itemised and authorised to a limited degree subject to prior approval. The content and extent of provided non-audit services are monitored.

During fiscal 2018, the Audit Committee thoroughly prepared for the change of auditors for the financial year and in accordance with the intended requirements and steps. The Audit Committee recommended to the Supervisory Board that the latter propose to shareholders at the Annual General Meeting to choose either PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft of Frankfurt or Deloitte GmbH Wirtschaftsprüfungsgesellschaft of Munich as auditors and, in so doing, expressed a reasoned preference to the Supervisory Board for Deloitte GmbH Wirtschaftsprüfungsgesellschaft of Munich. On this basis, the Supervisory Board decided to propose Deloitte GmbH Wirtschaftsprüfungsgesellschaft as auditors for fiscal 2019 to shareholders at the 2019 Annual General Meeting.

Directors' dealings and shareholdings

All share transactions carried out by members of the Board of Directors and of the Supervisory Board as well as parties related to them (Directors' Dealings pursuant to Article 19 of the Market Abuse Directive (EU 596/2014)) are published on LEONI's website as soon as LEONI AG is advised to this effect.

The following transactions were reported for fiscal 2018:

Date	Notifying party, function	Issuer	Transactions subject to mandatory disclosure [2]
13 Sep	Wolfgang Dehen, member of LEONI AG's Supervisory Board	LEONI AG [1]	Purchase of LEONI shares for an aggregated volume of € 10,287.00
07 Sep	Dr. Klaus Probst, member of LEONI AG's Supervisory Board	LEONI AG [1]	Purchase of LEONI shares for an aggregated volume of € 331,000.00
16 Aug	Wolfgang Dehen, member of LEONI AG's Supervisory Board	LEONI AG [1]	Purchase of LEONI shares for an aggregated volume of € 25,058.11
16 Aug	Karl Gadesmann, member of LEONI AG's Board of Directors	LEONI AG [1]	Purchase of LEONI shares for an aggregated volume of € 108,744.39
15 Aug	Dr. Klaus Probst, member of LEONI AG's Supervisory Board	LEONI AG [1]	Purchase of LEONI shares for an aggregated volume of € 271,593.00
06 Jun	Karl Gadesmann, member of LEONI AG's Board of Directors	LEONI AG [1]	Purchase of LEONI shares for an aggregated volume of € 74,897.46
24 May	Bruno Fankhauser, member of LEONI AG's Board of Directors	LEONI AG [1]	Purchase of LEONI shares for an aggregated volume of € 78,120.00
18 May	Martin Stüttem, member of LEONI AG's Board of Directors	LEONI AG [1]	Purchase of LEONI shares for an aggregated volume of € 56,779.62
26 Mar	Richard Paglia, member of LEONI AG's Supervisory Board	LEONI AG [1]	Purchase of LEONI shares for an aggregated volume of up to € 11,250.00

[1] WKN 540888, ISIN DE0005408884

[2] simplified presentation for the purposes of the annual report; details are available at www.leoni.com

Members of the Board of Directors and the Supervisory Board held shares issued by LEONI AG on 31 December 2018. These holdings broke down as follows:

Shareholdings	No. of shares on 31/12/2018	Percentage of share capital of 32.669 million shares
Supervisory Board members and related parties	84,540	0.26
Board of Directors members and related parties	12,851	0.04
Supervisory Board and Board of Directors, total	97,391	0.30

Statement on Corporate Governance pursuant to Sections 289f and 315d HGB [1]

Declaration by the Board of Directors and the Supervisory Board of LEONI AG on the recommendations of the 'Government Commission on the German Corporate Governance Code' pursuant to Section 161 of the German Stock Corporation Act (AktG)

Since issuing its last Declaration of Conformity on 12 December 2017, LEONI AG has complied with all the recommendations of the German Corporate Governance Code ('Code') in the version of 7 February 2017 as published by the Federal Ministry of Justice in the official part of the Federal Gazette on 24 April 2017 with the exception stated below and will comply with the recommendations of the Code with the exception stated below in the future.

In accordance with its duties, the Supervisory Board of LEONI AG concerns itself with the appropriateness of the compensation of the Board of Directors, giving consideration to the periodic developments of the company-internal salary and wage structures, however, without applying the recommendation in section 4.2.2 (2), sentence 3 of the Code in a targeted and structured way. It is the conviction of the Supervisory Board that earlier practice and statutory specifications in accordance with Section 87 of the German Stock Corporation Act (AktG) suffice for determining the compensation for the members of the Board of Directors in consideration of normal compensation. Standards of comparison are only beneficial if they are realistic, provide a basis for orientation, and allow sufficient leeway for considerations to be made on a case-by-case basis. It is the opinion of the Supervisory Board that the Code's recommendation in Section 4.2.2. (2) sentence 3 does not satisfy these requirements in the case of a company such as LEONI, where the majority of the workforce is employed in non-European countries. A delineation of the upper management and the relevant workforce would, in the opinion of the Supervisory Board, be subject to manipulation and ultimately arbitrary, and would not result in standards of comparison that are more comprehensible. Therefore, the recommendation does not serve as an efficient tool for determining the compensation of the Board of Directors.

Nuremberg, 13 December 2018
LEONI AG

For the Board of Directors

Aldo Kamper

For the Supervisory Board

Dr.-Ing. Klaus Probst

[1] The statement on Corporate Governance pursuant to Sections 289f and 315d of the German Commercial Code (HGB) is part of the Group management report. According to Section 317 (2) sentence 6 of the German Commercial Code (HGB), the auditors are not required to include disclosures pursuant to Sections 289f (2) and (5) as well as Section 315d HGB in their audit; in that respect the audit is required only to determine whether these disclosures have been made.

Suggestions of the Code

LEONI AG voluntarily complies with the non-obligatory suggestions of the Code with the following exception.

Deviating from Section 4.2.3 (2), final sentence of the Code, the remuneration system for the members of LEONI AG's Board of Directors stipulates that the Board members shall receive annual instalments of the multi-year bonus on the compensation for members of the Board of Directors equalling 50 percent of the annual amount. Paid instalments must be repaid at the end of the relevant three-year period if a corresponding multi-year bonus is not achieved. Further information on the system applicable since 1 January 2015 for compensating members of the Board of Directors is contained in the compensation report.

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Other Corporate Governance practices

LEONI's Corporate Governance is aligned with recognised external standards and various own sets of rules in addition to the legal requirements and the Code. These include the UN Global Compact and the Diversity Charter as well as such internal guidelines as the LEONI Code of Conduct and the occupational health and safety as well as environmental protection policy for the LEONI Group, which can be viewed on LEONI AG's website.

LEONI website
›› www.leoni.com

Description of the way the Board of Directors and Supervisory Board work as well as the composition and procedures of the Supervisory Board's committees

The composition of the Supervisory Board's committees is to be found in the section of the Annual Report headed Supervisory Board and Board of Directors. Further information on the tasks and procedures of the Board of Directors and Supervisory Board as well as the latter's committees are contained in the Corporate Governance report under the headings 'Leadership and management by the Board of Directors' as well as 'Work of the Supervisory Board'. Information on the duties and procedures of the Board of Directors and Supervisory Board as well as their composition and that of the Supervisory Board's committees can also be accessed on LEONI AG's website.

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LEONI website
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Diversity

LEONI regards diversity as a key success factor for the Company's future viability.

Diversity concept for the Board of Directors and Supervisory Board

Applied diversity is a strategic success factor. Different career and educational backgrounds facilitate the fulfilment of duties and obligations in accordance with statutory requirements, the provisions of the Company's Articles of Association and rules of procedure. The Company's increasing internationalisation requires leadership of diversely composed teams. Without this capability and experience it would impossible to take appropriate account of cultural backgrounds within the Group. A balanced age structure ensures regular regeneration, and simultaneously that knowledge as well as career and life experience are retained for as long as possible in the Company's interest. Gender diversity is, in turn, the resolute continuation of the initiatives launched by the Board of Directors to raise the proportion of women in management positions. LEONI's activity aims to raise the awareness especially of managers but also staff of this topic, among other means with mentoring programmes, e-learning courses and targeted training schemes.

Diversity concept for composition of the Board of Directors

LEONI has set itself the target of having a 15-percent proportion of women on the Board of Directors. The Company has, for the Board of Directors' composition, prepared a competence profile as well as a diversity concept, which is to serve as a guideline for future appointments.

The criteria are

- appropriate consideration of women
- diversity in terms of cultural and regional origins as well as religion
- experience in the global corporate environment as well as knowledge of the regions and markets of importance to LEONI
- experience with disruptive market developments
- variety of career backgrounds, experience and mindset
- equal consideration of external and internal candidates when selecting recruits
- age: balanced age structure within set parameters for standard retirement age at the time of appointment (currently 65th year)

Manner of implementation with respect to the competence profile and diversity

Implementation of this concept is ensured principally by involving the Supervisory Board in the strategic, financial and current situation of the Company as well as its organisation, as is stipulated by statutory requirements, the provisions of the Company's Articles of Association and rules of procedure. Allocation of responsibilities, appointment and succession planning for the Board of Directors are part of the Supervisory Board's duties. The Board of Directors reports regularly during the Supervisory Board's meetings on diversity as well as the development and potential of managers within the Group. The aforementioned criteria are furthermore considered in the decisions of the Personnel Committee and the Supervisory Board when it comes to recruiting internal or external candidates for positions on the Board of Directors, but also for the first management level below the Board of Directors now that the latter is subject to the Personnel Committee's approval. Implementation of the above-mentioned aspects is ensured in the following ways, among others:

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- reporting on the personnel and succession planning for the Board of Directors and the first management level incl. step-in solutions (emergency plan) and personnel planning geared to the Group's strategy
- scanning of the market for suitable candidates for the Board of Directors as well as the first and second management level with the involvement of experienced recruitment consultants conducting targeted searches for managers who meet the above criteria
- promoting own employees for the first and second management level while considering knowledge, experience and diversity aspects to establish the foundations needed in house for future appointments to Board of Directors positions

In the opinion of both the Supervisory Board and Board of Directors, the measures initiated are suitable for appropriately considering the aspect of diversity early in the staff selection and promotion process in the future as well as for embedding a fitting breakdown of experience and age on the Board of Directors.

Status of meeting the targets with respect to the competence profile and diversity on the Board of Directors

All the criteria described above were considered during the process of widely searching, both inside and outside the Company, for a new managing director of the Wiring Systems Division in the 2017 financial year.

However, the targeted proportion of women was not achieved because, in the opinion of the Supervisory Board, the appointed male applicant was best suited for the position to be filled.

The new appointment to the position of Chief Executive Officer in fiscal 2018 was also based on a widespread external and internal search process during which the aforementioned criteria were considered in the choice made. In the opinion of the Supervisory Board, the CEO contributes to diversity on the Board of Directors with his background and career. However, the targeted quota of women was not met in this case either. In the opinion of the Supervisory Board, the appointed male candidate was best suited for the position to be filled.

Information on Aldo Kamper and all other members of the Board of Directors can be viewed in their resumes, which are posted on the LEONI AG's website.

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Diversity concept for composition of the Supervisory Board

The Supervisory Board is to be composed in such a way that it ensures qualified oversight of and advice for the Board of Directors. Accordingly, the Supervisory Board has established a competence profile, a diversity concept and independence criteria in which integrity, commitment and professionalism play a key role.

Competence profile

Candidates who are proposed for election to the Supervisory Board should be able, based on their knowledge, capabilities and experience, to perform the duties of a supervisory board member of a group of companies that operates internationally and also to outwardly represent the group well.

The intention is that the Supervisory Board as a whole has all the knowledge and experience needed to execute its tasks – this applies especially to knowledge and experience that is of importance to LEONI

- general corporate governance
- sectors, markets, regions, business areas and models
- new technologies (especially also information technology and digitalization)
- production and distribution
- procurement, logistics and finance
- law (including compliance)
- human resources
- leadership in a company that operates internationally

At least one member of the Supervisory Board is to have expertise in the fields of accounting and auditing as well as particular knowledge and experience covering internal control procedures.

Any pending new appointment should be reconciled with which of the listed knowledge criteria the Supervisory Board is to be enhanced.

Diversity

The aim is to have a sufficient diversity on the Supervisory Board that is in keeping with being able to successfully master tasks in an international setting involving mixed-gender teams and thereby also to be a role model for the Company as a whole. Considering consistency and regeneration with respect to (impending) appointments is intended to contribute to sustainability and fresh impetus.

The criteria are

- appropriate consideration of women for the Supervisory Board and its committees
- diversity in terms of cultural and regional origins as well as religion
- experience in the global corporate environment as well as knowledge of the regions and markets of importance to LEONI
- experience with disruptive market developments
- variety of career backgrounds, experience and mindset
- age: balanced age structure within framework parameters for standard retirement age (70th year) at the time of election
- standard 15-year limit for membership of the Supervisory Board

The objective is to appropriately consider the aspect of diversity early in the selection process as well as to embed a fitting breakdown of experience and age on the Supervisory Board.

Independence
All shareholder representatives should be independent within the meaning of Sections 5.4.1 and 5.4.2 of the German Corporate Governance Code. In particular, they should not be in any personal or business relationship with LEONI AG, its corporate bodies, a controlling shareholder or an affiliated company, which may provide the basis for material and not merely temporary conflict of interests.

Conflicts of interest should be avoided, for example, by ensuring that no directorships or similar positions or advisory tasks for important competitors of LEONI are exercised.

Supervisory Board members should have sufficient time to perform their mandate to be able to do so with the requisite regularity and diligence.

Not more than two former members of LEONI AG's Board of Directors should be members of the Supervisory Board.

The aforementioned points are, in the Supervisory Board's view, suitable tools for fulfilling the objectives described above. The election of employee representatives according to the requirements of Germany's Co-determination Act also contributes to having a diversity of career backgrounds.

Manner of implementation with respect to competence profile, diversity and independence
Statutory requirements, the Company's rules of procedure and Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (AktG) underpin the realisation of these objectives. The Nomination Committee with its work on appointment of shareholder representatives and regular efficiency audits also supports these aims.

Implementation of the above-mentioned aspects is furthermore ensured in the following ways:

- regular efficiency audits within the framework of a self and external evaluation
- scanning the market for suitable candidates for Supervisory Board mandates with the involvement of experienced recruitment consultants
- exchange of information with the Board of Directors and management levels with respect to diversity (regular reporting on the Supervisory Board)
- onboarding programme for new members of the Supervisory Board

Status of implementing the targets with respect to the competence profile, diversity and independence of Supervisory Board members

- The Supervisory Board meets the aforementioned targets in its present composition
- The Supervisory Board members have the professional and personal qualifications deemed necessary as well as the knowledge, capabilities and experience of importance to LEONI as set out in the competence profile
- The targeted diversity on the Supervisory Board is appropriately considered by, for example, the fact that the Board had four female members in fiscal 2018, two of whom on the shareholder side and two on the employee side. The minimum proportion rule in accordance with Section 96 (2), sentence 1 of the German Stock Corporation Act (AktG) is thereby fulfilled. The resumes of its members that are published on LEONI AG's website and updated annually also show the diversity of the professional and educational backgrounds of the Board's individual members. Furthermore, no member of the Supervisory Board is older than 70 years or has been on the Board for longer than 15 years.
- The Supervisory Board also has an appropriate number of independent members.

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Stipulations pursuant to Sections 76 (4) and 111 (5) of the German Stock Corporation Act (AktG)
Section 111 (5) of the German Stock Corporation Act (AktG) provides that the supervisory board of a listed stock corporation must set target quotas for the number of women on the Board of Directors. Pursuant to Section 76 (4) of the German Stock Corporation Act (AktG), the Board of Directors must furthermore set target quotas for women on the two management levels below the Board of Directors. According to Section 96 (2) of the German Stock Corporation Act (AktG), LEONI's Supervisory Board must furthermore have a quota of at least 30 percent women and men each.

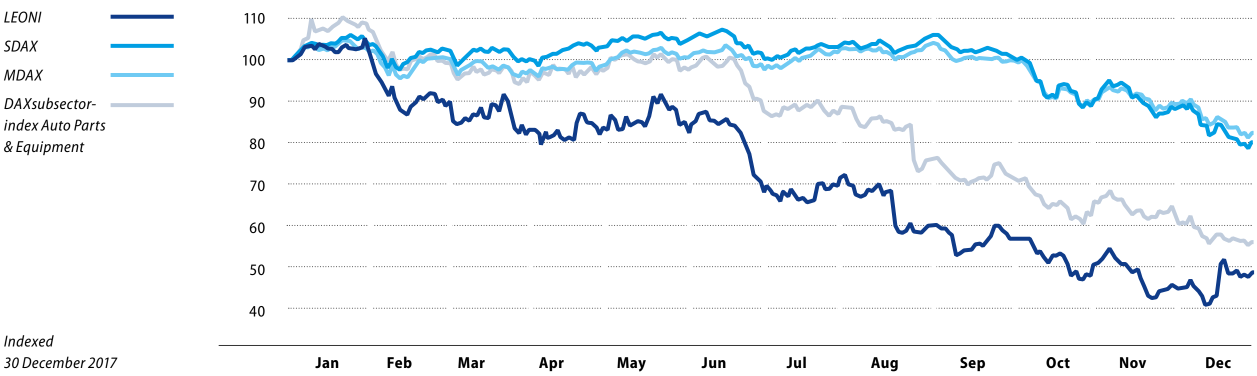
On the Supervisory Board, the mandatory quota is fulfilled on both the shareholder and employee sides of the Board as both sides have two female members.

In setting its target quotas for the Board of Directors and the two management levels below the Board of Directors, LEONI AG has, as a technically oriented company, considered sector-specific circumstances as well as the current proportion of women in the workforce. The Supervisory Board has targeted a quota for the Board of Directors of 15 percent to be reached by 30 June 2022. This target quota is currently not met because the Board of Directors has four men and no women as members.

For the next two management levels below the Board of Directors, the Board of Directors had set target quotas of 15 percent for both levels to be met by 30 June 2022. In the past financial year, there was no staffing change on the first management level below the Board of Directors. Despite an intensive search, no suitable female candidate could be identified in the second management level for appointments in 2018. As of 31 December 2018, no women were employed on the first management level. At the second level, the proportion of women was 10.5 percent as of December 31, 2018. The target quota has thereby not been achieved on both management levels.

The LEONI share

Share price performance 2018



Overview of key LEONI share data

First listed on	1 January 1923
Ticker symbol	LEO
ISIN	DE0005408884
WKN	DE540888
Class of shares	Ordinary bearer shares with no par value
Market segment	Prime Standard
Indices	SDAX
Share capital	€ 32,669,000
Number of shares	32,669,000

Sobering stock market in 2018

On the whole, equity market performance was disappointing worldwide in the past year. The trade dispute between the United States and China, waning Chinese economic growth and the Federal Reserve's rate hike in the US dampened the mood at many stock exchanges. The Dow Jones Industrial Index shed 6 percent over the year. China's leading Shanghai Composite index even lost as much as 25 percent in value.

European equities furthermore reflected the weight of declining economic forecasts as well as the uncertainty concerning Brexit and Italy's fiscal policy. The Euro Stoxx 50 dropped by 14 percent in 2018.

Multi-year overview of key LEONI share figures

		2018	2017	2016	2015	2014
Number of shares at yearend	in millions	32.669	32.669	32.669	32.669	32.669
Earnings	€ / share	2.31	4.44	0.30	2.36	3.51
Equity	€ / share	33.10	31.33	28.03	30.50	28.09
Dividend	€ / share	0[1]	1.40	0.50	1.00	1.20
Total payout	€ million	0[1]	45.7	16.3	32.7	39.2
Payout ratio	%	0[1]	32	156	42	34
High for the year[2]	€ / share	65.54	63.40	36.39	62.81	60.66
Low for the year[2]	€ / share	25.59	34.95	23.45	32.10	39.02
Yearend closing price[2]	€ / share	30.28	62.39	33.85	36.45	49.40
Price/earnings ratio[3]		13.1	14.1	112,8	15.1	14.1
Dividend yield[3]	%	0[1]	2.2	1.5	2.7	2.4
Market capitalisation on 31 Dec	€ million	989	2,038	1,106	1,191	1,614
Average daily trading volume	no. of shares	225,880	208,997	257,733	281,773	247,842

[1] *Subject to approval by shareholders at the Annual General Meeting*
[2] *Xetra closing price of the day*
[3] *Based on the yearend closing price*

Automotive shares put brakes on German indices

The back-marker among Western European market indices was the particularly foreign trade-dependent DAX. Just as the MDAX, Germany's market barometer recorded an overall decrease of 18 percent. The SDAX registered a 20-percent loss at the end of 2018. Domestic automotive shares accounted for a large share of this decline: Investors' keenness to buy dropped significantly against the backdrop of the diesel crisis, the new Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP) and the gloom casting over the market in China. The DAX Automobiles sector index closed the trading year with a deficit of 27 percent, while the sub-index for the automotive component suppliers was down 44 percent.

LEONI share dips by 52 percent

The tough market conditions for the automotive industry weighed on LEONI's share throughout the year. This also affected our operating business. Like many other market participants, this weaker-than-expected performance caused us to revise our forecast in the autumn, which additionally weighed on our share price. The LEONI share therefore lost substantially in value during the year under report. Following a steady start to the year, the share hit its high for the year of € 65.54 as early as January. A decline to the low of € 25.59 thereafter followed until early December. At the end of 2018, our share traded at € 30.28, which equated to a decrease of 51.5 percent from the level at the end of the previous year.

The market capitalisation of the approximately 32.7 million LEONI shares was down year on year from about € 2,038 million to around € 989 million on 31 December.

Trading in LEONI shares

A total of about 56.9 million LEONI shares were traded on the Frankfurt Stock Exchange and in the XETRA electronic trading system in 2018, up from 53.1 million shares in the previous year. On average, 225,880 shares changed hands per trading day (previous year: 208,997). The total trading volume was approximately € 2,418 million in 2018 (previous year: € 2,597 million).

Switch into the SDAX

Due to a new Deutsche Börse ruling, which, since the end of September, also includes the TecDAX shares in the other indices, there were changes in their composition. The MDAX was enlarged by ten places with the addition of 13 shares. The performance of LEONI's share and its therefore substantially smaller market capitalisation meant that the criteria for remaining in the MDAX were no longer met. LEONI has therefore been listed on the SDAX since 24 September 2018.

Shareholder structure and voting rights announcements

The breakdown of LEONI shareholders remained largely stable in 2018. All of our roughly 32.7 million shares continued to be in free float. As in the preceding years, institutional investors held approximately two thirds of the shares and private investors the remaining third. The majority of LEONI shares, i.e. about 60 percent, continued to be in the hands of German shareholders. The remainder was evenly distributed across the rest of Europe, where it is concentrated in the United Kingdom, as well as the United States.

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According to the voting rights announcements received in the previous year pursuant to Section 21 (1) of the German Securities Trading (WpHG), the following institutional investors had holdings subject to additional mandatory notification at the end of 2018: Union Investment Privatfonds GmbH (Germany): less than 5 percent; Pierer Industrie AG (Austria), Dimensional Holdings Inc. (USA), Universal-Investment-Gesellschaft mbH (Germany), Hans Wilms Beteiligungs-GmbH (Germany), State of Norway (Norway), Schroders Group (United Kingdom) and State Street Corporation (USA): more than 3 percent. All voting rights announcements received during the 2018 financial year as well as earlier disclosures can be viewed on our website.

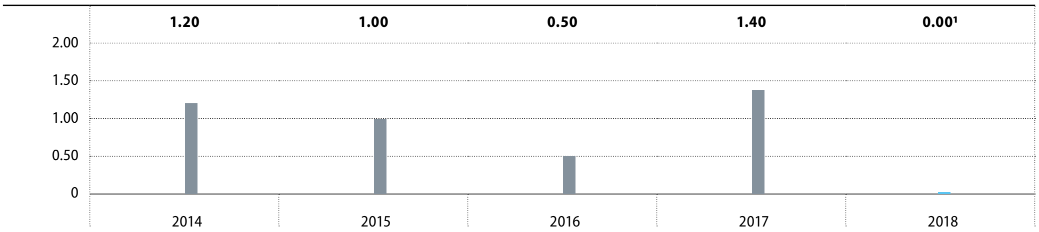
Dividend policy

As a rule, LEONI's strategy provides for a payout to shareholders of around one-third of consolidated net income. The Company plans to deviate from this dividend policy given the currently unsatisfactory cash flow situation and debt ratio. The Board of Directors and Supervisory Board will therefore propose to shareholders at the Annual General Meeting that no dividend be paid for 2018 (previous year: € 1.40 per share).

Ratings of the LEONI share

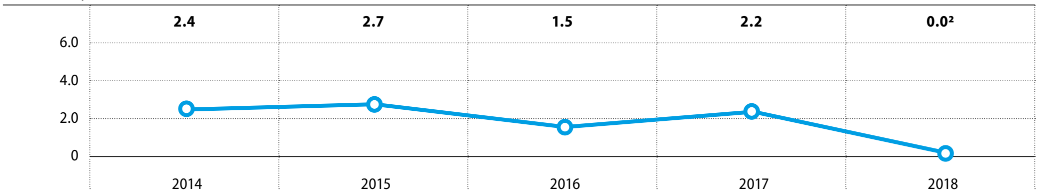
As in the previous year, specialists representing 19 banks and investment firms regularly analysed and rated our Company during the year under report (as at the beginning of January 2019). The majority of these professional investors continued to judge an investment in LEONI favourably: seven financial analysts issued buy ratings ('outperform'), while nine recommended to hold our share ('neutral'). Three institutions advised to sell.

Dividend Euro



¹ *subject to approval by shareholders at the Annual General Meeting*

Dividend yield[1] %



¹ *based on yearend closing price*
² *subject to approval by shareholders at the Annual General Meeting*

Analyst coverage as at 8 January 2019

Bankhaus Lampe	Landesbank Baden-Württemberg
Commerzbank	MainFirst
Credit Suisse	Metzler
Deutsche Bank	Nord LB
DZ Bank	ODDO BHF
HSBC	Pareto
Hauck & Aufhäuser	Quirin Privatbank
Independent Research	UBS
J.P. Morgan	Warburg Research
Kepler Cheuvreux	

Stepped up investor relations work

In keeping with good Corporate Governance, LEONI attaches great importance to transparency and close communication with shareholders and stakeholders. We advise our shareholders, analysts and other financial market players, the media as well as the interested public equally, thoroughly and promptly on the Company's current and projected performance.

One-on-one dialogue with the aforementioned target groups gained importance in the past year against the backdrop of our business underperforming expectations. Generally, the Board of Directors regularly participates in investor conferences and presentations. At the annual balance sheet press conference as well as analyst and investor conference when the annual report is presented, we provide information on performance, strategy and prospects. A separate conference call for analysts and business journalists takes place on each occasion for the release of our quarterly figures. In the year under report, the presentation on performance in the third quarter was followed by an analyst breakfast and dinner, during which the new Chief Executive Officer introduced himself personally. For the 2019 financial year, we are planning a Capital Market Day during which we will be providing, among other information, details of our new VALUE 21 performance and strategy programme.

We also present LEONI regularly at a large number of investor conferences with international attendance as well as roadshows in Europe and the United States. In addition, members of the Board of Directors meet for one-on-one dialogue with analysts, investors and media representatives.

The members of the Board of Directors engage in direct dialogue with the shareholders at the Annual General Meeting. In 2018, attendance and voting at the meeting were recorded digitally for the first time. We are also making increasing use of the possibilities provided by digitalization in advance of the meeting. For instance, via the https://www.leoni.com/en/agm2019/ link, our shareholders can register to receive the invitation to the 2019 Annual General Meeting electronically.

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Our website gives shareholders and interested parties the opportunity to follow all of the balance sheet press conference, the analyst and investor events as well as the conference calls live on the internet. Furthermore, the presentations given during these events and the Annual General Meeting can be viewed there for a limited period. All such relevant publications as ad hoc announcements, media releases as well as annual and interim reports are also available on our website. In addition, there is extensive data and background information on our Company and LEONI's share. This includes basic information as well as current analyst recommendations and the applicable fiscal calendar.

Group management report

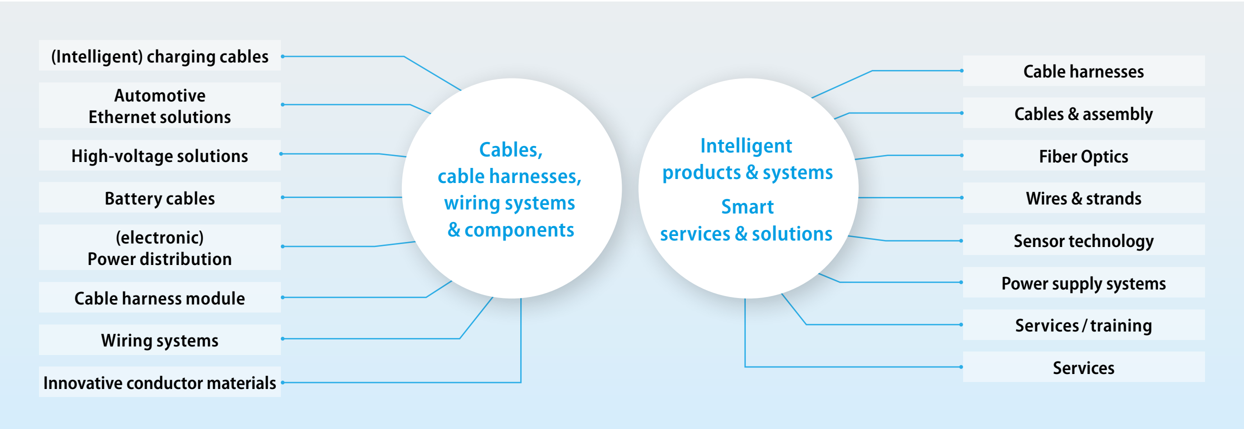
Group Management Report

Principles of the Group

Business model

LEONI is a global provider of products, solutions and services for energy and data management in the automotive sector and other industries. Our portfolio comprises wires and optical fibers, cables and cable systems as well as related components, connectors and services. On these foundations, we are increasingly offering our customers intelligent energy and data management solutions for vehicles and industrial applications.

Product and services range



LEONI's business is organised by two divisions (or segments):

The **Wiring Systems Division** (WSD) is one of the world's largest providers of complete wiring systems and customised cable harnesses for the motor vehicle industry. Its products and services comprise development and production of sophisticated cable harnesses through to integrated wiring systems, high-voltage (HV) wiring systems for hybrid and electric vehicles, energy distribution components and special connectors. As systems providers, we cover the entire spectrum from design through to series production as well as complementary services. In so doing, we are increasingly positioning ourselves as a provider of vehicle data and energy management solutions to supply our customers with innovative products and services covering the automotive megatrends of electromobility (EMO), connectivity and autonomous driving. We are also reinforcing our expertise in the fields of electronics and software to enhance our position as a systems supplier.

The **Wire & Cable Solutions Division** (WCS)is a leading manufacturer of wire and cable systems that, as part of its strategic transformation, is gradually developing into a provider of secure and intelligent energy transmission and data management system solutions. Its range of products and services encompasses wires, strands and optical fibers, standardised cables, special cables and fully assembled systems as well as related services for customers in the automotive, capital goods, medical technology, telecommunications, energy and infrastructure industries. The focus is on technologically sophisticated products as well as customer-specific applications for niche markets. The portfolio is continually being expanded to include intelligent cables and cable systems, software solutions as well as smart services to take advantage of the opportunities for LEONI arising from digitalization and other global megatrends.

Principal facilities and changes in the scope of consolidation

The LEONI Group comprises LEONI AG and the two divisions with corresponding subsidiaries. At the end of 2018, LEONI was, with 72 subsidiaries (previous year: 72) and 99 production facilities (previous year: 94) in 32 countries, located in Asia, the Americas and EMEA (Europe, Middle East and Africa). The Wiring Systems Division had two domestic and 30 foreign companies, eight of which were located in Asia, six in the Americas and 16 in the EMEA region. The Wire & Cable Solutions Division accounted for 13 domestic and 23 foreign companies, of which four in Asia and seven in the Americas as well as twelve in the EMEA region. Furthermore, four subsidiaries operate in the EMEA region for both divisions. In addition, there is LEONI AG as the holding company. There was no significant change to the scope of consolidation in 2018.

Organisational structure

LEONI AG acts as the holding and management company. It performs overarching tasks for the LEONI Group with its corporate functions. The structure of the two divisions is guided by their respective customer groups and markets, subdivided into business groups and business units. In the **Wiring Systems Division**, a Sales Board consisting of ten Business Units (BUs) with global operations looks directly after the customers in Europe, Asia and the Americas and simultaneously coordinates the placing of orders with the plants, which are responsible for quality and cost efficiency while adhering to set standards. In addition, there are three, BU-overarching Tech Centers, which provide our business units with innovative products and services involving electromobility, components as well as energy and data management. The Sales Board is the interface for these products, which means that our customers have only one contact partner for the high-voltage and conventional wiring system as well as component businesses. Additionally, there are Central Functions for the senior management level and the supporting functions. The worldwide production network of the Wiring Systems Division comprises production facilities in numerous countries, above all in China, Mexico, North Africa and Eastern Europe. The locations are chosen strictly based on cost benefit and logistical requirements, and they are situated as near to our customers as possible.

The organisational structure of **Wire & Cable Solutions Division** follows its core, strategic markets, which, alongside the automotive sector, include industrial automation, robotics, medical technology, energy and data infrastructure projects as well as transport and renewable energies. These target groups are cultivated by Business Groups (BGs): BG Automotive Cable Solutions for the automotive industry and by BG Industrial Solutions for the industrial business. In addition, there is BG Wire Products & Solutions with a wide portfolio of wires, high-flex copper strands and braided copper tapes for applications in both industry and the automotive sector. The trailblazing electromobility segment is providing this BG with increasing growth potential in connection with high-voltage solutions as well as battery technology.

The operating business of the Wire & Cable Solutions Division is handled by a total of 17 business units. There are furthermore commercial and technical/operational support functions as well as a Digital Solutions Group, which drives the digital transformation and the division's development towards becoming a solutions provider. The state-of-the-art WCS production facilities are located in 14 countries in western and eastern Europe, the Americas as well as Asia. They are located not only in strategically favourable proximity to our customers, but also in key growth regions of the core markets being cultivated.

Customers and markets

The LEONI Group's customers principally include motor vehicle manufacturers and their suppliers. This customer group provided about 83 percent of LEONI's total sales in 2018 (previous year: 82 percent). With sales to the five largest customers we generated a business volume of approx. € 2.0 billion during the period under report (previous year: € 1.9 billion), which equated to about 39 percent of consolidated sales (previous year: 38 percent).

The **Wiring Systems Division** supplies the leading carmakers worldwide, from the small to compact and mid-range car brackets and up to models in the premium and luxury segments. In addition, the commercial vehicle industry is of major importance. There are furthermore manufacturers of agricultural and special as well as leisure vehicles. Our components, cable harnesses and wiring systems are created during the design and development phase of a new vehicle in close collaboration with the respective customer. We maintain close, trusting relationships with our customers based on our extensive, specific know-how in the areas of development, production and distribution of wiring systems as well as our high quality and reliability.

The customer base of the **Wire & Cable Solutions Division** comprises nearly all the wiring system manufacturers that operate worldwide and many other automotive component suppliers as well as internationally leading providers from a wide variety of capital goods industries, in particular the medical and communications technology, the infrastructure sector, robotics and railway engineering as well as in the renewable energy and major industrial project markets. We maintain long-standing and close relationships with our customers and are in faithful contact with them, especially via our sales and development departments. Increasingly, our customers also include OEMs in a wide range of different industrial sectors that operate globally and are keen to work with us as a solutions provider in a partner-like relationship.

In regional terms, the European, American and Asian markets are of greatest significance to LEONI. Europe – including the Middle East and Africa (EMEA) – is LEONI's most important market with a share of about 70 percent (previous year: 69 percent) of sales. The Americas account for approximately 16 percent (previous year: 15 percent) and Asia for about 15 percent (previous year: 16 percent).

Competitive situation and advantages

The **Wiring Systems Division** is Europe's leading producer of cable harnesses and wiring systems. We rank 4th worldwide, according to calculations by the Automotive Wiring Harness Market. Our most significant competitors are Aptiv, Sumitomo and Yazaki. Alongside our good, internationally competitive position also in the electromobility and alternative drivetrain segments, our business success is based on great power of innovation and a high real net output ratio, comprehensive logistics and system expertise as well as development centres spread worldwide with proximity to the customer. Another key factor involves our global production network with standardised processes as well as the fact that a high proportion of our production is at locations with favourable wage costs. Our very broad international positioning as well as the large number of vehicle manufacturers and brands supplied not only diminish the exposure to regional market cycles, but also enable us to take advantage of global growth opportunities.

The **Wire & Cable Solutions Division**, which is a leading cables business in Europe, is the technology and market leader in many of its target areas. In some product segments, such as data and special cables for the car industry and cable systems for robotic engineering, we regard ourselves as global market leaders. We also command leading positions in the market for cables for particular industrial applications; for example, in mechanical engineering, measurement and control technology as well as medical technology. Our good competitive position is principally based on a vertically strongly integrated value chain, core skills developed over decades such as a broad understanding of raw materials and know-how concerning input materials, engineering and applications as well as command of technologically sophisticated manufacturing processes. Our increasingly international presence and stronger positioning as a provider of intelligent and secure energy transmission and data management system solutions give us additional competitive advantages.

Strategy

Our corporate strategy aims to develop LEONI into a leading provider of intelligent energy and data management system solutions. The Group and its two divisions consequently share the vision of 'passion for intelligent energy and data solutions'. 'Passion' stands for full commitment and fervour with respect to the upcoming tasks. 'Intelligent' expresses that LEONI's products offer the customer added value thanks to additional, smart properties. 'Energy and data' are the two areas in which LEONI operates with great expertise – the transmission of energy and data. And 'solutions' highlight the trend of increasingly supporting our customers as a solutions and systems provider.

In the fourth quarter of 2018, LEONI announced a comprehensive **performance and strategy-enhancement programme** called **VALUE 21** for its entire group. The objective is to improve the basis for healthy growth, profitability and cash generation as well as to sharpen our focus on the future markets of digitalization, electromobility and autonomous driving. Vertical integration towards being a more comprehensive systems provider will give both our Wiring Systems Division and Wire & Cable Solutions Division good prospects for growth. We therefore intend to broaden the range of products and services in both divisions to offer customers added value and thereby position ourselves as a partner of increasing importance to them.

Rigorous implementation of a three-year performance-enhancement programme in both divisions and within LEONI AG, which aims to lastingly boost profitability and cash flow, constitutes the precondition for this strategic development. The following, corresponding measures were determined at the end of 2018:

- Raising operational excellence, among other means by optimising processes in our plants and realising synergies as well as harmonising our purchasing, particularly where it is indirect;
- Reviewing distribution and administrative structures as well as costs;
- More restrictive working capital management;
- Benchmarking our capex ratio for longer term fixed assets,
- Establishing more modern, efficient IT systems and processes through resolute harmonisation.

Given the differing structures and market orientation of the two divisions, the measures to boost performance will be specifically tailored to the divisions. The same applies to specifying our strategy:

The objective of the **Wiring Systems Division** is, with its tailor-made wiring systems and cable harnesses in the automotive sector, to increasingly position itself as provider of vehicle data and energy management solutions with great understanding of a vehicle's overall system. The division will therefore offer its customers an extended portfolio of innovative products and services. Forming the basis for this is our C.A.R.E.S. innovation strategy, which defines the five key areas of innovation for intelligent energy and data solutions in tomorrow's cars: connected mobility, autonomous mobility, revolutionizing productivity, electrified mobility as well as intelligent solutions & services. In so doing, we will increasingly act as a strategic partner and systems supplier. We are furthermore enhancing our expertise in the fields of electronics and software. And we are also forging ahead with the digitalization of our processes. In the electromobility segment, we are aiming for a leading position with our portfolio by providing cable harnesses for all voltage levels and intelligent distribution systems.

In the case of the Wiring Systems Division, specifying the strategy by means of VALUE 21 provides, in particular, that market opportunities are given even greater priority in future and that the choice of new projects is based even more on earnings quality and cash flow. The initial aim with such focused growth is to improve cash flow and the EBIT margin, as well as to establish the conditions for further development towards being a systems provider.

The **Wire & Cable Solutions Division**'s strategy is, in the automotive market segment, to bolster its leading position in standard and special automotive cables as well as charging cables for electric cars and to decisively enhance as well as upgrade this with new digitalization and solution offerings. The focus is on stepped-up, joint development work with customers, the use of innovative technologies to generate crucial added benefit on the product side as well as intelligent cable solutions with integrated sensors, electronics and software for such future technologies as electromobility. Here we are focusing, among other things, on cable solutions for charging infrastructure, high-voltage systems and battery connections. In the industrial market segment, the Wire & Cable Solutions Division's strategy is aimed at becoming a leading provider of solutions for the energy and data megatrends by way of digital, functional simulation, system integration and creating learning systems. We are investing in corresponding expertise and technologies and are gradually expanding our range of products and services in the direction of intelligent solutions. To generate more added value for our customers, we also intend to establish new business models in the areas of intelligent cable solutions and smart services. Further objectives include a sharper focus on growth markets by means of resolute portfolio management as well as better use of our global footprint to address OEM customers that operate worldwide. We also want to continuously improve our operational excellence.

In the context of VALUE 21, we are planning in particular to focus the WCS Division clearly on strategic core markets. The objective is to expand the more profitable business and, with the released resources, to facilitate further development towards being a systems provider.

Corporate Governance (statements pursuant to Sections 289f and 315d of the German Commercial Code (HGB))

LEONI website
» www.leoni.com

LEONI's corporate governance is geared to the principles of the German Corporate Governance Code. The Board of Directors is responsible for **corporate governance**. Its work is monitored by the Supervisory Board. The Board of Directors determines Group strategy and, together with those in charge of the divisions and the individual business units, measures suited to strategy implementation. Further information is contained in the Corporate Governance report and the statement on Corporate Governance pursuant to Sections 289f and 315d of the German Commercial Code (HGB), which is publicly accessible on the Company's website. Details of the compensation for members of the Board of Directors and Supervisory Boards are presented in the compensation report.

Compensation report
» page 114 et seq.

Governance of the operating business

The **operating business is governed** by the key figures of sales, earnings before interest and taxes (EBIT), capital employed as well as free cash flow. We measure the respective target attainment by the benchmarks of Return on Sales (EBIT margin), Return on Capital Employed (ROCE) and Free Cash Flow (FCF). Specific information on performance in terms of these indicators in the past financial year is contained in the section headed Overview of LEONI's performance. The targets for the 2019 financial year are presented in the forecast.

Overview of LEONI's performance
» page 53 et seq.

Forecast
» page 109 et seq.

Business and underlying conditions

Macroeconomic setting

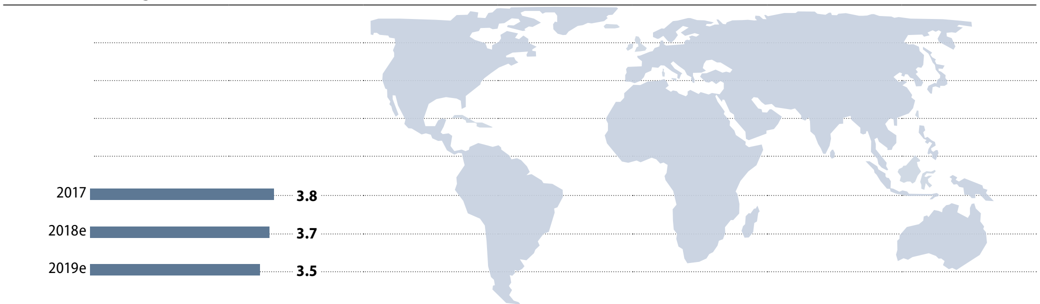
Increasing gloom cast over the global economy in the course of 2018. The main curtailing factors were the United States' restrictive trade policy involving import duties as well as the waning momentum in the Chinese economy. The conflict between the EU and the Italian government as well as lack of clarity concerning Brexit caused additional uncertainty in Europe. The hike in the US key interest rate also put mounting pressure on the currencies of some emerging countries. The subdued sentiment was reflected in the global Purchasing Managers' Index and worldwide industrial output, both of which gradually declined during the year.

In the second half, particularly the economies in the eurozone, the United Kingdom, Japan and some emerging countries lost pace considerably. The International Monetary Fund (IMF), which originally projected 3.9 percent global economic growth for 2018,subsequently revised its forecast in the autumn to 3.7 percent (previous year: 3.8 percent).

The IMF reaffirmed this estimate in its current World Economic Outlook of January 2019. As in the preceding years, the developing and emerging countries provided the strongest impetus, with gross domestic product up by 4.6 percent overall (previous year: 4.7 percent). Despite its weakening, China accounted for a major share of this with its 6.6 percent growth. In India, the increase was an even stronger one of 7.3 percent, whereas Brazil and Russia were up only slightly.

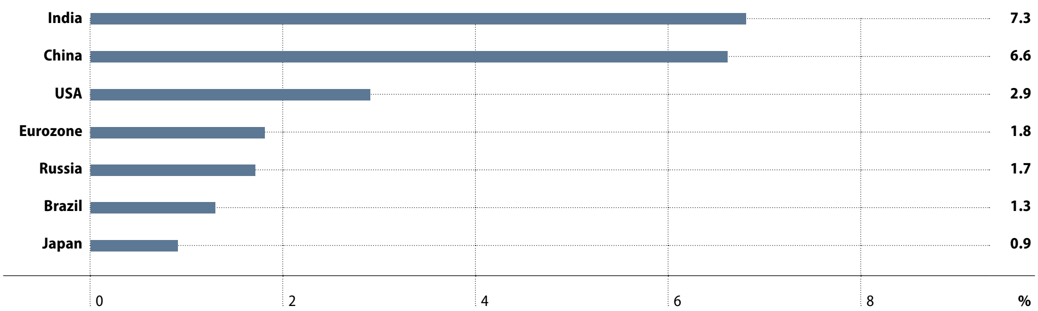
The industrialised countries raised their GDP by an overall 2.3 percent (previous year: 2.4 percent). The United States set the pace with a gain of 2.9 percent. By contrast, growth in the eurozone was curbed significantly, especially so in Italy, France and Germany.

Global economic growth 2017 to 2019 %



Source: IMF

2018 economic growth in selected regions



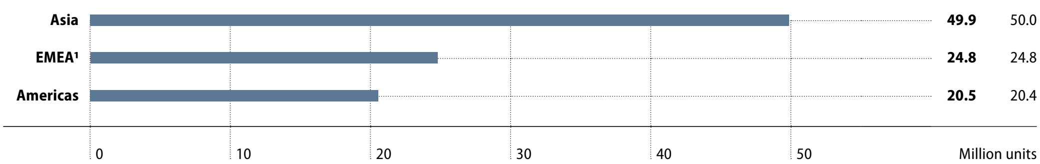
Source: IMF, estimate

Business by sector

The trade dispute and the weaker economic performance in China also affected the international **automotive industry**. The German Association of the Automotive Industry (VDA) estimates that new registrations on the global car market in 2018 were flat at about the previous year's level with approximately 85 million vehicles. In Europe, the number is likely to have increased moderately, while having been stable in the Americas and down somewhat in China.

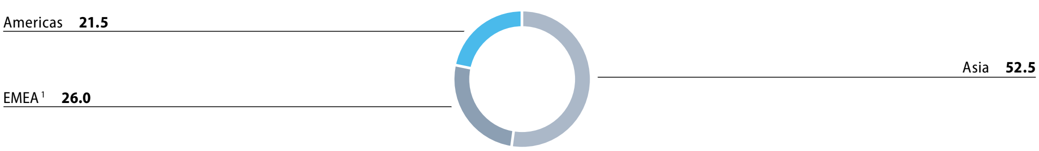
Output of passenger cars and light commercial vehicles was also roughly at the previous year's level in the reporting period. The IHS Automotive market research institute says that some 95 million vehicles again came off the line worldwide. A slightly larger number of units in the Americas meanwhile offset the marginally lower output in Asia and the EMEA region. Broken down by vehicle type, the total number of cars produced was down a little from the previous year, while output of light commercial vehicles was up slightly. Production of cars with alternative drive technologies rose by 35 percent across all regions, with this trend having been especially dynamic in the Americas and EMEA region.

Output of cars and light commercial vehicles by region **2018e** 2017



[1] Europe, Middle East and Africa *Source: IHS Automotive*

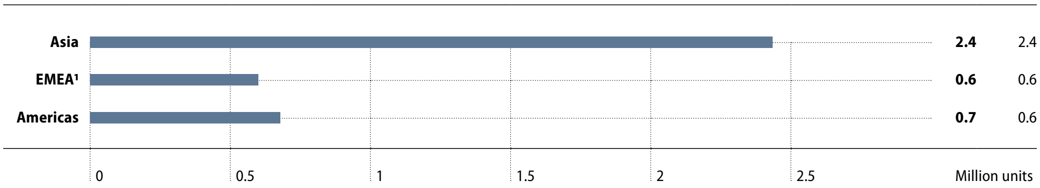
Output of cars and light commercial vehicles by region in % **2018**



[1] Europe, Middle East and Africa *Source: IHS Automotive*

The manufacturers of **heavy commercial vehicles** raised their output by 3 percent worldwide, according to IHS Automotive projections. The growth was especially strong in the United States at a rate of 14 percent. The number of heavy commercial vehicles made in Asia was up by 1 percent, whereas there was a marginal decrease of 0.3 percent in the EMEA region. Based on our own observations, business involving cable harnesses for trucks and engines as well as agricultural machinery performed well in Europe and the NAFTA area, which are especially important to LEONI. In the construction machinery segment, demand was up primarily in the NAFTA area and Asia.

Output of heavy commercial vehicles by region



[1] *Europe, Middle East and Africa*

Source: IHS Automotive

The German Electrical and Electronic Manufacturers' Association (ZVEI) estimates that the global **electrical goods market** grew by 5 percent in 2018, with gains likely to have been at a more dynamic 7 percent in the emerging countries as opposed to a 3 percent increase in the industrialised nations. Demand rose most strongly in Asia, followed by the Americas and Europe. In Germany, the sector picked up by an estimated 4 percent in 2018. Among the segments of importance to LEONI, electric drives expanded by 6 percent, while other areas of automation as well as the electromedicine, communications and information technology segments were each up by 5 percent.

In the **mechanical engineering sector**, the German Engineering Federation (VDMA) estimates that sales were up by 3 percent worldwide in the past year. In the key manufacturing countries of Germany, Japan and the United States, the sector benefited from the high utilisation of the industry's capacity and a growing trend towards automation, resulting in above-average gains of between 4 and 5 percent in this segment. By contrast, mechanical engineering in China was up by just 2 percent.

Other factors

The macroeconomic and sector-specific conditions are of major significance to LEONI's business performance. A range of other factors also play important roles:

The **prices of commodities**, especially of copper, exert an appreciable influence on our sales. We largely pass on the fluctuations in the copper price to our customers through contractual agreements, albeit usually with a time lag. A change in the price of copper will therefore normally result initially in a corresponding effect on LEONI's sales without notable impact on earnings. On the balance sheet, there may – depending on the price of copper – be write-downs on inventory or provisions to cover contingent losses on partial quantities of inventory. The same applies to the raw material of silver, which is used primarily in the refining of wire products. By contrast, the **trend in energy prices** does not have any major group-wide impact on LEONI.

Procurement
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Personnel costs are another very significant influencing factor in the countries in which we produce. They are considered in decisions on choices of location, as are reliable legal and political conditions as well as favourable transport options.

We keep a very close eye on the **political situation** in the countries of importance to us; countries where we produce and sell. The risk and opportunity report contains corresponding information.

Risk and opportunity report
» page 94 et seq.

Alongside the respective national legislation of the countries in which we have a presence, the **legal factors** that are of importance for LEONI also include international laws. The stricter CO_2 emission limits, for example, exert indirect influence as they increase demand from the automotive industry for cables, cable harnesses and wiring systems that are particularly lightweight or lend themselves to alternative drive technologies. This results in the increasing use of sensors and control units, which in turn leads to an additional need for wiring.

Exchange-rate fluctuations can have an impact on sales, which we reduce through appropriate hedging transactions. If exchange-rate parities change substantially, however, they might nevertheless have an effect on results.

Notes
» page 138 et seq.

Business report

Overview of LEONI's performance / General statement on the economic situation and comparison with the forecast

Group key figures

		Actual 2017 figures [1]	First forecast for 2018	Updated forecast for 2018	Actual 2018 figures
Consolidated sales	€ billion	4,9	at least 5.0	approx. 5.0	5.1
EBIT	€ million	227	215 – 235	196	144
Capital expenditure	€ million	281	5 % of sales [2]	5 % of sales [2]	6 % of sales [2]
Free cash flow	€ million	11	positive	down to (150)	(147)

[1] *Prior-year figures adjusted*
[2] *Excl. investment in the Factory of the Future*

LEONI increased its consolidated sales to € 5.1 billion in 2018 (previous year: € 4.9 billion), of which the Wiring Systems Division provided € 3.2 billion (previous year: € 3.1 billion) and the Wire & Cable Solutions Division contributed € 1.9 billion (previous year: € 1.9 billion). Consolidated earnings before interest and taxes (EBIT) amounted to € 144 million (previous year, including non-recurring income: € 227 million). The Wiring Systems Division accounted for € 80 million of this total (previous year: € 118 million) and the Wire & Cable Solutions Division € 66 million (previous year, including non-recurring income: € 105 million). Group-wide, capital investment increased to € 343 million (excl. spending on the Factory of the Future: € 308 million) and free cash flow diminished to negative € 147 million (previous year: positive € 11 million).

In the first half of 2018, LEONI's business initially performed better than expected. Thanks to the persistently vibrant business involving wiring systems, cable harnesses and special cables for the automotive industry, consolidated sales rose somewhat more strongly than anticipated, prompting an increase in August 2018 in the full-year sales forecast from € 5.0 to 5.1 billion. Mounting uncertainties in our sector, due especially to international trade disputes, the impending Brexit, the Chinese market slowing down and the impact of the WLTP testing procedure, caused the automotive industry to adjust its production planning from the mid-year mark. The amount of product called forward by the European carmakers from LEONI consequently declined. In addition, there was the commencing production ramp-down of a high-volume vehicle model we supplied for, which is why we recorded a sales decrease in the second half of the year.

Alongside the smaller amount of business, advance spending on our production network to secure future growth, higher raw material prices as well as unsatisfactory operating performance in the Wiring Systems Division weighed on second-half earnings significantly more than expected. At the same time, the flattening trend of business and the increase in production costs involving the large capital investment resulted in a substantial decrease in free cash flow. For these reasons, LEONI adjusted its Group forecast in October: for sales from € 5.1 to 5.0 billion; consolidated EBIT from a range of € 215 million to € 235 million to about € 196 million and free cash flow from a positive figure down to a negative one of as much as € 150 million. In terms of sales and free cash flow, these figures were exceeded slightly and matched, respectively, for the year as a whole.

The projection for earnings before interest and taxes, on the other hand, was clearly missed because substantially larger-than-planned start-up costs (at a new wiring systems facility in Mexico, among other locations), a deterioration in operating performance and unattained savings targets in the Wiring Systems Division weighed unexpectedly heavily on earnings in the fourth quarter. The Group-wide 2018 capital expenditure ratio (excluding spending on the Factory of the Future) of 6 percent exceeded expectations.

Overall, the Board of Directors judged the LEONI Group's asset situation at the time this report was prepared to be solid, but the earnings and cash flow situation to be very much unsatisfactory. To counteract these developments, the Board of Directors of LEONI AG applied measures and launched the VALUE 21 performance and strategy programme to achieve sustained, gainful growth, an increase in profitability and positive cash generation. The section headed strategy contains information in this regard. Our surprisingly poor performance in the fourth quarter underscores the necessity of the measures described therein to improve performance and transparency as early as 2019.

Strategy
» page 46 et seq.

Sales and earnings

Consolidated sales up slightly to € 5.1 billion

Underpinned by the minor, overall sales growth of its two divisions, LEONI's consolidated sales rose by nearly 4 percent, or € 176 million, to € 5,101 million in 2018. Organically, LEONI grew by € 259 million or 5 percent. In addition, there was a positive effect of € 40 million from change in the price of copper, which was more than offset by negative effects totalling € 123 million from changes in exchange rates as well as in the scope of consolidation.

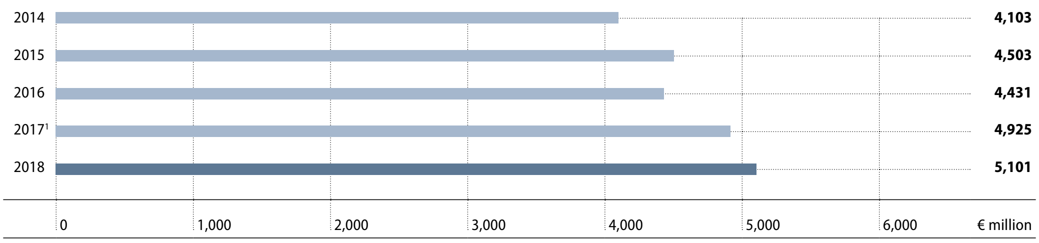
Group sales performance

	€ million	%
2017[1] sales	**4,925**	
Organic growth	259	5.3
Effects of changes in the scope of consolidation	(47)	(1.0)
Currency translation effects	(76)	(1.5)
Copper price effects	40	0.8
2018 sales	**5,101**	3.6

[1] Prior-year figures adjusted

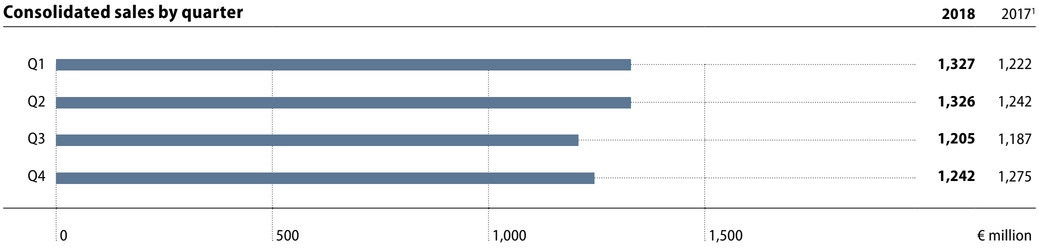
Breakdown by region presents the following picture: Sales in the EMEA region rose by 4 percent to € 3,551 million and in the Americas they were up 6 percent to € 794 million. In Asia, the disposal of Business Group Electrical Appliance Assemblies that was completed in the previous year resulted in a 1 percent decrease to € 756 million.

Consolidated sales



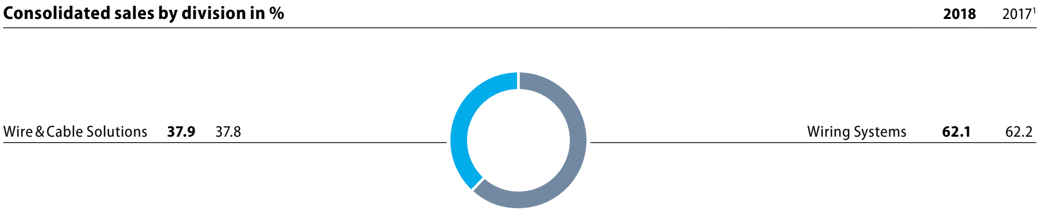
¹ Prior-year figures adjusted

Consolidated sales by quarter



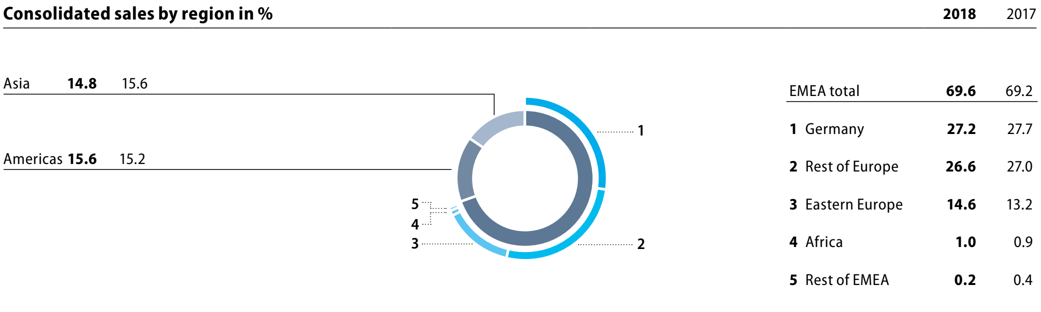
¹ Prior-year figures adjusted

Consolidated sales by division in %



¹ Prior-year figures adjusted

Consolidated sales by region in %



Group EBIT down to € 144 million

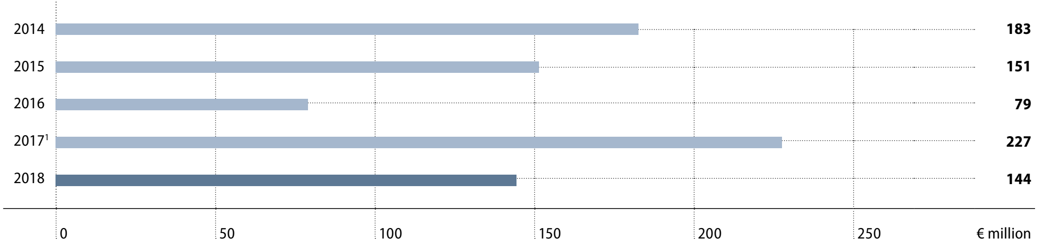
The LEONI Group's cost of sales increased by disproportionately more than business volume at a rate of 4 percent to € 4,285 million in 2018 due above all to higher-than-planned ramp-up costs and the poorer performance of various facilities. Gross profit on sales consequently decreased to € 816 million (previous year: € 823 million) and the **gross margin** contracted from 16.7 percent to 16.0 percent. Gains that mostly stemmed from negotiations with suppliers and customers meanwhile had a positive effect.

Selling expenses increased by 9 percent to € 264 million. This reflected particularly the exceptional freight charges in the Wiring Systems Division, the increased volume of sales as well as impairment of trade receivables. General administrative costs increased by 5 percent to € 286 million. Extensive pre-production spending on future projects starts drove research and development costs up by 16 percent to € 150 million.

Other operating income, which included the proceeds of about € 8 million from having sold buildings of a subsidiary in China, diminished considerably from € 46 million to € 30 million in the period under report. In the previous year, this item included substantial non-recurring income totalling € 30 million through the gain on deconsolidation from the disposal of Business Group Electrical Appliance Assemblies as well as insurance compensation. Other operating expenses increased from € 19 million to € 25 million due, among other factors, to amortisation of an item of goodwill. Income from associated companies and joint ventures, which stemmed mainly from our joint venture in Langfang, China, was up marginally to € 23 million.

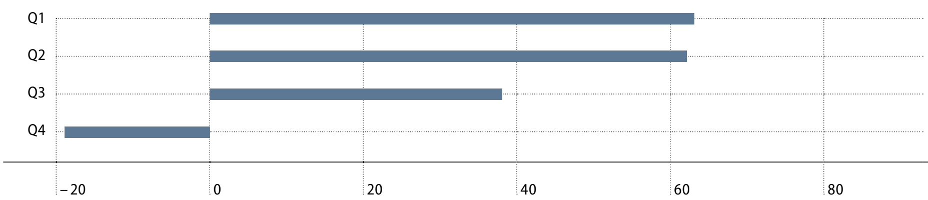
Consolidated EBIT totalled € 144 million in 2018, down from € 227 million in the previous year. After deducting the financial result including the investment result, which improved from a loss of € 25 million to one of € 23 million because of more favourable borrowing terms, earnings before taxes (EBT) came to € 121 million (previous year: € 202 million). Considering the tax rate, which rose to 39 percent in 2018 primarily because of not having recognised deferred tax assets against current losses, LEONI reported **consolidated net income** of € 73 million, down from € 146 million in fiscal 2017.

Group EBIT



[1] *Prior-year figures adjusted*

Group EBIT by quarter



	2018	2017[1]
Q1	**63**	56
Q2	**62**	87
Q3	**38**	45
Q4	**(19)**	40

€ million

[1] *Prior-year figures adjusted*

Adjusted Group EBIT [1]

€ million	2018	2017 [2]
EBIT	**144**	**227**
EBIT margin %	2.8	4.6
Effect of purchase price allocation (PPA)	6	11
Restructuring expenses / income	(1)	0
Insurance compensation	0	(5)
Effect of deconsolidation	(1)	(24)
Adjusted EBIT	**148**	**209**
Adjusted EBIT margin	2.9	4.2

[1] *Earnings adjusted for the impact of revaluation as part of allocating the prices of the major acquisitions, restructuring, capital gains on the disposal of businesses and income from business combinations including related derivatives as well as the insurance compensation related to the fraud case*
[2] *Prior-year figures adjusted*

Value creation

The LEONI Group generated net added value of € 1,265 million in 2018 versus € 1,286 million in the previous year. It presents our own output and is calculated based on sales revenues and other operating income less cost of materials, depreciation/amortisation and other advance payments. By far the largest proportion of the value created during the year under report, namely 89 percent, was spent on our staff in the form of personnel costs and social security contributions. Our creditors received 2 percent and government 4 percent, while a further 6 percent was retained.

Value creation

€ million	2018	2017 [5]
Accruement		
Sales revenues	5,101	4,925
Other income	30	46
Cost of materials	(2,998)	(2,881)
Depreciation / amortisation	(159)	(150)
Advance payments	(709)	(655)
Net value added	**1,265**	**1,286**
Distribution		
to staff (personnel costs, social security contributions)	1,120	1,059
to the Company (retained income) [1]	73	100
to shareholders (dividend) [2]	0	46
to government (income taxes) [3]	48	57
to creditors (financial result) [4]	24	25
Net value added	**1,265**	**1,286**

[1] *Consolidated net income less dividend*
[2] *Subject to approval by shareholders at the Annual General Meeting*
[3] *Income taxes only (excl. excise, property and transaction taxes as well as social security contributions)*
[4] *Excl. other investment income*
[5] *Prior-year figures adjusted*

Financial situation

The LEONI Group attaches importance to a permanently solid, balanced finance structure. The aim is to maintain an equity ratio of at least 35 percent. We strive with our key financial figures for investment grade in the internal rankings of our core banks. We use the capital market to cover our long-term need for finance. We obtain short-term finance via credit lines from core banks.

Deutsche Bundesbank has rated LEONI as an eligible borrower for more than a decade. No official rating exists because this would, in our view, not create any additional value at present. LEONI's loan agreements do not include any financial covenants.

Notes
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Generally speaking, we aim to finance planned business growth from our operating cash flow. Details on capital management are contained in the notes.

Financial and liquidity management
The LEONI Group's **financial management** is handled centrally by the LEONI AG holding company. It ascertains the capital requirement at group level and takes the required financing measures for the entire group of companies. In exceptional cases we have recourse to regional, special finance deals. The key objectives of financial management are safeguarding the Group's liquidity worldwide, optimising finance costs and revenue as well as controlling and minimising currency and interest rate risks. We use a wide range of instruments to keep our exposure to individual markets or types of finance as low as possible. Generally speaking, LEONI pursues long-term collaboration with international banks that is based on mutual trust. Group subsidiaries are financed mostly in their functional currency. The principal financial liabilities in 2018 were denominated in euros, Indian rupees, South Korean won and US dollars.

We manage the **liquidity** of the LEONI Group via a cash pooling system with pools in the home countries of the currencies of most importance to the Group. Furthermore, LEONI AG executes the bulk of the payments for the Group.

To be able to reliably meet all our financial obligations at any time, we use such capital market instruments as bonds and borrower's note loans at the corporate level for the whole Group and obtain credit lines in sufficient amounts.

Notes
» page 138 et seq.

The **off-balance-sheet instruments** leasing and factoring, which we use to improve liquidity, are also managed at head office. Factoring, in particular, is an important addition to the other instruments for short-term liquidity management thanks to its flexibility in terms of the sales performance and the associated borrowing requirement. At the end of 2018, factoring reduced trade receivables by € 200 million (previous year: € 194 million). Of the other liabilities, € 39 million (previous year: € 36 million) was due to the receipt of payment on receivables that were sold within factoring agreements. Moreover, reverse factoring transactions are used for supplier financing in connection with copper procurement. As at 31 December 2018, trade liabilities amounting to € 171 million (previous year: € 186 million) were transferred to factoring companies in the context of signed reverse factoring agreements. Details on leasing as well as hedging of interest rate and currency risks are contained in the notes.

Notes
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Successful short and long-term refinancing
In 2018, LEONI realigned its Group financing, ensuring the Company's long-term funding. In June, the Company agreed a credit line amounting to € 750 million and a term of at least five years with eight well-known banks. We thereby replaced bilateral credit lines and created flexible scope for future growth. The Company placed borrower's note loans worth € 331 million in November to cover the planned, long-term financing requirements. Terms of five to ten years provide assurance that sufficient capital will be available to invest in extensive projects that have a similarly long lifespan. The borrower's note loans were signed on favourable terms that comprise deals involving both fixed and variable interest rates. In return, two loans totalling € 125 million that matured in 2018 were repaid on time.

Dividend policy

As a rule, LEONI's strategy provides for a payout to shareholders of around one-third of consolidated net income in order to meet shareholder expectations in the form of an appropriate dividend and to ensure sufficient liquidity is available for the Company's development through profit retention. The Company plans to deviate from this dividend policy given the currently unsatisfactory cash flow situation and debt ratio. The Board of Directors and Supervisory Board will therefore propose to shareholders at the Annual General Meeting that no dividend be paid for 2018 (previous year: € 1.40 per share). We intend to return to pay-out in keeping with our fundamental dividend policy as soon as possible.

Cost of capital and ROCE

The weighted average cost of capital (WACC) for the LEONI Group amounted to 5.29 percent in 2018 (previous year: 7.59 percent). The return on capital employed (ROCE) stood at 8.3 percent (previous year: 14.5 percent).

Calculation of the return on capital employed

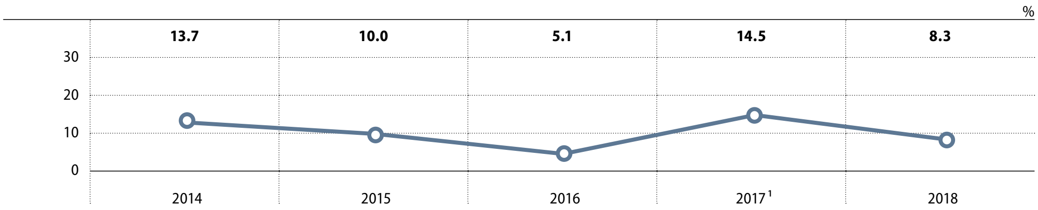
€ million	2018	2017 [2]
EBIT	**144**	**227**
Intangible assets	76	65
Goodwill	140	147
Property, plant and equipment	1,206	1,052
Inventories	609	597
Trade receivables	625	610
Other	653	490
Total assets	**3,310**	**2,960**
Trade liabilities	957	909
Other liabilities and received payments up to 1 year	308	251
Other	192	180
Total equity and liabilities	**1,457**	**1,341**
Capital employed on the reporting date	**1,853**	**1,619**
Capital employed, annual average [1]	**1,736**	**1,561**
ROCE	**8.3 %**	**14.5 %**

[1] Calculation of the annual average is based on the past two annual reporting dates
[2] Prior-year figures adjusted

Calculation of Group WACC

		2018		2017
Risk-free interest		1.25 %		1.25 %
Market risk premium		6.5 %		6.5 %
Beta factor		1.36		1.42
Cost of equity after tax		10.09 %		10.48 %
Borrowing costs before tax		1.71 %		1.84 %
Tax rate	28.00 %	0.48 %	28.00 %	0.52 %
Borrowing costs after tax		1.23 %		1.32 %
Equity proportion		45.80 %		68.44 %
Proportion of borrowed funds		54.20 %		31.56 %
Cost of capital after taxes (WACC)		5.29 %		7.59 %

Return on capital employed



[1] *Prior-year figures adjusted*

Free cash flow down to negative € 147 million

In the year under report, cash provided by operating activities of the LEONI Group decreased from € 245 million to € 152 million. The disappointing profitability was the chiefly responsible factor.

Sales and earnings
» page 54 et seq.

Due to the extensive measures to expand capacity, there was more investment spending in 2018, of € 298 million, than in the same period of 2017 (previous year: € 234 million). Furthermore, the previous year's like-for-like figure included non-recurring income of € 37 million from having sold Business Group Electrical Appliance Assemblies. Free cash flow came to negative € 147 million, down from positive € 11 million in the previous year.

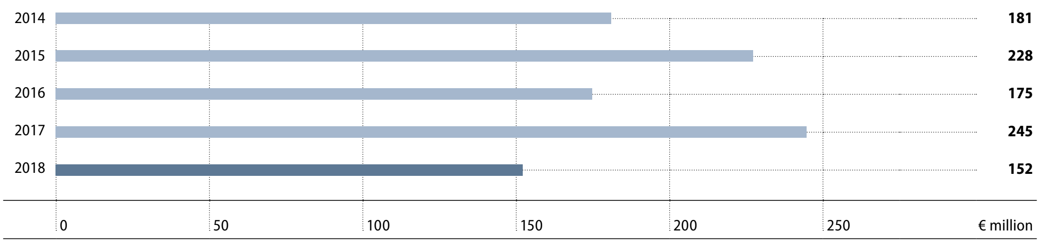
Capital expenditure
» page 62 et seq.

Cash provided by financing activity amounted to € 115 million (previous year: outflow of € 36 million). This large cash inflow stems from the refinancing executed in the autumn.

Successful short and long-term refinancing
» page 59

In summary and after taking exchange rate-related changes into account, the LEONI Group's cash and cash equivalents decreased to € 152 million at the end of 2018 (previous year: € 185 million).

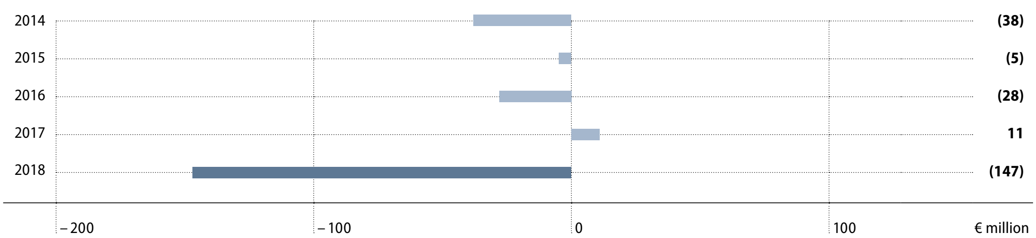
Operating cash flow



Consolidated statement of cash flows (abridged version) / **Calculation of free cash flow**

€ million	2018	2017
Cash flows from operating activities	152	245
Cash flows from capital investment activities	(298)	(234)
Free cash flow	**(147)**	**11**
Cash flows from financing activities	115	(36)
Change in cash and cash equivalents	(32)	(25)
Cash and cash equivalents on 31 December	152	185

Free cash flow



Capital expenditure raised to € 343 million

The LEONI Group's capital investment in property, plant and equipment as well as intangible assets was up by 22 percent to € 343 million in 2018. The largest share of € 272 million was spent in the EMEA region, followed by € 44 million in the Americas and € 28 million in Asia.

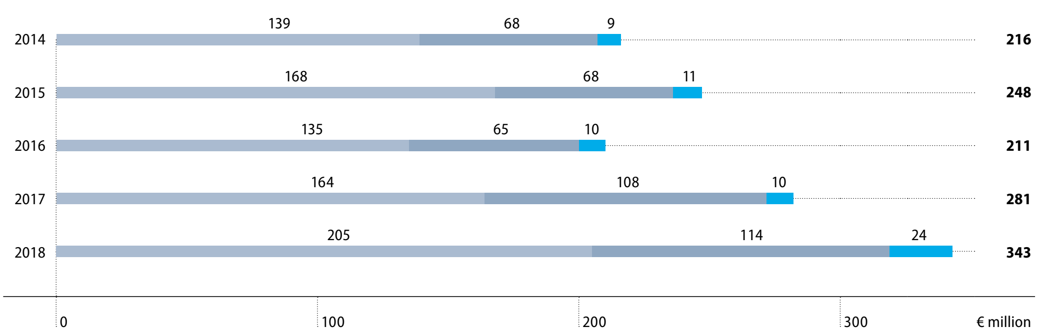
The Wiring Systems Division accounted for € 205 million as opposed to € 164 million in the comparison year, mostly for advance spending on the production network to underpin future growth. The investment thus involved primarily construction of new plants and expansion of existing ones in China, Morocco, Mexico, Serbia, Tunisia and Ukraine, among other locations. Information on the plants opened in 2018 is contained in the segment report.

Segment report
›› page 66 et seq.

The Wire & Cable Solutions Division invested € 114 million in property, plant and equipment as well as intangible assets in 2018, up from € 108 million in 2017. One of the focal areas was expanding capacity for special automotive cables in the Americas, Asia and Eastern Europe, among other reasons because of the growing demand for cables for electric vehicles. Investment furthermore involved expansion of production for customised cable solutions for the medical technology sector in Canada. Construction of our Factory of the Future in Roth, Germany was another focus for investment. This will become the Wire & Cable Solutions Division's centre of expertise where, among other products, we will be developing and making state-of-the-art data cables for autonomous driving and solutions for even safer, more efficient and more reliable power distribution in electric vehicles. Starting in 2019, after the main building is completed, our existing production in Roth will gradually be relocated to the new site. In 2018, we also invested in the ongoing upgrade of our product portfolio by integrating digital intelligence as well as related elements of the technology platform in connection with LEONiQ.

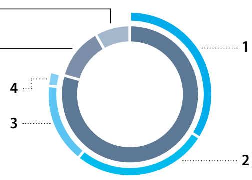
The capital expenditure of LEONI AG, which increased from € 10 million to € 24 million, involved primarily new software licences and the IT infrastructure.

Capital expenditure



LEONI Group capital expenditure by region in %

	2018	2017
Asia	**8.1**	10.6
Americas	**12.7**	9.1
EMEA total	**79.2**	80.3
1 Germany	**33.9**	31.0
2 Eastern Europe	**27.0**	29.3
3 Africa	**15.7**	16.7
4 Rest of EMEA	**2.6**	3.3



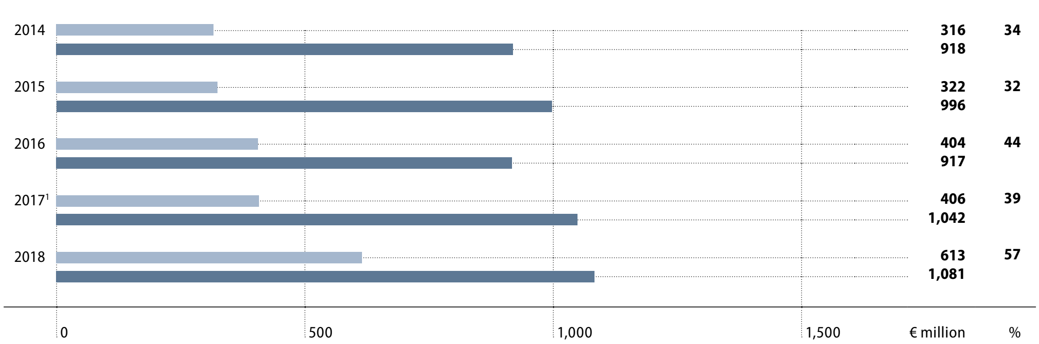
Net financial liabilities rise to € 613 million

The LEONI Group's net financial liabilities were up from € 406 million to € 613 million in 2018, which equates to leverage (net financial liabilities / EBITDA) of 2.0 after 1.1 in fiscal 2017. Gearing (net financial liabilities as a percentage of equity) increased from 39 percent to 57 percent.

Calculation of net financial liabilities

€ million	2018	2017	Change
Cash and cash equivalents	152	185	(33)
Current financial liabilities	(177)	(254)	77
Non-current financial liabilities	(588)	(337)	(251)
Net financial position	(613)	(406)	(207)

Equity and net financial liabilities / Gearing



[1] *Prior-year figures adjusted*

Asset situation

Financial situation
» page 58 et seq.

Notes
» page 138 et seq.

The LEONI consolidated balance sheet as at 31 December 2018 was enlarged by 10 percent to € 3,462 million. The key factor on the asset side involved **non-current assets**, which accumulated by a total of 18 percent to € 1,742 million. As a consequence of extensive investment, property, plant and equipment was up by 15 percent to € 1,206 million. The intangible assets, which rose from € 64 million to € 76 million, reflected a master agreement covering new SAP licences. There was also an increase in contract assets pursuant to IFRS 15 from € 61 million to € 79 million as well as in other non-current assets from € 61 million to € 145 million because of substantial pre-production spending on major customer projects.

Financial situation
» page 58 et seq.

Overall, **current assets** increased by 3 percent to € 1,719 million. In particular, the reason was the item other current assets, which grew from € 125 million to € 170 million due especially to greater VAT receivables. Furthermore, trade receivables and other financial assets increased by about 4 percent to € 674 million because of the expansion of business. Inventories, by contrast, remained virtually stable at € 609 million (previous year: € 597 million). Cash and cash equivalents diminished by 18 percent to € 152 million.

On the liabilities side, the increase in non-current liabilities from € 626 million to € 882 million led to an improvement in the maturity profile. The main reason for this was the increase in non-current financial liabilities from € 337 million to € 588 million in the wake of the Company's successful, long-term refinancing. **Current liabilities**, on the other hand, were up only marginally to € 1,498 million. Here, the current financial liabilities reduced from € 254 million to € 177 million by scheduled principal payments were offset primarily by the business-induced, 11 percent increase to € 1,084 million in trade liabilities and other financial liabilities.

Financial situation
» **page 58 et seq.**

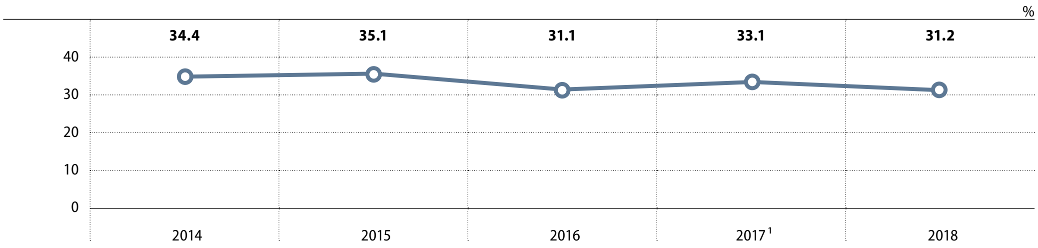
Overall, equity increased slightly from € 1,042 million to € 1,081 million. This was due to the rise by 3 percent to € 807 million in retained earnings as well as the increase in accumulated other comprehensive income, principally because of positive effects of measuring pensions and cash flow hedges (from negative € 72 million to negative € 55 million). The still solid equity ratio came to 31.2 percent on 31 December 2018 (previous year: 33.1 percent).

Asset and capital breakdown

€ million	31/12/2018	31/12/2017[1]
Current assets	1,719	1,668
Non-current assets	1,742	1,477
Total assets	**3,462**	**3,145**
Current liabilities	1,498	1,477
Non-current liabilities	882	626
Equity	1,081	1,042
Total equity and liabilities	**3,462**	**3,145**

[1] *Prior-year figures adjusted*

Equity ratio



[1] *Prior-year figures adjusted*

Off-balance sheet assets

Alongside the assets presented in the consolidated balance sheet, the Group also uses intangible assets, which are not permitted to be entered on the balance sheet because of the applicable accounting requirements. Mainly, these are primary customer and supplier relationships, production know-how, organisation and process-related advantages as well as brand and human capital. Use was furthermore made of leased or rented assets that are not to be entered on the balance sheet because of the chosen contractual structure.

Reports by division / Segment report

Wiring Systems Division

Strategically important projects in 2018

The Wiring Systems Division stepped up its activity in the areas of electromobility as well as energy and data management during the year under report. It also commissioned several new facilities to prepare for starting new customer projects. The most important of the projects in 2018 are described below. The section on research & development contains information on major development plans.

Research & Development
» page 82 et seq.

Growing EMO activity

LEONI further expanded its activity in the electromobility (EMO) segment in 2018. We broadened our range of high-voltage components, especially involving HV storage, and supported various, major European carmakers in depth as development partners in new EMO projects. Alongside modular electrification kits for various models, we also worked on equipping a self-driving electric vehicle for the first time. Furthermore, we once again booked various orders to supply standard equipment for new electric vehicles. Supply for the Audi e-tron technology platform is a highlight among the EMO production starts in 2018.

Energy and data management: Strategic partnership with Diehl

In October, LEONI agreed a strategic partnership with the Diehl Group covering battery systems for electric and hybrid vehicles. We will in future be working together on energy and data transmission as well as heat management across the entire value creation process. The partnership's aim is to build on the skills of the two companies and to offer customers system solutions for electromobility from a single source.

New plants opened in Serbia, Tunisia and China

We opened various new facilities during the period under report because of the numerous, pending new projects for our customers: LEONI's third wiring systems plant in Serbia was officially opened in April. At the production facility in Niš, southern Serbia we make cable harnesses for the vehicles of a European premium carmaker. In July and October, we furthermore commissioned two additional plants in Tunisia, which will also be supplying the European motor vehicle industry. The new plants are located in Manzel Hayet and Sidi Bou Ali. In addition, the second wiring systems plant of our joint venture in Langfang, China went into operation in May. It makes wiring systems for a European-Chinese joint venture.

Performance in 2018

Key figures Wiring Systems

		2018	2017[2]	Change in %
External sales	€ million	3,168	3,064	3.4
EBIT	€ million	80	118	(32.8)
Adjusted EBIT[1]	€ million	84	129	(34.9)
Return on sales	%	2.5	3.9	—
Capital expenditure	€ million	205	164	25.0
Employees (as at 31 December)	Number	83,381	77,909	7.0

[1] Earnings adjusted for the impact of revaluation as part of allocating the prices of the major acquisitions, restructuring, capital gains on the disposal of businesses and income from business combinations including related derivatives
[2] Prior-year figures adjusted

Sales rise to € 3.2 billion

The Wiring Systems Division's external sales rose by 3 percent, or € 104 million, to € 3,168 million in 2018. This growth was generated organically. The changed copper price produced a slight, positive effect, whereas currency translation effects involving principally the US dollar, renminbi and Russian rouble reduced sales.

Wiring Systems sales performance

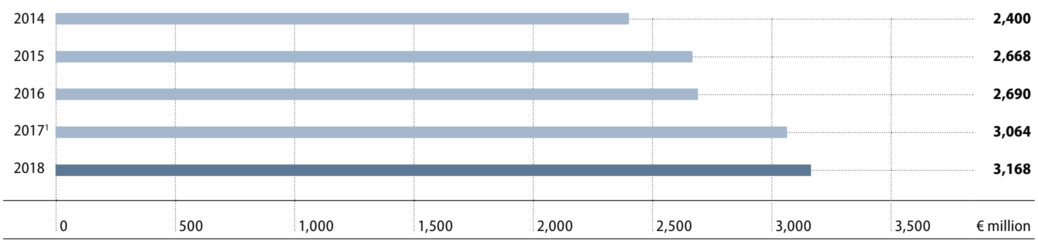
	€ million	%
2017[1] sales	**3,064**	
Organic growth	135	4.4
Currency translation effects	(44)	(1.4)
Copper price effects	12	0.4
2018 sales	**3,168**	3.4

[1] Prior-year figures adjusted

Wiring systems and cable harnesses for the international automotive industry continued to be the mainstay of sales. The business is spread among a large number of vehicle manufacturers and models. After performing better than planned in the first half of 2018, sales were down in the second half because of the tough market setting. The waning momentum of the car markets in China and Europe had a particular impact. In addition, there were the effects of the new WLTP procedure for measuring consumption, the impending Brexit as well as less product called forward for volume models approaching the end of their production runs. By contrast, the amount of business involving cable harnesses for the commercial vehicle industry was up significantly throughout the reporting period.

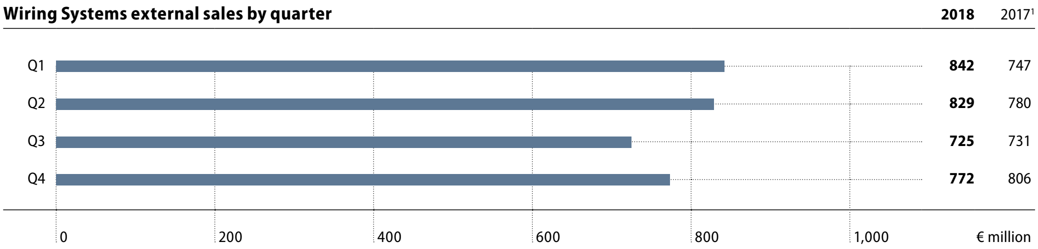
By region, sales in the EMEA (Europe, Middle East and Africa) region and Asia were up by 3 percent each to € 2,406 million and € 413 million, respectively. In the Americas we generated an 8 percent increase to € 349 million.

Wiring Systems external sales



[1] *Prior-year figures adjusted*

Wiring Systems external sales by quarter



[1] *Prior-year figures adjusted*

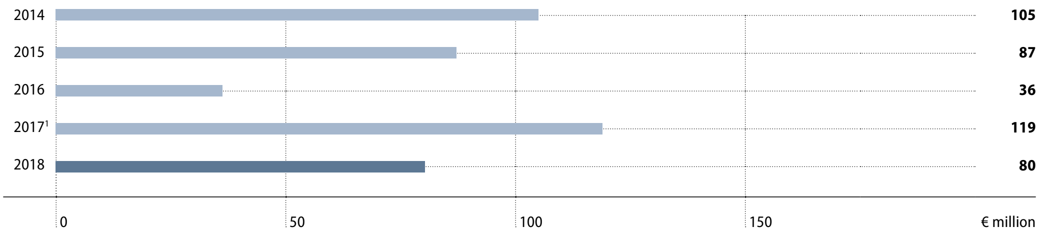
Significant production starts in the EMO segment

In 2018, we started to supply cable harnesses for the low voltage and high voltage systems of various electric vehicles. Among other things, we commenced production for the e-mobility platform of a European premium carmaker. We are also equipping the Audi e-tron technology platform with both the entire low-voltage wiring system and the high-voltage cable harness. Furthermore, we began making cable harnesses and wiring systems in China and the Americas for a new vehicle model of a US customer. In addition, there were various production starts for the commercial vehicle industry.

Earnings decline to € 80 million

The earnings before interest and taxes of the Wiring Systems Division dropped from € 118 million to € 80 million in the period under report. This decrease was due mainly to higher-than-planned ramp-up costs, which were incurred particularly in the fourth quarter upon starting up a large-scale project at our new plant in Mexico. Efficiency enhancements in series operations at other plants also fell short of expectations and savings targets were not met. Gains from negotiations with suppliers and customers as well as the sale of buildings in China exerted an opposing effect.

Wiring Systems EBIT



[1] *Prior-year figures adjusted*

Adjusted Wiring Systems EBIT[1]

€ million	2018	2017[2]
EBIT	**80**	**118**
EBIT margin %	2.5	3.9
Effect of purchase price allocation (PPA)	5	11
Restructuring expenses / income	(1)	0
Adjusted EBIT	**84**	**129**
Adjusted EBIT margin	2.7	4.2

[1] *Earnings adjusted for the impact of revaluation as part of allocating the prices of the major acquisitions, restructuring, capital gains on the disposal of businesses and income from business combinations including related derivatives*
[2] *Prior-year figures adjusted*

Order receipts: growing proportion for electric vehicles

The Wiring Systems Division booked extensive new orders worth € 4.1 billion in 2018. In the previous year, this figure, which is dependent on the cyclical order activity of our customers, reached a record level of about € 7 billion. The proportion of orders accounted for by projects involving vehicles with electric and hybrid drive, which came to € 1.1 billion in 2018 (previous year: € 1.5 billion), therefore rose to about 27 percent. A European premium carmaker ordered wiring systems for various compact and upper mid-range vehicles. Some of these vehicles will have conventional engines, while others will be launched with both conventional and electric power. For the first time, we were furthermore commissioned to provide the battery internal wiring for a model, meaning that we succeeded in entering this trailblazing market segment. There were likewise several additional orders from the European commercial vehicle industry, including engine cable harnesses for new truck models.

At the end of December 2018, the Wiring Systems Division’s order backlog covering the entire term of the projects was up by more than 13 percent year on year to € 24.4 billion (previous year: € 21.6 billion). Cable harnesses for electric and hybrid vehicles accounted for € 5.5 billion of this figure (previous € billion: € 4.4 billion). The exact scope and timing of deliveries will be determined by the actual call-forwards of our customers.

Wire & Cable Solutions Division

Strategically important projects in 2018

The Wire & Cable Solutions Division developed its digital solutions as well as the related technology platform and corresponding business models further in 2018. We also made progress in this area through various collaboration agreements. The key milestones during the year under report are described below. The section on research & development contains more information on strategically important development plans.

Research & Development
›› page 82 et seq.

Launch of LEONiQ

In March, we publicly presented LEONiQ, a digital key technology to make energy and data flows in cable systems more secure, reliable and intelligent. LEONiQ can record and evaluate such differing parameters as temperature and mechanical stress along a given cable system. This will make it possible, for example, to pre-emptively service a large number of cable systems and lower the risk of unexpected outage in the transmission of energy and data. LEONIQ is meanwhile many times less costly – while simultaneously requiring much less installation space – than comparable, technical solutions.

Collaboration with Microsoft

Among others, we are collaborating with Microsoft to evaluate the readings generated by LEONiQ. We are using Microsoft's Azure Sphere platform as a bridge between new, digital solutions and our customer applications. Both partners are contributing key skills to this collaboration: LEONI with the development of intelligent cable systems; Microsoft by securing the microcontroller and the cloud environment. Azure Sphere's multi-layered security concept gives customers added confidence in LEONiQ and is an important foundation for linking security and function-relevant cable systems with the cloud.

Strategic collaboration with PARC

In June 2018, LEONI agreed a strategic collaboration with PARC, the research and development company based in Palo Alto, California. PARC, a Xerox Corporation company, has trail-blazing technologies in the areas of condition monitoring, system analysis, artificial intelligence and embedded sensor technology. With this collaboration, we have established a key foundation within the context of digital transformation especially for developing algorithms for predictive and preventive maintenance of intelligent cable systems.

First LEONiQ application showcases

At various trade fairs during the year under report, we already showcased initial examples for application of LEONiQ: in the automotive sector, we presented a liquid-cooled charging cable that is monitored using LEONiQ. In addition, there were intelligent cable systems for such industrial applications as dresspacks of robots and production lines, which actively monitor their condition and thereby raise the uptime of equipment.

Repositioning of the wire business

By having renamed Business Group Conductors & Copper Solutions as Wire Products & Solutions, we ushered in the strategic realignment of this rich-in-tradition business in the second quarter of 2018. The Business Group will in the future increasingly focus on electromobility in conjunction with high-voltage solutions and battery technology.

Performance in 2018

Key figures Wire & Cable Solutions

		2018	2017	Change in %
External sales	€ million	1,934	1,861	3.9
EBIT	€ million	66	105	(37.1)
Adjusted EBIT [1]	€ million	66	81	(18.5)
Return on sales	%	3.4	5.6	—
Capital expenditure	€ million	114	108	5.6
Employees (as at 31 December)	Number	8,807	8,118	8.5

[1] *Earnings adjusted for the impact of revaluation as part of allocating the prices of the major acquisitions, restructuring, capital gains on the disposal of businesses and income from business combinations including related derivatives*

Modest sales increase to € 1.9 billion

The Wire & Cable Solutions Division raised its external sales by 4 percent to € 1,934 million in the 2018 financial year. It generated organic growth in both the automotive and industrial businesses, meaning that the absence of sales due to the disposal completed in May 2017 of Business Group Electrical Appliance Assemblies (ES) was more than offset. Copper price and currency translation effects largely cancelled each other out. The volume of business in the EMEA region rose by 7 percent to € 1,145 million and in the Americas it was up 4 percent to € 446 million. In Asia, the division reported a 7 percent decrease to € 343 million due to having sold BG ES.

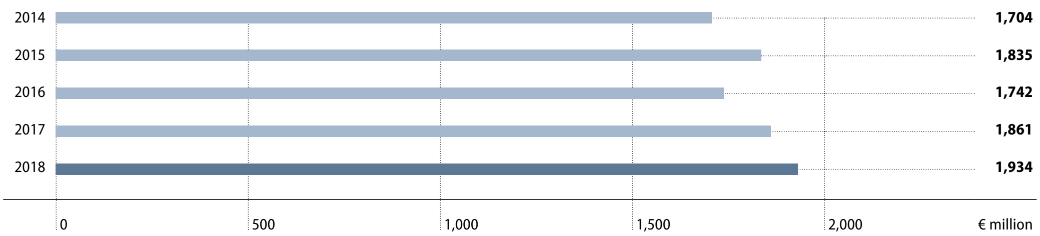
Wire & Cable Solutions sales performance

	€ million	%
2017 sales	**1,861**	
Organic growth	124	6.6
Effects of changes in the scope of consolidation	(47)	(2.5)
Currency translation effects	(32)	(1.7)
Copper price effects	28	1.5
2018 sales	**1,934**	3.9

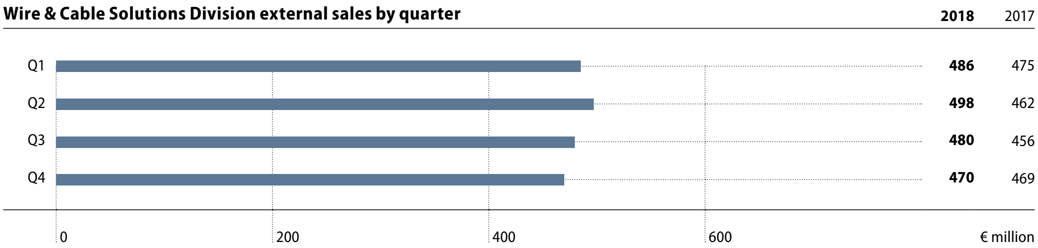
Business involving standard and special cables for the automotive industry grew especially in Asia and the Americas during the reporting period. High-speed data cables for driver assistance and infotainment systems as well as electric charging cables were in particular demand. In total, Business Group Automotive Cable Solutions increased its sales by 9 percent in 2018.

In Business Group Industrial Solutions, the volume of business was up by 4 percent. We generated gains especially with cables and solutions for automation and drive technology; for the transport industry as well as for energy and infrastructure projects. By contrast, demand for cables for petrochemical plant remained weak, meaning that we were again compelled during the year under report to adjust the corresponding structures and capacity to the amount of business accordingly. As the business involving assembly of solar modules also continued to perform unsatisfactorily, we are considering a restructuring of our Business Unit Solar in China with the intention of concentrating on production of solar cables.

Wire & Cable Solutions external sales



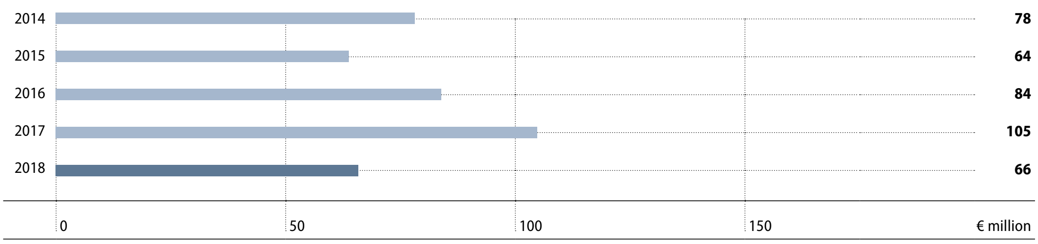
Wire & Cable Solutions Division external sales by quarter



Earnings down to € 66 million

The Wire & Cable Solutions Division's earnings before interest and taxes amounted to € 66 million in 2018 as opposed to € 105 million in the previous year, although this comparative figure includes the non-recurring gain of € 24 million on deconsolidation of Business Group Electrical Appliance Assemblies. The deterioration of earnings during the year under report was due, among other factors, to an unfavourable product mix and charges arising from measurement of copper inventories as at the reporting date. Significantly increased raw material prices were also reflected above all in plastics as well as advance expenditure on digitalizing our range of products and services. Furthermore, insufficient utilisation of some of Business Unit Industrial Projects' plant capacity, partly due to delays on orders, exerted adverse effect on earnings.

Wire & Cable Solutions EBIT



Adjusted Wire & Cable Solutions EBIT [1]

€ million	2018	2017
EBIT	**66**	**105**
EBIT margin %	3.4	5.6
Effect of purchase price allocation (PPA)	1	1
Effect of deconsolidation	(1)	(24)
Adjusted EBIT	**66**	**81**
Adjusted EBIT margin	3.4	4.3

[1] *Earnings adjusted for the impact of revaluation as part of allocating the prices of the major acquisitions, restructuring, capital gains on the disposal of businesses and income from business combinations including related derivatives*

New orders worth € 1.9 billion

The order receipts of the Wire & Cable Solutions Division were up 3 percent to € 1,942 million in 2018 (previous year: € 1,884 million), which equated to a book-to-bill ratio of approximately 1. Among other work, Business Group Automotive Cable Solutions was commissioned to supply data cables for multimedia and safety applications as well as charging cables for the electric vehicles of various manufacturers. Business Group Industrial Solutions booked important orders from the railway industry. On the one hand, they involve infrastructure cables for Swiss Federal Railways; secondly, we succeeded in entering the significant US market with an order for special cables for regional trains.

Volkswagen also awarded an important new contract at the end of 2018: LEONI will equip the carmaker with innovative dresspack solutions for 1,300 robots that will be used at the plant in Zwickau for manufacturing electric vehicles. We are supporting our customer considerably in the switchover of this production facility from combustion-engine cars to a pure e-mobility site.

Other indicators (incl. non-financial information statement)

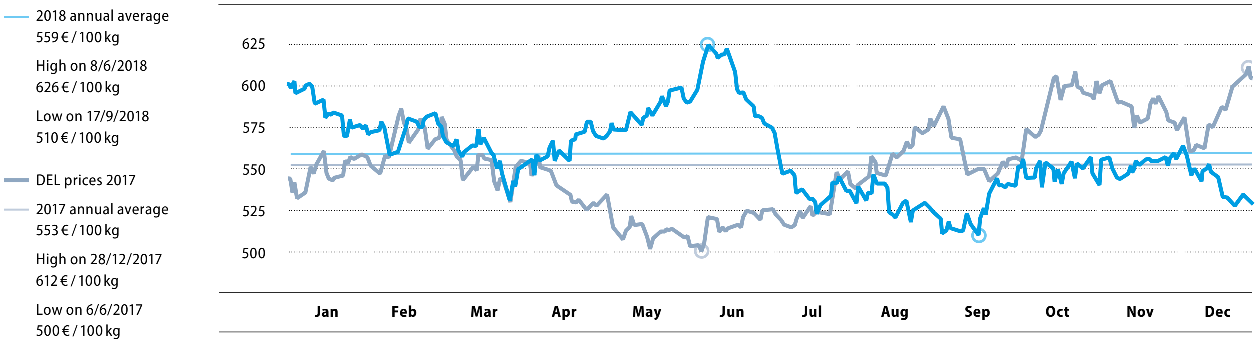
Procurement

We purchase mostly metals, plastics and components to make our products; their procurement is of major significance for the LEONI Group's cost of materials. This item's Group-wide total came to € 2,998 million in 2018 (previous year: € 2,881 million), which works out to a ratio of cost of materials to sales of 58.8 percent (previous year: 58.5 percent).

Copper price subject to significant fluctuation

In the Wire & Cable Solutions Division, the cost of materials amounted to € 1,415 million in the period under report (previous year: € 1,329 million), or 66.1 percent of the segment's sales (previous year: 64.3 percent). Copper continued in 2018 to be the most important raw material with an annual volume of more than 150,000 tonnes, which we source from major strategic suppliers. Its price is geared to that quoted on the London Metal Exchange. The copper price again fluctuated sharply in 2018: it initially dipped considerably in the first quarter. A steep upward move began at the end of March, peaking at the year's highest price of € 625.63 per 100 kg at the beginning of June. Thereafter, the copper price dipped rapidly until mid-July, but stabilised later on in the third quarter. The low of € 509.79 per 100 kg was reached in mid-September. Copper averaged a price of € 559.34 per 100 kg in the year under report, which was up marginally on the previous year's € 552.95 per 100 kg. Such other metals as nickel, silver and tin round off the portfolio. Nickel appreciated by 25 percent during the reporting period, while the prices of silver and tin were down by 12 percent and 4 percent, respectively.

Development of copper price 2017 / 2018 (low DEL price) € / 100 kg



Great pressure on supply of polymers

The likewise growing volumes of such standard polymers as polyvinyl chloride and polyethylene compounds, of which well over 50,000 tons were consumed, accounted for the second-largest proportion of the WCS Division's cost of materials in 2018. In addition, there were such special insulation materials as thermoplastic elastomers, fluoropolymers, polyurethane and silicone.

Given the economy's ongoing, good performance, the prices of standard polymers remained at unabatedly high levels over the course of the year. Supply was difficult at times, due among other factors to the low water levels of the Rhine. The drought persisted over an extended period, thereby making waterways unnavigable and also causing an ongoing and considerable rise in transport costs during the year.

The shortage of special insulation materials that was already perceptible in the previous year aggravated further in the year under report. The supply pressure drove up prices by 20 percent and by well over 100 percent. We are expanding our portfolio of suppliers even more rigorously to address this more than tight supply situation.

High worldwide demand for components

The cost of materials in the Wiring Systems Division amounted to € 1,794 million in the period under report (previous year: € 1,761 million), which corresponded to 56.6 percent of the division's sales (previous year: 57.5 percent). As in the preceding years, connectors were the most important group of materials with a 41 percent share of total expenses, followed by cables and conductors with 36 percent and fixings with 9 percent; electronic components accounted for 8 percent and injection moulded parts for a 6 percent share.

The Wiring Systems Division buys cables and conductors for its production of wiring systems mostly from the Wire & Cable Solutions Division, but it also uses third-party suppliers. Such components as connectors and fixings continue to be procured largely from third parties, for which LEONI frequently works with suppliers that are stipulated by customers in the automotive industry as part of being awarded the contract. The high capacity utilisation among such upstream suppliers as copper tape manufacturers and refining operations, which continued particularly in the first half of 2018, as well as the persistently heavy demand led to shortages especially of connectors during the year under report. In addition, there was an aggravating shortage of plastic raw material. Generally speaking, we respond to supply bottlenecks and price increases with intensive, global negotiations with suppliers, new technologies and substitution. During the reporting period, we again succeeded in making savings by comparing terms internationally within the framework of our worldwide procurement management as well as by starting the sourcing process earlier.

Employees

92,549 employees Group-wide

The LEONI Group's core workforce increased by 6,209 people year on year to 92,549 employees at the end of 2018. Both divisions recruited new staff. By far the largest proportion of LEONI's workforce – 87,476 people (previous year: 81,753) or 94.5 percent (previous year: 94.7 percent) – was employed outside Germany. LEONI had 5,073 employees in Germany (previous year: 4,587). Group-wide, 8.9 percent of staff (previous year: 8.6 percent) worked in high wage countries and 91.1 percent (previous year: 91.4 percent) worked in low-wage countries.

In the Wiring Systems Division, the number of staff rose by 5,472 people in the reporting period to 83,381 employees, of which about two thirds in skilled-trade jobs. The principal trigger for this growth was the expansion of our operations at a new facility in Mexico as well as additional wiring system projects for cars and commercial vehicles in Serbia and Mexico. Countereffects stemmed mainly from Romania where the workforce contracted due to expiring projects, relocation of production to Ukraine and Serbia as well as optimised production processes.

The number of employees in the Wire & Cable Solutions Division rose by 689 to 8,807 people in 2018, of whom about 60 percent in skilled-trade jobs. New staff were recruited mainly at various facilities in Germany, for production of special automotive cables in China as well as Slovakia, where we set up another assembly operation in the industrial business.

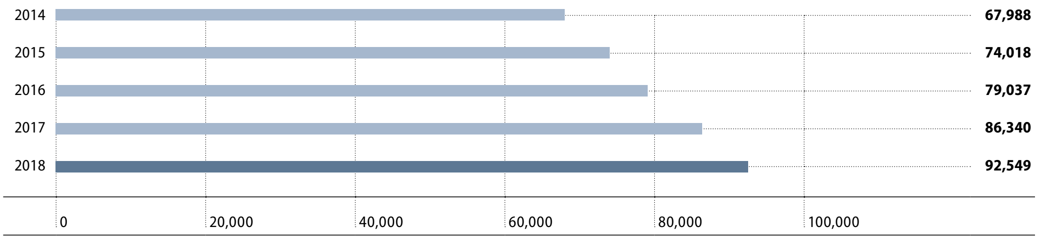
The LEONI AG holding company had 361 employees on 31 December 2018, i.e. 48 more people than on the same date one year earlier.

Group-wide, LEONI had 20,892 people working on temporary employment contracts at the end of 2018 (previous year: 19,312) and a further 4,331 people (previous year: 5,626) on contracts with manpower agencies, thereby enabling quick response to fluctuation in demand, among other things.

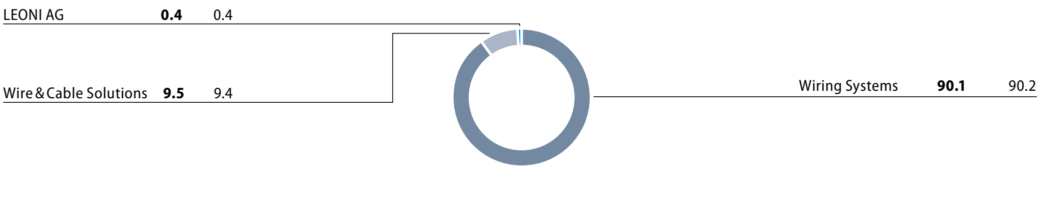
LEONI's workforce in Germany had an average age of 41 years in 2018 (previous year: 42) and they averaged eleven years with the Company (previous year: twelve). During the period under report, 17 employees celebrated their 25th anniversary with the Company (previous year: 52). The ratio of people with disabilities stood at 3.4 percent (previous year: 3.5 percent). 493 people (previous year: 420) worked part-time at LEONI and a further 124 were in partial retirement (previous year: 116).

The coordination on all key staffing decisions as well as the close and trusting collaboration with the in some cases newly elected or appointed employee representatives on the European, German and local levels were continued in 2018.

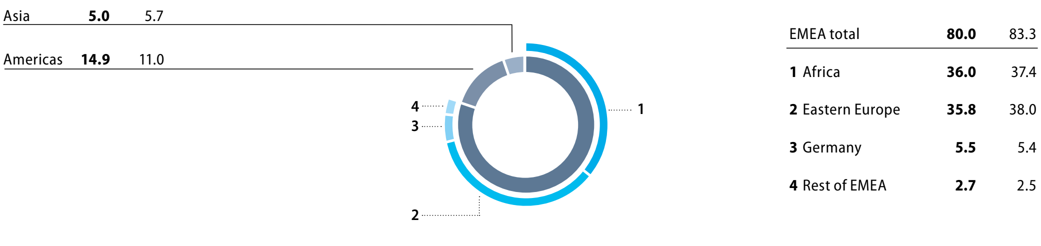
Group employees as of 31 December



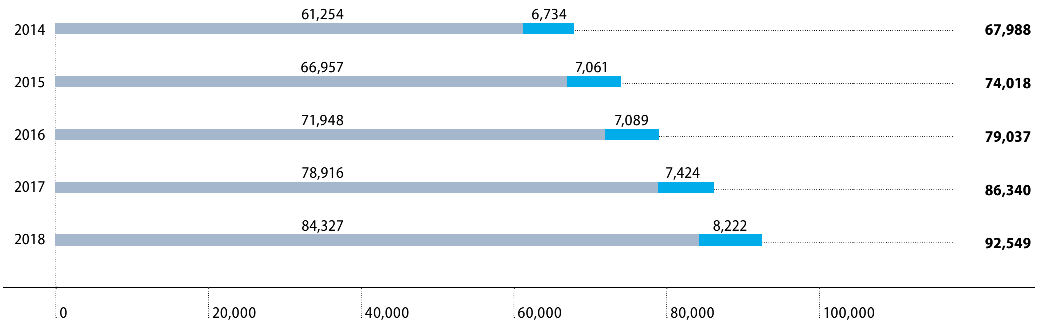
Employees by division in % as of 31 December **2018** 2017



Employees by region in % as of 31 December **2018** 2017



Trend in the number of employees by wage region low wage countries high wage countries as of 31 December



Human resource strategy and organisation

The principal objective of LEONI's human resource strategy is to make sure the Company is positioned as an attractive employer in the future, too, as well as to support realisation of its corporate vision and strategy especially with respect to the targeted, ongoing, worldwide growth as well as the digital transformation. The task is, on the one hand, to assist efficient execution of the existing business and, on the other hand, to develop a viable, organisational and cultural setting for innovation and change. The HR performance portfolio was broadened accordingly in the past year.

Significant progress was made in 2018 on the way towards a modern HR function that is characterised by 'Digital HR'. For instance, a pilot group (Germany and USA/Canada) ran a new talent management process for the first time, which is fully mapped in a modern, easy-to-operate, cloud-based IT system (SAP SuccessFactors). The process comprises an annual, skills-based staff performance interview, a summarised performance and potential assessment as well as, provided the employee agrees, gauging of the assessment by managers as well as strategic succession planning. We thereby retain valuable staff members within our Company and develop leadership skills, enabling us to fill key positions quickly as and when required. With targeted promotion plans, we ensure the availability of suitable successors and also support non-linear career paths.

Furthermore, in the same integrated cloud solution we installed the 'Learning' module and introduced it worldwide for all mandatory training sessions. This modern learning management system forms the basis for systematically and flexibly expanding the virtual training schemes on offer to managers and staff as well as to be able to offer appealing learning options regardless of place and time. Training administration and organisation can be efficiently executed in a user-friendly way, and integration with the talent management process facilitates intelligent promotion of managers and staff.

We have realigned our entire HR/IT strategy based on the positive experience and feedback from the workforce on these two models. Together with the IT department, market developments as well as LEONI's HR/IT landscape were evaluated and SAP's SuccessFactors was decided upon as an integrated, globally leading system for HR administration, organisation management, performance assessment as well as talent and learning management.

In the wake of consolidating IT solutions, we furthermore switched the accounting and time management of all facilities in Romania with a total of 16,000 employees to an integrated SAP system. We also relocated other administrative processes from the facilities to the Shared Service Center in Cluj, Romania and made organisational as well as process-related preparations for likewise centralising accounting there in 2019.

Company suggestion scheme

In order to themselves proactively shape their Company and contribute to its success, our employees again in 2018 participated in managing ideas. Worldwide, about 14,000 suggestions for improvement were deemed useful and implemented (previous year: approx. 17,000). This concerned all areas of the Company and ranged from process optimisation to product improvement and through to energy savings.

For 2019, we are planning to install a new ideas management platform for all LEONI locations worldwide. The objectives are to have motivated participation by employees taking personal responsibility; prompt, unbureaucratic and comprehensible review of the submitted suggestions, high transparency and appropriateness during the assessment and rewarding, realisation of the submitted suggestions as promptly and straightforwardly as possible, and ongoing exchange of ideas within the Group. A corresponding, generally binding rule is currently being worked out for Germany together employee representatives.

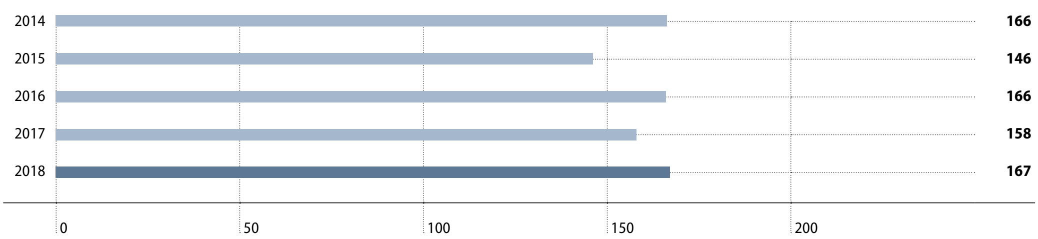
Flexible working-time models

LEONI staff can take advantage of a range of flexible working-time arrangements, like part-time, flexitime and trust-based working, job-sharing and teleworking. Our aim is to enable our employees to achieve a better work-like balance. During the year under report, we made working time more flexible and introduced employee-friendly shift models at various of our facilities.

Training and starting a career

On 31 December 2018, LEONI had 167 young apprentices in Germany learning for a career (previous year: 158). The number of trainee managers who are completing a twin-track university course at LEONI was 27 in the year under report (previous year: 29).

Number of apprentices in Germany as of 31 December



Their archetypal training in ten commercial and trade apprenticeship schemes took place in state-of-the-art classrooms and, in some cases, in our own training workshops. To promote the international outlook of our junior staff, we expanded the range of internships on offer to apprentices at more locations outside Germany. This measure is supported by the National Agency for Education in Europe through the 'Erasmus+' scheme.

Within the framework of our 'Young Talents@LEONI' initiative, we stepped up our activity to gain young staff through apprenticeship and studies at our facility in Kitzingen during the year under report. It advertised 15 apprenticeship and study places, which will be filled from September 2019. At our location in Roth, two refugees were taken on from introductory training into the second apprenticeship year to qualify as machine and equipment operators. Two corresponding places are again planned there for 2019 and 2020. We prepared in 2018 for resumption of apprenticeship training in Nuremberg: from September 2019, two future IT specialists will be learning their skills there.

We are also expanding our location-overarching collaboration and networking on instructors and people in charge of training, with a joint action day among other measures.

LEONI again awarded very good performance at school and in examination results in 2018 to give young people starting on their career additional motivation. Young LEONI employees, based in Friesoythe, Kitzingen and Roth among other locations, also received awards from outside the Company.

By way of the scholarship scheme of our facility in Roth, Germany, we promote and support former apprentices as well as graduates of a twin-track course of study who have performed exceptionally well and have discernible career potential, thereby making a proactive contribution to enhancing a team of qualified and motivated staff with specialist skills. The focal areas are the key technologies for the Company's future success and qualifications that contribute to attaining our strategic corporate targets. Among other skills, these include technician training in the areas of electromobility and electrical engineering as well as bachelor's and master's degree courses in plastics technology and mechanical engineering. In 2018, another course of study was added at the University of Applied Sciences in Nuremberg, namely electrical engineering and information technology.

To make it easier for young people starting at LEONI, we also extended our offering as part of the introductory week for new apprentices and students with joint activities of our facilities in Bavaria, i.e. in Kitzingen, Roth, Weissenburg and Georgensgmünd.

Our measures outside Germany were also stepped up, especially so in China: New, local partnerships were established for our Technical Training Center in Changzhou and a pilot project for a six-month 'Skilled Operator Training' compact course was launched. We also moved into new facilities and created an organisational connection to staff development. Collaboration with the Moroccan Ministry of Education to create a total 30,000 apprenticeship places together with other wiring system manufacturers was also continued.

Recruitment of young people and human resource marketing

During the year under report, LEONI again collaborated closely with schools and universities to interest suitable young candidates in the Company. Alongside about 25 university and corporate networking fairs in Germany, we participated in similar events in numerous other countries where LEONI is represented; for example in Egypt, the United Kingdom, Morocco, Switzerland, Serbia and Tunisia. In Egypt, LEONI also again offered a Summer Internship Program, which enabled students to get to know the Company, and broadened its cooperation with various universities. Contact with universities in Serbia was stepped up significantly: Alongside successful programmes for students, which have been ongoing for several years already with various faculties, LEONI started to collaborate extensively with the University of Niš.

Within the framework of the Scholarship Germany programme and a similar scheme for Switzerland, LEONI AG sponsored 20 scholars at five universities in the past year. Numerous students also completed internships, worked as student trainees or wrote their final papers at LEONI. As in the preceding years, we also again supported wide-ranging university initiatives and cooperated with universities in various areas. Among other things, we stepped up our collaboration with the University of Würzburg-Schweinfurt. For crossover between academic learning and practical application, we continued to support an endowment professorship focused on wiring systems and also organised numerous trade presentations at universities and high schools.

To draw young people's attention to training at LEONI, we again hosted an Apprenticeships Evening at our facility in Roth, Germany in 2018. It gave more than 800 youngsters the opportunity to familiarise themselves with LEONI as a possible employer.

To raise perception of LEONI as a global employer of choice, we introduced the TALEO international applicant tracking system as well as our LEONI employer branding plan in more countries. We furthermore stepped up our social media activity in North Africa, the Americas and Eastern Europe, among other places, to address applicants directly and provide information on job vacancies.

Staff training and advancement

Our employees are key to the success and progress of our Company. It is essential to have the right person at the right time in the right place to achieve our global objectives.

With respect to training and advanced learning, our focus in 2018 was on our international activity, which was stepped up significantly: Key milestones involved the first, worldwide LEONI Learning Conference, which took place in April 2018 in Romania, setting up a global network for training and advanced learning as well as worldwide introduction of the 'Success Factors' e-learning platform. Among other things, this comprises a greater range of training opportunities, extended functionalities and the pilot project of a mandatory compliance e-learning course. Our 'Shift Leader Training' best-practice concept, which represents a modular, hands-on and easy-to-apply training curriculum based on the experience and challenges of our shift leaders, was also developed further, adapted to local requirements and piloted in the components section at our plant in Arad, Romania. The service portfolios offered by the Center of Expertise Learning & Development and the LEONI Academy were also introduced. The common objective of these two units is to support all those responsible for training, teaching and advanced instruction within the Group. For instance, global standards and templates for the qualification processes are prepared and are, in regional 'Collection Workshops', aligned with and integrated in local requirements. A viable network for providing mutual support and exchanging ideas, expert knowledge and solutions is furthermore being set up and expanded. To identify additional improvement potential, we furthermore determined the support requirements of our worldwide Training Community, for example in the areas of Shift Leader Training, onboarding standards and e-learning.

Other important steps involved devising a developing programme for WSD Commercial Managing Directors, expansion of the 'Management beyond Standards' training scheme for plant managers in the 'Plant Manager Development Program' and the new 'Solution Selling' training scheme as support for selling innovative products and solutions related to digitalization.

In Germany, we established the 'Training Team Deutschland' for location and division-overarching harmonisation of the advanced training processes as well as joint mentoring of managers and staff. Our employees in Germany could again take advantage of a wide range of advanced training opportunities, especially in-house training in the areas of trade, leadership and management skills, soft skills, project management, IT, languages and physical health. As required, the Company offered additional outside seminars, particularly to acquire specialist and methodology expertise. Thanks to resolute location and division-overarching collaboration and the associated synergies, we registered roughly twice as many training participants in Germany in 2018 than in the previous year, without there having been a significant increase in the number of courses. This was made possible through Germany-wide pooling of qualification requirements as well as synchronising the underlying processes.

In cooperation with the responsible departments, we devised and introduced numerous training and development programmes, such as the development programme for the Commercial Directors, the globally standardised, in-house training of our WSD project managers and the 'Solution Selling' training scheme for the WCS Division's sales organisation.

Research & Development

R&D objectives
LEONI conducts in-depth research and development (R&D) work. The objective is to develop new products and solutions in order to further enhance our leading competitive position in many markets as well as to develop additional customer groups. We are increasingly concentrating on intelligent energy and data management solutions for the motor vehicle sector and other industries.

Organisation
The responsibility for research and development work lies with the two business divisions and their specialist departments. The Wiring Systems Division operates development centres in, among other countries, China, Germany, France, the United Kingdom, South Korea and the United States. The WSD head office department in Kitzingen provides, together with its international network, project-related support for the business units and works on advance development jointly with the customer. In 2018, we established a new TechCenter Energy & Data Solutions to boost our positioning as a strategic partner to the automotive industry for intelligent energy and data management solutions. The entire development network was also interlinked more closely, and the core skills of the individual facilities were more clearly defined.

In the Wire & Cable Solutions Division, which also has a division-wide, customer-oriented and efficient development network, operational R&D work is performed in the respective Business Groups. In addition, there are centres of expertise in Germany and Switzerland as well as corporate units devoted to strategic technology and innovation management, advance development, patent management and optimising production. Meriting special mention in this respect is the corporate Digital Solutions Group, which makes a key contribution to driving the WCS Division's digital transformation and further development towards becoming a leading provider of intelligent and secure energy transmission and data management system solutions. In 2018, two Centers of Expertise (CoE) were set up within the DSG: the CoE Embedded Systems based in Nuremberg and the CoE Digital Functional Simulation & Data Analytics, whose work is based mostly in Zurich. They support the operating units Group-wide in executing technology projects. In total, the number of DSG staff was more than doubled, whereby we also accumulated initial skills in the field of electronic components. We furthermore raised our shareholding in Adaptricity AG, which has been enhancing our digital solutions know-how since 2017, from two third to 76 percent.

There are many fields of close collaboration between the R&D specialists of our two divisions. LEONI can thereby combine a wide variety of specialist expertise for specific tasks, thus achieving synergies at an early stage also in the interests of customers. During the year under report, we stepped up joint advance development work in the two divisions to be able to position ourselves even better as development partners to our customers.

Focal areas of development

The Wiring Systems Division's R&D work in 2018 was increasingly in line with the focal areas of our C.A.R.E.S. innovation strategy: connected mobility, autonomous mobility, revolutionizing productivity, electrified mobility as well as intelligent solutions & services. These areas are also playing an increasingly important role in project-related development of customised wiring systems. The focus was on autonomous mobility, in particular. This new vehicle function requires a higher degree of functional safety systems in compliance with the ISO 26262 standard, and the wiring system is a key part of that.

During the year under report, the Wire & Cable Solutions Division worked hard on further developing its digital solutions as well as the related technology platform and corresponding business models, especially with its LEONiQ key technology. Among other activity, the corresponding work concerned microelectronics to connect intelligent cable systems to the cloud, the necessary cloud infrastructure as well as corresponding algorithms to analyse data. Automotive Ethernet for transmitting data in vehicles was another focal area. This technology, which facilitates flexible linking of electronic components and driver assistance systems with an increasing data transfer requirement, is a basic element of wiring systems for autonomous driving. We also worked on liquid-cooled HPC (High Power Charging) cables for electric vehicles. The objective is, with higher charging currents, to achieve user-friendly charging times and cycles that correspond to drivers' usual tank-filling habits, and simultaneously to make the conductor cross section as small as possible. In the Fiber Optics unit, the primary focus was on fiber-based lighting solutions for vehicles. Among other products, we developed cables for factory automation and robotics that withstand extreme movement stress, as well as dresspack solutions.

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Results of R&D work
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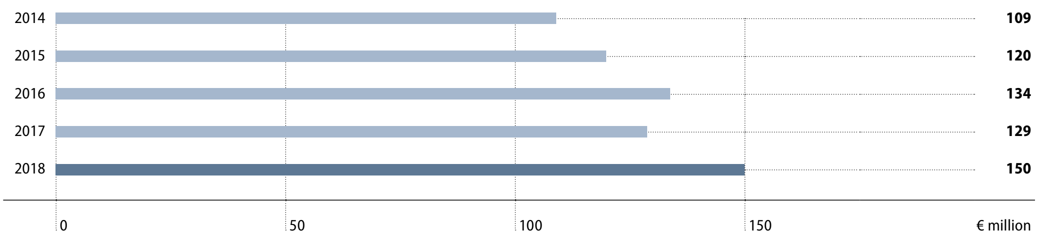
R&D spending up to € 150 million in 2018

The LEONI Group increased its spending on research and development by around 16 percent to € 150 million in 2018, which works out to 2.9 percent of consolidated sales (previous year: 2.6 percent). Assets furthermore included € 0.7 million in capitalised development costs (previous year: € 1.0 million).

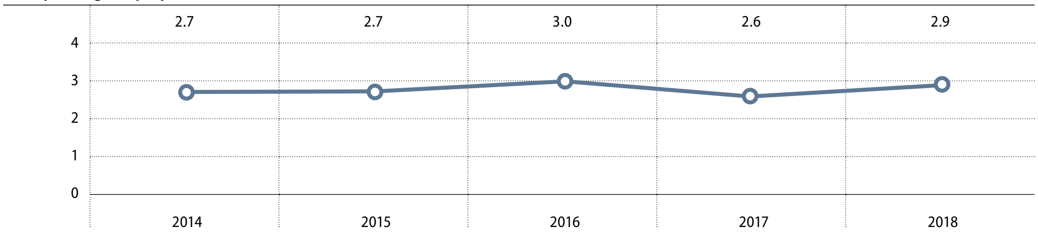
The R&D expenditure of the Wiring Systems Division came to € 133 million (previous year: € 113 million), or 4.2 percent of the division's sales (previous year: 3.7 percent). In the Wire & Cable Solutions Division, development costs amounted to € 19 million (previous year: € 17 million), which equated to 1.0 percent of the segment's sales (previous year: 0.8 percent).

On 31 December 2018, 2,259 employees (previous year: 1,698), or 2.4 percent (previous year: 2.0 percent) of the Group's workforce, worked in R&D. Of that total, 415 people (previous year: 420) worked in the Wire & Cable Solutions Division and 1,844 (previous year: 1,278) in the Wiring Systems Division. The increase shown is due largely to a recording change.

R&D spending in the Group



R&D spending as a proportion of consolidated sales %



Results of R&D work

In 2018, LEONI again completed various customer-specific development projects and took innovative products to the marketability stage. The number of registered proprietary rights came to 60 patents and utility models (previous year: 82), of which 19 from the Wiring Systems Division (previous year 18) and 41 from the Wire & Cable Solutions Division (previous year 64). Information on key new projects of the past year is presented below:

Intelligent components and system solutions for highly automated mobility – During the year under report, LEONI developed intelligent components for high-availability and thereby fail-safe power wiring systems, which are a key element for autonomous driving. Prototypes of these new kinds of products have already been tested, meaning that we can start to develop specific series applications in 2019. We furthermore extended our range of products for highly automated mobility with corresponding system solutions, safety concepts as well as testing methods for safety-critical requirements in the power wiring system.

Expansion of e-mobility portfolio – In the electromobility segment, we presented various new components for high-voltage wiring systems, such as charging sockets and HV distributors. In addition, we worked particularly on broadening our product range for HV storage. LEONI already supplies wiring products, such as sensor cable looms and module interconnectors, for this purpose. The plan is to add HV junction boxes and new kinds of solutions in the field of cell and module interconnectors in the future.

Enhancing system development expertise in the energy and data field – Our system development expertise was also significantly advanced in 2018 towards becoming a fully-fledged solutions provider in the field of energy and data for the automotive industry. In design projects together with our customers, we worked on new kinds of vehicle platforms for e-mobility and on highly-automated mobility. Corresponding solutions are to be launched starting in 2025.

Milestone on the way to fully automated production processes – To optimise our production processes, we developed a concept and initial, prototypical system components that will in future enable fully automated production of sub-wiring systems. With this technology, we will achieve another unique selling point for LEONI.

Weight and space-optimised axle wiring – To combine the wiring of several sensor applications near the vehicle axle – for example electronic parking brake, wheel speed sensors, brake wear indicator and active suspension system – in one bulk cable, we developed various customised cable solutions that are especially lightweight and space-saving in 2018. Corresponding products are already being shipped; given the mounting demands on such cables, our development work simultaneously continues.

LEONiQ for intelligent charging cables – At international trade fairs we presented a liquid-cooled charging cable for electric vehicles that can be monitored with our new LEONiQ technology. The cooling allows high charging currents without having to substantially enlarge the charging cable's cross section. With the help of LEONiQ, cable temperature and any penetration of liquid can be identified and monitored to make the system safer, more reliable and more efficient.

LEONiQ for industrial applications – We also presented examples of LEONiQ application for the industrial segment during the year under report: intelligent dresspack systems and drag chains that supply robots and production plant with power as well as ensure the connection to the control system and the sensors. To raise plant uptime and avoid costly, unplanned production outages due to faults, intelligent LEONiQ cable systems are used to actively monitor, analyse and convey their condition.

Adaptricity.plan – In October, we launched the Adaptricity.plan planning software, which enables power utilities to adopt digital grid planning including such dynamic operating equipment as batteries, e-vehicles and photovoltaic plant. The new software stands out especially because it is easy to operate as well as capable of being integrated in other software systems.

Development projects and collaboration

Both of our divisions again participated in various, in some cases subsidised development projects during the year under report. Together with well-known partners we worked, for example, on the Optiflex programme to optimise distribution of power from decentralised generation. LEONI is also involved in a trailblazing project to develop the next generation of application-neutral wiring, which is subsidised by the German Federal Ministry for Economic Affairs and Energy. The purpose is to research the maximum transmission capacity and range of multi-pair copper cables to meet the growing infrastructure requirement of increasingly digitalized processes. There was no notable acquisition of know-how in the context of collaborating with outside institutions.

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In 2018, we furthermore entered into a range of promising agreements on development collaboration; among others, with such companies as Microsoft, PARC and Diehl. LEONI is also a member of such varied initiatives as the 'Automotive Cluster' of Bayern Innovativ, the Bavarian centre for technology transfer, and the 'eNOVA Strategy Board for Electric Mobility' to exchange ideas on the latest technological trends with other companies and the scientific community. We also continued our development partnership with a team participating in the international 'Formula Student' universities design competition.

Non-financial Group information statement (pursuant to Section 315b of the German Commercial Code (HGB))

Corporate sustainability (CS) has especially high priority for LEONI. We understand this to mean both sustained, i.e. long term and profit-oriented, business growth and assumption of social as well as ecological responsibility. The objective is to bring the demands stemming from these three requirements into balance. Hereinafter we report in accordance with Section 315b of the German Commercial Code (HGB) and the corresponding requirements of the German Accounting Standard (DRS) 20 on the principal, non-financial aspects – according to the German CSR Directive Implementation Act (CSR-RUG) they are environmental, social and employee matters as well as respect of human rights and combating corruption as well as bribery – which are required for understanding the business performance, results and situation of the LEONI Group as well as the impact of our business activity on these aspects.

LEONI website
» www.leoni.com

We follow the German Sustainability Code as well as ten key principles of the UN Global Compact, which we joined in 2011, in reporting our non-financial information. There are furthermore LEONI-specific guidelines to which we align our actions with respect to various non-financial aspects. These include our Safety, Health & Environment (SHE) policy as well as the LEONI Code of Conduct and the LEONI Social Charter, which apply Group-wide and are accessible on LEONI's website.

Inclusion of the Board of Directors

The member of Board of Directors responsible for the Corporate Sustainability department is kept informed of current developments concerning all relevant, non-financial aspects by regular exchange of information with the heads of division responsible for corporate sustainability and is closely involved in material decisions. There are furthermore meetings of the Sustainability Steering Committee with all Corporate Central Functions under the responsibility of the Board member, during which non-financial matters at LEONI are continually processed. It is furthermore the task of the Sustainability Steering Committee, which met four times in 2018, to determine the Company's strategic sustainability orientation and to take corresponding long-term decisions.

Materiality analysis and summary of the relevant topics

In 2017, we carried out a comprehensive materiality analysis according to the CSR-RUG for the first time. Another assessment and review during the year under report produced the following:

- Employee matters with the focal points of diversity, employee satisfaction as well as occupational health and safety;
- Environmental matters with the focal points of environmental management, energy consumption and CO_2 emissions as well as resource and materials efficiency;
- Respect of human rights both within the LEONI Group and the supply chain based on the Social Charter and the key principles of the UN Global Compact as well as
- Compliance and combating corruption as well as bribery.

This management report does not report on social matters because of the lacking correlation with our core business. Our annual Sustainability Report, which is simultaneously our UN Global Compact Communication on Progress and is accessible on our website, contains further information on corporate sustainability at LEONI that goes beyond the legal requirements. This 2018 Sustainability Report will be issued in the second quarter of 2019.

LEONI website
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CSR Orientation 2030

In 2018, our Corporate Sustainability department together with the responsible specialist departments prepared our CSR Orientation 2030 – a strategic framework for comprehensive, structured and rigorous further development of the key non-financial matters at LEONI through to the year 2030. It stipulates the individual targets, measures and key performance indicators (KPIs). The Board of Directors approved the CSR Orientation 2030 in January 2019.

Business model and non-financial risks

The LEONI Group's business model is comprehensively described in the section headed Principles of the Group.

Our multi-stage risk management system is set up to systematically identify risks early as well as to analyse and assess them with respect to the probability of occurrence and effects. This also considers risks stemming from non-financial aspects. Risks within the meaning of the CSR-RUG were not identified. Based on our latest assessment, there are no highly probable risks with seriously adverse consequences relating to these aspects.

Employee matters

LEONI strives to provide its employees with interesting jobs that involve a high degree of personal responsibility in a motivating, encouraging and constructive work environment in order, as an attractive employer, to find skilled and committed employees as well as to retain them within the Company. In this regard, diversity and employee satisfaction are key success factors for our Company's future viability. It is furthermore our stated aim to fulfil high standards of occupational health and safety Group-wide. The LEONI Group employed 92,549 people worldwide at the end of 2018 (previous year: 86,340).

Diversity

We regard diversity – with respect to gender, age, cultural background, ethnic as well as career backgrounds and mindset – as key to being able to master the tasks and challenges that are becoming ever more complex in heterogeneous teams. Our focus in this respect is on senior management and here especially on promoting women and their appropriate participation in senior management as well as on greater internationalisation and raising the mobility of skills and functions.

There are numerous actions at LEONI, especially in Germany, to resolutely promote women in senior management because about 80 percent of these positions (of a total 93 worldwide) are based at German companies of the LEONI Group. For instance, we support women with potential by providing targeted qualifications and with such mentoring as the development programme for female (junior) managers of the Bavarian Industry Association. Our recruitment consultants are called upon to identify and introduce female candidates for all positions to be filled. Another way to enhance equality of women and men is to establish conditions that recognise different lifestyles, such as flexible working time, greater options for working part time or in a home office.

In 2018, women held 6.5 percent (previous year: likewise 6.5 percent) of the senior management positions within the LEONI Group worldwide. About 54 percent of LEONI's total global workforce was female (previous year: likewise 54 percent). Our objective is to significantly increase the proportion in senior management over the long term while maintaining the balanced ratio in the overall workforce. Further internationalisation of management is supported with international employee development conferences, workshops and intercultural awareness training, which were again expanded during the year under report.

A precondition for targeted raising of mobility in terms of both location and skills was established with the introduction of global talent management. Within the framework of staff performance interviews, which take place Group-wide while applying the same principles, managers and staff systematically discuss potential advancement and career steps also in other areas of specialisation and/or countries. The results of these discussions form the basis for our succession and career planning, especially for senior management.

Employee satisfaction

LEONI endeavours worldwide to provide a working environment for all its employees that is free of discrimination in both recruitment and during employment, as well as to ensure the freedom of association and the right to collective bargaining. A blanket ban on discrimination is therefore embedded in our Code of Conduct and in LEONI's Social Charter, among other places. The Social Charter aims to support employees in gaining qualifications and to adhere at least to the respective national standards with respect to compensation and minimum wages, safety at work and health protection as well as working and holiday times.

Strategic staff surveys, together with systematic follow-up processes, are an important tool for measuring and assessing the sustained commitment of employees in a company. The follow-up processes stimulate and maintain dialogue within the company, meaning that our strengths as an employer, but also our improvement potential, can be identified and specific weaknesses can be systematically addressed. In 2017, this tool was standardised for the first time and run Company-wide as the new Voice@LEONI staff survey. About 57,000 employees from 29 countries participated in the staff survey (67 percent). The findings were evaluated in 2018 and managers together with their teams worldwide decided on more than 900 specific changes, which are being systematically followed up via a platform. We furthermore used the findings to extrapolate targeted, overarching measures in, for instance, management training and also within the context of a global initiative to develop ideas for changes to collaboration and management to shape our corporate culture.

Again in 2018, there was outside affirmation of LEONI's attractiveness as an employer: The Top Employers Institute certified LEONI as a 'Top Employer Germany' alongside other companies.

Occupational health and safety

Promoting occupational health and safety as well as adhering to respective standards is a key objective of our SHE policy, which applies Group-wide. The specific principles for action that it contains with respect to these matters are:

- Socially and ecologically responsible action is a core corporate objective.
- Occupational safety, health and environmental protection are part of any management responsibility.
- Avoiding injury to or illness of our employees by preventive detection of risks and averting of threat.
- Adhering to all legal obligations concerning environmental protection, safety at work and other requirements. The applicable national standards are minimum requirements in this respect.
- Establishing and promoting mutual trust through dialogue with all concerned interest groups.

Furthermore, the OneSHE network established in 2017, which is composed of those responsible for SHE regionally in both divisions, during the year under report established initial, common minimum SHE standards and documents such as the SHE compliance standards, accident reporting templates and risk assessment for both divisions. The OneSHE network is currently working on an emergency management standard. Given the high importance of occupational health and safety, a SHE department at corporate level is to be set up in the future.

We set the following division-overarching targets for safety at work, health protection and emergency management for 2018:

- Group-wide recording of accidents at work.
- Group-wide recording of all activity at the facilities concerning health and safety at work.

An IT-supported process for the Corporate Sustainability department launched in 2017 forms an important basis in this respect. Facts on occupational health and safety, the environment, social responsibility and sustainability measures are centrally recorded using questionnaires. They survey both quantitative and qualitative data from 84 facilities. All operating facilities as well as research and administrative locations with more than 50 staff are included. Apart from environmental data, which is recorded quarterly, all other data is surveyed annually. This data forms a key basis for discussion on the further, Group-wide strategic direction for sustainability management.

During the year under report, the number of work accidents stood[1] at 0.67 per 100 employees. Various occupational health and safety initiatives were run at our facilities in 2018, for which there are location-specific focal areas. This ranges from safety training through to medical check-ups.

We are increasingly applying the internationally recognised OHSAS 18001 standard to ensure the health and safety of our employees. At the end of 2018, eleven locations Group-wide were certified to this standard, which corresponded to about 13 percent of all facilities queried. A further 14 locations are to be added by 2020.

Environmental matters

LEONI recognises its ecological responsibility and regards environmental protection as an important corporate objective. Our environmental management is geared to keeping the impact of all our processes on nature as low as possible. In particular, we strive to achieve reduction in energy consumption and the associated CO_2 emissions as our contribution to climate protection as well as a high degree of resource and materials efficiency. This matter is currently being managed in the respective business divisions.

We are running several initiatives to raise employees' awareness of their responsibility concerning ecological aspects. We furthermore aim to promote staff awareness of this issue with integrated training sessions on environmental protection at our facilities. Environmental protection at LEONI is to be underpinned by a preventive approach in line with the UN Global Compact. Alongside embedding environmental protection as a key corporate objective in our Code of Conduct, we have formulated a Group-wide SHE policy on the subject of ecology with the following operational principles:

- Ongoing improvement of environmental protection measures.
- Reduction of the environmental impact of our products and processes within the confines of what is economically and technically feasible.
- Efficient use of environmental resources and energy.
- Avoidance of waste comes before waste separation and disposal.
- Adhering to all legal obligations concerning environmental protection, safety at work and other requirements. The applicable national standards are minimum requirements in this respect.

Environmental management

At most of our facilities, we run environmental management systems in line with such internationally recognised standards as ISO 14001, EMAS and ISO 50001 to establish suitable foundations on which to realise these principles and to be able to monitor the ecological impact of our activity.

[1] By international standard, accidents must be reported from the first day of incapacity.

The Wiring Systems Division set itself the target during the year under report to have all existing, operating units ISO 14001 certified by the end of 2019. Newly built plants are to be audited within two years. Long-term, all facilities of the WCS Division are also to gradually be audited to this standard.

At the end of 2018, 70 percent of our facilities queried were ISO 14001 certified. Furthermore, 6 percent of our facilities queried fulfil the ISO 50001 standard for energy management systems and 6 percent of our facilities queried have subjected themselves to the EU's Eco-Management and Audit Scheme (EMAS).

Energy consumption and CO_2 emissions

As a contribution to climate protection and in line with our principle of making efficient use of environmental resources and energy, we have set ourselves the target of a 1.5 percent reduction from the 2016 level in the energy consumed in absolute terms at our respective production facilities by 2020 . Such a reduction in energy consumption is simultaneously a key condition for lowering CO_2 emissions. Accordingly, each plant must, while considering the differing set-ups and peculiarities in terms of infrastructure, define and apply a suitable energy efficiency project.

For example, a distributor switch to optimise lighting was installed at the Wiring Systems Division's facility in Tieling, China in 2018. Temperature control in the production area was improved for efficient use of natural gas. WSD building projects that are in keeping with our internal guideline were furthermore planned. For instance, like the production facility that already exists there, the second plant in Mérida, Mexico is to be fitted with solar panels to cover about one third of the entire power requirement.

Various energy efficiency measures were likewise applied in the WCS Division, such as optimisation of the production and consumption of compressed air as well as conversion of the lighting to LED technology at our facility in Jena, Germany.

During the year under report, the LEONI Group's energy consumption in absolute terms stood at 511,958 MWh (previous year: 515,207 MWh).

Resource and material efficiency

LEONI's operations require a lot of resources. In addition, copper, for example, is one of the key resources in electromobility and will gain significance in the years ahead. Our reporting has therefore been extended in 2018 compared with the previous year.

A variety of materials are used for our products and solutions, especially so copper and polymers. Copper, for example, which is one of the principal components in our products, provides very good preconditions for recycling at LEONI. There are various projects to optimise resource efficiency; for instance the development of ultra-thin automotive cables with reduced insulation wall thickness and simulation of wiring system architectures to optimise the cross sections of cables. The following section on respect of human rights provides information on our efforts to avoid the use of conflict minerals.

We also continue to deem our waste management plan based on the incurred waste quantity and the proportion recycled annually to be significant with respect to resource and material efficiency. Generally speaking, there are clear guidelines in both divisions that prioritise avoidance of waste. Group-wide, we have set ourselves the target of a 2 percent reduction in the waste quantity at our respective production facilities by 2020 as opposed to the 2016 figures. To the extent that it is not possible to avoid waste, recycling has clear priority over disposal at LEONI.

Respect of human rights

The LEONI Group commits itself to the protection of internationally recognised human rights. Management, all staff and our suppliers are called upon to prevent modern slavery and human trafficking in our business activities. Our Code of Conduct as well as the LEONI Social Charter stipulate that any forced or compulsory labour is prohibited at LEONI. In a statement on the UK Modern Slavery Act published in 2017, which LEONI unreservedly supports, we likewise explicitly declare that we do not tolerate any violations of human rights and will unmistakably sanction any violations.

As part of our Modern Slavery Prevention project, we are currently, under the direction of our Corporate Sustainability department, developing a system to prevent human rights violations within the LEONI Group and our supply chain. In line with the German federal government's National Action Plan on Business and Human Rights to apply the UN principles for commerce and human rights, LEONI prepared a plan for developing the existing elements in this regard further during the year under report. Furthermore, a department-overarching analysis is to record and assess potentially adverse effects on respect of human rights at our facilities and within our supply chain. The objective is also to establish a platform for submitting anonymous complaints at Group level.

LEONI requires its suppliers to act sustainably and, in particular, to respect human rights. Our general terms and conditions oblige all suppliers to observe our Social Charter and/or the principles of the UN Global Compact. In 2018, the content of the WCS Division's supplier questionnaire was aligned with that of the WSD. A new supplier to either division will thus be approved only if the supplier accepts our Social Charter or the principles of the UN Global Compact. LEONI is entitled to terminate the business relationship immediately when any serious and repeated breaches of the principles stipulated therein come to light. No material breaches were found in 2018.

LEONI furthermore endeavours to prevent the use of conflict minerals, which are mined with disregard for human rights, and requires suppliers not to supply any components with raw materials from the Democratic Republic of the Congo or its neighbouring states. This is set out in a Group-wide guideline on conflict minerals, which is operationally applied in the two divisions. Since 2014, we have voluntarily informed customers using a standardised template pursuant to the U.S. Dodd-Frank Wall Street and Consumer Protection Act on the extent to which our products contain such conflict minerals as gold, tantalum, tin or tungsten that stem from mines or smelting works in certain African countries. We ask our customers annually to furnish the necessary information in this regard. We thereby facilitate the traceability of these substances as well as the transparency of the supply chain and support our customers in fulfilling their corresponding requirements.

Compliance and combating corruption as well as bribery

LEONI commits all its employees to responsible, honest and rule-compliant conduct with the intention of observing all laws and avoiding any cases of corruption. The LEONI Code of Conduct and our anti-corruption guidelines contain corresponding rules. To ensure this, LEONI has a systematic Compliance Management System, which contains a number of rules on preventing corruption. Our guideline for combating corruption and bribery as well as our compliance guideline for business partners were updated during the period under report. A newly formulated compliance guideline for donations and sponsorship complements the existing set of rules.

We furthermore introduced a Compliance Management Dashboard for staff in 2018. Among other things, it provides guidelines for information and confirmation, distributes training materials, runs compliance checks of business partners as well as documents and approves gifts, invitations, donations and sponsorship. With this Dashboard, the corresponding processes and procedures are now available digitally.

To enhance understanding of the values presented in the LEONI Code of Conduct, we also established the Living Code in 2018: an internal, interactive information platform that simultaneously serves as a training platform for the LEONI Code of Conduct. It conveys the most important compliance principles for staff using examples, explanatory videos, charts, check-lists, links etc. Among other subjects, the training developed for the Living Code comprises anti-corruption and is obligatory for any employee with a Windows account and internet access. About 11,000 members of staff have completed this training since August 2018, meaning that 74 percent of the target group has been trained.

All managers on the highest tiers and other relevant groups of staff (e.g. purchasing and sales) must furthermore take a special e-learning course on anti-corruption. These e-learning courses must be taken regularly at intervals of two to three years.

Indications of possible infringements of internal anti-corruption guidelines or of laws are resolved and – so far as the indication is confirmed – penalised.

Risk and opportunity report

Risk policy

As a company with an international outlook and operating accordingly, LEONI is confronted with risks and opportunities. Risks and opportunities are promptly made transparent using a systematic approach that follows the three-lines-of-defence model. Risks and opportunities are defined as possible deviation from the planned result. Our objective is to deliberately accept risks only when the associated opportunities can simultaneously make an appropriate contribution to enterprise value and any possible threat to continued existence can be ruled out with a probability bordering on certainty.

Risk management system

LEONI has a multi-stage risk management system that is rounded off with other, supporting control systems. This Group-wide system encompasses the Chief Risk & Internal Control Officer (CRIO) and three area Business Partner Risk & Opportunity (BRO) officers reporting directly to the CRIO as well as Controlling and the managers involved in the operations of all relevant business areas. Risk aggregation by means of Monte Carlo simulation is applied for early identification of developments that might threaten the Company's continued existence (cf. Section 91 (2) of the German Stock Corporation Act (AktG)). The CRIO unit that reports directly to the CFO is in charge of monitoring and coordinating the risk management process at the corporate level. It also determines and describes the Group's overall risk situation.

Risk management is integrated in the existing planning, controlling as well as information systems and covers all companies in the LEONI Group worldwide. Together with the internal control and the compliance management system, which has likewise been established worldwide, it is part of the 2nd line of defence. Alongside risk management in the narrower sense, which is the result of legal requirements, the Company furthermore has a system that goes beyond the minimum standards under German law for monitoring risks, which also evaluates material information from all management systems with respect to opportunities as well as risks and makes it transparent (risk management in the wider sense).

Opportunity management – Opportunity management at LEONI is a firm component of the risk management process and the GRC (Governance, Risk Management & Compliance) software used. Not only the risks (threats), but also the opportunities are systematically identified as deviations from the planned outcome. The opportunity reporting is performed in line with monthly risk reporting and with the help of the GRC software down to the entity level.

Risk identification and assessment – Our risk analysis involves promptly and systematically identifying risks and opportunities as well as analysing and assessing the significant risks and opportunities with respect to the probability of occurrence and quantitative effects.

To identify and assess risks, expert panels initiated on a top-down basis by the CRIO and BROs are held on identified risk and opportunity developments with the operational managers and in annual risk summit meetings for the holding company and the divisions. In these risk summits, the findings of the prior risk interviews with the operational management of each business group / business unit and significant central functions as well as expert panel meetings held during the year are considered. This activity is accompanied by monthly risk assessments within the GRC software for material risks and opportunities as well as by the Corporate Risk Committee, which meets quarterly.

The risk summit meetings take stock of the risks and opportunities of the divisions and of the Group and update this if need be; they run training sessions and estimate the likely range of market fluctuation (e.g. sales, capital, procurement and human resource market fluctuation). Discussions on risk are regularly held with management of the local subsidiaries concerning process-related risks and opportunities.

The responsibility for managing risk and realising opportunity always remains with respective operational management. Risk management functioning as an independent business partner supports the division's operational management and controlling in this process of identifying and quantifying possible effects on income and mitigating measures.

Various probability distribution forecasts that are appropriate in view of the respective circumstances are used for quantitative description of the material risks and opportunities. Apart from a description of risks and opportunities by probability of occurrence and potential loss, use is made accordingly of, for example, triangular distribution and normal distribution (specific to market fluctuation).

An aggregation of the risks by means of Monte Carlo simulation is made for early identification of developments that might threaten the Company's continued existence and to determine the overall risk. The risk aggregation includes the respective net risks, meaning the risks based on consideration of the risk mitigation measures applied; it determines the extent of LEONI's overall risk.

The Monte Carlo simulation involves once a year allocating the effects of the Company's most significant individual risks on an aggregated basis to the corresponding items of the forecast income statement and balance sheet. Several tens of thousands possible risk-related future scenarios are run in independent simulations. The entirety of all the simulation runs provides a representative sample of all possible risk scenarios within the Group with respect to the probability of overindebtedness and illiquidity.

Risk reporting and monitoring – By way of the quarterly risk reporting to the entire Board of Directors, an assessment of the risk situation based on the net risks larger than € 10 million (in line with the risk matrix in the section headed Opportunity and risk situation) is made and discussed with the Board of Directors. In addition, such net risks together with the risk aggregation are reported to the Supervisory Board annually. The risk report will furthermore be updated (ad hoc announcement) if there is any material change in the Company's risk profile.

Risk reporting is carried out once a month up to the corporate level with the help of SAP's GRC risk management module that is linked with our ERM (enterprise resource management) and controlling system. The Board of Directors is furthermore given supplementary risk analyses on commercial decisions pertinent to the Supervisory Board (e.g. acquisitions, significant customer projects or important investments).

Process improvement – On the Corporate Risk Management Committee, the Business Partner Risk & Opportunity officers, under the chairmanship of the CRIO, exchange information with the principal risk managers on, among other aspects, process improvements and ensuring the effectiveness of the risk management system; the latter is also reviewed by the Audit Committee as well as regularly by the Internal Audit department. The risk early-warning system is also assessed as part of the annual review by the auditors.

The external audit begun in the summer of 2017 of the system for managing the risk of the core areas of treasury, human resources and financial statement closing process pursuant to the IDW 981 auditing standard was continued during the period under report. The appropriateness test was successfully completed on 30 April 2018. The test for effectiveness is to be completed by March 2019.

Further development of the risk management system in 2018:
- Introduction of more key performance indicators on the effectiveness and completeness of the risk-minimising measures;
- Introduction of supplementary risk check-lists for key risk areas and processes;
- Successful appropriateness test pursuant to the IDW 981 auditing standard and execution of the effectiveness test at various facilities;
- Increased use of expert panels initiated top-down;
- More on-site training on the risk management system;
- Introduction of system-supported workflow alerts.

Internal Control System

As already outlined under risk management, a company's senior executive is responsible as operating management for the design and functioning of the internal control system – as the 1st line of defence. The Internal Control System (ICS) as a Corporate Function, which is the 2nd line of defence, is another subsection for which the CRIO is responsible. This subsection of the ICS is responsible for the strategic direction and growth based on systematic and global, organisational rules; it advises the operational management of the legal entities based on expert knowledge and helps in monitoring the operating effectiveness of the internal control system on all levels of the company. The SAP GRC Process Control module presents the ICS uniformly and facilitates various kinds of reporting in real time.

Among other things together with the risk and compliance management system, the ICS' task is to establish a control system through systematic and organisational rules that

- ensures reliable and efficient processes;
- safeguards the Company with all its assets for shareholders and stakeholders and
- considers rules in a manner compliant with the law.

LEONI's Internal Control System comprises the principles, procedures and measures introduced by management to ensure the effectiveness and profitability of the business activity, the correctness and reliability of both internal and external accounting as well as the adherence to the legal requirements material to the Company.

This is to be achieved through the interaction of manual through to automated controls if possible of a preventive nature or, if not otherwise efficiently possible, of an exposing nature. Control activity by a wide variety of internal and external offices is intended to ensure that the ICS is, through permanent monitoring and testing, continuously developed further in a risk-oriented manner and that identified weaknesses are addressed structurally and in good time. At LEONI, this is done with the help of SAP's GRC software, which is available worldwide.

Together with risk management, the Internal Control System likewise supports identification of procedural, inherent risks through to uncovering of weaknesses and avoiding fraud.

The principles underlying the ICS are the four-eyes principle as a minimum requirement or, so far as possible and stipulated, the separation of functions principle with the authority of a person / function clearly defined, the transparency principle and, in keeping with the spirit of German data protection, data economy with respect to necessary information.

In so doing, LEONI pursues a strategy of executing control processes in their entirely and not to limit them just to accounting-related controls and/or risks; among others, strategic / market, operating and compliance controls are also incorporated alongside the accounting-related controls. The Corporate Internal Control Committee carries out audits of all control matters and processes involving the ICS with respect to being up to date, complete and effective. This comprises the key persons responsible for processes, the Internal Control Managers, the CRIO and is led by the Internal Control Officer (ICO).

Accounting process – The Board of Directors bears overall responsibility for the internal control and risk management system with respect to the accounting process in the Group. All business segments and units are bound by a firmly defined management and reporting organisation. The principles, the operational and organisational structure as well as the processes of the accounting-related internal control and risk management system are laid down in an internal guideline that is updated at regular intervals to include the latest external and in-house developments. With respect to the accounting process, we deem such features of the internal control and risk management system to be significant that could materially influence the accounting and overall information provided in the financial statements and consolidated financial statements including the management report and the group management report. In particular, this involves the following elements:

- Identification of key areas of risk and control of relevance to the accounting process;
- Monitoring controls for supervising the accounting process and their findings at the level of the Board of Directors and of the strategic business areas;
- Preventive control measures in financial management and accounting as well as in operating performance-related business processes, the principal information for preparing the financial statements and consolidated financial statements including the management report and the group management report, including function separation and predefined approval processes in relevant units;
- Measures that ensure proper IT-supported processing of accounting-related facts and data;
- Measures for monitoring the accounting-related internal control and risk management system.

Reporting – Formal reporting is done quarterly on the Corporate Internal Control Committee to the CFO. Reporting is based on the assessments submitted via the GRC software by operating management. Time-independent individual reporting is furthermore also possible at any time by means of the system support facility.

Process improvement – The Audit Committee regularly examines the internal control system's effectiveness. This may involve the auditors presenting weaknesses in the accounting-related internal control systems found during the annual audit. Furthermore, the Internal Audit department (3rd line of defence) on a random basis checks the process of the Internal Control System (2nd line of defence). The external audit for the core areas of treasury, human resources and financial statement closing process of the Internal Control System pursuant to the IDW 981 auditing standard is scheduled for 2019 / 2020.

Further development of the Internal Control System in 2018:

- Expansion to five regional ICS experts in China, Mexico, Tunisia, Romania and Russia;
- On-site training on the Internal Control System at all key facilities;
- WebEx training sessions for all local subsidiaries;
- Further roll-out of SAP Financial Closing Cockpits for the entire Group.

Compliance Management System

LEONI has a comprehensive compliance management system to ensure and check responsible, rule-compliant conduct. The responsible head of the Corporate Compliance department (Chief Compliance Officer) reports directly to the President & CEO of LEONI AG and has reporting lines to the Chairman of the Supervisory Board as well as the Chairman of the Supervisory Board's Audit Committee.

The Compliance Management System is run by the Corporate Compliance department at the Group parent company level and by the regional compliance officers in Germany / Switzerland, EMEA, the Americas and Asia. At the level of the individual subsidiaries, locations or countries where LEONI operates, compliance coordinators complete LEONI's compliance network. The compliance coordinators support the Corporate Compliance organisation as well as the local management that is responsible for compliance in its subsidiary in implementing the compliance measures.

LEONI's Compliance Management System (CMS) breaks down into the three areas of prevent, detect and react, which involves the following:

Compliance Management System

Prevent	Detect	React
Rules / requirements: guidelines, procedures, processes	Regular risk assessment	Whistleblowing management
Training: e-Learning, workshops, classroom instructions	Compliance quality reviews	Special investigations
Advice: helpdesk / support	Whistleblower system	Sanctions / consequences
	Compliance due diligence	Process improvements
	Communication, reporting	
	Risk analysis	

Prevent: Measures to avoid infringement of law comprise particularly the introduction of specific guidelines, rules and processes, conducting of tailored e-learning and classroom instruction as well as providing the business groups and units with specialist advice on compliance.

Detect: A digital whistleblower system has been set up and compliance quality reviews are regularly conducted to detect any increased compliance risks or possible infringements at an early stage. As a key element of preventive early detection, we have also implemented a comprehensive process for compliance due diligence reviews of certain business partners and business activities.

React: Indications of misconduct will initially be assessed and, if required, will be resolved in the context of either internal or external investigations. The reaction to infringements of compliance comprises, among other action, resolute sanctioning of misconduct as well as improving the processes to ensure rule-compliant conduct.

The CMS is the basis for ensuring LEONI's **compliance objectives**, which are:

- Observing the legal standards and rules of the LEONI Group
- Protecting the Company against financial and non-financial loss
- Protecting the corporate bodies and staff against penalties and liability
- Establishing transparency across communication, whistleblowing systems and reporting
- Setting up an effective (risk-minimising) and efficient compliance management system that conforms to international standards
- Zero tolerance concerning non-observance of the compliance objectives

The Compliance Management System is continually improved and developed based on these fundamental aims, which blend with the Group's strategy and objectives.

Measures and process improvements – Further measures to reduce compliance risks were applied and existing measures as well as processes were improved in 2018.

One key project involved developing and implementing the Living Code. This interactive information and training platform on the LEONI Code of Conduct gives employees the opportunity to look more closely into the content of this Code of Conduct published in 2017 (via examples, video clips, charts and check-lists); to draw rapidly on relevant information (e.g. through linking of guidelines) and to find the right contact for any questions. Staff must furthermore test their knowledge by doing a Living Code Quiz. To also embed the content of the LEONI Code of Conduct that applies internally in our supply chain and in relevant business relationships, a project was launched during the year under report to prepare and set up a Business Partner Code of Conduct, with the aim of completing this by mid-2019.

As part of the regular review of our compliance guidelines, the rules on combating corruption and bribery as well as on compliance due diligence pertaining to business partners were updated and complemented with rules on donations and sponsorship. The contents of these new or updated rules, the rules on avoiding breaches of competition law and the measures under our Compliance Management System as well as their documentation on the Compliance Management Dashboard were the subject of classroom instruction provided globally.

Another focal point concerning improvement of the effectiveness and efficiency of the measures was introduction of the Compliance Management Dashboard (CMD) as the central documentation and processing tool. Numerous compliance processes and procedures are thereby available in digital form and events are transparently documented. The CMD facilitates, for example, distributing compliance information specifically to individual staff members or groups of staff as well as to obtain confirmation from those employees. Among other benefits, that simplifies distribution of compliance guidelines and training details as well as the related documentation. It furthermore runs such processes as the compliance reviews of business partners, ranging from internal and external information gathering to obtaining the business partner's self-audit and through to the auditing and approval process. Gifts, invitations, donations and sponsorship are also documented and approved on the CMD. More compliance processes and measures will in future be covered on the CMD.

The external audit begun in December of 2017 of the Compliance Management System for the core areas of anti-corruption and competition law pursuant to the IDW 980 auditing standard was continued during the period under report. The first two parts of the three-part audit were successfully completed on 30 June 2018. The review of effectiveness as the third part of the audit is to be fully concluded by mid-2019.

As part of the agenda to continually improve the Compliance Management System, work will continue in 2019 on interlinking the governance, risk and compliance functions as well as integrating compliance measures and controls in existing business processes. As a significant step in this regard, a Governance, Risk and Compliance Committee was set up during the year under report, which supports improvement of governance and compliance, integration of current and future measures as well as the harmonisation of processes.

Opportunity and risk situation

The opportunity and risk situation reports on the material opportunities and risks according to the matrix below. The matrix also illustrates the breakdown (number) of the described risks larger than € 10 million:

	Loss potential (net risk)		
Probability of occurrence	< 10 million Euro	10 to 100 million Euro	> 100 million Euro
> 50 %			
> 10 % up to 50 %		- Project and performance risks - Impairment - Cyclical fluctuation / No-deal Brexit - Pressure to cut prices - Copper price fluctuation - Exchange rates	
up to 10 %		- Compliance risks - Risk of bad debt losses - Loss of a customer - Product liability / recall - Fluctuation in personnel costs	Break in the supply chain to a customer

low risk *medium risk* *high risk*

Hereinafter we present the principal opportunity as well as risk categories without rating their significance.

Strategic and market-related

Location / country risks – The LEONI Group's policy on choice of location is geared closely to the requirements of our customers, which LEONI follows into foreign markets. The pressure on prices and costs compels us towards disproportionately large increases in production capacity located in low-wage countries. This means that customers in many instances must be supplied across several national boundaries. There are also political risks in some countries, for example in North Africa, Mexico, Turkey, South Korea and the Ukraine. Unstable political conditions could at any time result in unrest and also strikes at our production facilities in those locations, or in closed seaports and airports. The option of temporary supply from production facilities in other, non-affected countries is severely limited because of the customised products in the Wiring Systems Division. Just-in-time and just-in-sequence delivery as well as the single-source principle of some customers extend the reach of this risk further. Relocation is possible only with a corresponding lead time necessitated by setting up the required production capacity and recruitment. That is why we offer our customers the option of supply from two facilities in different countries. In many cases, however, our customers have decided for economic reasons to continue to share the risk of 100 percent supply from one country. A break in the supply chain to the customer, due for example to unrest, cybercrime or natural disasters, could result in a supply bottleneck persisting several weeks. Owing to the size it has attained, LEONI operates a considerable number of production facilities worldwide, which have backup capacity as is prudent and accepted by the carmakers. Furthermore, preventive measures have been applied at all production facilities and are documented in a global emergency plan. These range from a round-the-clock guard service to extensive fire protection systems. Furthermore, no LEONI facility is located in an area known to be under extreme threat of earthquakes, flooding or other natural disasters.

Risks and opportunities due to the economic cycle / No-deal Brexit – Customers in the automotive industry and among its suppliers account for the bulk of LEONI's consolidated sales. The current business performance of this sector therefore has great influence on LEONI's business volume and earnings. LEONI has accordingly prepared for any cyclical slump in sales by making its cost structure even more flexible.

A disorderly exit by the United Kingdom from the EU (no-deal Brexit) could have adverse effect on the sales of our customers in the country; lead to rising customs duty and clearance costs as well as to depreciation of the pound. We are monitoring the ongoing exit negotiations closely and are, together with our customers, preparing for a no-deal Brexit. However, it must be assumed that, in the event of a no-deal Brexit, it will not be possible for LEONI either to avoid major fallout.

Generally speaking, LEONI has the opportunity to generate more sales than expected in the markets it targets by outperforming the overall market and correspondingly rising demand.

Risks due to pressure to cut prices – LEONI supplies its products to markets that are characterised by fierce competition. The trend that continues to prevail in the automotive industry towards sharing development costs with suppliers and unexpectedly substantial, but necessary price concessions therefore constitute a risk.

Risks due to copper price fluctuation – LEONI uses copper as a key input material in both of its business divisions. The global market price of this raw material, which is subject to significant fluctuation, therefore exerts a major influence on the cost of materials in the Group, which is why this is regarded as a separate risk. If the price of copper rises for a protracted period, the lag in passing this cost on to our customers can exert an adverse earnings effect on the reporting date. Any substantial drop in demand could, if there is a simultaneous dip in the price of copper, lead to us having to sell at lower prices some of our copper inventory bought forward at higher prices. This would likewise exert an adverse effect on earnings. We purchase copper forward only with a corresponding hedged item to safeguard the invoicing plan agreed with our customers. If the price has fallen sharply up to the reporting date, copper inventories may be exposed to the risk of devaluation. A shortage of copper stocks could lead to supply bottlenecks and higher copper prices. LEONI prefers long-term and direct supply relationships with copper suppliers to avoid supply bottlenecks.

Risks and opportunities due to fluctuation in the cost of materials (excluding copper) – Rising demand could lead to increases in the costs of our most important raw materials. This can result in demands for higher prices and therefore in increased procurement costs for the corresponding components, and it can furthermore also entail supply bottlenecks in the event of shortages. International competition among our suppliers has hitherto enabled us to largely avoid any increases in the cost of materials. Contact systems, which consist of plastic casings and metal contacts, are made mostly with tools stemming from a single source due either to customer requirements or economic considerations. A more favourable trend in commodity prices would benefit LEONI's cost-of-materials ratio and therefore its margins.

Risks and opportunities due to digitalization – Digitalization (Internet of Things, Industry 4.0) entails risks that could lead to new competitors or substitution of existing solutions. Yet new trends in technology and society simultaneously present LEONI with good growth opportunities – especially the progressing digitalization in all walks of life and therefore also in many of LEONI's customer sectors. In general, other global trends of importance to LEONI – such as mobility, energy and data management, environmental awareness and shortage of resources as well as industrialisation and automation – also present the Company with additional expansion opportunities in many areas. For instance, the growing interest among motorists in hybrid and electric drive systems as well as electrical and electronic innovations in vehicles can exert a positive effect on our future performance.

Operational

Risks due to new customer projects – Apart from the project-overarching risks, such as the location / country risks and fluctuation in personnel costs, there are also project-specific cost risks. These can, due to special measures to safeguard our customers' production starts during the ramp-up phase or, for example, miscalculation, impact on the whole term of a project. Failure to ensure that the many annual production starts are on schedule and according to the requirements of our customers could have serious consequences for future business.

Risks due to information technology – Running a company like LEONI that operates on a global scale is only possible with the help of sophisticated IT systems. Constant readiness to supply goods and services – especially to the automotive industry that frequently calls for either just-in-time or just-in-sequence delivery – also depends on availability of the IT systems and their data at all times. Serious disruption such as system outages, attacks on our networks, loss or corrupting of data could result in a break in the supply chain to the customer. LEONI therefore constantly works at optimising its IT system, in terms of both concept and operation. One example of this is having a second, backup computer centre as an emergency system. The threats to our information security are furthermore mounting because of the globally increasing professionalism of computer crime. Like other, major international companies, we are exposed to vigorous cyber-attacks by experienced adversaries who are supported by organised crime and countries that conduct industrial espionage. An Information Security and Data Protection Officer who reports directly to the Board of Directors demonstrates the very high priority given to security of our information systems and networks, as well as to safeguarding the confidentiality, availability and dependability of our data. To minimise these risks, we apply a range of measures including staff training as well as monitoring our networks and information systems by means, for example, of firewalls and virus scanners. A cyber security insurance policy covers the residual risk.

Risks due to product liability / recall – LEONI's output is used primarily for technically sophisticated products and equipment with high safety standards. A failure could have far-reaching consequences ranging from downtime costs to contractual penalties and through to personal injury claims. We minimise the associated product liability risks by taking effective measures as part of process safety and quality management. All plants are ISO 9001 certified and some, depending on the customer group they supply, have such additional certification as IATF 16949 (automotive industry), EN/AS 9100 (aerospace) and ISO 13485 (medical technology). There is also insurance cover for operating, product and environmental liability as well as for product recalls. Product liability cases and recalls are reported without delay, by means of an implemented workflow alert within SAP GRC, to all concerned units so as to ensure a structured emergency management system.

Risks due to loss of a customer – The loss of one or several major customers we supply could temporarily result in losses of earnings / contributions to profit and additional capacity adjustment costs. We have reduced our exposure to a small number of major customers in the Wiring Systems Division with a broader, international customer base. The lengthy contract periods, which usually cover the lifespan of a particular vehicle model range, as well as having established very close and stable customer-supplier relationships, for instance by way of comprehensive development work and outstanding service in terms of delivery, mean that there would normally be early notice of losing a customer and would allow for consequent measures to be applied in good time.

Risks due to fluctuation in personnel costs – The growing shortage of skilled people in Germany, changes in the availability of personnel and the resulting rise in wage and salary costs at labour-intensive production locations in Eastern Europe, North Africa and Asia present human resource management with particular challenges. In addition, there is the large extent of production in countries with low wage levels. Surges can occur in this respect due to minimum wage hikes. Effort has been stepped up to increase staff advancement – for example with internal programmes to provide employees with further qualifications and aimed at integration as well as offering a wide range of social benefits – to maintain the ability to recruit and retain staff by being an attractive employer.

Operational opportunities – The LEONI Group's operating strengths include its leading position in the most important markets across Europe, our global footprint in terms of distribution, development and production as well as our broad, international customer base. These factors enable us to benefit globally from favourable market trends. LEONI also focuses sharply on core products and markets, has a consistently high level of expertise along the entire value chain and covers an extensive portfolio of technology. Finally, the collaboration between our two business divisions in the context of a complementary value chain creates synergies that provide LEONI with opportunity not only to reduce costs, but also to expand. The forecast contains more information in the specific opportunities of the two divisions.

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Financial

Risks due to receivables / liquidity – The loss of receivables from a major customer presents a risk. As a precaution, all customers with whom the LEONI Group intends to conclude business on a credit basis are subject to credit screening. Regular analysis of receivables and the structure of the receivables facilitates ongoing monitoring of the risk. For selected customers true sale factoring serves as a further tool to reduce the risk of default.

To back its plans for growth LEONI uses, alongside the existing, long-term borrower's note loans, ample short and long-term loan commitments from banks, mainly in the form of the recently signed syndicated loan and conventional lines of credit. In addition, stringent cash pooling is used to safeguard liquidity. The most important cash flows in the Group are managed and handled by LEONI AG at head office. If, in the event of a crisis for example, the in-house rating of our core banks for LEONI were to drop below investment grade, this would probably mean increased cost on any required loans, which might not be provided in the desired amount. The Group monitors its current liquidity situation on a daily basis. Monthly, currency-specific, rolling liquidity planning for respective periods of 12 months is used to manage future liquidity requirement. The planning takes into consideration the terms of the finance and the financial assets (e.g. receivables, other financial assets) as well as the expected cash flows from business activity.

Risks due to impairment – LEONI subjects assets and goodwill to impairment testing based on the IFRS accounting rules. An increase in the discount rate and/or worsening of earning prospects would cause the risk of impairment to rise.

Risks and opportunities due to acquisitions – Risks stemming from planned acquisitions are systemically identified and quantified as part of the respective due diligence examination of the acquisition target. Risk management studies the implications of these risks for the Company's overall risk in advance of any decision to acquire. Any acquisition simultaneously entails opportunities to be realised.

Risks and opportunities due to interest rates – A change in the risk premium on the capital-market interest rate can raise refinancing costs.

Risks due to pension obligations – The phase of low interest rates could also impact on LEONI's pension funds by causing an increased outflow of funds to reduce any shortfall as prescribed by local regulations.

Risks and opportunities due to exchange rates – We conduct business mainly in euros or in the local currency of the respective country. However, we are increasingly faced with currency risks due to the globalisation of the markets. In the Group's holding company, LEONI AG, the Corporate Finance & Treasury department is responsible for foreign exchange in collaboration with a currency committee and reports these to corporate risk management. Hedging transactions are executed in line with the existing underlying transactions or the planned transactions. Selection of the hedging instrument to be used is based on regular, in-depth analysis of the underlying transaction to be hedged. The objective is to limit the impact of exchange rate variation on net income. Apart from the actual hedging transactions, we primarily take advantage of the option of netting foreign currency items within the Group to hedge our operating business activity. As a further currency-hedging measure, as a matter of principle we finance our foreign subsidiaries in their respective functional currencies by way of refinancing in the corresponding currency. Economic currency risks furthermore stem from the effects on the price competitiveness of individual facilities (plants) as a consequence of changes in the exchange rate.

Fluctuating exchange rates can, for amounts not hedged with forward contracts, result in a positive effect.

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Further details on these financial risks are contained in the notes.

Compliance

Risks due to compliance infringements – In principle, compliance infringements could entail substantial fines, loss of reputation and claims for damages. Depending on the country, imprisonment of managers and involved staff is also possible. LEONI minimises such risks due to infringements of law and guidelines with an effective compliance management system.

Risks due to corruption – As previously reported, internal compliance-related investigations in 2015 gave rise to the suspicion of illegal conduct in connection with at least one agent who was commissioned by a LEONI Group company belonging to the WCS Division. The matter concerns unexplained commission payments on transactions particularly with Asian customers. LEONI proactively reported this suspicion to the German authorities in 2016 and continued in 2016 and 2017 to resolve the matter in close collaboration with the investigating authorities. At the beginning of 2017, the authorities launched several investigation proceedings against former and current senior managers and staff. Both the internal investigations to resolve these matters and the external investigations were largely completed by the end of 2017.

In 2017, LEONI reached an agreement in a settlement with the tax authorities on the underlying matter and the tax deductibility of commission payments.

The proceedings against eight former and current employees and directors of a LEONI company were concluded at the end of 2018 and the beginning of 2019, respectively.

There were and are no proceedings against LEONI AG or the concerned Group subsidiaries in connection with this matter.

Risks due to competition law – As reported, several civil proceedings in the form of class action lawsuits have been initiated against LEONI and other wiring systems manufacturers due to alleged breaches of competition law in the United States and Canada since October 2011. LEONI was able to conclude all these proceedings in the 2016 and 2017 financial years without any acceptance of liability by way of settlement agreements. In the United States, there are now just a few proceedings pending involving individual claimants, which, from today's perspective, are likely to have far less impact than the hitherto concluded proceedings. LEONI therefore expects to be able to conclude these outstanding proceedings as well in the near future.

In November 2015, the Brazilian competition authority initiated proceedings against a LEONI company as well as other wiring system manufacturers, presumably in connection with the cartel proceedings before the European Commission that were already concluded in 2013. The authority is investigating alleged breaches of Brazilian competition law. LEONI cooperated with the responsible authorities and ended the proceedings by agreeing to pay a fine. The corresponding expense was already considered in the 2017 financial statements.

Risks due to (fake CEO) fraud – As reported, LEONI fell victim in August 2016 to fraudulent acts involving the use of falsified documents and identities as well as the use of electronic communication channels. As a consequence, a total of approx. € 40 million was transferred from the Company to accounts outside Germany.

The Board of Directors continued during the year under report to push and monitor work on clearing up the fraud case at various levels. This included the ongoing efforts to recover the stolen funds as well as cooperation with national and international investigating authorities to bring the perpetrators to justice. It was likewise important to the Board of Directors to continue initiatives intended to derive measures and processes from the fraud case to effectively reduce future risks due to such a matter or similar ones. With this stipulation, the Board of Directors not only once again raised IT security and ensured lasting awareness among staff, management and departments. External reviews or audits of various functions that are rated as especially sensitive or pertinent to the control and management of risks were furthermore continued. The findings from these audits are being acted upon. In some areas the Board of Directors also required managers to be replaced. During the year under report, furthermore, the Board of Directors forged further ahead with asserting claims for damages under civil law after completion of the external analysis and assessment of possible breaches of duty. The latter is in line with claims asserted by the Supervisory Board with respect to members of the Board of Directors.

The measures applied may be summarised as follows:

- **Investigations and asset tracing:** The investigations of the authorities in the concerned countries were continued during the year under report and are still ongoing. LEONI continues to support the authorities in finding and clarifying the facts. LEONI also continued its own measures to trace money flows and to recover the funds. Assets totalling about € 327 k (€ 125 k on 31 December 2017) have so far been recovered. The measures to recover the assets are ongoing.
- **Assertion of claims for damages:** Based on an opinion issued by the Baker McKenzie law firm, the Board of Directors decided to assert further claims for compensation for the loss LEONI AG incurred and reported the fraud case to LEONI AG's D&O insurers. The assertion and enforcement of claims against employees are ongoing. It is not yet possible to comment on progress and prospects of success.
- **Insurance payouts:** LEONI obtained a payout of € 5 million from its existing fidelity insurance policy. During the year under report, the Board of Directors submitted more claims for compensation to the fidelity insurance provider. Examination and assertion of the claims are ongoing. It is not yet possible to comment on progress and prospects of success.

Risks due to corporate governance violations – In general, there is the risk that corporate governance bodies and / or staff infringe laws, internal guidelines or the standards of good corporate governance recognised by LEONI.

Risks due to export control and duties – Political and regulatory changes involving, for example, export regulations, customs regulations or embargoes, could affect our business activity in some national markets and compromise our financial position and performance. Any infringements could entail fines, sanctions as well as loss of reputation and claims for damages. We therefore make sure of resolutely observing the corresponding regulations.

The Board of Directors' assessment of the overall situation

In the opinion of the Board of Directors, the risk to the LEONI Group increased further for 2019 in relation to projects because of the large volume of orders. The biggest risk continues to be a break in the supply chain to a customer.

The risk aggregation shows that developments which might threaten the Company's continued existence can be ruled out with a probability bordering on certainty during the planning period. The Company's risk cover potential is sufficient to safeguard its continued existence.

Supplementary report

There were no events of special significance and with material impact on the LEONI Group's earnings, financial and asset situation occurring after close of the financial year and until this report was signed.

Forecast

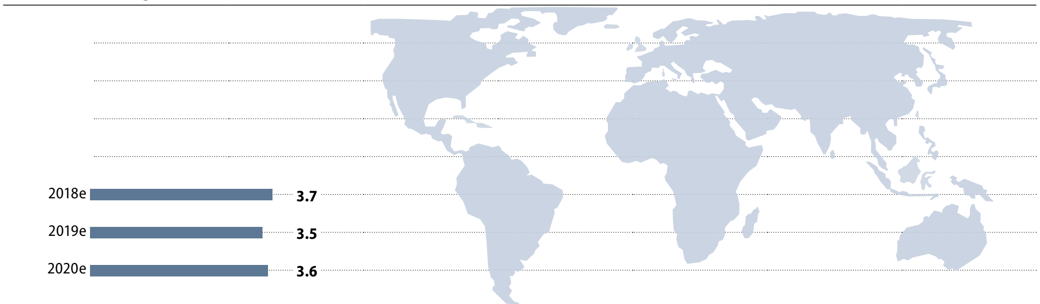
Business and underlying conditions

Macroeconomic setting

The International Monetary Fund estimates that the global economy will weaken more in 2019 than assumed as recently as in the autumn of 2018. At the beginning of the year, the IMF scaled back is forecast for 2019 global economic growth from 3.7 percent to 3.5 percent. The reasons it stated are that some economies underperformed expectations in the second half of 2018, for example in Italy because of its unclear political circumstances and in Turkey, which was hit by an economic slump, but also in Germany where the introduction of new emission testing procedures led to decline in automotive industry output. Risks also stem from the possibly escalating trade dispute between the United States and China as well as the consequently less dynamic Chinese economy and the threat of a no-deal Brexit. The increased uncertainty on the financial markets and the more restrictive monetary policy of the major central banks could also exert a dampening effect on the global economy.

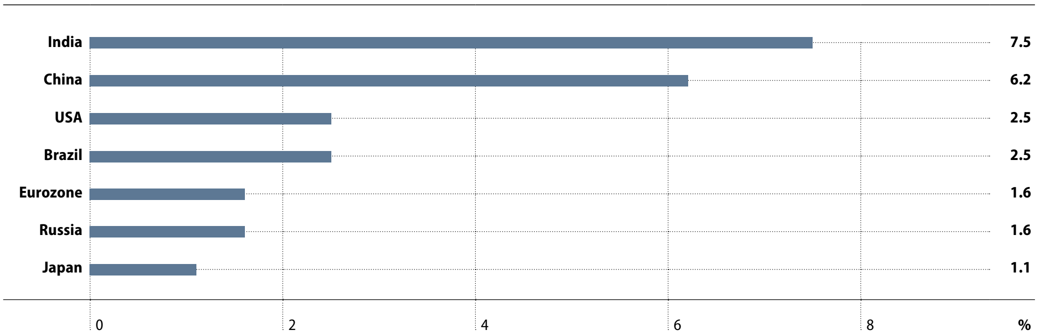
Overall, the industrialised countries should grow by 2.0 percent this year, with the United States contributing most. From today's perspective on the other hand, the eurozone and Japan will generate below-par expansion. The developing and emerging countries are projected to grow by 4.5 percent, underpinned mostly by India and China, which should generate disproportionately strong gains despite the slowdown that is to be anticipated.

Global economic growth 2018 to 2020 %



Source: IMF

2019 economic growth in selected regions

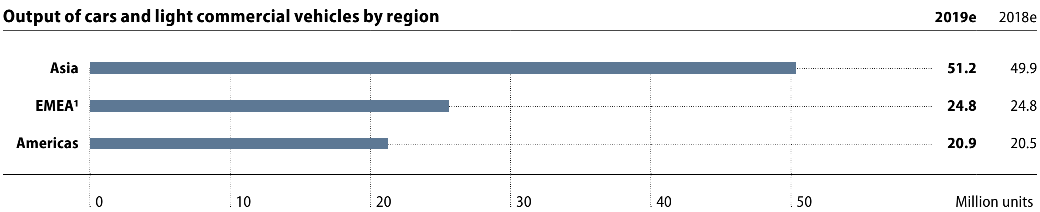


Source: IMF (estimate)

Business by sector

The multifarious macroeconomic risks, especially the impending Brexit as well as the possible weakening in the Chinese economy, are also weighing on the automotive industry. In addition, there are sector-specific factors like the diesel crisis, driving restrictions and the threat of import duties. The German Association of the Automotive Industry (VDA) nevertheless estimates that the **motor vehicle market** will grow by 1 percent to approximately 86 million new cars globally in 2019. The VDA expects to see a 2 percent increase in China, whereas the sales figures in Europe and the Americas will probably be at the previous year's level. IHS Automotive calculates that the **output of cars and light commercial vehicles** is likely to be up by 2 percent worldwide this year. Increases are expected in all the major production regions, while the Americas and Asia are likely to perform more dynamically than the EMEA area. The output of vehicles with alternative drive technologies will again very much outpace the overall market. Double-digit rates of growth are expected in all regions, which adds up to a 51 percent global increase in output. Alongside the rising proportion of electric and hybrid vehicles, such trends as autonomous driving, the use of artificial intelligence and new usage concepts like car-sharing will change the world's motor vehicle market. For this reason, the significance of strategic collaboration of vehicle manufacturers and suppliers with companies outside the sector is increasing.

Output of cars and light commercial vehicles by region

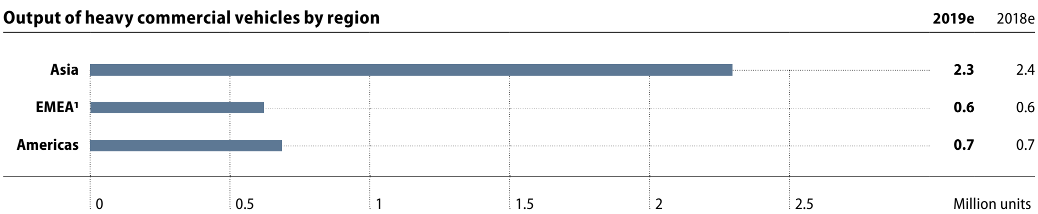


¹ *Europe, Middle East and Africa*

Source: IHS Automotive

IHS Automotive forecasts that the number of manufactured **heavy commercial vehicles** will be down by 3 percent in 2019. Yet this decline should be due solely to significantly lower production quantities in Asia, whereas marginal growth is to be expected in the Americas and considerable gains are likely in the EMEA region. Such a trend is in line with our own estimates, according to which business involving trucks as well as the corresponding engines and agricultural machinery in the European and NAFTA markets, which are of major significance to us, should perform well or least steadily. We anticipate a global uptrend for construction machinery.

Output of heavy commercial vehicles by region



¹ *Europe, Middle East and Africa*

Source: IHS Automotive

For the global market of the **electrical goods industry**, the German Electrical and Electronic Manufacturers' Association (ZVEI) projects growth of 4 percent this year, which will again be underpinned mainly by the emerging countries. From today's perspective, the sector will expand by 5 percent in Asia; by 4 percent in the Americas and by 3 percent in Europe. The ZVEI forecasts a 3 percent increase for the German market. Among the segments of importance to LEONI, electromedicine as well as measurement technology and process automation should slightly outperform the market. Other automation business and communications technology are likely to expand in line with the overall market, while the information technology business is expected to be a little weaker.

In the **mechanical engineering sector**, the German Engineering Federation (VDMA) anticipates a global sales increase of 2 percent in 2019. This slower pace of growth is spread evenly by region: In both Germany and the EU as a whole, just as in Japan and the United States, sales should increase by 2 percent. Only in China is somewhat better growth of 3 percent to be expected.

Business performance and future direction

The LEONI Group's business performance

LEONI regards itself as facing an uncertain economic setting this year, however especially major in-house challenges. Alongside the extensive capital investment to fulfil existing orders as well as rising wage costs, particularly so in Eastern Europe, the problematic start of a project in Mexico will also exert further strain from today's perspective. Against this backdrop, the Board of Directors projects LEONI's 2019 **consolidated sales** at about € 5.2 billion and **consolidated EBIT** before the impact of the VALUE 21 performance and strategy programme to come to between € 100 million and € 130 million. Based on this planning for 2019, the Company will not meet its previous medium-term targets for 2020.

Group strategy
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The forecast is based on the following **premises**: The underlying macroeconomic conditions, the prices of the most important commodities for the LEONI Group – for copper we have budgeted an average price of € 5.20 per kg – and exchange-rate parities should be in line with our expectations in 2019. For personnel costs we estimate country-specific rates of increase, which are based on our many years of experience in these regions. Possible acquisitions or divestments have not been taken into account.

Macroeconomic setting
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Performance of the Wiring Systems Division

The **external sales** of the Wiring Systems Division will probably amount to around € 3.2 billion in 2019. For **EBIT** we project a figure ranging from € 40 million to € 60 million. In months ahead, we shall be concentrating on stabilising the division's business especially at the new facility in Mexico, where we initially deployed a group of experts to support the local team and rapidly raise efficiency. In addition, there is even more rigorous cost discipline by way of tougher measures under the VALUE 21 programme.

Generally speaking, the Wiring Systems Division has good prospects especially involving products and solutions for energy and data management in vehicles as well as in the electromobility segment. We will therefore step up our activity in these areas further in 2019. The objectives also include more strategic partnerships in the areas of high-voltage components and connectors, automation solutions and data cable production.

We will be expanding our production capacity further this year to cover the numerous, pending customer projects. The focus for capital investment will be on new plants and facility expansion in China, Mexico, Serbia, Tunisia and Ukraine.

Performance of the Wire & Cable Solutions Division

The Wire & Cable Solutions Division has budgeted for **external sales** of about € 2.0 billion in fiscal 2019. The segment's **EBIT** should, from today's perspective, amount to between € 60 million and € 70 million. This division will also apply additional measures under the VALUE 21 programme to improve profitability.

Regardless of the currently difficult situation, we foresee good opportunities for the division by maintaining and broadening our digitalization strategy as well as in the areas of autonomous driving and electromobility. The Digital Solutions Group therefore plans to execute further LEONiQ key projects in 2019 to gain initial contracts to series produce this intelligent cable solution. The corresponding strategic partnerships are to be enhanced especially with respect to international marketing.

In 2019, we shall again expand our capacity to produce special automotive cables worldwide to bolster our position as a major partner to the motor vehicle industry. We furthermore intend to set up production of charging cables for electric vehicles in Mexico. Other investment focal points are the Factory of the Future, which will go into operation this year, as well as production of customised cable solutions for the medical technology sector in Germany.

Financial and asset situation

The financial and asset situation of the LEONI Group in 2019 will again be marked by the still heavy advance spending on expanding the production network. With respect to free cash flow, we anticipate a figure at the 2018[1] level (including beneficial effect of the new IFRS 16 leasing standard). Liquidity remains assured thanks to the concluded long-term finance and the extensive credit lines.

Procurement

Fiscal 2019 is likely to present another challenging situation on our procurement markets. As part of the VALUE 21 programme launched at the end of 2018, we will comprehensively analyse and optimise our purchasing and supplier structures this year.

Particularly in the Wiring Systems Division it will be a matter of ensuring supply globally despite the persisting, heavy worldwide demand and simultaneously cutting costs. In the Wire & Cable Solutions Division, we will furthermore work even harder division-wide in our cross-functional Category Teams on design-to-cost and value-based engineering projects.

[1] Before VALUE21-related effects

Employees

From today's perspective and given steadily rising sales, the number of the LEONI Group's employees will increase further in 2019. New recruits will be required above all in the Wiring Systems Division in connection with starting various project for our customers, especially in the Americas, Eastern Europe and North Africa. The workforce in the Wire & Cable Solutions Division is to remain largely unchanged.

Research & Development

Development work in the Wiring Systems Division will continue to be aligned with our C.A.R.E.S. automotive strategy in 2019. At the forefront of this will be broadening of the strategic partnership started in 2018 with Diehl in the battery systems segment. The plans also include further developing through to market readiness of intelligent system components for energy solutions as well as advancing the existing concepts for connected mobility further and translating these into firm development projects. Another key area of attention will be expanding and enhancing the partner network. In the Wire & Cable Solutions Division, the focus will be on establishing more strategic collaboration agreements, especially to permanently improve skills and penetrate the market for digital solutions involving LEONiQ. In the factory automation segment, we will be working on, for example, products and solutions for industrial data intelligence to achieve data-based increase in plant effectiveness, preventive maintenance and product optimisation.

Compliance

As part of the agenda to continually improve the Compliance Management System, work will continue in 2019 on interlinking the governance, risk and compliance functions as well as integrating compliance measures and controls in existing business processes.

General statement on future growth

LEONI faces major, in-house challenges in 2019, especially so in its Wiring Systems Division. To master these, we will forge ahead at full pace with and expand the measures initiated in 2018 to improve the earnings and cash flow situation as part of our comprehensive performance and strategy-enhancement programme. The Board of Directors estimates this year's consolidated sales at about € 5.2 billion, EBIT of between € 100 million and 130 million[1] as well as free cash flow at the 2018[1] level (including positive IFRS 16-related effects). Notwithstanding the currently difficult earnings and cash flow situation, we still have good opportunities in both divisions, based especially on our planned, further development towards being a systems provider for intelligent data and energy management solutions.

LEONI Group forecast

		Actual 2018 figures	Forecast for 2019
Consolidated sales	€ billion	5.1	approx. 5.2
EBIT	€ million	144	100 – 130[1]
Free cash flow	€ million	(147)	at pre-year level[1,2]

[1] Before VALUE21-related effects
[2] Incl. positive IFRS 16-related effects

Compensation report

This compensation report describes the main features of the system for compensating the members of the Board of Directors and explains the structure as well as the amount of individual member income. Also described are the details of benefits that have been promised to members of the Board of Directors for the event of termination of their mandate as well as the principles for and amounts of compensation for members of the Supervisory Board.

The compensation report follows the recommendations of the German Corporate Governance Code (GCGC or Code) and contains disclosures required by the German Commercial Code (HGB), The German Accounting Standard (DRS) and the International Financial Reporting Standards (IFRS).

Compensation for the Board of Directors

The Supervisory Board of LEONI AG diligently and regularly considers, pursuant to Section 87 of the German Stock Corporation Act, the appropriateness of the compensation for members of the Board of Directors. This involves discussion and inclusion in the review of the individual components and their effect on future compensation for members of the Board of Directors. This analysis also comprises a comparison with DAX and MDAX companies as well as consideration of the wage and salary structure within the Company. However, it does not consider the ratio of Board of Directors compensation to the compensation for senior management and the workforce as a whole, also over time, as provided for in Section 4.2.2 (2) Sentence 3 of Code. The current Declaration of Conformity explains this deviation in detail.

Declaration of Conformity
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Basic principles of the compensation system

The system for compensating the Board of Directors that is valid for the reporting period has been in force since 1 January 2015 and applies until 31 December 2023. It is aimed towards establishing incentives for successful and long-term business growth and increase in enterprise value, in which the members of the Board of Directors are to participate. Exceptional performance is to be rewarded; any failure to meet targets is to result in a considerable reduction of compensation.

In accordance with the Code, we hereinafter explain the principles of the system for compensating the members of LEONI AG's Board of Directors and the specific structure of the individual components. The table below provides an overview of the structure and system:

Component	Measurement basis	Corridor	Precondition for payment	Payment
1. Fixed compensation Fixed salary, Benefits in kind / Fringe benefits	Function, responsibility, duration of Board membership, standard	Firmly agreed for the term of the contract	Contractual stipulation	Monthly
2. Short-term compensation component Annual bonus	Task, performance, consolidated net income + EBIT margin	0 to 110 % [Target fully met = 100 %]	1-year planning, target attainment	100 % per annum in the subsequent year
3. Medium-term compensation component Multi-year bonus	Task, performance, consolidated net income	0 to 115 % [Target fully met = 100 %]	3-year planning, target attainment on a 3-year average at least 50 %	50 % in the 4th year
4. Long-term compensation component Long-term bonus, bonus account	Task, performance, EVA and share appreciation	0 up to cap; penalty rule	Contractual stipulation	Once a year in the subsequent year; 50 % of which converted into LEONI shares with a 50-month holding period
5. Pension, disability and other benefits Accrued pension rights	Pensionable fixed salary years of service on the Board, defined-contribution plan	Fixed amount	Retirement, disability	—

Fixed compensation

The fixed component is a firm, annual amount of basic compensation that is paid in equal monthly instalments. As all the other compensation components are variable and can drop to nil, the fixed component is the minimum amount of Board of Directors compensation. It is commensurate with the amounts paid by other MDAX companies.

Variable components

In addition to the fixed compensation, there are three variable compensation components, each of which have upper limits in absolute terms and can drop to nil. The weighting between the short and medium-term components is approx. 50/50.

Short-term compensation component – annual bonus: An annual bonus will be assessed depending on the net income generated, whereas amounts that exceed 110 percent (cap) of the net income budgeted in the planning for the year will be disregarded. The assessed annual bonus can rise by another 10 percent provided the Group generates an EBIT margin of more than 7.5 percent. Assessment of the annual bonus will be discounted by 10 percent for EBIT margins that are less than 4.5 percent but not below 3.5 percent. Should the Group generate an EBIT margin of less than 3.5 percent, the discount on the assessed annual bonus will be 30 percent. In each year of the contract term the annual bonus will have an upper limit in absolute terms; it will be paid in cash and can drop to nil.

Medium-term compensation component – multi-year bonus: The multi-year bonus is geared, depending on the respective year’s net income, to the results of a three-year period, while amounts that exceed 115 percent (cap) of the budgeted annual net income amounts will be disregarded. Payment is made in the fourth year after expiry of the three-year period and only if the (arithmetic) average degree of target attainment for the three-year period is at least 50 percent.

50 percent of the annual amount will be paid in the respective subsequent year as an instalment. If the (arithmetic) average degree of target attainment for the three-year period of at least 50 percent is not achieved, the multi-year bonus is forfeited in full, meaning that instalments already paid must be refunded. The multi-year bonus thus conforms to the sustainability requirement set out in both the VorstAG and the Code. In each year of the contract term the multi-year bonus will have an upper limit in absolute terms; it will be paid in cash and can drop to nil.

Long-term compensation component: A long-term compensation component that takes adequate account of the economic value added (EVA) and the Company's market capitalisation is intended to further strengthen sustained, positive business performance. It is, for one financial year, paid up to a contractually agreed cap. Any excess is retained in a bonus account and serves as credit for the subsequent period. If the Company's performance is negative in a financial year, this will be charged to any credit in the bonus account, which can drop to nil. If the long-term compensation component for a financial year does not reach the cap, it will be topped up with any credit held in the bonus account. Of the gross amount paid out, 50 percent must be invested in LEONI shares that must be retained for a period of 50 months, thereby conforming to the 48-month minimum holding period prescribed by the VorstAG.

Absolute upper limit: The total compensation, which is the sum of the fixed, short-term, medium-term and long-term components, has, as do the short-term, medium-term and long-term components themselves, an absolute upper limit for each member of the Board of Directors in each year of their contract term.

The total compensation is commensurate with that paid by other MDAX companies and other companies of similar size. It takes account of both good and poor performance. Furthermore, the individual components do not tempt the Board of Directors to take inappropriate risk. An internationally recognised compensation expert oversaw the preparation of the compensation structure and confirmed its conformity with the legislation including the Code. The Supervisory Board assured itself of the expert's independence. In summary, it may be concluded that compensation for the members of LEONI's Board of Directors meets the requirements of both the VorstAG and Code and is set up for sustainability.

Pension, disability and other benefits

In the event of temporary work incapacity due to illness or other reasons, for which the member of the Board of Directors is not responsible, the compensation will, depending on the contractual agreement, continue to be paid for a period of nine months, at most up to termination of the employment contract.

Provided this has been agreed based on an individual contract, there is a pension commitment to the member of the Board of Directors. This commitment encompasses disability, surviving dependents' and retirement benefits. Specifically, this means that:

In the event of permanent work incapacity, the member of the Board of Directors will receive a disability pension. If the member of the Board of Directors dies, the surviving dependents will be paid pensions.

For plans up to the end of 2014 there is, following the end of their 65th (or 63rd with agreed discounts) year of age, an entitlement to payment of retirement benefits, which are computed according to the period of service on the Board of Directors and the pensionable fixed salary. Pensionable is defined as a contractually agreed proportion of the final fixed salary.

An age-related and surviving dependents' defined contribution pension is granted for plans from 1 September 2018. This involves, in the case of first-time plans, there being for each member of the Board of Directors an absolute limit to the benefit to be paid for each year of the contract term. The retirement benefit system is set up in such a way that the standard retirement age is 67 years and at the earliest 63 years subject to accepting discounts on the pension. In the event of being incapacitated, the member of the Board of Directors will receive a disability pension if his/her contract of employment terminates as a consequence of disability after their Board of Directors service contract has come into force and before the end of their 63rd year of age.

The disability and other benefits granted to members of LEONI AG's Board of Directors are also commensurate with those of other MDAX companies.

Miscellaneous

Severance payments upon premature termination of Board of Directors duties in the absence of a material reason are limited to two years' compensation and shall not be more than the annual compensation for the balance of the employment contract (severance cap pursuant to the Code).

In the event of a change of control, the members of the Board of Directors have, so far as contractually agreed, the right to terminate for material reason and shall be entitled to severance payment. This is limited to a maximum of three years' compensation (150 percent of the severance cap pursuant to the Code) and shall even in this event not exceed the annual compensation for the balance of the employment contract.

Cost of compensation in 2018

The compensation for members of the Board of Directors is presented in line with the reference tables of the Code. This involves differentiation between the benefits granted to members of the Board of Directors on the one hand and what is paid to them on the other hand.

	Aldo Kamper President / CEO (from 1 September 2018)				Dieter Bellé President / CEO (until 31 January 2018)			
	2017	2018			2017	2018		
GRANTED BENEFITS *€ '000*			min	max			min	max
1. Total compensation pursuant to GCGC								
Components not performance-related								
Fixed compensation		250	250	250	750	63	63	63
Fringe benefits		22	22	22	35	3	3	3
Total		**272**	**272**	**272**	**785**	**66**	**66**	**66**
Performance-related components (targets)								
Short-term compensation component (100 %)		255	255	309	500	46	46	46
Medium-term compensation component (100 %)		270	270	311	508	48	48	48
Long-term compensation component (100 %)		133	133	133	400	33	33	33
Total		658	658	753	**1,408**	**127**	**127**	**127**
Service costs		125[1]	125	125	562	107	107	107
Total compensation pursuant to GCGC		**1,055**	**1,055**	**1,150**	**2,755**	**300**	**300**	**300**
2. Reconciliation of the compensation from GCGC to IFRS (Expenses)								
Total compensation pursuant to GCGC		1,055			2,755	300		
Short-term compensation component: – Target (100 %) + actual compensation		 (255) 255			 (500) 550	 (46) 46		
Medium-term compensation component: – Target (100 %) + entitlement to compensation based on actual target attainment – Income from repayments and reversal of provisions		 (270) 255 0			 (508) 575 0	 (48) 48 0		
Long-term compensation component: – Target pursuant to GCGC + actual expenses for the financial year – Income from reversal of provisions		 (133) 133 0			 (400) 433 0	 (33) 33 0		
Settlement for premature contract termination		0			1,138	0		
Expenses of the compensation pursuant to IFRS		**1,040**			**4,042**	**300**		
3. Reconciliation of the compensation from GCGC to HGB (Art. 314)								
Total compensation pursuant to GCGC		1,055			2,755	300		
Short-term compensation component: – Target (100 %) + actual compensation		 (255) 255			 (500) 550	 (46) 46		
Medium-term compensation component: – Target (100 %) + entitlement to compensation based on actual target attainment – compensation components for which the condition precedent has not yet been fulfilled + compensation components for which the condition precedent has been fulfilled		 (270) 255 0 0			 (508) 575 0 0	 (48) 48 0 0		
Long-term compensation component: ± deviation from the target – service costs		 0 (31)			 0 (562)	 0 (107)		
Compensation pursuant to HGB (Art. 314)		**1,009**			**2,310**	**193**		
ALLOCATIONS *€ '000*								
Components not performance-related								
Fixed compensation		250			750	63		
Fringe benefits		22			35	3		
Total		**272**			**785**	**66**		
Performance-related components (actual figures)								
Short-term compensation component		255			550	46		
Medium-term compensation component		128			575	48		
Long-term compensation component		133			400	33		
Total		516			1,525	**127**		
Service costs		125[1]			562	107		
Total compensation pursuant to GCGC		**913**			**2,872**	**300**		

[1] For the 2018 financial year, the member of the Board of Directors used his right to convert his entitlement to a performance-related bonus payment to enlarge a personal pension by deferring compensation into entitlement to a corporate age-related and surviving dependents' defined benefit pension in the form of a direct commitment. The service costs were therefore increased by this amount.

Martin Stüttem Member of the Board of Directors (from 1 April 2017)				Bruno Fankhauser Member of the Board of Directors (from 1 February 2016)				Karl Gadesmann Chief Financial Officer / CFO (from 1 October 2016)				Total	
2017	2018			2017	2018			2017	2018			2017	2018
		min	max			min	max			min	max		
338	475	475	475	450	475	475	475	450	475	475	475	1,988	1,738
23	27	27	27	45	47	47	47	24	25	25	25	127	124
360	**502**	**502**	**502**	**495**	**522**	**522**	**522**	**474**	**500**	**500**	**500**	**2,114**	**1,862**
366	532	0	672	488	532	0	672	488	532	0	672	1,841	1,897
511	552	0	634	521	552	0	634	552	552	0	634	2,092	1,974
113	200	0	200	150	200	0	200	150	200	0	200	813	766
989	**1,284**	**0**	**1,506**	**1,159**	**1,284**	**0**	**1,506**	**1,189**	**1,284**	**0**	**1,506**	**4,745**	**4,637**
0	0	0	0	0	0	0	0	0	0	0	0	562	232
1,349	**1,786**	**502**	**2,008**	**1,654**	**1,806**	**522**	**2,028**	**1,664**	**1,784**	**500**	**2,006**	**7,421**	**6,731**
1,349	1,786			1,654	1,806			1,664	1,784			7,421	6,731
(366)	(532)			(488)	(532)			(488)	(532)			(1,841)	(1,897)
402	190			536	190			536	190			2,025	870
(511)	(552)			(521)	(552)			(552)	(552)			(2,092)	(1,974)
420	271			561	271			561	271			2,117	1,116
0	0			0	0			0	0			0	0
(113)	(200)			(150)	(200)			(150)	(200)			(813)	(766)
544	0			350	0			550	0			1,877	166
0	(400)			0	(200)			0	(400)			0	(1,000)
0	0			0	0			0	0			1,138	0
1,727	**562**			**1,942**	**782**			**2,121**	**561**			**9,832**	**3,246**
1,349	1,786			1,654	1,806			1,664	1,784			7,421	6,731
(366)	(532)			(488)	(532)			(488)	(532)			(1,841)	(1,897)
402	190			536	190			536	190			2,025	870
(511)	(552)			(521)	(552)			(552)	(552)			(2,092)	(1,974)
420	271			561	271			561	271			2,117	1,116
(420)	(271)			(561)	(271)			(561)	(271)			(1,542)	(813)
0	0			0	0			0	0			0	0
0	(200)			0	(200)			0	(200)			0	(600)
0	0			0	0			0	0			(562)	(138)
875	**691**			**1,181**	**711**			**1,161**	**690**			**5,526**	**3,295**
338	475			450	475			450	475			1,988	1,738
23	27			45	47			24	25			127	124
361	**502**			**495**	**522**			**474**	**500**			**2,114**	**1,862**
402	190			536	190			536	190			2,025	870
210	135			280	135			280	135			1,346	581
113	0			150	0			150	0			813	166
725	**325**			**967**	**325**			**967**	**325**			**4,183**	**1,618**
0	0			0	0			0	0			562	232
1,085	**827**			**1,461**	**847**			**1,441**	**825**			**6,859**	**3,711**

The 'granted benefits' table presents, in the compensation for members of the Board of Directors pursuant to GCGC, which benefits the members would have been granted for 100 percent target fulfilment and which individually attainable upper and lower limits would have applied. This total compensation (GCGC) would have corresponded to an amount of € 6,731 k in fiscal 2018 (previous year: € 7,421 k). As this involves budgeted figures that would only have been matched in the event of 100 percent target fulfilment, these figures must be reconciled with the business performance that actually occurred and conditions precedent. A distinction must be made here between reconciliation of the compensation (pursuant to GCGC) with IFRS and with Section 314 of the German Commercial Code (HGB). Any corresponding adjustment amounts versus the budgeted figures pertaining to all variable compensation components are reported in these reconciliations. This then results in the actually granted benefits pursuant to IFRS or Section 314 HGB.

The compensation pursuant to IFRS in the financial year amounted to € 3,246 k in 2018 (previous year: € 9,832 k) and pursuant to Section 314 HGB consequently to € 3,295 k (previous year: € 5,526 k).

The change in compensation pursuant to IFRS and HGB is attributable especially to the lower payment of variable compensation components for 2018 in contrast to 2017. The compensation pursuant to IFRS additionally reflects the settlement payment (provision in 2017) made to Dieter Bellé due to the premature termination of his contract and the absence in large part of his compensation in 2018.

The termination agreement reached between LEONI AG and Mr Dieter Bellé provides for a further settlement payment to Mr Bellé after the end of his period of office in the amount of € 3,222.9 k (salary up the regular end of his period of office on 31/12/2019) in the event that no claims are asserted against Mr Bellé or the D&O insurer due to the CEO fraud, or it is established by a judicial decision with the authority of res judicata that there are no claims for compensation to be asserted against Mr Bellé due to the CEO fraud. The further settlement payment will not come to bear in the event of a settlement between the Company and the D&O insurer.

The 'receipts' table shows what cash amounts the members of the Board of Directors received or will receive from the individual compensation components according to the GCGC. In total, the members of the Board of Directors will be paid compensation for their service on the Board of € 3,711 k for the 2018 financial year (previous year: € 6,859 k). Other compensation comprises the non-monetary benefits in the use of company cars and top-ups on insurance policies.

The fiscal 2018 expense for Board of Directors members' disability and other benefits excluding deferred compensation amounted to € 138 k (previous year: € 562 k). The defined benefit obligation came to € 41 k (previous year: € 6,362 k). The individual figures are presented in the table below.

Pension commitments (excl. deferred compensation)	**Service costs**		**Defined benefit obligation**	
€ '000	**2017**	**2018**	**2017**	**2018**
Dieter Bellé [1]	562	107	6,362	0
Aldo Kamper [2]		31	0	41
Total	562	138	6,362	41

[1] Commitment to payment of an age-related, disability and surviving dependents' pension, which is computed according to the pensionable fixed salary. From 2018, the defined benefit obligation is presented under the details for former members of the Board of Directors.

[2] Commitment to payment of a disability pension, which is computed according to the fixed salary.

The disability and other benefit expenses in principle comprise service costs and past service costs pursuant to IFRS. The defined benefit obligation (DBO) corresponds to the scope of obligations pursuant to IFRS.

Supervisory Board compensation

The Articles of Association govern compensation for members of the Supervisory Board. A system of fixed compensation has applied for members of LEONI AG's Supervisory Board since 1 January 2013. It stipulates a fixed amount of € 85 k per ordinary member of the Supervisory Board. The chairperson receives double this amount and the deputy chairpersons receive one and a half times the amount. The compensation for committee work (Personnel, Audit, Strategy and Nomination Committees) comes to € 8 k per ordinary member and to € 16 k per committee chairperson. It is paid only if the committee meets at least once in the year. Attendance of Supervisory Board and Audit Committee meetings will be paid for in the amount of € 1,000 per meeting and Supervisory Board member, with a maximum of ten meetings to be taken into consideration per financial year.

The maximum overall compensation possible for Supervisory Board members including committee work and attendance money comes to € 1,534 k.

Cost of compensation in 2018

€ '000		Fixed compensation (net)	Attendance money	Compensation for committee work	Other	Total
Dr Klaus Probst[1]	**2018**	170	10	32	0	212
	2017	109	8	32	0.2	149
Dr Werner Rupp[2]	**2018**	0	0	0	0	0
	2017	58	5	48	0.1	111
Franz Spieß[3]	**2018**	128	10	16	0.0	154
	2017	128	10	16	0.4	154
Prof. Dr-Ing. Klaus Wucherer[4]	**2018**	0	0	0	0	0
	2017	47	3	32	0	82
Dr Werner Lang[5]	**2018**	128	6	16	0	150
	2017	112	9	21	0.1	142
Gabriele Bauer[6]	**2018**	0	0	0	0	0
	2017	31	4	16	—	51
Dr Elisabetta Castiglioni[7]	**2018**	85	7	8	2.9	103
	2017	54	4	8	2.4	69
Wolfgang Dehen[7]	**2018**	85	7	16	0	108
	2017	54	5	16	0	75
Mark Dischner[7]	**2018**	85	7	8	0.0	100
	2017	54	5	8	0.3	68
Dr Ulrike Friese-Dormann	**2018**	85	7	0	1.5	93
	2017	85	6	0	1.0	92
Josef Häring[6]	**2018**	0	0	0	0	0
	2017	31	4	0	—	35
Ingrid Hofmann[6]	**2018**	0	0	0	0	0
	2017	31	3	8	—	42
Karl-Heinz Lach	**2018**	85	7	8	0	100
	2017	85	9	8	0.2	102
Richard Paglia	**2018**	85	10	16	—	111
	2017	85	10	16	—	111
Prof. Dr Christian Rödl	**2018**	85	10	16	—	111
	2017	85	10	16	—	111
Carmen Schwarz[7]	**2018**	85	5	8	0.1	98
	2017	54	3	8	0.3	66
Helmut Wirtz[6]	**2018**	0	0	0	0	0
	2017	31	4	8	1.2	44
Inge Zellermaier[7]	**2018**	85	7	0	0	92
	2017	54	5	0	0	59
Total	**2018**	**1,190**	**93**	**144**	**5**	**1,432**
	2017	**1,189**	**107**	**261**	**6**	**1,563**

Addition of the individual payments in € thousands may deviate from the reported totals due to rounding.

[1] Chairman of the Supervisory Board from 11/05/2017
[2] Chairman of the Supervisory Board until 03/05/2017
[3] 1st Deputy Chairman of the Supervisory Board
[4] 2nd Deputy Chairman of the Supervisory Board until 11/05/2017
[5] 2nd Deputy Chairman of the Supervisory Board from 11/05/2017
[6] Member of the Supervisory Board until 11/05/2017
[7] Member of the Supervisory Board from 11/05/2017

Disclosures pursuant to Sections 289a (1) and 315a (1) of the German Commercial Code (HGB) as well as explanatory report for fiscal 2018

Composition of the share capital: The Company's share capital amounted to € 32,669,000.00 on 31 December 2018 (previous year: € 32,669,000.00). This is divided into 32,669,000 registered no-par-value shares. The shares are paid up in full. According to Article 4 2) of the Articles of Association, the shareholder's right to securitise his, her or its shareholding is precluded so far as securitisation is not required under the rules of a stock market on which the shares are then admitted. With respect to LEONI AG, Section 67 (2) sentence 1 of the German Stock Corporation Act defines as shareholders only those persons or entities entered in the share register.

All shares are subject to the same rights and obligations. The individual rights and obligations of the shareholders are stipulated by the requirements of the German Stock Corporation Act, especially so its Sections 12, 53a et seq., 118 et seq. and 186.

Constraints concerning the voting rights or the transfer of shares: Each share provides one vote at the Annual General Meeting and is key to the shareholders' share of the profit. Treasury shares held by the Company, from which the Company does not derive any rights, are excluded from this principle. In the cases described in Section 136 of the German Stock Corporation Act, the voting rights of the affected shares are nullified by law. Infringements of reporting obligations as defined by Sections 33 (1, 2), 38 (1) and 39 (1) of the German Securities Trading Act (WpHG) may, under Section 44 of the German Securities Trading Act, lead to rights from shares and also the voting right not existing, at least temporarily.

LEONI AG is not aware of any other constraints affecting voting rights, especially so any contractual constraints. Legal requirements apply to the exercise of voting rights by shareholder associations as well as by financial institutions and persons otherwise granted proxy. In particular, Section 135 of the German Stock Corporation Act (AktG) applies.

Transfer constraints exist in so far as shares that members of the Board of Directors and executives receive or have received in the context of a long-term incentive programme are subject to a holding period of 50 months.

LEONI AG has not received report or become otherwise aware of **any shareholdings, either direct or indirect, that exceed 10 percent of the voting rights**.

Nor are there **any shares with special entitlements that grant control rights**.

The control of voting rights in the case of shareholding employees who do not directly exercise their control rights: So far as employees are shareholders, they are entitled to directly exercise the control rights associated with their shares in accordance with the Articles of Association and the law.

Statutory provisions and rules in the Articles of Association on the appointment and recall of members of the Board of Directors and on changes to the Articles of Association: The appointment and recall of members of the Board of Directors is governed by Sections 84 and 85 of the German Stock Corporation Act as well as in Section 31 of Germany's Co-determination Act. Pursuant to Article 5 (1) of the Articles of Association, the Board of Directors has at least two members. Furthermore, pursuant to Article 5 (2) sentence 1 of the Articles of Association, the Supervisory Board appoints the members of the Board of Directors and determines their number. It is entitled to appoint deputy members of the Board of Directors as well as a chairperson and a deputy chairperson of the Board of Directors (Article 5 (2) sentence 2, 3 of the Articles of Association).

Sections 119 (1) no. 5 and 179 (1) of the German Stock Corporation Act stipulate that any amendment of the Articles of Association requires a shareholder resolution at the Annual General Meeting. Pursuant to Section 179 (1) sentence 2 of the German Stock Corporation Act and Article 19 of the Articles of Association, the Supervisory Board is entitled to adopt amendments and additions to the Articles of Association that pertain only to that version. Furthermore, the Supervisory Board is authorised pursuant to Art. 4 (5), subpara. 5 of the Articles of Association to amend the version of the Articles of Association in line with the exercise either in full or in part of an increase in share capital by exercise of authorised capital 2017 and after expiry of the term of authorisation. Furthermore, the Board was authorised by a shareholder resolution at the Annual General Meeting on 7 May 2015 to amend the Articles of Association in line with the respective utilisation of authorised capital 2015 and after expiry of the term of authorisation.

The Annual General Meeting adopts its resolutions by a simple majority of votes and, to the extent that a majority of shares is required, with a simple majority of shares, unless bindingly provided otherwise by law or by the Articles of Association or by Section 103 (1) P. 2 of the German Stock Corporation Act (Article 16 (3 P. 3) of the Articles of Association). Therefore, shareholder resolutions at the Annual General Meeting that amend the Articles of Association also require, in addition to a simple majority of the votes, the majority of the share capital represented upon adoption of the resolution, provided no greater majority is required by law.

Powers of the Board of Directors to issue or buy back shares:
Purchase of treasury shares – The Company's Board of Directors is authorised, in the cases stipulated in Section 71 of the German Stock Corporation Act, to buy back own shares and to sell shares bought back. A shareholder resolution at the Annual General Meeting on 7 May 2015 pursuant to Section 71 (1) section 8 of the German Stock Corporation Act authorised the Board of Directors of LEONI AG, with the approval of the Supervisory Board, until 6 May 2020 to acquire own shares accounting for a pro-rated amount of the share capital totalling no more than 10 percent of the existing share capital at the time of this authorisation taking effect or – if this amount is smaller – at the time when this authorisation is exercised. At no time may the total of shares acquired by virtue of this authorisation and other shares of the Company already acquired and still held by the Company or attributable to it pursuant to Sections 71d and 71e of the German Stock Corporation Act (AktG) exceed 10 percent of the Company's share capital. The purchase may also be made through entities that are dependent on or are majority-owned by the Company or by third parties for the account of an entity that is dependent on or majority-owned by the Company. Such purchase may only be made via the stock market or by means of a public purchase offer made to all shareholders and must satisfy the principle of equal treatment of the shareholders. The authorisation may be used in full or several partial amounts spread across

several purchase times. The Board of Directors is authorised to use the treasury shares acquired on the basis of this authorisation for all legally permitted purposes, including those stated in the authorisation. Shareholders at the Annual General Meeting authorised the Board of Directors to do as follows with the shares acquired on the basis of this authorisation:

1. To resell them through means other than the stock market or by offer to all shareholders, on condition that the acquired shares are sold for cash and at a price that is not significantly lower than the market price for Company shares of the same category at the time of sale. This authorisation to exercise is limited to shares accounting for a pro-rated amount of the share capital totalling no more than 10 percent of the Company's share capital, neither at the time of this authorisation taking effect nor – if this amount is smaller – at the time when this authorisation is exercised. Further details are contained in the authorisation granted by the Annual General Meeting.

2. To transfer them to third parties provided this is done for the purpose of acquiring businesses, parts of businesses or shares in businesses or other assets or for executing business combinations.

3. To fulfil subscription or conversion rights, which arise from exercise of option or conversion rights or fulfilment of option exercise or conversion obligations, which were granted or imposed as part of the issue of warrant-linked or convertible bonds, profit-sharing rights or participating bonds (or combinations of these instruments) of the company or its group companies.

4. To transfer them to employees of the Company or to employees or board members of subordinated, affiliated companies within the meaning of Sections 15 et seq. of the German Stock Corporation Act.

5. To redeem them without any further resolution by the Annual General Meeting. Any such redemption may also be carried out without a reduction of capital by adjusting the pro-rata share of the other no-par-value shares in the Company's share capital. In this case, the Board of Directors is authorised to adjust the number of no-par-value shares stated in the Articles of Association.

6. To pay a scrip dividend.

If the acquired treasury shares are used for one of the purposes stated in Fig. 1 to 4 of this section, shareholders' rights to subscribe shall be excluded. If the acquired treasury shares are used for the purpose stated in Fig. 6, the Board of Directors is authorised to exclude the right to subscribe. If the acquired treasury shares are sold via the stock market, there is no shareholders' right to subscribe either. In the event of disposal of acquired treasury shares by means of a public offer to the shareholders, which is made based on upholding the principle of equal treatment, the Board of Directors is authorised to exclude the subscription right of shareholders for fractional amounts.

The Board of Directors may make use of the authorisations in Fig. 1 to 4 and 6 only with the approval of the Supervisory Board. The Supervisory Board may furthermore stipulate that the Board of Directors' measures on the basis of this authorisation are executed only with its approval.

No use of this authorisation has been made to date. The Company did not hold any treasury shares on 31 December 2018, nor did it on 31 December 2017.

Authorised capital – The Board of Directors is authorised pursuant to Article 4 (5) of the Articles of Association to increase the Company's share capital by up to €16,334,500.00 on or before 10 May 2022 with the Supervisory Board's approval by issuing up to 16,334,500 new bearer shares, each with a pro-rated share of €1.00 in the share capital, on a cash and/or non-cash basis once or repeatedly (authorised capital 2017). Shareholders must be granted a right to subscribe. However, the Board of Directors is authorised pursuant to Art. 4 (5) subpara. 2 of the Articles of Association, with the approval of the Supervisory Board, to rule out shareholders' subscription rights in the cases of:

1. A capital increase for cash, if the issue price of the new shares is not materially – within the meaning of Section 203 (1) and (2), Section 186 (3) sentence 4 of the German Stock Corporation Act – below the market price of already market-listed shares of the Company of the same type and with the same status at the time the issue price is set, which is to take place as soon as possible after the new bearer shares are placed. This exclusion of the subscription rights shall in total not exceed 10 percent of the Company's share capital, with the lowest amount of Company share capital at the following three times being decisive: on 11 May 2017, at the time this authorisation comes into effect or at the time it is exercised. More detail is contained in Article 4 (5) subpara. 2 (first bullet) of the Articles of Association.

2. A capital on a non-cash basis, especially to be able to offer new shares to third parties in the context of business combinations or furthermore for the purpose (also indirect) of acquiring businesses, operations, parts of businesses or shares in businesses or other assets or rights to acquire assets including receivables from the company or its group subsidiaries.

3. If this is necessary to grant the holders of convertible bonds and/or warrant-linked bonds or participation rights that were or will be issued by the Company or by its direct or indirect group companies a subscription right to new shares to the extent of their entitlement after the exercise of the conversion or option right or after fulfilment of the conversion obligation.

4. In order to exclude fractional amounts from the right of subscription.

The pro-rated amount of the share capital accounted for by the shares to be issued while excluding the shareholders' subscription rights shall in total not exceed 10 percent of the Company's existing share capital at the time the resolution is passed at the Annual General Meeting. More detail is contained in Article 4 (5) subpara. 3 of the Articles of Association.

Contingent capital – The Board of Directors is authorised, based on the shareholder resolution at the Annual General Meeting on 7 May 2015 and Article 4 (6) of the Articles of Association, with the approval of the Supervisory Board, until 6 May 2020 once or several times to issue warrant-linked or convertible bonds, profit-sharing rights or participating bonds (or combination of these instruments; collectively referred to as 'bonds') with a total par value of up to € 500,000,000 and to grant the holders the respective partial debentures with the same rights warrant-linked or conversion rights for registered Company shares with a pro-rated amount of the share capital totalling up to € 6,533,800.00 in accordance with the warrant-linked or convertible bond terms. More detail is contained in the authorisation resolution.

The legal right to subscribe to bonds is granted to shareholders in the manner that the bonds are taken on by a bank or the members of a banking syndicate or by a company of equal standing as defined by Section 186 (5) Sentence 1 of the German Public Stock Corporation Act (AktG) with the obligation that they be offered to shareholders for subscription. The Board of Directors is authorised, however, with the approval of the Supervisory Board to:

1. Exempt maximum amounts, which might arise due to the subscription ratio, from the subscription right of the shareholders and also to exclude subscription right to the extent required so that holders of previously issued bonds with warrant-linked or conversion rights, or warrant-linked or conversion obligations may be granted right to subscription in the amount that would be due to them after exercising their warrant-linked or conversion rights, or fulfilling their warrant-linked or conversion obligations as shareholders.

2. Fully exclude the right of shareholders to subscribe to bonds issued for cash, with warrant-linked or conversion rights or with warrant-linked or conversion obligations if the Board of Directors concludes, after due examination, that the issue price of the bonds does not fall substantially below their theoretical market value, calculated in accordance with recognised, particularly financial mathematical methods. This authorisation to exclude the subscription right shall apply to bonds with warrant-linked / conversion rights or warrant-linked / conversion obligations for shares accounting for a pro-rated amount of the share capital totalling no more than 10 percent of the Company's share capital, neither at the time of the authorisation taking effect nor – if this amount is smaller – at the time when the authorisation is exercised. This upper limit of 10 percent of the share capital is reduced by the pro-rated amount of the share capital accounted for by those shares issued or sold during the term of this authorisation while excluding the subscription right pursuant to or in accordance with Section 186 (3) sentence 4 of the German Stock Corporation Act; the other details being contained in the authorisation resolution.

3. So far as profit sharing rights or participating bonds are issued without warrant-linked rights / conversion rights or warrant-linked / conversion obligations, shareholder subscription rights may be excluded entirely if these profit sharing rights or participating bonds are structured in the same way as bonds, i.e. they do not provide any membership rights in the company, they do not grant any share of liquidation proceeds and the yield is not calculated on the basis of the amount of net income, the distributable profit or the dividend.

In this case the interest and the issue amount of the profit sharing rights or participating bonds must also correspond with the market terms prevailing at the time of the issue. An issue of bonds that excludes subscription rights under this authorisation may only be exercised so far as the amount of the new shares to be issued on the basis of such bonds, together with the shares that are issued by the Company during the term of this authorisation under another authorisation with exclusion of the shareholders' right to subscribe, or are to be issued on the basis of such bonds during the term of this authorisation and exclusion of the shareholders' right to subscribe, must not exceed 20 percent of the Company's current share capital at the time this authorisation takes effect.

The Company's share capital was divided by up to € 6,533,800 into as many as 6,533,800 registered (no-par-value) shares (contingent capital 2015). The contingent capital increase is only to be performed to the extent that option and/or conversion rights are exercised, or that those obliged to exercise the option and/or convert have met their option exercise and/or conversion obligation, or so far as the Company exercises its right under such instruments either entirely or partially to grant shares in the Company instead of paying the cash amount due and provided no other forms of fulfilment are used. More detail is contained in Article 4 (6) of the Articles of Association.

Agreements of the Company that are conditional upon a change of control as a result of a takeover bid: In the event of a change of control as a result of a takeover bid, the borrower's note loans placed in 2012, 2013 and 2015, which were still held in the total amount of € 305 million on 31 December 2018, as well as the other loan agreements may be called in immediately. Likewise, the lenders involved in the borrower's note loans placed in 2018 in the total amount of € 331 million can, in the event of a change of control, reclaim their respective shares of the loan, however, at the Company's request, not until after a negotiation period of up to 60 days has expired.

Under the 2018 syndicated loan agreement providing a revolving credit facility in the total amount of € 750 million, the lenders are entitled to terminate and require repayment in the event of a change of control. Similar to the borrower's note loans placed in 2018, this termination right cannot, if the Company's so requests, be exercised until after a negotiation period of up to 60 days has expired.

The right to termination and repayment pertaining to the loans concerned is, under both the borrower's note loans placed in 2018 and the syndicated loan agreement, afforded to each lender individually for their respective share of the loan or facility. Under the syndicated loan agreement, each lender individually is furthermore entitled, following a change of control, to refuse to pay out any further loans (with the exception of cashless roll-over loans).

Furthermore, in the event of a change of control, some of the major customers, suppliers as well as other joint venture partners also have the right to terminate contractual agreements with the Company prematurely.

Agreements on compensation that the Company has reached with members of the Board of Directors or staff for the event of a takeover bid: The service contracts of two members of the Board of Directors contain a change-of-control clause. In the event that the Company receives notification pursuant to Article 33 (1) sentence 1 of the German Securities Trading Act (WpHG) whereby the party obliged to report declares that they have reached or exceeded 30 percent or 50 percent of the voting rights in the Company, or notification pursuant to Article 35 WpHG stating that a shareholder has taken control of the Company as defined by Article 29 WpHG, the corresponding member of the Board of Directors is entitled to terminate his or her contract of employment with a notice period of three months to the end of the calendar month and to resign from his or her office as a member of the Board of Directors with the same notice period. The Board member is in this case entitled to payment of a settlement for the remaining term of his or her contract of employment. This is to be based on an amount of annual compensation that comprises (1) the average fixed compensation of the most recently ended and the current financial year, (2) the average annual bonus for the most recently ended financial year and the annual bonus budgeted for the current financial year, (3) the average of the notional annual bonus from the most recently ended financial year and the notional annual bonus budgeted for the current financial year as well as (4) the average of the share bonus for the most recently ended financial year and 80 percent of the maximum payable amount for the share bonus of the current financial year. Such settlement is limited to three years' compensation and shall not exceed the annual compensation for the balance of the employment contract. There shall be no entitlement to a settlement if the change of control takes effect within twelve months prior to the start of the corresponding Board of Directors member's retirement, or the service contract would automatically have ended within the next six months regardless of a change of control, or if the Company extraordinarily terminates the contract for good cause. More information is to be found in the compensation report.

Compensation report
» page 114 et seq.

Nuremberg, 22 February 2019

LEONI AG
The Board of Directors

Aldo Kamper	Bruno Fankhauser	Karl Gadesmann	Martin Stüttem

Consolidated financial statements

Consolidated financial statements

Consolidated income statement

€ '000 01/01/ to 31/12/	Notes	2018	2017
Sales		5,101,123	4,925,297
Cost of sales		(4,284,953)	(4,102,067)
Gross profit on sales		**816,170**	**823,230**
Selling expenses		(264,214)	(243,448)
General and administration expenses		(285,721)	(273,264)
Research and development expenses		(150,248)	(129,088)
Other operating income	[6] [7]	29,774	45,734
Other operating expenses	[6]	(24,714)	(18,844)
Result from associated companies and joint ventures	[19]	23,206	22,842
EBIT		**144,253**	**227,162**
Finance revenue	[8]	545	1,011
Finance costs	[8]	(24,060)	(26,117)
Other income from share investments		184	167
Income before taxes		**120,922**	**202,223**
Income taxes	[9]	(47,677)	(56,715)
Net income		**73,245**	**145,508**
attributable to: Equity holders of the parent company		75,626	146,607
Non-controlling interests		(2,381)	(1,099)
Earnings per share (basic and diluted) in Euro	[30]	2.31	4.49
Weighted average shares outstanding (basic and diluted)	[30]	32,669,000	32,669,000

[1] *Prior-year figures adjusted*

Consolidated statement of comprehensive income

€ '000 01/01/ to 31/12/	Notes	2018	2017
Net income		**73,245**	**145,508**
Other comprehensive income			
Items that cannot be reclassified to the income statement:			
Actuarial gains or losses on defined benefit plans		11,592	9,042
Income taxes applying to items of other comprehensive income that are not reclassified		489	(335)
Share of the actuarial gains and losses that pertain to associates and joint ventures		15	32
Items that can be reclassified to the income statement:			
Cumulative translation adjustments			
Losses and gains arising during the period		(852)	(38,882)
Less reclassification adjustments included in the income statement		0	(1,914)
Total cumulative translation adjustments		(852)	(40,796)
Cash flow hedges			
Gains and losses arising during the period		8,389	4,322
Less reclassification adjustments included in the income statement		(1,668)	10,525
Less reclassification adjustments in the statement of financial position		(6)	101
Total cash flow hedges		6,715	14,948
Parts of the items that can be reclassified to the income statement, which pertain to associates and joint ventures		(21)	(823)
Income taxes applying to items of other comprehensive income that are reclassified		(471)	(3,409)
Other comprehensive income (after taxes)	[10]	**17,467**	**(21,341)**
Total comprehensive income		**90,712**	**124,167**
attributable to: Equity holders of the parent company		93,068	125,773
non-controlling interests		(2,356)	(1,606)

[1] Prior-year figures adjusted

Consolidated statement of cash flows

€ '000 01/01/ to 31/12/	2018	2017[1]
Net income	**73,245**	**145,508**
Adjustments to reconcile cash provided by operating activities:		
Income taxes	47,677	56,715
Net interest	23,298	23,263
Dividend income	(168)	(183)
Depreciation and amortisation	158,590	149,524
Impairment of non-current assets	6,830	2,780
Non-cash result from associated companies and joint ventures	(23,222)	(22,826)
Result of asset disposals	(10,147)	(1,892)
Effect of deconsolidation	(1,086)	(24,256)
Change in operating assets and liabilities		
Change in receivables and other financial assets	(40,130)	(71,622)
Change in inventories	(12,594)	(86,141)
Change in other assets	(82,696	(22,754)
Change in restructuring provisions	(3,567)	(15,660)
Change in other provisions	(6,761)	(10,497)
Change in liabilities	60,481	160,574
Income taxes paid	(49,264)	(39,695
Interest paid	(6,972)	(4,475
Interest received	283	296
Dividends received	17,715	5,982
Cash flows from operating activities	**151,512**	**244,641**
Capital expenditures for intangible assets and property, plant and equipment	(315,681)	(275,195)
Acquisitions of subsidiaries less assumed cash and cash equivalents	0	(1,139
of which: Purchase price € 0 k (previous year: € 3,479 k)		
Assumed cash and cash equivalents 0 T€ (previous year: € 2.340 k)		
Cash receipts from disposal of assets	17,267	6,105
Income from the disposal of a business operation / subsidiaries less cash and cash equivalents paid	0	36,653
thereof: Disposal proceeds € 0 k (previous year: € 53.740 k)		
Cash and cash equivalents paid € 0 k (previous year: € 17.087 k)		
Cash flows from capital investment activities	**(298,414**	**(233,576**
Cash receipts from acceptance of financial debts	763,180	102,297
Cash repayments of financial debts	(588,720)	(105,516)
Payments to non-controlling interests	45	0
Interest paid	(13,677	(15,308)
Dividends paid by LEONI AG	(45,737	(16,335)
Dividends paid for non-controlling interests	0	(1,024)
Cash flows from financing activities	**115,091**	**(35,886**
Change of cash and cash equivalents	(31,811)	(24,821)
Currency adjustment	(1,519)	(7,395)
Cash and cash equivalents at beginning of period	185,084	217,300
of which carried on the balance sheet under the item 'assets held for sale'	0	8,387
of which carried on the balance sheet under the item 'cash and cash equivalents'	185,084	208,913
Cash and cash equivalents at end of period	151,754	185,084

[1] *Prior-year figures adjusted*

Consolidated statement of financial position

Assets € '000	Notes	31/12/2018	31/12/2017[1]
Cash and cash equivalents		151,754	185,084
Trade accounts receivable and other financial assets	[12]	673,655	648,082
Other assets	[13]	170,326	124,842
Receivables from income taxes		19,084	11,171
Inventories	[14]	609,290	596,696
Contract assets	[6]	95,181	102,112
Total current assets		**1,719,290**	**1,667,987**
Property, plant and equipment	[15]	1,206,316	1,052,337
Intangible assets	[16]	75,871	64,486
Goodwill	[18]	140,221	146,682
Shares in associated companies and joint ventures	[19]	33,359	34,059
Contract assets	[6]	78,762	60,535
Other financial assets		6,452	7,349
Deferred taxes	[10]	56,136	50,220
Other assets		145,121	60,943
Total non-current assets		**1,742,238**	**1,476,611**
Total assets		**3,461,528**	**3,144,598**

Equity and liabilities € '000	Notes	31/12/2018	31/12/2017
Current financial debts and current proportion of long-term financial debts	[20]	176,550	254,373
Trade accounts payable and other financial liabilities	[21]	1,084,343	974,884
Income taxes payable		22,218	25,541
Other current liabilities	[22]	190,169	188,592
Provisions	[23]	24,538	33,404
Total current liabilities		**1,497,818**	**1,476,794**
Long-term financial debts	[20]	587,880	336,947
Long-term financial liabilities		29,860	27,585
Other non-current liabilities		10,605	11,716
Pension provisions	[24]	158,904	170,792
Other provisions	[23]	35,509	33,298
Deferred taxes	[10]	59,514	45,580
Total non-current liabilities		**882,272**	**625,918**
Share capital	[25]	32,669	32,669
Additional paid-in capital	[25]	290,887	290,887
Retained earnings	[25]	806,742	782,263
Accumulated other comprehensive income		(54,797)	(72,239)
Equity holders of the parent company		1,075,501	1,033,580
Non-controlling interests		5,937	8,306
Total equity	[25]	**1,081,438**	**1,041,886**
Total equity and liabilities		**3,461,528**	**3,144,598**

[1] Prior-year figures adjusted

Consolidated statement of changes in equity

				Accumulated other comprehensive income					
€ ‘000	Share capital	Additional paid-in capital	Retained earnings	Cumulative translation adjustments	Cash flow hedges	Actuarial gains and losses	Equity holders of the parent company	Non-controlling interests	Total
31 December 2016	**32,669**	**290,887**	**635,243**	**84,906**	**(14,914)**	**(121,352)**	**907,439**	**9,725**	**917,164**
Adjustment IFRS 15			16,748	(45)			16,703		16,703
1 January 2017[1]	**32,669**	**290,887**	**651,991**	**84,861**	**(14,914)**	**(121,352)**	**924,142**	**9,725**	**933,867**
Net income			146,607				146,607	(1,099)	145,508
Other comprehensive income				(41,111)	11,539	8,738	(20,834	(507)	(21,341)
Total comprehensive income							125,773	(1,606)	124,167
Dividend payment			(16,335)				(16,335)	(1,024)	(17,359)
Purchase of non-controlling interests								1,342	1,342
Disposal of non-controlling interests								(131)	(131)
31 December 2017[1]	**32,669**	**290,887**	**782,263**	**43,750**	**(3,375)**	**(112,614)**	**1,033,580**	**8,306**	**1,041,886**
31 December 2017[1]	**32,669**	**290,887**	**782,263**	**43,750**	**(3,375)**	**(112,614)**	**1,033,580**	**8,306**	**1,041,886**
Adjustment IFRS 9			(5,410				(5,410)	(58)	(5,468)
1 January 2018	**32,669**	**290,887**	**776,853**	**43,750**	**(3,375)**	**(112,614)**	**1,028,170**	**8,248**	**1,036,418**
Net income			75,626				75,626	(2,381	73,245
Other comprehensive income				(898)	6,244	12,096	17,442	25	17,467
Total comprehensive income							93,068	(2,356)	90,712
Dividend payment			(45,737)				(45,737)	0	(45,737)
Payment to non-controlling interests								45	45
31 December 2018	**32,669**	**290,887**	**806,742**	**42,852**	**2,869**	**(100,518)**	**1,075,501**	**5,937**	**1,081,438**

[1] *Prior-year figures adjusted*

Notes

Principles

LEONI AG ('LEONI', the 'Group' or the 'Company') was founded in Germany under the name of Leonische Werke Roth-Nürnberg, Aktiengesellschaft by an agreement dated 23 April 1917 and was entered in the commercial register on 2 February 1918. LEONI AG is registered with the District Court of Nuremberg under number HRB 202. The Company is based in Nuremberg, at Marienstrasse 7. The Group's principal activities are described in Note 5.

These consolidated financial statements of LEONI AG have been prepared based on Section 315a of the German Commercial Code (HGB – "Consolidated Financial Statements pursuant to the International Financial Reporting Standards") in accordance with the International Financial Reporting Standards (IFRS) and the associated interpretations (SIC/IFRIC interpretations) as obliged to by Directive (EU) no. 1606/2002 of the European Parliament and of the Council concerning the adoption of international accounting standards in the European Union. The term IFRS also covers the still valid International Accounting Standards (IAS).

LEONI AG's consolidated financial statements on 31 December 2018 have been prepared in euros. Except where stated otherwise, all amounts are presented in thousands of euros ("€ k"). The balance sheet is structured by term, while the income statement is prepared using the function of expense method. The statement of comprehensive income is issued in two related presentations. Where the balance sheet and income statement items are summarised to improve clarity of presentation, they are shown separately in the Notes.

The accounting and valuation methods applied in the consolidated financial statements on 31 December 2018 are in line with those of the previous year with the exception of the new IFRS requirements applied for the first time in the 2018 financial year. These are explained under Note 2.

The Board of Directors on 22 February 2019 authorised the presented consolidated financial statements for the year ended 31 December 2018 for submission to the Supervisory Board.

The consolidated financial statements will be published in the electronic Federal Gazette (Bundesanzeiger) under number HRB 202.

1 | Principles of consolidation as well as summary of key accounting and valuation methods

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and financial assets in the form of debt and equity instruments as well as contingent considerations (previous year: available-for-sale financial assets), which are measured at fair value.

Principles of consolidation

The consolidated financial statements include the accounts of LEONI AG and of all subsidiaries that are either directly or indirectly controlled by LEONI AG. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and can affect those returns through its power over the investee. In particular, the Group controls an investee if, and only if, it has all the following elements:

- power over the investee, i.e. the Group has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the investee's returns)
- exposure, or rights, to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect the amount of the investor's returns

If facts or circumstances indicate that one or several of the three elements of control have changed, the Group must reassess whether it controls an investee.

Subsidiaries are fully consolidated from the time of acquisition, i.e. from the time when the Group has acquired control over the subsidiary. Inclusion in the consolidated financial statements ends as soon as LEONI no longer has control. A change in the ownership share of a subsidiary is, without loss of control, accounted for as an equity transaction. Losses are allocated to the non-controlling interests even when this results in a negative balance.

The financial statements of the subsidiaries are prepared using uniform accounting policies on the same balance sheet date as the financial statements of the parent company. All intercompany balances, income, expenses as well as unrealised profits, losses and dividends from intercompany transactions are eliminated in full.

All business combinations are accounted for using the acquisition method based on applying the requirements of IFRS 3. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in the fair value of a contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IFRS 9 (previous year: IAS 39) either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill arises and is upon initial consolidation measured at cost if the consideration transferred and the amount recognised for non-controlling interest exceeds the fair value of the net identifiable assets acquired and liabilities assumed. If this transferred consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. After goodwill is first accounted for, it is tested for impairment according to IAS 36 at least once a year, which may lead to an impairment loss (impairment-only approach).

Shares in associated companies and joint ventures
It is an associated business when LEONI can exert significant influence over its operating and financial policies but does not control or jointly control the decision-making processes. This is in principle the case when between 20 and 50 percent of the voting rights are held.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations to determine significant influence or joint control are comparable with those to determine control of subsidiaries.

Shares in associated companies and in joint venture companies are accounted for under the equity method. The shares are valued with their purchase price on the acquisition date, which is increased or reduced respectively in the subsequent periods for any changes in net assets of the company such as the proportionate share of net income or loss and by received dividends. The proportionate net income or loss is determined using the accounting policies described in this Note. In line with the treatment of fully consolidated subsidiaries, the goodwill included in the carrying amount of companies accounted for under the equity method is no longer amortised either. Instead of a test for impairment of equity method goodwill, the whole investment accounted for under the equity method is reviewed for impairment according to IAS 36, provided there are indications according to IFRS 9 (previous year: IAS 39) of additional impairment loss. The Group determines on each balance sheet date whether there are objectively discernible indications that the investment in an associated company or joint venture might be impaired. If this is the case, the difference between the fair value of the investment and the carrying amount is expensed as an impairment loss.

The financial statements of the associates and of the joint ventures are prepared using uniform accounting policies on the same balance sheet date as the financial statements of the parent company.

Foreign currency translation
These consolidated financial statements are prepared in the presentation currency, the euro, which is the functional currency of the group parent company, LEONI AG. The financial statements of the foreign subsidiaries included in the consolidated financial statements with a functional currency other than the euro, are, under IAS 21, translated into the Group currency, the euro, according to the functional currency concept. The functional currency of the individual subsidiaries is the currency of the primary economic environment in which the company operates. The financial statements prepared in the respective functional currency of the subsidiary are translated using the closing rate method, i.e. the assets and liabilities are translated from the functional currency to the presentation currency at the closing exchange rate on the balance sheet date, while the statements of income are translated using annual average exchange rates (arithmetic average of the monthly average exchange rates). Any differences arising from the translation of assets and liabilities compared with the previous year's translation as well as translation differences between the income statement and the statement of financial position are recorded in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences in the other comprehensive income relating to that foreign operation is recognised in the income statement when the gain or loss on disposal is recognised.

A foreign currency transaction, i.e. a transaction entered into by a consolidated company in a currency other than its functional currency, is recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. In the subsequent periods, monetary assets and liabilities are revalued using the closing rate at each balance sheet date. The resulting currency differences are recorded in the income statement. Non-monetary items are still carried at the transaction rate, or, if they are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Exchange gains or losses that arise from measurement of monetary, principally intra-group items are allocated to operating income (EBIT) to the extent that they involve exchange gains or losses directly related to an operating transaction.

The exchange rates of the companies material to the consolidated financial statements have changed as follows:

Average exchange rate at balance sheet date — 1 euro in foreign currency units

Country	Currency	ISO Code	31/12/2018	31/12/2017
Brazil	Real	BRL	4.45010	3.96950
China	Renminbi Yuan	CNY	7.88650	7.79810
United Kingdom	Pound	GBP	0.89680	0.88730
Korea	Won	KRW	1,277.90000	1,278.52000
Mexico	Peso	MXN	22.53000	23.59000
Poland	Zloty	PLN	4.29900	4.17600
Romania	Leu	RON	4.66300	4.65930
Russian Federation	Rubel	RUB	79.95000	69.32000
Switzerland	Swiss Franc	CHF	1.12700	1.17000
USA	Dollar	USD	1.14570	1.19900

Annual average exchange rate — 1 euro in foreign currency units

Country	Currency	ISO Code	2018	2017
Brazil	Real	BRL	4.29960	3.62362
China	Renminbi Yuan	CNY	7.81497	7.62873
United Kingdom	Pound	GBP	0.88586	0.87470
Korea	Won	KRW	1,295.12231	1,275.59538
Mexico	Peso	MXN	22.68872	21.44338
Poland	Zloty	PLN	4.26069	4.25723
Romania	Leu	RON	4.65537	4.57129
Russian Federation	Rubel	RUB	73.87808	66.04808
Switzerland	Swiss Franc	CHF	1.15243	1.11315
USA	Dollar	USD	1.18044	1.13048

Measurement of fair value

The Group measures various assets at their fair value on each balance sheet date. Fair value is the price that an entity would receive to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring fair value, it is assumed that the business transaction takes place either on the principal market or, if there is no principal market, on the most advantageous market for the asset or the liability. The Group must have access to the principal market or the most advantageous market.

The fair value of an asset or a liability is measured on the assumptions on which market participants would base their pricing of the asset or the liability. This assumes that the market participants act in their best business interest.

A fair value measurement of a non-financial asset takes account of the market participant’s ability, through the asset's highest and best use or through its sale to another market participant who finds the asset's highest and best use, to generate economic benefit. The Group applies valuation techniques appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is ascertained or presented in the financial statements are categorised into the fair value hierarchies described hereinafter, based on the lowest level input that is significant to the entire measurement of fair value:

Level 1: (Non-adjusted) prices quoted in active markets for identical assets or liabilities
Level 2: A valuation technique whereby the lowest level input that is significant to the entire measurement of fair value is directly or indirectly observable on the market
Level 3: A valuation technique whereby the lowest level input that is significant to the entire measurement of fair value is not observable on the market

In the case of assets and liabilities that are recognised in the financial statements on a recurring basis, the Group ascertains whether any reclassification of the hierarchy levels has taken place by, at the end of each reporting period, reviewing the classification based on the lowest level input that is significant to the entire measurement of fair value.

The services of outside appraisers are used in some individual cases to value significant assets as well as such significant liabilities as contingent considerations. The Group analyses as at each reporting date the value of assets and liabilities that must, in accordance with the Group's accounting policies, be remeasured or reassessed. This analysis involves a review of the significant inputs that were applied to the previous valuation.

Revenue recognition
LEONI generates revenues with products and services for energy and data management in the automotive sector and other industries. Income from contracts with customers is recognised when control of the goods or services is transferred to the customer. Such sales revenues are as a matter of principle recognised in the amount of the consideration to which the Group expects to be entitled in exchange for those goods or services.

Income from the sales of goods in the Wire & Cable Solutions Division is recognised at the time when control is transferred to the customer.

The granted payment terms are normally 30 to 90 days from the date of delivery.

In the Wiring Systems Division, sales revenues are generated from development work performed prior to supplying customers in the car and commercial vehicle industry and subsequent series production and supply, each of which represent separate performance obligations.

The products supplied are typically customised, i.e. made to order within master agreement arrangements, without any option for alternative use. The master agreement covers the period of series production (approx. 5 – 7 years), but a binding commitment in the sense of an enforceable right to supply a specific quantity is not created until the customer places an order. Together with the respective order, the master agreement represents the contract within the meaning of IFRS 15.9. Without contractual minimum order quantities there is only one transaction price for the current order.

When determining the transaction price, the Group considers the impact of variable considerations in the form of discounts and possibly considerations to be paid to a customer in the form of nomination fees.

With some customers, LEONI has an enforceable right to payment for the performance completed to date. The conditions for revenue and income recognition over a period of time are thereby met. Revenue and income for the goods concerned are consequently recognised over a period of time, together with presentation under contract assets.

If LEONI does not have an enforceable right to payment for the performance completed to date, the sales revenues are recognised at the time when control is transferred to the customer. This is generally the case upon delivery of the products. The payment terms granted within the framework of series supply are normally 30 to 120 days from the date of delivery.

Payments that have a direct, causal link with obtaining of the contract and represent an anticipated discount for future business volume (known as nomination fees) are capitalised and presented under other assets. The capitalised amount is recognised using the agreed unit numbers to reduce revenue.

The development services performed by the Wiring Systems Division prior to series supply are also provided over a period of time as the customer receives the benefit from the Group's service and simultaneously makes use of it. To determine progress versus complete fulfilment of its performance obligation, LEONI applies an input-based method together with presentation under contract assets. The estimate of variable compensation for development services in the form of partial or full amortisation via the parts price of the series is limited to the total of costs without margin due to the immanent project risks.

The existing warranty obligations qualify as assurance type warranties and therefore do not constitute separate performance obligations. They are therefore accounted for according to the rules for other provisions.

Interest and dividend income
Interest income is recognised as interest accrues. By using the effective interest rate method this means that the interest income recognised is the amount produced by using the effective interest rate. This is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to the net carrying amount of the financial asset. Interest income from financial assets that are held for the purposes of liquidity management is presented under finance revenues.

Dividend income is recognised when the shareholder's right to receive payment is established.

Research and development costs
Research costs are expensed as incurred.

Development costs are expensed as incurred unless they relate to customer-specific development contracts accounted for pursuant to IFRS 15, or they meet the criteria of IAS 38 for capitalisation as an intangible asset.

Government grants
A government grant is recognised when there is sufficient assurance that the grant will be received and that the enterprise will comply with the conditions attaching to it. Expense-related grants are recognised as income on a systematic basis over the periods necessary to match them with the associated costs. Grants for an asset are deducted from the cost of the asset.

Factoring
Some trade receivables, mainly from carmakers and their suppliers, are sold to factoring companies to realise cash receipts early. Such receivables are derecognised from the consolidated balance sheet at the time of sale because the risk of default is transferred to the purchaser. The security deposit assessed by the factor is recognised in current other financial assets. The liabilities from cash receipts for sold receivables are reported under other financial liabilities.

Reverse factoring
Reverse factoring transactions are used to finance suppliers in connection with copper procurement. These agreements are used mainly to take advantage of longer payment terms. There is no effect, however, either in terms of recognition or under civil law that would entail reclassification of the trade liabilities to another type of liability on the balance sheet.

Inventories

Inventories encompass raw materials, production supplies and goods purchased as well as work in progress and finished goods. They are stated at the lower of cost and the net realisable value. Raw materials, production supplies as well as goods purchased are evaluated at cost using the weighted average cost formula or at the lower net realisable value on the balance sheet date. The net realisable value is computed based on the estimated selling price in the normal course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Costs of conversion of work in progress and finished products comprise, alongside the direct costs of production material and production wages, proportionate material and production overhead costs based on standard capacity.

Property, plant and equipment

Property, plant and equipment is, upon initial recognition, valued at cost. Attributable borrowing costs are capitalised as part of the cost of a qualifying asset pursuant to IAS 23. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use. Government grants for capital investments reduce the cost of those assets for which the grant was awarded. In the subsequent periods, property, plant and equipment is carried at cost less accumulated depreciation. It is depreciated over its probable economic life. Immovable assets are mostly depreciated on a straight-line basis and movable assets are, depending on their type of use, depreciated using either the straight-line method or, if so required by their actual use, the declining method. When carrying out larger-scale maintenance, the costs are recognised in the carrying amount of the item of property, plant or equipment, provided that recognition criteria are met.

The following useful lives are assumed for depreciation:

Buildings and facilities	max. 50 years
Machinery and equipment	max. 15 years
Factory and office equipment	max. 10 years
Computer hardware	3 – 5 years

Leased installations are depreciated on a straight-line basis over the respective shorter period of the term of the lease or the estimated ordinary useful life.

A property, plant or equipment is derecognised either when it is disposed of or when no further economic benefit is to be expected from either the use or disposal of the asset. The gains or losses resulting from derecognition are determined as the difference between the net disposal proceeds and the carrying amount and are, in the period in which the asset is derecognised, recorded in the income statement.

The residual values of the assets, useful lives and depreciation methods are reviewed at the end of the financial year, and if necessary adjusted.

Contract assets

A contract asset is the entitlement to consideration in exchange for goods or services that were transferred to a customer. If LEONI fulfils its contractual obligations by transferring goods or services to a customer before the customer pays the consideration or before the payment is due, a contract asset is recognised for the contingent entitlement to consideration.

Leases

Leases are classified as either finance or operating. Leasing transactions whereby LEONI is the lessee and bears all substantial risks and rewards typical of ownership from use of the leased asset are accounted for as finance leases. Accordingly, the lessee capitalises the leased asset and records the corresponding lease obligation on the balance sheet at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The leased asset is depreciated over its economic life. If there is no reasonable certainty at the beginning of the lease that the Group will obtain ownership, the leased asset is depreciated in full over the shorter of the two periods of the expected useful life and the term of the lease. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement. All other leasing agreements entered into by LEONI, as a lessee, are accounted for as operating leases. The lease payments are expensed on a straight-line basis over the lease term.

Whether an arrangement contains a lease is determined based on the arrangement's economic substance at the time it was concluded and requires an assessment whether meeting the contractual arrangement depends on the use of a certain asset or certain assets and whether the arrangement gives the right to use the asset.

Intangible assets

Intangible assets comprise patents, software, licenses and similar rights, as well as customer relationships, brands, technology and production know-how acquired in the context of business combinations. An intangible asset that results from development expenditure is capitalised if a newly developed product or process can be clearly defined, is technically feasible and is intended for either own use or for sale. Capitalisation also assumes that the development expenses can with a sufficient degree of likelihood be covered with future inflow of cash and cash equivalents and the other IAS 38.57 criteria are met.

Intangible assets acquired separately are, upon initial recognition, valued at cost. The costs of intangible assets acquired as part of business combinations equal their fair values as at the date of acquisition. In the subsequent periods, intangible assets are carried at their cost less any accumulated depreciation and any accumulated impairment losses. Measurement in the subsequent periods should differentiate between intangible assets with a finite useful life and with an indefinite useful life.

According to IAS 38, intangible assets with a finite useful life must be amortised over their useful life. The Company therefore, in accordance with these requirements, amortises development costs capitalised as assets on a straight-line basis and amortises other intangible assets with a finite useful life on a straight-line basis over their useful lives to their estimated residual values, which is normally nil. Other intangible assets with a finite useful life are mainly software licenses with an estimated useful life of three to 10 years as well as customer relationships with useful lives of two to 23 years as well as technology and production know-how with a useful life of two to 15 years, in both cases acquired in the context of business combinations. The amortisation method and the amortisation period for an intangible asset with a finite useful life are reviewed, at least, at the end of each financial year. Any changes to the amortisation method and the amortisation period due to revision of the expected useful life or the expected use of the asset's future economic benefit are treated as changes in estimates.

According to IAS 38, intangible assets with an indefinite useful life have no longer been amortised; instead such intangible assets must, according to IAS 36, be reviewed for impairment at least annually and written down to their lower recoverable amount. The review is carried out as at 31 October of each year according to the same principles as in the case of goodwill. The remarks below therefore apply accordingly. Intangible assets with an indefinite useful life are reviewed once a year to determine whether the estimate of assessment of an indefinite useful life is still justified. If this is not the case, the assessment is prospectively changed from an indefinite to a definite useful life. LEONI recorded brands acquired in the context of business combinations as intangible assets with an indefinite useful life.

Intangible assets are derecognised when they are disposed of or when no further economic benefit is to be expected from either their use or disposal.

Goodwill

Goodwill from a business combination is, upon initial recognition, measured at cost calculated as the excess of the transferred consideration over the identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at the acquisition cost less any accumulated impairment losses.

Goodwill is not amortised; instead it is in line with the requirements of IAS 36 reviewed for impairment at least once a year. The Group reviews the goodwill for impairment annually as at 31 October. A review also takes place if events or circumstances indicate that there might be an impairment loss. For the purpose of the impairment test, goodwill acquired in the context of a business combination is, from the acquisition date, to be allocated to the Group's cash-generating units expected to benefit from the synergies of the business combination. This applies regardless of whether other assets or liabilities of the acquired business are allocated to these cash-generating units. Goodwill is tested at the level of the cash-generating unit to which it is allocated by comparing the carrying amount of the cash-generating unit or units with the recoverable amount. Impairment has occurred if the carrying amount exceeds the recoverable amount, requiring a write-down to the recoverable amount. The recoverable amount corresponds to the higher of the two amounts from the fair value less cost to sell and value in use. The value in use of a cash-generating unit is defined as the present value of projected cash flows to the Company from the cash-generating unit. To determine the value in use, the projected cash flows are discounted to their present value based on a discount rate before tax that reflects current market assessments of the time value of money and the risks specific to the cash-generating unit. An appropriate valuation model is applied to determine the fair value less cost to sell. This is based on valuation multiples, discounted cash-flow valuation models, stock market prices and other available indicators of the fair value.

Later reversal based on disappearance of the reason for a goodwill impairment recorded in previous financial years or interim reporting periods is not permitted.

Impairment testing of intangible assets and of property, plant and equipment

An assessment is made at each balance sheet date whether there are any indications that an impairment loss may have occurred. If there are such indications, the recoverable amount of the asset is determined and compared with its carrying amount. The system for and effects of this review are in line with the test of goodwill (see comments on goodwill above).

If specific cash flows generated largely independently from other assets or groups of assets cannot be allocated to the individual assets, they are tested for impairment based on the smallest, overriding cash-generating unit of assets.

If the reasons for applying the impairment charge have disappeared, the write-down on the asset is reversed. Such reversal is limited to the amount that would have resulted when taking amortisation or impairment into account.

Regardless of whether there is evidence of impairment, a corresponding test for impairment is applied once a year to both intangible assets that are not yet ready for use and intangible assets with an indefinite useful life.

Financial instruments

LEONI has applied the new IFRS 9 Standard since 1 January 2018 and has, for the transition, opted for the modified, retrospective method without adjusting the comparative period. The accounting and valuation methods under IFRS 9 are therefore described for this financial year and, so far as they deviate, according to IAS 39 for the previous year.

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. Financial instruments recorded as either financial assets or financial liabilities are as a matter of principle presented separately. They are reported on a net basis only where a right of set-off with respect to the amounts exists at the present time and it is intended to settle net.

Financial instruments are recognised as soon as LEONI becomes a contracting party to the financial instrument. In the case of regular way purchases or sales in the context of a contract whose conditions provide for the asset to be delivered within a period of time that is normally determined by the rules or conventions of the respective market, the settlement date, i.e. the date on which the asset is supplied to or by LEONI, is pertinent to initial recognition as well as derecognition.

Financial assets comprise particularly cash and cash equivalents, trade receivables as well as other originated loans and receivables, equity investments, both primary and derivative financial assets held for trading purposes as well as financial instruments held to maturity (only in the previous year according to IAS 39).

Financial liabilities normally provide a claim for return in cash or another financial asset. These comprise particularly bonds and other securitised liabilities, trade liabilities, liabilities to banks, liabilities under finance leases, borrower's note loans and derivative financial liabilities.

Financial assets are derecognised when one of the three following conditions is met:

- The contractual rights to receive the cash flows from a financial asset are extinguished.
- Although the Group retains the rights to receive the cash flows from financial assets, it assumes a contractual obligation to immediately pay the cash flows to a third party in the context of an agreement that meets the requirements of IFRS 9.3.2.5 ("pass-through arrangement"; previous year: IAS 39.19).
- The Group has transferred its contractual rights to receive the cash flows from a financial asset and substantially all the risks and rewards incident to ownership of the financial asset have thereby been transferred, or alternatively when control of the financial asset has been transferred.

Cash receipts from the sale of receivables that were not yet passed on to the buyer of the receivables on the balance sheet date are reported under other financial liabilities.

Financial liabilities are derecognised when the obligation underlying the liability has been met, terminated or extinguished.

Financial instruments are initially recognised at their fair value. The assumption or issue of directly attributable transaction costs is considered when determining the carrying amount if the financial instruments are not measured at fair value through profit or loss.

For measurement subsequent to initial recognition the financial instruments are allocated to one of the measurement categories listed in IFRS 9 (previous year: IAS 39) to which they are designated at the time of their initial recognition.

Financial assets

Since 1 January 2018, financial assets have been classified according to IFRS 9 based on the Group's business model for managing financial assets and the properties of the contractual cash flows of the financial assets.

Since 1 January 2018, financial assets have been divided into the following categories according to IFRS 9:

- ***Financial assets remeasured to fair value through profit or loss (FVTPL)***

  This category comprises financial assets held for trading and financial assets that were, upon initial recognition, designated as financial assets at fair value through profit or loss, or financial assets that must be measured at fair value. Financial assets are classified as held for trading if they are acquired and held with a view to disposal in the near future. Derivatives, including embedded derivatives recognised separately, are also classified as held for trading except for such derivatives that were designated as a hedging instrument and are effective as such. Financial assets with cash flows that do not exclusively represent repayments and interest are, regardless of business model, classified as at fair value through profit or loss and measured accordingly.

  Gains or losses on financial assets of this category are recognised in the income statement.

  In the 2018 financial year, the Company neither classified any primary financial assets as held for trading, nor did it make use of the option to designate financial assets at fair value through profit or loss upon their initial recognition.

  According to IFRS 9, all equity instruments are as a matter of principle measured at fair value. The gains or losses resulting from measurement at fair value are recognised through profit or loss in the income statement. The Group currently does not make any use of the option to classify equity instruments at fair value through profit or loss for those equity instruments it has elected to present in other comprehensive income.

- ***Financial assets at amortised cost (AC)***

  The Group measures financial assets (debt instruments) at amortised cost when the following conditions are fulfilled:
  - the financial asset is held in the context of a business model that intends to hold financial assets to collect contractual cash flows and
  - the contract terms of the financial assets lead to cash flows at fixed points of time and which exclusively represents repayments and interest on the principal amount outstanding.

  Gains or losses are recognised in the income statement when the asset is derecognised, modified or impaired.

  Cash and cash equivalents

  Cash and cash equivalents comprise cash in hand, cheques and immediately disposable bank deposits with an original maturity of three months or less. Cash is recognised at par value.

Impairment of financial assets (IFRS 9 since 1 January 2018)

The Group applies the simplified impairment method of IFRS 9 to trade receivables and contract assets, and recognises the expected losses over the full lifetime. The Group therefore does not follow up changes in the credit risk, instead recognising a risk provision based on the full lifetime ECLs on each reporting date. The expected losses are determined using an impairment matrix by grouping the principal types of receivables according to their risk ratings, which represent the ability of customers to settle amounts due as contracted. The allocations to the default risk categories are made principally based on external ratings of the key customers that consider forward-looking estimates. The risks pertaining to all other customers were included using an across-the board approach to determine the risk rating. Calculation of expected losses is based on the probability of default in line with the default risk category.

The Group assumes a default on a financial asset when contractual payments are substantially overdue. In certain cases, it may also assume a default on a financial asset when internal or external information indicates it is unlikely that the Group will receive the outstanding contractual amount before all the credit protection it holds is considered. A financial asset is derecognised when there is no reasonable expectation that the contractual cash flows will be realised.

The general impairment method of IFRS 9 must be applied to bank deposits as well as other financial assets subject to the impairment requirements. The Group therefore monitors the creditworthiness of its business partners to detect any significant increase in the risk of default. Upon initial recognition, such financial instruments are allocated to Level 1. The expected loss corresponds to the value that could arise from potential default events within the next 12 months after the reporting date. The potential impairment expense identified was insignificant, however.

Until 31 December 2017, the Group's financial assets were divided into the following categories according to IAS 39:

- ***Financial assets remeasured to fair value through profit or loss***

  This category comprised financial assets held for trading (FAHft) and financial assets that were, upon initial recognition, designated as financial assets at fair value through profit or loss (FVtPL). Financial assets were classified as held for trading if they were acquired and held with a view to disposal in the near future. Derivatives, including embedded derivatives recognised separately, were also classified as held for trading except for such derivatives that were designated as a hedging instrument and were effective as such.

  Gains or losses on financial assets of this category were recognised in the income statement.

  In the previous year, the Company classified neither any primary financial assets as held for trading, nor did it make use of the option to designate financial assets at fair value through profit or loss upon their initial recognition.

- ***Loans and receivables***

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. Following initial recognition, loans and receivables were measured at amortised cost using the effective interest rate method less any impairment.

  Valuation allowances were made when receivables were uncollectible or probably uncollectible and a reliable estimate of the valuation allowance could be made. There was need for valuation allowance when there are objectively discernible indications such as receivables overdue for a prolonged period, initiation of foreclosure measures, looming default or overindebtedness as well as insolvency proceedings having been applied for or commenced. Trade receivables with usual payment terms, which normally did not exceed the twelve months, are therefore recognised at the nominal amount, less appropriate allowances. Receivables that do not bear interest or bear below market interest rates and had an expected term of more than one year were discounted with the discount subsequently amortised to interest income over the term of the receivable. Impairment of trade receivables as well as receivables from long-term development contracts was recognised in separate impairment accounts. Impairment losses of all other financial assets were recognised directly.

  Gains or losses were recognised in the income statement when the loans and receivables were derecognised or impaired, as well as through the amortisation process.

- ***Available-for-sale financial assets***

  Available-for-sale financial assets (AfS) are non-derivative financial assets that are designated as available for sale and were not classified in one of the aforementioned categories. They had to be measured at their fair value. The gains or losses resulting from valuation at fair value were recorded separately as accumulated other comprehensive income within equity. If there were significant loss events or, in the case of equity instruments, losses ongoing over a longer period, this would be expensed accordingly in the income statement. The Group assumed there to be a significant loss event involving impairment of more than 20 percent and prolonged decline in value of equity instruments to be probable when there was continued loss in value over a period of twelve months. Later reversals of impairment on available-for-sale financial assets are as a matter of principle recorded as accumulated other comprehensive income. Only in the case of debt instruments were reversals recognised in the income statement up to the original amount of impairment, with any amounts above that recorded as accumulated other comprehensive income. Provided that there was no quoted market price in an active market for investments in equity instruments and that their fair value could not be reliably measured, they were carried at acquisitions cost. A write-down to the present value of the future cash flows was made in the case of a decline in value other than temporary.

Financial liabilities

Since 1 January 2018, financial liabilities have been divided into the following categories according to IFRS 9:

- ***Financial liabilities at fair value through profit or loss (FVTPL)***

  Financial liabilities that fall into this category are also carried at fair value in the subsequent periods with the resulting gains or losses recognised in the income statement.

  This category comprises financial liabilities held for trading as well as liabilities that were, upon initial recognition, designated as financial liabilities at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired and held with a view to disposal in the near future. Derivatives, including embedded derivatives recognised separately, are also classified as held for trading except for such derivatives that were designated as a hedging instrument and are effective as such.

  In the 2018 financial year, the Company did not classify any primary financial liabilities as held for trading, nor did it make use of the option to designate financial liabilities at fair value through profit or loss upon their initial recognition.

- ***Financial liabilities at amortised cost (AC)***
  All financial liabilities that do not fall into above-mentioned category and are not derivative financial instruments are measured at amortised cost using the effective interest rate method. In the case of current liabilities, the amortised cost corresponds to either their repayment or settlement value. Gains or losses are recognised in the income statement when the liabilities are derecognised or amortised.

Until 31 December 2017, the Group's financial liabilities were divided into the following categories according to IAS 39:

Financial liabilities that fell into the category of "financial assets at fair value through profit or loss" were also carried at fair value in the subsequent periods with the resulting gains or losses recognised in the income statement.

This category comprised financial liabilities held for trading (FLHfT) as well as liabilities that were, upon initial recognition, designated as financial liabilities at fair value through profit or loss (FVtPL). Financial liabilities were classified as held for trading if they were acquired and held with a view to disposal in the near future. Derivatives, including embedded derivatives recognised separately, were also classified as held for trading except for such derivatives that were designated as a hedging instrument and were effective as such.

In the previous year, the Company did not classify any primary financial liabilities as held for trading, nor did it make use of the option to designate financial liabilities at fair value through profit or loss (FVtPL) upon their initial recognition.

All financial liabilities that did not fall into this category and were not derivative financial instruments were measured at amortised cost using the effective interest rate method (Financial Liabilities at Amortised Cost – FLAC). In the case of current liabilities, the amortised cost corresponded to either their repayment or settlement value. Gains or losses were recognised with effect on earnings when the liabilities are derecognised as well as through the amortisation process.

Derivative financial instruments and hedging activities
Derivative financial instruments entered into by the LEONI Group are recorded at their fair value on the balance sheet date. Depending on their maturity, derivatives with a positive fair value are reported as current or non-current other financial assets and derivatives with a negative fair value are reported as current or non-current other financial liabilities. In general, the Group recognises the changes in fair value of derivative financial instruments in the income statement. However, the Group records changes in fair value of derivatives used to hedge anticipated cash flows on firm commitments and forecast transactions in accumulated other comprehensive income until the hedged item is recognised in the income statement when the requirements of the standard to apply cash flow hedge accounting are met. The reclassification from accumulated other

comprehensive income into earnings occurs in the same period as the underlying transaction takes place and has effect on net income. The ineffective portions of the fair value changes of those derivatives are recognised in earnings immediately.

Where interest-rate derivative contracts are concluded to hedge the fair value of a hedged item measured at amortised cost, the hedging instrument is measured at the fair value and any changes in fair value are recognised in the income statement under either finance costs or finance revenue.

Commodity future transactions that are settled in cash are recognised as derivatives, changes in the fair value of which are recognised in the cost of sales.

Contracts entered into for the purpose of receipt or supply of non-financial items according to the Group's expected purchase, sale or usage requirements and held as such (own use contracts) are reported not as derivative financial instruments but as pending transactions.

If hybrid contracts contain embedded derivatives with a financial or non-financial liability as host contract, such derivatives are reported separately from the host contract when the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, when a separate instrument with the same terms as the embedded derivative were to fulfil the definition of a derivative and when the hybrid contract is not measured at fair value through profit or loss. The review whether a contract contains an embedded derivative that must be reported separately from the host contract is made at the time when the Company became a contracting party. A reassessment is made only when there are major changes to the terms of the contract that result in a significant change to the cash flows.

Accruals

Accruals are also reported under liabilities. Accruals are liabilities to pay for goods or services that have been received but have not been paid or invoiced by the supplier.

Pension and other post-employment benefits

The valuation of defined-benefit pension obligations is based upon actuarial computations using the projected-unit-credit method in accordance with IAS 19. Changes due to the actuarial assumptions or differences between the actual development and the original assumptions as well as gains or losses on the pension plan or plan assets (actuarial gains or losses) as a difference between the return on plan assets recorded in net interest expenses and the actual return are recognised in other comprehensive income. Past service cost is recognised in the income statement at the time of the change to the plan.

The amount recognised as a defined benefit asset or liability comprises the present value of the defined benefit obligation, less the fair value of plan assets out of which the obligations are to be settled directly. The value of a defined benefit asset is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The interest costs relating to the net obligation are presented under finance costs.

Other provisions

Other provisions are recorded when a present legal or constructive obligation to a third party has been incurred from past events, the payment is probable and the amount can be reasonably estimated. So far as the Group expects repayment for an accrued provision at least in part for example from an insurance policy, such repayment is recognised as a separate asset provided the inflow of the repayment is virtually certain. The provisions are valued according to IAS 37 with the best estimate of the amount of the obligation. Where provisions do not become due until after one year and a reliable estimate of the payment amounts and dates is possible, the present value for the non-current proportion is determined on a discounted basis. The unwinding of discount on provisions is recognised under interest expenses.

Obligations to dispose of an asset and to re-cultivate its site or similar obligations must be recognised as a component of acquisition and production costs and simultaneously recognised as a provision. In the subsequent periods this amount added to the asset is to be depreciated over its residual useful life. The best possible estimate of the payment obligation or provision is accreted to its present value at the end of each period.

Restructuring provisions are recognised when the constructive obligation has arisen according to the criteria under IAS 37.72. Accruals are not reported under provisions, but rather under liabilities.

Income taxes

The current tax assets and tax liabilities for the current and prior periods are measured at the amount expected to be recovered from the taxation authority or paid to the taxation authority. Calculation of the amount is based on the tax rates and tax laws that are applicable to the corresponding period. Uncertain income tax items for tax years not yet finally assessed are considered at the best possible estimate based on experience.

Deferred tax is, pursuant to IAS 12, formed according to the balance sheet liability method. This provides that tax assets and liabilities for all temporary differences, apart from the exceptions under IAS 12.15, IAS 12.24, IAS 12.39 and IAS 12.44, between the carrying amount in the statement of financial position and the amount for tax purposes as well as for tax loss carryforwards are recognised (temporary concept). Deferred taxes are measured using the currently enacted tax rates in effect during the periods in which the temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax law is recognised in the period that the law is enacted. Deferred tax assets are applied only to the extent that it is more likely than not that the tax benefit will be realised. The legally independent entities are assessed individually in this respect, with any history of loss included in the assessment. Further details are presented in Note 10. The deferred tax assets and those not recognised are reviewed in this regard on each balance sheet date.

Deferred tax assets and liabilities are offset if they relate to income taxes levied by the same taxation authority and the Group has a legally enforceable right to set off current tax assets against current tax liabilities.

Income taxes referring to items that are recognised in other comprehensive income are also recognised in other comprehensive income and not in the income statement.

Earnings per share

Earnings per share are computed in accordance with IAS 33, Earnings per Share. The basic earnings per share are computed by dividing consolidated net income attributable to the LEONI shareholders by the weighted average of the number of ordinary shares outstanding during the relevant period. The diluted earnings per share are computed by dividing consolidated net income attributable to the LEONI shareholders by the total of the weighted average number of ordinary shares outstanding, plus the weighted average number of securities that can be converted into ordinary shares. There was no dilution in the reporting periods presented.

Statement of cash flows

The statement of cash flows is classified by operating, investing and financing activities in accordance with IAS 7. This involves cash flows from operating activities being determined by the indirect method whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows. Undistributed income from entities valued under the equity method and exchange gains or losses reclassified from other comprehensive income to the income statement is principally reported under "other non-cash expenses and income". Interest paid in connection with working capital management as well as interest and dividends received are classified as cash flows from operating activities. Interest paid under financing activities as well as paid dividends are classified as a financing. The cash holdings comprise cash and cash equivalents. These include cash in hand, cheques and immediately disposable bank deposits with an original maturity of up to three months. The effect of exchange rate-related changes in value on cash and cash equivalents is presented separately so that the cash and equivalents at the beginning and end of the period can be reconciled.

Segment reporting

Segment reporting is based on the accounting standard IFRS 8, Operating Segments, following the management approach contained therein, which provides for reporting based on the internal organisational and reporting structure as well as what management uses internally for evaluating segment performance. The segment reporting and designation therefore follows the internal organisational and reporting structure of the Group. The Group is organised into business units by products and services for the purpose of Corporate Governance. The Group therefore has two segments subject to reporting: Wire & Cable Solutions and Wiring Systems. Management monitors the earnings before interest and taxes (EBIT) separately to take decisions on allocation of resources and to determine the profitability of the segments. The EBIT is ascertained in line with the accounting and valuation principles of the consolidated financial statements. It also contains the earnings from measurement under the equity method of joint ventures and associates.

Key judgments, estimates and assumptions

When preparing the consolidated financial statements, management makes judgements, estimates and assumptions that influence the amounts of assets, liabilities and contingent liabilities as well as the expense and income reported on the balance sheet date. The uncertainty that these assumptions and estimates involve can, however, in future periods cause outcomes that result in major adjustment to the carrying amounts of the assets and liabilities concerned.

The most significant assumptions concerning the future as well as other key sources of estimation uncertainty at the balance sheet date, which present a risk that material adjustment to the carrying amounts of the assets and liabilities will be necessary within the next financial year, are explained hereinafter.

Impairment testing of goodwill, intangible assets and of non-current assets is based on calculation of the recoverable amount, which is the higher of value in use and fair value less cost to sell. To estimate the value in use the Group must estimate the probable future cash flows of the cash-generating units to which the non-current asset or goodwill relates, and moreover choose a reasonable interest rate to compute the present value of these cash flows (discounted cash flow method). The cash flows are extrapolated from the business planning for the next five financial years, excluding any restructuring measures to which the Group has not yet committed and material, future capital expenditure that would raise the performance of the cash-generating units tested. The business planning is prepared on a bottom-up basis taking targets into account, meaning that the budgeted figures are prepared in detail for each business unit or business group and subsidiary and condensed to the segments and the Group as a whole. Key planning assumptions are based on the unit-sales projections issued by the carmakers. It takes into account price agreements based on experience and anticipated efficiency enhancements as well as a sales trend based on the strategic outlook. The recoverable amount is heavily dependent on the projected unit sales and on the discount rate applied under the discounted cash flow method.

The estimate of fair value less cost to sell differs from the value in use only through the treatment of the measured asset as a business operation not belonging to the Group. The assumptions and parameters applied to ascertain the recoverable amount and the details of the impairment tests are explained more thoroughly in Notes 17 and 18.

Management must, with respect to accounting for capitalised deferred taxes relating mainly to unused loss carryforwards, make estimates and judgements concerning the amount of taxable profit available in the future for use of the loss carryforwards. So far as this has been made sufficiently specific, future tax planning strategies and the expected timing of the income from it will be considered in the process. Deferred tax assets are recognised regularly to the extent that deferred tax liabilities in the same amount and with the same term applicable to them are expected. Furthermore, deferred tax assets are recognised only if future taxable income is with high probability expected that is sufficient to use the deferred tax assets from loss carryforwards and temporary differences. For this judgement, the taxable income is extrapolated from the business planning that has been prepared according to the principles described above. Due to the mounting uncertainty about the future, the period under consideration is normally three years. In the case of entities in loss situations, deferred tax assets are not recognised until there are signs of a turnaround or it is highly probable that the future positive results can be generated. Rules on limiting the use of losses (minimum taxation) are observed when measuring the valuation allowances for deferred tax assets from loss carryforwards. Further details are presented in Note 10.

The pension expense pertaining to defined benefit plans post employment is determined based upon actuarial computations. These measurements are based on assumptions and judgements with respect to discount rates applied to the net obligation, future wage and salary increases, mortality and future pension increases. Due to the non-current nature of such plans, such estimates are subject to material uncertainties. Details of these uncertainties and sensitivities are presented in Note 24.

2 | New accounting requirements

New accounting requirements applied for the first time in the financial year

IFRS 15

IFRS 15, Revenue from Contracts with Customers, is to be first applied to financial years beginning on or after 1 January 2018. LEONI did not make use of the early application option, but rather applied the new Standard with effect from the set date of it coming into force and chose the fully retrospective method together with presenting a comparative period.

IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue as well as the related interpretations and applies, apart from a few exceptions, to all revenue from contracts with customers. The Standard introduces a five-step model for recognising revenues from contracts with customers. Under IFRS 15, revenues are recognised in the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

IFRS 15 requires entities, when applying each step of the model to contracts with customers, to make judgements and consider all relevant facts and circumstances. The Standard furthermore governs the accounting for the additional costs of obtaining and fulfilling a contract. Finally, the Standard contains extensive disclosure requirements.

Initial application of IFRS 15 resulted in the following changes to the accounting methods and adjustments to preceding periods. The affected items are presented below:

Consolidated statement of financial position Assets € '000	31/12/2017 pre-adjustment	adjustment	31/12/2017 after adjustment	01/01/2017[1] pre-adjustment	adjustment	01/01/2017 after adjustment
Total current assets	1,655,282	12,705	1,667,987	1,588,337	11,528	1,599,865
of which trade receivables and other financial assets	664,700	(16,618)	648,082	584,775	(20,243)	564,532
of which inventories	669,485	(72,789)	596,696	588,273	(72,177)	516,096
of which current contract assets	0	102,112	102,112	0	103,948	103,948
Total non-current assets	1,471,028	5,583	1,476,611	1,358,081	5,175	1,363,256
of which trade receivables from long-term development contracts	60,535	(60,535)	0	53,344	(53,344)	0
of which long-term contract assets	0	60,535	60,535	0	53,344	53,344
of which deferred taxes	50,897	(677)	50,220	61,356	(385)	60,971
of which other assets	54,683	6,260	60,943	43,642	5,560	49,202
Total assets	**3,126,310**	**18,288**	**3,144,598**	**2,946,418**	**16,703**	**2,963,121**
Equity and liabilities € '000						
Total equity	1,023,598	18,288	1,041,886	917,164	16,703	933,867
of which retained earnings	763,930	18,333	782,263	635,243	16,748	651,991
of which accumulated other comprehensive income	(72,194)	(45)	(72,239)	(51,360)	(45)	(51,405)
of which equity attributable to shareholders in the parent company	1,015,292	18,288	1,033,580	907,439	16,703	924,142
Total equity and liabilities	**3,126,310**	**18,288**	**3,144,598**	**2,946,418**	**16,703**	**2,963,121**

[1] *Previous year's figure adjusted for allocation of the price to purchase LEONI ZhengAo Automotive Wire Harness Co. Ltd.*

Consolidated income statement € '000 (except information on shares) 1 Jan to 31 Dec	**2017 pre-adjustment**	**adjustment**	**2017 after adjustment**
Sales	4,922,807	2,490	4,925,297
Cost of sales	(4,101,454)	(613)	(4,102,067)
Gross profit on sales	**821,353**	**1,877**	**823,230**
EBIT	**225,285**	**1,877**	**227,162**
Earnings before taxes	**200,346**	**1,877**	**202,223**
Income taxes	(56,423)	(292)	(56,715)
Consolidated net income	**143,923**	**1,585**	**145,508**
of which: shareholders in the parent company	145,022	1,585	146,607
non-controlling interests	(1,099)	0	(1,099)
Earnings per share (basic and diluted)	4.44	0.05	4.49
Weighted average no. of shares outstanding	32,669,000	0	32,669,000

Consolidated statement of cash flows € '000 1 Jan to 31 Dec	**2017 pre-adjustment**	**adjustment**	**2017 after adjustment**
Consolidated net income	143,923	1,585	145,508
Adjustments to reconcile cash provided by operating activities:			
of which income taxes	56,423	292	56,715
of which change in operating assets and liabilities			
of which change in inventories	(86,753)	612	(86,141)
of which change in other assets	(20,265)	(2,489)	(22,754)
Cash flows from operating activities	**244,641**	**0**	**244,641**

The changes to the accounting methods due to initial application of IFRS 15 are described hereinafter:

a) There are some changes to the accounting methods upon the sale of goods of the Wiring Systems Division because some customer-specific products are made without any option for alternative use and LEONI has a legal right to payment for the services rendered. The conditions for revenue and income recognition over a period of time are thereby met, whereas revenues were recognised at a point in time under IAS 18. Revenue and income for the affected goods will consequently be recognised earlier (2017 sales revenues: € 1,790 k and 2017 cost of sales: € 613 k) together with presentation under contract assets (contract assets on 1/1/2017: € 83,705 k and 31/12/2017: € 85,494 k).

b) Development work in the Wiring Systems Division ahead of series supply to customers in the car and commercial vehicle industry is performed over a period of time. On this basis, LEONI will continue to recognise revenue from these development contracts over a period of time. There is a change to the accounting methods applied due to now revised presentation of receivables from development contracts under contract assets (contract assets on 1/1/2017: € 73,587 k and 31/12/2017: € 77,153 k).

c) Subject to specific conditions, IFRS 15 stipulates that payments to customers of the Wiring Systems Division must be recognised as an asset and amortised in line with the revenue for which these payments are expected. A change in the accounting methods applied arises insofar as a larger number of payments now fulfil these conditions (2017 sales revenues: € 700 k, other assets; on 1/1/2017: € 5,560 k and on 31/12/2017: € 6,260 k; deferred taxes on 1/1/2017: € 385 k and on 31/12/2017: € 677 k).

IFRS 9, Financial instruments, applies for the first time to financial years beginning on or after 1 January 2018 and supersedes IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 brings together the three project phases accounting for financial instruments: Classification and Measurement, Impairment and Hedge Accounting. LEONI has applied the new Standard since 1 January 2018 and has, for the transition, opted for the modified, retrospective method without presenting a comparative period.

Effects of applying IFRS 9 for the first time:

Consolidated statement of financial position Assets € '000	31/12/2017[1] pre-adjustment	adjustment	01/01/2018 after adjustment
Total Assets	**3,144,598**	**(5,419)**	**3,139,179**
of which trade receivables	609,761	(4,594)	605,167
of which current contract assets	102,112	(947)	101,165
of which investments in associated companies and joint ventures	34,059	(86)	33,973
of which long-term contract assets	60,535	(1,260)	59,275
of which deferred taxes	50,220	1,468	51,688
Total liabilities and provisions	**2,102,712**	**49**	**2,102,761**
of which deferred taxes	45,580	49	45,629
Total equity	**1,041,886**	**(5,468)**	**1,036,418**
of which retained earnings	782,263	(5,410)	776,853
of which equity attributable to shareholders in the parent company	1,033,580	(5,410)	1,028,170
of which non-controlling interests	8,306	(58)	8,248

[1] *LEONI opted to use the fully retrospective transition method for application of IFRS 15 and has adjusted the comparative period.*

Classification and measurement:

- Derivatives that were measured at fair value will continue to be measured fair value.
- The Group holds trade receivables and other financial receivables principally to collect the contractual cash flows that exclusively represent repayments and interest. These instruments are therefore still measured at amortised cost.

Impairment:

The Group applies the simplified impairment method of IFRS 9 and recognises the losses from trade receivables as well as contract assets expected over the full lifetime within the scope of IFRS 15. Underlying the new impairment requirements is a more forward-looking model that is based on expected losses. Previously, impairment was recognised based mainly on losses already incurred. This new impairment model consequently means that expected losses are expensed earlier.

The reduction in trade receivables as well as contract assets by a total of € 6,801 k is the result of applying the new impairment requirements.

Hedge accounting:

All hedging relationships designated as effective under IAS 39 also meet the hedge-accounting requirements of IFRS 9. As the general principles for the way hedge accounting is applied do not change, first-time application of IFRS 9 does not result in any adoption effects.

The table below shows the original measurement categories according to IAS 39 as at 31 December 2017 and the new measurement categories according to IFRS 9 at the time of initial application on 1 January 2018 with the corresponding carrying amounts:

€ '000	Measurement category under IAS 39	Measurement category under IFRS 9	Carrying amount under IAS 39 31/12/2017[1]	Carrying amount under IFRS 9 01/01/2018
Financial assets				
Cash and cash equivalents	Loans and Receivables (LaR)	Financial assets at amortised cost (AC)	185,084	185,084
Trade receivables	Loans and Receivables (LaR)	Financial assets at amortised cost (AC)	609,761	605,167
Other financial receivables	Loans and Receivables (LaR)	Financial assets at amortised cost (AC)	35,476	35,476
Other primary financial assets				
Investments	Available-for-sale financial assets (AfS)	Financial assets at fair value through profit or loss (FVTPL)	1,115	1,115
Derivative financial assets				
Derivatives not involving hedging	Financial assets held for trading (FAHfT)	Financial assets at fair value through profit or loss (FVTPL)	4,323	4,323
Derivatives involving hedging	n/a	n/a	4,755	4,755
Financial liabilities				
Trade liabilities	Financial liabilities measured at amortised cost (FLAC)	Financial liabilities at amortised cost (AC)	909,414	909,414
Liabilities to banks	Financial liabilities measured at amortised cost (FLAC)	Financial liabilities at amortised cost (AC)	256,596	256,596
Borrower's note loans	Financial liabilities measured at amortised cost (FLAC)	Financial liabilities at amortised cost (AC)	333,128	333,128
Other financial liabilities	Financial liabilities measured at amortised cost (FLAC)	Financial liabilities at amortised cost (AC)	83,658	83,658
Derivative financial liabilities				
Derivatives not involving hedging	Financial liabilities held for trading (FLHfT)	Financial liabilities at fair value through profit or loss (FVTPL)	4,040	4,040
Derivatives involving hedging	n/a	n/a	6,953	6,953

[1] LEONI opted to use the fully retrospective transition method for application of IFRS 15 and has adjusted the comparative period. .
The carrying amounts pursuant to IAS 39 therefore already include the IFRS 15 adjustments. .

Future, new accounting requirements

IFRS 16

In January 2016, the IASB issued the new IFRS 16, which abolishes the previous distinction of leases on the lessee side between operating and finance leases. For lessors, there will be only minor changes compared with accounting pursuant to IAS 17 Leases. According to IFRS 16, the lessee recognises a leasing liability for principally all leases in largely the amount of the present value of the future, firmly agreed lease payments and simultaneously recognises a corresponding right of use to the leased asset. These changes must be applied to financial years beginning on or after 1 January 2019.

LEONI will apply the new Standard from the prescribed date of it coming into force. The transition to IFRS 16 will be carried out based on the modified, retrospective method without adjusting the comparative period.

For leased assets of minor value (the leased asset's new value being less than € 5,000) and for short-term leases (contract terms of less than twelve months), use is made of easier application by not recording them on the balance sheet.

The analysis carried out within the Company's Group-wide project on initial application found that IFRS 16 is likely to have the following, estimated effects on the components of the consolidated financial statements and presentation of the financial position and performance:

Statement of financial position:

In the following categories of leases there are, because of the transition effective 1 January 2019, contracts that were previously recognised as operating leases which will be accounted for as leases within the meaning of the new Standard: buildings, machinery, motor vehicles as well as factory and office equipment.

As at the time of transition, LEONI recognised rights of use in the amount of the lease liabilities, which were adjusted for lease payments made in advance. Our analysis found that, on 1 January 2019 and based on the relevant leases existing on 31 December 2018, lease liabilities and rights of use each amounting to approx. € 155 million will probably be recognised on the balance sheet.

Given this balance sheet enlargement, the equity ratio as at 1. January 2019 will contract by about one percentage point.

Income statement:

Instead of the previous presentation of operating lease expenses in the functional areas, write-downs on the rights of use in the functional areas as well as interest expenses arising from compounding of lease liabilities will in future be recognised. The leases existing on 31 December 2018 improved EBIT by nearly € 4 million.

Statement of cash flows:
We expect a positive impact on cash flows from operating activities because IFRS 16 requires the interest and principal payments to be presented under cash flow from financing activities, whereas the payments for operating leases were previously shown in total under operating cash flow. Cash flows from financing activities will consequently deteriorate.

IFRIC 23
IFRIC 23, Uncertainty over Income Tax Treatments, was issued in May 2017. The Interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. Entities are required to use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together. They must furthermore consider whether it is probable that the relevant authority will accept each tax treatment (or group of tax treatments) that they used or plan to use in their income tax filing. IFRIC 23 is to be applied to reporting periods beginning on or after 1 January 2019. Earlier application is permitted. The Interpretation to be applied in the future is unlikely to exert any material effect on presentation of the Group's financial position, performance or cash flow.

The IASB also issued amendments other than the aforementioned updates. These will probably not be relevant to LEONI and are not mentioned for this reason.

3 | Scope of consolidation

Along with LEONI AG, the consolidated financial statements account for 15 companies in Germany and 57 companies outside Germany in which LEONI AG is entitled, either directly or indirectly, to a majority of the voting rights.

Number of fully consolidated companies

	31/12/2018	31/12/2017
Germany	16	16
Outside	57	57
Total	**73**	**73**

During the period under report, the scope of consolidation was enlarged by having established a new subsidiary in Bulgaria. Furthermore, a subsidiary of the Wiring Systems Division in Portugal that is no longer operational was liquidated.

A complete list of the fully consolidated subsidiaries as well as of the associates and joint ventures on 31 December 2018 is shown at the end of these notes.

4 | Acquisitions and disposals of subsidiaries

No subsidiaries were acquired or sold in the 2018 financial year.

On 2 May 2017, LEONI sold its domestic and electrical appliance cables business, i.e. all the shares in its subsidiaries EA Cable Assemblies GmbH, LEONI Cable Belgium N.V., LEONI WCS Southeast Europe d.o.o., LEONI Cable Assemblies Slovakia s.r.o., LEONI Cable (Xiamen) Co., Ltd., LEONI Cable Assemblies (Changzhou) Co., Ltd. and EA Cable Assemblies (Hong Kong) Co., Ltd. The subsidiaries were deconsolidated on the day of their disposal as control over them also passed to the purchaser on this date. Pending the final audit of the disposal balance sheet by the purchaser, the consideration to be paid by the purchaser amounted to € 51,061 k. From the sale, the Group recognised a gain on deconsolidation totalling € 24,256 k. This included an exchange gain in the amount of € 1,914 k, which was reclassified from other comprehensive income to the income statement and presented under other operating income.

The overview below shows the deconsolidated assets and liabilities:

€ '000	Deconsolidated upon disposal
Trade receivables	34,331
Inventories	17,958
Other current assets	4,624
Property, plant and equipment	14,669
Other non-current assets	525
Cash and cash equivalents	17,087
Deconsolidated assets	89,194
Trade accounts payable	18,775
Other current liabilities	19,773
Current financial liabilities to LEONI AG	13,271
Non-current financial liabilities	8,619
Other non-current liabilities	37
Deconsolidated liability	60,475
Net assets	**28,719**
Consideration received	53,740
Purchase price adjustment requirement	(2,679)
Deconsolidated net assets	(28,719)
Deconsolidated OCI	1,914
Effect of deconsolidation	**24,256**

In fiscal 2017, the Group took in a payment of € 53,740 k from its sale of this business, which therefore, when taking the disposed cash and cash equivalents into account, provided the Group with cash of € 36,653 k. The transaction costs incurred totalled € 1,679 k (of which € 614 k in preceding years).

The contractually agreed arbitration proceedings to determine the final purchase price were initiated and completed in the 2018 financial year. This resulted in a gain of € 1,086 k, which is reported in other operating income.

In the 2017 financial year, LEONI acquired two thirds of the shares in Zurich-based Adaptricity AG. The company contributed software-supported consulting services based on expert electrotechnical knowledge to the Group. The company was first consolidated upon gaining control of it on 15 February 2017. The acquired business was integrated in the Wire & Cable Solutions Division. The purchase price was € 3,479 k. Taking the acquired cash and cash equivalents totalling € 2,340 k into account, the cash consideration paid was € 1,139 k. The acquisition did not incur any material transaction costs.

The overview below shows the fair values of the acquired assets and liabilities on the date of initial consolidation:

€ '000	**Recognised at acquisition**
Cash and cash equivalents	2,340
Trade receivables	34
Inventories	8
Intangible assets	2,261
Total assets	4,643
Trade accounts payable	107
Other liabilities	127
Deferred tax liabilities	381
Total liabilities	615
Net assets	**4,028**
Non-controlling interests	1,342
Pro-rata net assets	**2,686**
Purchase price	3,479
Goodwill	**793**

The purchase price exceeded the sum of pro-rata assets and liabilities, which is why goodwill amounting to € 793 k was recognised for the acquired staff and expected synergies.

In the time between LEONI gaining control and 31 December 2017, the acquired business contributed sales of € 192 k and incurred an after-tax loss of € 1,196 k. The company's contribution to Group sales and earnings after taxes would not have been materially different had the acquisition taken place on 1 January.

In fiscal 2016, LEONI signed an agreement to purchase 51 percent of the shares in Wuhan Hengtong Automotive, a wiring system manufacturer based in Shanghai, China. Given that it was not yet possible to make a reliable purchase price allocation because of the prevailing commercial structures in fiscal 2016, provisional fair values of the acquired assets and liabilities on the date of initial consolidation were applied.

As soon as assured knowledge was available, the purchase price was allocated in the 2017 financial year and the previous year's figures were adjusted accordingly. The adjustments to inventories came to € 2 million and for current liabilities they amounted to € 2.7 million as well as various minor effects. The adjustment totalled € 0.5 million. The negative goodwill, reversal of which was recognised in the previous year in other operating income, changed from € 823 k to € 1,333 k.

The company was renamed LEONI ZhengAo Automotive Wire Harness Co. Ltd. in the 2017 financial year.

Explanations

5 | Segment reporting

The Group is organised into business units by products and services for the purpose of Corporate Governance. The segment reporting follows the internal organisational and reporting structure of the Group. The Group has two segments subject to reporting:

Wire & Cable Solutions
The Wire & Cable Solutions Division is a leading manufacturer of wire and cable that, as part of its strategic realignment, is gradually developing into a provider of intelligent and secure energy transmission and data management system solutions.

Wiring Systems
The development, manufacture and sale of cable harnesses, complete wiring systems as well as related components and connectors for the international automotive and supply industry constitute the main business of the Wiring Systems Division.

Management monitors the earnings before interest and taxes (EBIT) to take decisions on allocation of resources and to determine the profitability of the units. The EBIT is ascertained in line with the accounting and valuation principles of the consolidated financial statements. It also contains the earnings from measurement under the equity method of joint ventures and associates.

The ROCE (Return on Capital Employed) is a key return figure on the basis of which management monitors the profitability of the segments. It is derived from the ratio of EBIT to average Capital Employed (CE), which comprises the non-interest-bearing assets less non-interest-bearing liabilities. The calculation uses the amount of capital employed at its average of the past two annual reporting dates.

Intersegment sales and revenues are generally recorded at values that approximate sales to third parties.

The details by segment for the 2018 and 2017 financial years are as follows:

	Wire & Cable Solutions		Wiring Systems Division		Reconciliation		LEONI Group	
€ '000	2018	2017	2018	2017[1]	2018	2017	2018	2017[1]
Gross sales	2,140,547	2,067,220	3,169,434	3,064,358	(208,858)	(206,281)	5,101,123	4,925,297
Less intersegment sales	206,960	205,909	1,898	372	(208,858)	(206,281)	—	—
External sales	1,933,587	1,861,311	3,167,536	3,063,986			5,101,123	4,925,297
of which domestic	483,357	426,509	906,647	940,253	0	0	1,390,003	1,366,762
of which foreign	1,450,230	1,434,802	2,260,889	2,123,733	0	0	3,711,119	3,558,535
% foreign proportion	75.0	77.1	71.4	69.3			72.8	72.3
EBIT	65,796	104,576	80,222	118,455	(1,765)	4,131	144,253	227,162
as a percentage of external sales	3.4	5.6	2.5	3.9			2.8	4.6
Financial result and other investment income							(23,331)	(24,939)
Earnings before taxes							120,922	202,223
Income taxes							(47,677)	(56,715)
Consolidated net income							73,245	145,508
Earnings from measurement under the equity method	0	0	23,206	22,842	0	0	23,206	22,842
Depreciation / amortisation	45,023	46,544	102,620	93,473	10,947	9,507	158,590	149,524
EBITDA	110,819	151,120	182,842	211,928	9,182	13,638	302,843	376,686
as a percentage of external sales	5.7	8.1	5.8	6.9			5.9	7.6
Total assets/equity	1,725,585	1,574,821	2,349,951	2,142,243	(614,008)	(577,885)	3,461,528	3,144,598
Average capital employed	754,281	698,390	997,395	895,730	(15,710)	(32,764)	1,735,966	1,561,356
ROCE	8.7 %	15.0 %	8.0 %	13.2 %			8.3 %	14.5 %
Investment in property, plant and equipment as well as intangible assets	114,243	107,788	204,651	163,922	24,002	9,701	342,896	281,411
Acquisitions / investments in financial assets	0	3,479	65	119	0	0	65	3,598
Average number of employees	8,671	8,427	83,359	74,741	343	303	89,373	83,471

[1] prior-year figures adjusted

Segment information by geographical regions:

	EMEA total		of which:							
			Germany		Eastern Europe		Rest of Europe		Rest of EMEA	
€ '000	2018	2017[1]	2018	2017[1]	2018	2017	2018	2017[1]	2018	2017[1]
External sales										
Wire & Cable Solutions	1,144,996	1,067,862	483,357	426,509	375,654	364,628	266,052	257,469	19,933	19,256
Wiring Systems[1]	2,406,009	2,340,183	906,647	940,253	369,381	284,034	1,091,642	1,074,437	38,339	41,459
	3,551,005	3,408,045	1,390,004	1,366,762	745,035	648,662	1,357,694	1,331,906	58,272	60,715
Non-current assets	1,009,624	868,698	317,766	241,425	429,477	392,793	90,550	93,345	171,831	141,135

	Americas		Asia		Reconciliation		LEONI Group	
€ '000	2018	2017	2018	2017	2018	2017	2018	2017[1]
External sales								
Wire & Cable Solutions	445,926	426,818	342,665	366,631			1,933,587	1,861,311
Wiring Systems[1]	348,508	323,434	413,019	400,369			3,167,536	3,063,986
	794,434	750,252	755,684	767,000			5,101,123	4,925,297
Non-current assets	141,877	113,206	164,257	168,843	(212)	136	1,315,546	1,150,883

[1] prior-year figures adjusted

As in the previous year, China accounted for the most significant proportion of consolidated external sales by national market in Asia with an 11.9 percent (previous year: 11.8 percent) share while, in the Americas, the United States accounted for 8.7 percent (previous year: 8.6 percent).

The non-current assets segmented by region include the intangible assets and the property, plant and equipment as well as investments in associated companies and joint ventures.

As in the previous year, there were no sales to any one customer accounting for ten percent or more of consolidated sales.

6 | Sales

LEONI generated the following sales revenues at a point in time and over a period of time:

€ '000	2018	2017[1]
Group		
Transfer at a point in time	3,031,104	2,994,810
Transfer over a certain period of time	2,070,019	1,930,487
of which development services	75,319	62,930
of which customised products	1,994,699	1,867,557
Sales	**5,101,123**	**4,925,297**
Wiring Systems		
Transfer at a point in time	1,097,517	1,133,499
Transfer over a certain period of time	2,070,019	1,930,487
of which development services	75,320	62,930
of which customised products	1,994,699	1,867,557
Sales	**3,167,536**	**3,063,986**
Wire & Cable Solutions		
Transfer at a point in time	1,933,587	1,861,311
Sales	**1,933,587**	**1,861,311**

[1] prior-year figures adjusted

The performance obligations in the Wire & Cable Solutions Division have terms of less than one year, which is why use was made of the option not to provide additional disclosures regarding the performance obligations not yet met in full on the reporting date.

The performance obligations relating to series supply in the Wiring Systems Division have terms of just a few weeks because of the short notice at which product is called forward, which is why use was made of the option not to provide additional disclosures regarding the performance obligations not yet met in full on the reporting date.

The Group expects to recognise the performance obligations from commenced development contracts remaining on the reporting date as sales revenues within the next two years in the amount of roughly € 95 million (previous year: about € 80 million).

The contract assets totalling € 173,943 k (previous year: € 162,647 k) broke down as follows:

€ '000	2018	2017[1]
Current contract assets	**95,181**	**102,112**
Development contracts	12,680	16,618
Customer-specific products without any option for alternative use	82,501	85,494
Long-term contract assets	**78,762**	**60,535**
Development contracts	78,762	60,535

[1] prior-year figures adjusted

7 | Other operating income and other operating expenses

The other operating income broke down as follows:

€ '000	2018	2017
Gains on disposals of property, plant and equipment as well as intangible assets	11,598	3,991
Provision of services for JV in Langfang	5,026	4,273
Government grants	4,473	3,587
Gain on deconsolidation of the domestic and electrical appliance business	1,086	24,256
Insurance compensation for the 2016 fraud case	0	5,000
Other	7,591	4,627
	29,774	**45,734**

In the 2018 financial year, gains on disposals of property, plant and equipment as well as intangible assets exerted a beneficial effect of € 11,598 k (previous year: € 3,991 k). Most of this stemmed from the sale of the manufacturing buildings of a facility in China.

Providing services for our joint venture in Langfang generated income of € 5,026 k (previous year: € 4,273 k; cf. also Note 19 in this regard).

The performance-related government grants of € 4,473 k (previous year: € 3,587 k) were made mostly to boost the economies in China and Egypt. More detailed explanation of this is to be found in Note 8.

The Company sold its domestic and electrical appliance cables business in fiscal 2017. This yielded gains on deconsolidating several subsidiaries in the amount of € 24,256 k. Additional income of € 1,086 k was generated as a result of the arbitration proceedings launched and completed in 2018. In 2017, the Group received insurance compensation of € 5,000 k in connection with the fraud case uncovered in 2016.

The other operating expenses in the amount of € 24,714 k (previous year: € 18,844 k) included exchange losses in the amount of € 10,912 k (previous year: € 10,092 k).

€ ‘000	2018	2017
Exchange losses	10,912	10,092
Goodwill impairment	6,830	0
Factoring cost	2,958	2,767
Loss on disposals of property, plant and equipment as well as intangible assets	1,527	2,099
Other	2,487	3,886
	24,714	**18,844**

8 | Government grants

The Group obtained various performance-related government grants in the 2018 financial year, which totalled € 9,747 k (previous year: € 10,020 k), of which € 5,274 k (previous year: € 6,433 k) was directly offset in the income statement with the expenses incurred. As in the previous year, this pertained primarily to grants to cover the costs of starting up a new plant in Mexico. Performance-related grants in the amount of € 4,473 k (previous year: € 3,587 k), which pertained mainly to the Wiring Systems Division, were furthermore presented in other operating income. Of this, € 1,378 k (previous year: € 2,792 k) was attributable to the subsidy for export business in Egypt while another € 1,800 k (previous year: nil) was granted by the Chinese government to promote business located in the country.

Government grants for capital investment in property, plant and equipment in the amount of € 18,492 k (previous year: € 23,212 k) were recognised in fiscal 2018, most of which pertained to a wiring systems plant in Serbia. These were deducted from the costs to purchase and manufacture the related property, plant and equipment.

The received grants are linked to creating jobs and keeping these for several years, to tax payments and to achieving a specified sales volume in these companies.

9 | Finance revenue and costs

The finance revenues in the amount of € 545 k (previous year: € 1,011 k) involved exclusively interest income. As in the previous year, they were computed on the basis of the effective interest rate method.

Finance costs broke down as follows:

€ '000	2018	2017
Interest expenses	20,451	20,828
Finance cost from pension obligations	3,316	3,427
Other finance costs	293	1,862
Finance costs	**24,060**	**26,117**

The interest expenses included interest of € 19,501 k (previous year: € 20,559 k) that was likewise computed on the basis of the effective interest rate method.

10 | Income taxes

Taxes on income including deferred taxes break down as follows in the income statements for fiscal 2018 and fiscal 2017:

€ '000		2018	2017[1]
Current taxes			
	Germany	1,704	7,951
	Outside	36,904	42,670
		38,608	**50,621**
Deferred taxes			
	Germany	3,283	1,634
	Outside	5,786	4,460
		9,069	**6,094**
Income taxes		**47,677**	**56,715**

[1] prior-year figures adjusted

In the 2018 financial year, the Group recognised tax expenses of € 47,677 k (previous year: € 56,715 k) in the income statement. Tax income of € 18 k (previous year: tax expense of € 3,744 k) was recognised in other comprehensive income.

Deferred tax assets and liabilities should be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. For the Group's German companies, the deferred taxes on 31 December 2018 were calculated using a corporate tax rate of 15 percent, unchanged from the previous year. A solidarity surcharge of 5.5 percent on the corporate tax as well as an average trade tax rate of 13.8 percent were included as in the previous year. In line with the previous year, the tax rate thus applied to calculate deferred taxes for German companies amounted to a combined 29.6 percent. For non-German companies the country-specific, respective tax rates were used.

The table below reconciles the income tax expense or the expected tax expense at the reported tax rate to the effective income taxes presented in the financial statements for the respective financial year. To calculate the projected income tax expense, we multiplied the pre-tax earnings by the combined income tax rate in Germany of 29.6 percent (previous year: 29.6 percent) applicable to the financial year.

	2018		2017 [1]	
	€ '000	%	€ '000	%
Expected tax expense (2018: 29.6 %; 2017: 29.6 %)	35,793	29.6	59,858	29.6
Foreign tax rate differentials	(12,883)	(10.7)	(14,233)	(7.0)
Change in valuation allowances on deferred tax assets	18,154	15.0	13,764	6.8
Non-deductible expenses	11,529	9.5	7,012	3.5
Foreign tax at source	1,530	1.3	6,624	3.3
Prior-period tax income / expense	2	0.0	1,244	0.6
Income from equity investments	(6,875)	(5.7)	(6,767)	(3.5)
Gain / loss on deconsolidation of disposed businesses	0	0.0	(7,185)	(3.6)
Other	428	0.4	(3,603)	(1.8)
Effective income taxes / tax rate	**47,677**	**39.4**	**56,715**	**28.0**

[1] prior-year figures adjusted

The year-on-year increase in the tax rate is attributable primarily to not having recognised deferred tax assets against current losses.

The change in valuation allowances on deferred tax assets in the amount of € 18,154 k (previous year: € 13,764 k) in the fiscal year involved particular tax assets not capitalised in the amount of € 22,691 k (previous year: € 15,562 k). As in the previous year, these valuation allowances concerned primarily deferred tax assets from loss carryforwards to the extent it is considered more likely than not that such benefits will be used in future years. In determining the valuation allowance all factors including legal factors and information available were taken into account. Deferred tax assets, which in preceding periods we applied primarily to loss carryforwards, were written down in the amount of € 693 k (previous year: € 4 k). The change in valuation allowances included reversal of valuation allowances on deferred tax assets with effect on the income statement in the negative amount of € 3,363 k (previous year: a negative amount of € 1,423 k). The item included a negative amount of € 1,867 k (previous year: negative € 379 k) for the use of loss carryforwards for which no tax assets were recognised in the previous years.

In the case of entities that incurred a tax loss in either the current or previous year, and where the deferred tax assets on loss carryforwards are not covered by a net deferred tax liability, deferred tax assets on loss carryforwards were recognised in the amount of € 2,975 k (previous year: € 2,097 k). Based on management's assumptions for and estimates of future business performance, which were derived from experience as well as the currently available information and forecasts, there are convincing, substantial indications that this tax asset will be realised.

Changes to foreign tax rates are recognised in the income statement in a partial amount of € 534 k (previous year: tax expense of € 2,490 k) in the item Other amounting to € 428 k.

The deferred tax assets and deferred tax liabilities were derived from temporary differences recorded under the following balance sheet items as well as tax loss carryforwards:

	Consolidated statement of financial position		Consolidated income statement	
€ '000	**2018**	**2017**[1]	**2018**	**2017**[1]
Inventories	9,551	8,528	1,021	(522)
Accounts receivable and other assets	5,458	1,716	2,365	(2,530)
Property, plant and equipment	3,973	3,139	791	(1,714)
Intangible assets	638	612	26	210
Non-current financial assets	987	435	553	(170)
Tax loss carryforwards	121,271	101,376	22,222	4,844
Liabilities and provisions	27,652	18,025	10,039	(1,755)
Pension provisions	28,886	31,327	(212)	(4,177)
Total	198,417	165,158		
Valuation allowance	(108,145)	(96,200)	(17,048)	(11,730)
Deferred tax assets (before offsetting)	**90,271**	**68,958**		
Inventories	8,238	8,153	18	(2,423)
Accounts receivable and other assets	8,216	4,058	(4,630)	(1,098)
Property, plant and equipment	29,879	27,921	(1,458)	5,508
Intangible assets	12,847	15,246	2,412	2,542
Non-current financial assets	30,547	7,216	(22,899)	729
Liabilities and provisions	3,914	1,713	(2,223)	4,437
Pension provisions	8	10	(47)	1,755
Deferred tax liabilities (before offsetting)	**93,650**	**64,318**		
Deferred tax income / expense			**(9,069)**	**(6,094)**
Net deferred tax assets / tax liabilities	**(3,378)**	**4,640**		

[1] prior-year figures adjusted

No deferred tax assets on temporary differences and tax loss carryforwards were recognised in the amount of € 108,145 k (previous year: € 96,200 k) because realisation of the tax assets in the foreseeable future does not seem sufficiently certain. Due to the modified, retrospective introduction of IFRS 9 (c.f. Note 2), the resulting deferred taxes were considered in retained earnings not affecting net income.

The net amount of deferred tax assets and liabilities was derived as follows:

	Consolidated statement of financial position	
€ '000	**2018**	**2017**[1]
Deferred tax assets	164,281	146,420
Valuation allowance	(108,145)	(96,200)
Net deferred tax assets	**56,136**	**50,220**
Deferred tax liabilities	**59,514**	**45,580**
Net deferred tax assets / tax liabilities	**(3,378)**	**4,640**

[1] prior-year figures adjusted

Deferred taxes on outside basis differences (differences between the net assets including goodwill of the subsidiaries and the respective tax value of the shares in these subsidiaries) were not recognised because reversal of differences arising for example from dividend payments can be managed and no material tax effects are to be expected in the foreseeable future. Outside basis differences amounted to € 363,633 k on 31 December 2018 (previous year: € 357,812 k).

On the balance sheet date, the Group had foreign income tax but also German corporate tax loss carryforwards totalling € 450,362 k (previous year: € 367,700 k), of which € 330,532 k (previous year: € 240,811 k) may, based on legislation applicable on the respective reporting date, be carried forward indefinitely and in unlimited amounts. In Germany, however, losses carried forward may be deducted from income without restriction up to € 1,000 k only. Any remaining amount of income may be offset by loss carryforwards by up to 60 percent. The remaining tax losses eligible for limited carryforward pertained exclusively to foreign subsidiaries and will expire by 2027 at the latest if not utilised.

The table below shows the usability of the loss carryforwards:

€ '000		**2018**
Useable until	2019	877
Useable until	2020	1,744
Useable until	2021	886
Useable until	2022	10,110
Useable until	2023	21,563
Useable until	2024	16,135
Useable until	2025	33,650
Useable until	2026	16,771
Useable until	2027	18,095

The Group's German trade tax loss carryforwards amounted to € 218,433 k on the balance sheet date (previous year: € 136,786 k), all of which, based on legislation applicable on the respective balance sheet dates, may be carried forward indefinitely and in unlimited amounts. The options to offset against future income correspond to the corporate tax loss carryforwards. There were foreign loss carryforwards for US state tax in the amount of € 20,925 k on the balance sheet date (previous year: € 16,645 k).

In the financial year, German trade tax loss carryforwards amounting to € 47 k (previous year: € 60 k) and German corporate tax loss carryforwards amounting to € 47 k (previous year: € 60 k) were utilised. Foreign income tax loss carryforwards were used in the amount of € 30,638 k (previous year: € 34,448 k). Loss carryforwards for US state tax were not used in the financial year (previous year: € 1,473 k).

11 | Other comprehensive income

The overview below shows the components of other comprehensive income and the tax effects:

€ '000	2018 Pre-tax amount	2018 Tax effect	2018 Net amount	2017 Pre-tax amount	2017 Tax effect	2017 Net amount
Change in actuarial gains / losses	11,592	489	12,081	9,042	(335)	8,707
Foreign currency translation adjustments	(852)	0	(852)	(40,796)	0	(40,796)
Change in unrealised gains / losses on cash flow hedges	6,715	(471)	6,244	14,948	(3,409)	11,539
Changes in the share of other comprehensive income accounted for by associates and joint ventures	(6)	0	(6)	(791)	0	(791)
Other comprehensive income	**17,449**	**18**	**17,467**	**(17,597)**	**(3,744)**	**(21,341)**

Actuarial losses decreased by € 11,592 k during the period under report (previous year: of € 9,042 k) because of gains on all key plan assets due to the increase in the discount rate. In the United Kingdom and Switzerland, gains on plan assets exerted opposing effects.

Other comprehensive income showed currency translation losses of € 852 k (previous year: losses of € 40,796 k) due to translation into the euro reporting currency.

Taking deferred taxes into account, the overall result was other comprehensive income of € 17,467 k (previous year: negative € 21,341 k).

12 | Accounts receivable and other financial assets

€ '000	**2018**	**2017**[1]
Trade receivables	625,275	609,761
Receivables to associated companies and joint ventures	15,268	8,857
Other financial assets	33,112	29,464
	673,655	**648,082**

[1] prior-year figures adjusted

Trade receivables were non-interest bearing. On the balance sheet date, trade receivables were reduced by factoring amounting to € 199,597 k (previous year: € 194,078 k).

The other financial receivables of € 29,413 k (previous year: € 26,616 k) are included in the short and long-term other financial assets in the amount of € 39,562 k (previous year: € 36,812 k). These items furthermore include derivative financial assets in the amount of € 9,034 k (previous year: € 9,078 k) as well as equity instruments in the amount of € 1,116 k (previous year: € 1,115 k).

The maximum risk of loan default corresponded to the carrying amount of the receivables. There were not, with respect to the neither impaired receivables nor the overdue receivables, any signs on the reporting date that the debtors will fail to make payment.

13 | Other assets

€ '000	2018	2017
Receivables for VAT	111,321	77,972
Prepaid expenses	30,319	16,611
Advance payments	12,177	12,207
Receivables for other taxes	5,207	4,569
Insurance technical reserves	50	1,847
Other assets	11,252	11,636
	170,326	**124,842**

14 | Inventories

€ '000	2018	2017[1]
Raw materials and manufacturing supplies	324,396	321,779
Work in progress	96,142	98,463
Finished products and merchandise	188,752	176,454
	609,290	**596,696**

[1] *prior-year figures adjusted*

The amount of impairment of inventories, recognised as expense, was € 23,114 k (previous year: € 19,440 k). As in the previous year, the fiscal 2018 write-downs on inventory were fully included in the cost of sales.

The inventory recognised as expense in the cost of sales (inventory used) in the financial year amounted to € 2,998,025 k (previous year: € 2,880,569 k).

The carrying amount included inventories in the amount of € 41,500 k (previous year: € 28,631 k) that were measured at net realisable value.

15 | Property, plant and equipment

€ '000	Land, leasehold rights and buildings	Technical equipment, plant and machinery	Other equipment, factory and office equipment	Advance payments and assets under construction	Total
Net carrying amount on 1 January 2017	**298,021**	**464,316**	**94,981**	**91,615**	**948,933**
Acquisition costs on 1 January 2017	467,326	1,130,337	293,253	92,604	1,983,520
Currency differences	(8,493)	(32,218)	(6,156)	(3,694)	(50,561)
Additions	17,547	86,617	30,277	132,160	266,601
Disposals	5,167	25,902	10,186	1,150	42,405
Reclassification	20,226	54,314	6,364	(80,904)	0
31 December 2017	491,439	1,213,148	313,552	139,016	2,157,155
Accumulated depreciation on 1 January 2017	169,305	666,021	198,272	989	1,034,587
Currency differences	(3,040)	(17,689)	(3,713)	(32)	(24,474)
Additions	15,850	83,632	29,605	0	129,087
Increase in impairment	0	846	350	0	1,196
Disposals	2,790	23,551	9,237	0	35,578
31 December 2017	179,325	709,259	215,277	957	1,104,818
Net carrying amount on 31 December 2017	**312,114**	**503,889**	**98,275**	**138,059**	**1,052,337**
Acquisition costs on 01 January 2018	491,439	1,213,148	313,552	139,016	2,157,155
Currency differences	357	3,776	772	251	5,156
Additions	26,907	96,482	31,569	155,801	310,759
Disposals	32,959	23,087	17,718	297	74,061
Reclassification	11,927	67,690	9,187	(88,804)	0
31 December 2018	497,671	1,358,009	337,362	205,967	2,399,009
Accumulated depreciation on 1 January 2018	179,325	709,259	215,277	957	1,104,818
Currency differences	403	2,440	450	(3)	3,290
Increase in impairment	16,186	89,769	31,946	48	137,949
Disposals	21,334	17,268	14,762	0	53,364
31 December 2018	174,580	784,200	232,911	1,002	1,192,693
Net carrying amount on 31 December 2018	**323,091**	**573,809**	**104,451**	**204,965**	**1,206,316**

Interest amounting to € 898 k (previous year: € 589 k) was capitalized in the financial year and concerns construction projects in Germany and India.

16 | Intangible assets

€ '000	Trademarks, similar rights, software and other	Customer relationships and order backlog	Development costs	Advance payments	Total
Net carrying amount on 1 January 2017	**34,082**	**22,223**	**4,173**	**10,096**	**70,574**
Acquisition costs on 1 January 2017	123,751	123,789	18,453	10,373	276,366
Currency differences	(1,412)	(586)	(561)	(246)	(2,805)
Additions	7,729	101	968	6,012	14,810
Additions due to changes in scope of consolidation	0	0	0	2,261	2,261
Disposals	2,291	0	0	318	2,609
Reclassification	6,761	0	33	(6,794)	0
31 December 2017	134,538	123,304	18,893	11,288	288,023
Accumulated amortisation on 1 January 2017	89,669	101,566	14,280	277	205,792
Currency differences	(1,070)	(418)	(499)	1	(1,986)
Additions	11,603	7,781	597	456	20,437
Increase in impairment	1,584	0	0	0	1,584
Disposals	2,290	0	0	0	2,290
31 December 2017	99,496	108,929	14,378	734	223,537
Net carrying amount on 31 December 2017	**35,042**	**14,375**	**4,515**	**10,554**	**64,486**
Acquisition costs on 1 January 2018	134,538	123,304	18,893	11,288	288,023
Currency differences	717	39	136	56	948
Additions	22,059	0	651	9,427	32,137
Disposals	0	0	157	217	374
Reclassification	4,001	0	2,708	(6,709)	0
31 December 2018	161,315	123,343	22,231	13,845	320,734
Accumulated amortisation on 01 January 2018	99,496	108,929	14,378	734	223,537
Currency differences	781	68	71	0	920
Additions	12,527	6,295	790	1,029	20,641
Disposals	0	0	67	168	235
31 December 2018	112,804	115,292	15,172	1,595	244,863
Net carrying amount on 31 December 2018	**48,511**	**8,051**	**7,059**	**12,250**	**75,871**

The item trademarks and similar rights, software and others included technology as well as non-patented production know-how acquired in the context of business combinations. The residual value of the technology and the production know-how amounted to € 3,402 k (previous year: € 4,010 k); the average residual useful life was about six years. As in the previous year, brands acquired in the context of business combinations were included in the amount of € 1,877 k, which were classified as intangible assets with an indefinite useful life as there was no foreseeable limit to the use of these brands. The contractual and non-contractual business relationships obtained in the context of business acquisitions under the item customer relationships and order backlog had a residual value of € 8,051 k (previous year: € 14,375 k); the average residual useful life of the customer relationships amounting to € 8,043 k (previous year: € 14,367 k) was about seven years.

Amortisation of intangible assets with a finite useful life was included in the following function costs:

€ '000	2018	2017
Cost of sales	8,597	10,230
General and administration expenses	10,671	9,049
Selling expenses	362	703
Research and development expenses	1,011	455
Total	**20,641**	**20,437**

There was no appreciation either in this financial year or in the previous year.

17 | Impairment testing of property, plant and equipment as well as intangible assets

Property, plant and equipment as well as intangible assets were tested for impairment where there were possible signs of depreciation pursuant to IAS 36.13. The brand described in the section below was also tested for possible impairment as part of the impairment test for intangible assets with an indefinite useful life that must be carried out at least once a year. For this impairment testing, the expected cash flows were in all cases extrapolated from the business planning as approved by management for a period of five years. In the impairment tests, the recoverable amount of the respective cash-generating unit was as a matter of principle based on the fair value less cost to sell and was determined based on the level three parameters pursuant to IFRS 13.

The brand existing within the Wire & Cable Solutions Division was tested for impairment on 31 October. This was based on an after-tax discount rate of 8.21 percent (previous year: 8.87 percent). The impairment test did not result in any need for write-down.

The following disclosures refer to cash-generating units that were tested for impairment because there were indications of impairment.

In the case of a cash-generating unit of the Wire & Cable Solutions Division, the impairment test was based on an after-tax discount rate of 7.61 percent (previous year: 8.38 percent). The test did not find any need for write-down. From an increase in the after-tax interest rate by more than 0.12 of a percentage point (previous year: 0.6) the fair value less cost to sell would, all other parameters being equal, drop below the carrying amount.

In the previous year, a cash-generating unit in the Wiring Systems Division was tested for impairment based on the fair values of the individual assets. This found impairment of € 1,196 k, which was expensed in the previous year. The need for write-down pertained to property, plant and equipment.

18 | Goodwill

Goodwill in the financial year is summarised as follows:

€ '000	2018	2017
Acquisition costs on 1 January	149,698	156,103
Accumulated allowance	3,016	8,167
Carrying amount 1 January	**146,682**	**147,935**
Additions	0	672
Disposals	(6,830)	0
Currency translation differences	368	(1,925)
Carrying amount on 31 December	**140,220**	**146,682**
Acquisition costs on 31 December	150,142	149,698
Accumulated allowance 31 December	9,921	3,016
Carrying amount on 31 December	**140,221**	**146,682**

In addition to the obligatory impairment tests of all goodwill that must be carried out at least once a year, the Company carries out additional impairment tests during the financial year where there are indications of impairment. The obligatory impairment test of all goodwill that must be carried out at least once a year was executed as at 31 October.

For the purpose of the impairment test, all goodwill was allocated to those cash-generating units or groups of cash-generating units that benefit from the synergies of the business combinations.

The principal goodwill allocations were as follows: In the Wiring Systems Division, the largest item of goodwill in the amount unchanged from the previous year of € 66.6 million was allocated at segment level. In the Wire & Cable Solutions Division, one item of goodwill of € 65.6 million (previous year: € 64.9 million) was allocated to Business Group Industrial Solutions and goodwill totalling € 4.1 million (previous year: € 4.2 million) was allocated to Business Group Automotive Cables.

In all the goodwill impairment tests, determination of the recoverable amount was based on the fair value less cost to sell. The underlying cash flow forecasts are in each case based on the five-year business planning as approved by the Board of Directors.

As in the previous year, cash flows after the five-year period were on principle and for simplification extrapolated without applying a growth rate. The after-tax discount rates applied were as follows: for the Wiring Systems Division 7.89 percent (previous year: 8.80 percent), for Business Group Automotive Cables 8.88 percent (previous year: 10.13 percent) and for Business Group Industrial Solutions 7.69 percent (previous year 8.45 percent).

Within the Wire & Cable Solutions Division, an item of goodwill in the amount of € 65.6 million that is allocated to Business Group Industrial Solutions was tested for impairment. The after-tax discount rate was 7.69 percent (previous year: 8.45 percent). Based on the assumptions made, the recoverable amount exceeded the carrying amount of € 469.7 million by € 195.2 million. From an increase in the discount rate by 2.8 of a percentage point (previous year: 0.57 of a percentage point) the recoverable amount would, all other parameters being equal, match the carrying amount.

Likewise within the Wire & Cable Solutions Division, an item of goodwill in the amount of € 4.1 million that is allocated to Business Group Automotive Cables was also tested for impairment. The after-tax discount rate in this case was 8.88 percent (previous year: 10.13 percent). Based on the assumptions made, the recoverable amount exceeded the carrying amount of € 366.6 million by € 118.8 million. From an increase in the discount rate by 2.23 of a percentage point (previous year: 0.65 of a percentage point) the recoverable amount would, all other parameters being equal, match the carrying amount.

Within the Wiring Systems Division, an item of goodwill in the amount of € 6.8 million was allocated to a Business Unit at the time of the test, which was likewise tested for impairment. The after-tax discount rate in this case was 8.45 percent (previous year: 9.45 percent). Based on the assumptions made, the cash-generating unit's carrying amount of € 88.1 million was short of the recoverable amount by € 6.8 million. The allocated goodwill in the amount of € 6.8 million was amortised in full. There was no need for write-down of any of the cash-generating unit's other assets. Deterioration of planning assumptions and valuation parameters could lead to further impairment of long-term, non-financial assets allocated to the cash-generating unit. An increase in the discount rate by 0.5 of a percentage point would thus lead to a need for additional impairment by up to € 6.2 million.

Also within the Wiring Systems Division, an item of goodwill in the amount of € 1.9 million that is allocated to a Business Unit was likewise tested for impairment. The after-tax discount rate in this case was 8.96 percent (previous year: 10.37 percent). Based on the assumptions made, the recoverable amount exceeded the carrying amount of € 127.8 million by € 10.5 million.

19 | Shares in associated companies and joint ventures

As in the previous year, the shares in associated companies and joint ventures involved primarily LEONI Wiring Systems Co. Ltd. based in Langfang, China, in which the Group holds a 50 percent stake and which is included on the consolidated financial statements with this share. The business purpose of this joint venture is the production of cable harnesses for car model series.

The following key figures may be extrapolated from the financial statements prepared in accordance with IFRS for the aforementioned, significant joint venture. The figures are stated at 100 percent and do not reflect LEONI's share in these amounts. There is furthermore a reconciliation of the pro-rata net assets with the carrying amount of the share held by LEONI in this joint venture.

€ '000		**2018**		**2017**
Current assets		109,126		99,812
of which cash and cash equivalents	*13,496*		*20,055*	
Non-current assets		29,780		27,668
Current liabilities		81,965		69,170
of which current financial liabilities	*68,482*		*49,555*	
Sales		253,590		244,033
Interest income		1,432		566
Interest expenses		0		2,266
Depreciation / amortisation		4,196		8,067
Expenses		189,258		173,543
Earnings before taxes		**61,568**		**60,723**
Income tax expense or revenue		(15,452)		(15,253)
Earnings after taxes		**46,116**		**45,470**
Other comprehensive income		(42)		(1,646)
Total comprehensive income		**46,074**		**43,824**
Pro-rata comprehensive income		23,037		21,912
Net assets (excl. goodwill)		**56,941**		**58,310**
Pro-rata net assets		28,470		29,155
Pro-rata goodwill		3,972		4,017
Carrying amount of investment		**32,442**		**33,172**
Average number of employees		**662**		**608**

LEONI received a dividend of € 23,552 k in the financial year (previous year: € 12,004 k) .

The carrying amount of joint ventures and associated companies that are individually not significant was € 917 k (previous year: € 887 k).

The summarised financial information, based on the values pertaining to LEONI, is presented below:

€ '000	2018	2017
Income from continuing operations	152	109
Other earnings after taxes	15	32
Total comprehensive income	**167**	**141**

20 | Financial liabilities

The financial liabilities comprised liabilities to banks, notes payable and other loan obligations. They totalled € 764,430 k on 31 December 2018 (previous year: € 591,320 k). Current financial liabilities and the short-term proportion of long-term loans amounted to € 176,550 k on the reporting date (previous year: € 254,373 k). Non-current financial liabilities increased by € 250,933 k to € 587,880 k, which is due primarily to having issued new borrower's note loans.

The overview below shows the existing borrower's note loans:

Nominal value € '000	Carrying amount 31/12/2018 € '000	Payment year	Repayment	Interest	Hedging instrument
48,500	48,951	2012	matures 2019	fixed income	none
25,000	25,890	2013	matures 2020	fixed income	Fair value hedge
6,000	6,051	2015	matures 2020	fixed income	none
87,000	87,175	2015	matures 2020	variable rate	none
77,500	78,147	2015	matures 2020	fixed income	none
9,000	9,090	2012	matures 2022	fixed income	none
21,000	21,042	2015	matures 2022	variable rate	none
19,000	19,198	2015	matures 2022	fixed income	none
11,000	10,993	2018	matures 2023	fixed income	none
87,000	86,907	2018	matures 2023	variable rate	Cash flow hedge
66,500	66,482	2018	matures 2024	fixed income	none
87,000	86,923	2018	matures 2024	variable rate	Cash flow hedge
12,000	12,174	2015	matures 2025	fixed income	none
58,000	58,018	2018	matures 2026	fixed income	none
13,500	13,510	2018	matures 2028	fixed income	none
8,000	7,996	2018	matures 2028	variable rate	Cash flow hedge

Detail of the financial liabilities and hedging instruments is to be found in Note 27.

21 | Trade payables and other financial liabilities

€ '000	2018	2017
Trade liabilities	956,826	909,414
Liabilities to associated companies and joint ventures	1,477	1,319
Other liabilities	126,040	64,151
	1,084,343	**974,884**

On 31 December 2018, trade liabilities amounting to € 171,254 k (previous year: € 185,852 k) involved reverse factoring.

Other liabilities included payables amounting to € 39,207 k (previous year: € 35,519 k) from the receipt of payment on receivables that were sold within factoring contracts.

22 | Other current liabilities

€ '000	2018	2017
Liabilities to employees	97,079	116,788
Tax liabilities	46,115	31,718
Liabilities connected with social security	23,612	21,360
Other accruals	23,363	18,726
	190,169	**188,592**

23 | Provisions

The changes in provisions are summarised as follows:

€ '000	1/1/2018	Usage	Dissolution	Allocation	Allocation of interest	Currency differences	31/12/2018	Current provisions 2018	Non-current provisions 2018	Current provisions 2017	Non-current provisions 2017
Personnel-related provisions	25,354	4,094	681	6,854	69	52	**27,450**	1,388	26,062	1,914	23,440
Provisions for product warranties	13,999	7,212	3,841	6,505	0	(74)	**9,525**	9,525	0	13,999	0
Other provisions for purchasing and distribution	9,269	3,752	790	4,173	0	(109)	**9,009**	8,873	136	8,972	297
Restructuring provisions	4,251	2,493	1,217	158	0	15	**684**	684	0	3,631	620
Other provisions	13,829	1,729	197	1,488	8	20	**13,379**	4,068	9,311	4,888	8,941
Total	**66,702**	**19,280**	**6,726**	**19,178**	**77**	**(96)**	**60,047**	**24,538**	**35,509**	**33,404**	**33,298**

The personnel-related provisions involved mainly long-term provision for anniversary bonuses in the amount of € 12,762 k (previous year: € 11,673 k) and for partial retirement agreements in Germany in the amount of € 8,518 k (previous year: € 7,611 k). The provision for anniversary bonuses is paid out according to the age structure of the workforce upon the employees' respective anniversaries of service. Based on the current workforce, payments will mostly become due in the next 21 years. The payments relating to provisions for partial retirement will probably be spread over the next six years.

The product warranties were determined based on experience, with goodwill concessions also taken into account. Provisions were added in the amount of € 6,505 k (previous year: € 6,409 k) for claims under warranty and/or for compensation in fiscal 2018. These provisions for claims under warranty and/or for compensation were offset by claims against the insurer in the amount of € 50 k (previous year: € 1,847 k).

There were also provisions for purchasing and distribution to cover onerous contracts in the amount of € 4,399 k (previous year: € 4,334 k).

The restructuring provisions in the amount of € 684 k (previous year: € 4,251 k) pertained to the Wiring Systems Division in the amount of € 440 k (previous year: € 3,398 k) and to the Wire & Cable Solutions Division in the amount of € 244 k (previous year: € 853 k). Use of restructuring provisions in the amount of € 2,493 k involved the sums set aside in previous years for severance costs pertaining above all to the Wiring Systems Division in France.

24 | Pension provisions

At LEONI, there are in various countries pension commitments that provide for benefits in the event of disablement, retirement or death. These principal commitments are limited to our companies in the United Kingdom, Germany and Switzerland, and are set up as defined benefit plans. The obligations and the plan assets of the pension plans in these three countries accounted for 97.1 percent (previous year: 97.3 percent) and 99.2 percent (previous year: 99.2 percent), respectively, of the Group total. The pension plans in the United Kingdom and Switzerland are managed by legally independent entities, namely the LEONI UK Pension Scheme and Vorsorgestiftung LEONI Schweiz (LEONI Switzerland Pension Trust).

Germany

In Germany, LEONI grants defined benefits to most employees for the deferral of compensation. Amounts of deferred compensation earn fixed interest and lead to a claim for fixed lump-sum benefit once entitlement takes effect. These benefits are covered by capital insurance. The reinsurance policies are qualifying insurance policies and are therefore recognised as plan assets. The terms of the insurance policies are in line with the dates when the benefits become due. The interest rate for benefit modules follows the respectively current maximum rate stipulated by Section 65 of the Insurance Supervision Act (VAG) in conjunction with Section 2 (1) of the Actuarial Reserve Ordinance. It is capped at 6 percent, but currently lies between 4.5 percent and 5 percent because of the persistently low level of interest rates. The pension plan of Leonische Drahtwerke AG, which was closed to people joining the Company as long ago as 1981, grants pension payments based on year of service and income at the time of retirement.

Pension obligations of acquired German companies are generally based on eligible compensation levels and/or ranking within the Company hierarchy and years of service, or on a fixed amount per year of service. All defined pension plans of acquired companies are closed to new staff.

The plans in Germany are exposed to risks relating primarily to interest rates, longevity and partly also salary increases.

United Kingdom

In the United Kingdom, there is a defined benefit plan that was set up in the year 2000 and replaced the pension plan in place until then. Until it was closed to new staff joining in 2008, all employees were able to participate in this plan. The pension plan is administered by a trust whose board comprises both employer and employee representatives. There are also outside experts consulting on asset management and actuarial matters. The trust determines the contributions to be paid in by LEONI and decides on the additional contributions to be paid by LEONI in the event of any plan deficit. Due to the persistently low discount rates that are to be applied for computing pension obligation, the balance of defined benefit obligation and plan assets currently shows a deficit of € 50,964 k (previous year: € 66,626 k), equating to 26.1 percent (previous year: 31.2 percent) of the defined benefit obligation. Negotiations between LEONI and the trust are conducted every three years to determine the amounts to be paid in to clear any deficit and the period over which to do so. In addition to the ongoing contributions, payments of € 4,286 k were made in the financial year (previous year: € 4,057 k) to clear the deficit.

The amount of committed benefits is based upon the salary of the last year of employment as well as years of service and contributions of the participants to the fund. Pension adjustments are linked to an inflation index, reflecting increases in the cost of living.

LEONI is exposed due to these plans in the United Kingdom to risks involving primarily interest rates, investment, inflation and longevity as well as salary increases.

Switzerland

In Switzerland, there is, alongside the state pension, a statutory obligation to provide employees with pension insurance, which pays benefits in the event of retirement, disablement and death. This involves a defined benefit plan that, at LEONI, is managed by the legally independent 'Vorsorgestiftung LEONI Schweiz' (LEONI Switzerland Pension Trust). The trust's management is incumbent upon the board of trustees, which comprises an equal number of employer and employee representatives. The risks relating to longevity, interest rates and investment are borne exclusively by the trust. The savings contributions to the trust are paid in equal amounts by the employer and employees. A variety of measures can be applied in the event of any plan deficit. Alongside the options of reducing the pension payments or increasing the savings contributions, there is a statutory obligation on companies to pay recapitalisation contributions.

The size of benefit payments is, in the event of disability or death, geared to the amount of income insured, or, in the case of retirement, depends on the credit balances in nominal savings accounts (old-age credit) at the time of retirement.

Other countries

In France, there are defined benefit plans in accordance with the country's legal requirements and other agreements. The collective agreement of the French metal-working trade union determines the size of the benefit. It is linked to monthly wages and salaries and depends on years of service.

At the Italian subsidiaries, there are pension plans in accordance with the local legal requirements. These must be qualified as defined benefit plans pursuant to IAS 19 and were presented accordingly.

Furthermore, there are at some foreign subsidiaries pension-like defined benefit schemes, above all for transition payments after entering retirement, which were presented as defined benefit plans pursuant to IAS 19 and which were of only minor significance to the Group.

The trend in net pension obligations, which is comprised of the change in the defined benefit obligation and the change in the fair value of plan assets is as follows:

2018						
Change in defined benefit obligations	€ '000	**UK**	**Germany**	**Switzerland**	**Other**	**Total**
Defined benefit obligations at the beginning of the fiscal year		213,608	121,442	90,167	11,621	436,838
Current service cost		1,772	2,450	1,957	698	6,877
Interest cost		5,024	2,305	641	233	8,203
Actuarial (gains) / losses		(18,363)	(1,352)	(219)	322	(19,612)
Past service cost		985	0	(386)	4	603
Contributions by plan participants		18	2,834	2,131	0	4,983
Currency differences		(2,064)	0	3,515	3	1,454
Transfers under Swiss law		0	0	5,148	0	5,148
Benefits paid		(5,754)	(3,169)	(5,960)	(613)	(15,496)
Defined benefit obligations at the end of the fiscal year		**195,226**	**124,510**	**96,994**	**12,268**	**428,998**
Change in plan assets	€ '000	**UK**	**Germany**	**Switzerland**	**Other**	**Total**
Fair value of plan assets at the beginning of the fiscal year		146,982	39,941	76,919	2,247	266,089
Interest received		3,502	763	547	75	4,887
Return on plan assets (excl. interest income based on discount rate)		(4,501)	23	(3,472)	(46)	(7,996)
Currency differences		(1,543)	0	2,945	0	1,402
Contributions by the employer		6,274	414	2,065	407	9,160
Contributions by plan participants		18	2,834	2,131	0	4,983
Administrative costs, fees and taxes		(716)	0	0	0	(716)
Transfers under Swiss law		0	0	5,148	0	5,148
Benefits paid		(5,754)	(737)	(5,960)	(412)	(12,863)
Plan assets at the end of the fiscal year		**144,262**	**43,238**	**80,323**	**2,271**	**270,094**
Net liability due to defined benefit plans		**50,964**	**81,272**	**16,671**	**9,997**	**158,904**

2017

Change in defined benefit obligations € '000	UK	Germany	Switzerland	Other	Total
Defined benefit obligations at the beginning of the fiscal year	213,851	121,191	96,217	11,645	442,904
Current service cost	1,794	3,073	2,094	1,085	8,046
Interest cost	5,402	2,060	608	256	8,326
Actuarial (gains) / losses	6,656	(4,344)	(262)	(71)	1,979
Contributions by plan participants	15	2,454	2,090	0	4,559
Currency differences	(7,404)	0	(7,989)	(28)	(15,421)
Acquisition effects	0	0	863	0	863
Transfers under Swiss law	0	0	1,661	0	1,661
Benefits paid	(6,706)	(2,992)	(5,115)	(1,266)	(16,079)
Defined benefit obligations at the end of the fiscal year	**213,608**	**121,442**	**90,167**	**11,621**	**436,838**

Change in plan assets € '000	UK	Germany	Switzerland	Other	Total
Fair value of plan assets at the beginning of the fiscal year	142,790	37,249	77,502	2,304	259,845
Interest income	3,649	694	490	66	4,899
Return on plan assets (excl. interest income based on discount rate)	6,771	86	4,186	(42)	11,001
Currency differences	(5,007)	0	(6,653)	(21)	(11,681)
Contributions by the employer	6,189	253	2,024	987	9,453
Contributions by plan participants	15	2,454	2,090	0	4,559
Administrative costs, fees and taxes	(719)	0	0	0	(719)
Acquisition effects	0	0	734	0	734
Transfers under Swiss law	0	0	1,661	0	1,661
Benefits paid	(6,706)	(795)	(5,115)	(1,047)	(13,663)
Plan assets at the end of the fiscal year	**146,982**	**39,941**	**76,919**	**2,247**	**266,089**
Net liability due to defined benefit plans	**66,626**	**81,501**	**13,248**	**9,374**	**170,749**

The pension obligations are presented on the balance sheet as a net liability in the amount of € 158,904 k (previous year: net liability of € 170,792 k and net asset of € 43 k).

The transfers under Swiss law concern the transfer of the obligation and of the related proportion of plan assets, known as the vested benefit credit, to the new employer or a suitable financial institution in accordance with the country's legal requirements.

The defined benefit obligation at the end of the financial year broke down into € 380,852 k (previous year: € 387,819 k) in funded obligations and € 48,146 k (previous year: € 49,019 k) in unfunded obligations.

A breakdown of the obligations into the categories of existing and past employees as well as non-vested and vested benefits is provided in the overview below:

2018 € '000	**UK**	**Germany**	**Switzerland**	**Other**	**Total**
Current employees with non-vested benefits	49,936	63,776	66,109	4,389	184,210
Current employees with vested benefits	0	0	0	7,879	7,879
Former employees with non-vested benefits	69,027	24,853	0	0	93,880
Pensioners	76,263	35,881	30,885	0	143,029
Defined benefit obligations at the end of the fiscal year	**195,226**	**124,510**	**96,994**	**12,268**	**428,998**

2017 € '000	**UK**	**Germany**	**Switzerland**	**Other**	**Total**
Current employees with non-vested benefits	62,487	67,752	60,110	4,088	194,437
Current employees with vested benefits	0	0	0	7,533	7,533
Former employees with non-vested benefits	81,774	17,489	0	0	99,263
Pensioners	69,347	36,201	30,057	0	135,605
Defined benefit obligations at the end of the fiscal year	**213,608**	**121,442**	**90,167**	**11,621**	**436,838**

The actuarial gains or losses on revaluation were recognised in accumulated other comprehensive income. The trend in the Group's actuarial losses, including the share pertaining to associated companies, is presented in the overview below:

€ '000	**2018**	**2017**
Actuarial losses at the beginning of the fiscal year	137,976	147,029
Actuarial (gains) / losses		
– due to the change in demographic projections	1,461	0
– due to the change in financial estimates	(21,135)	2,510
– due to adjustments based on experience	47	(561)
Return on plan assets (excl. interest income based on discount rate)	7,996	(11,002)
Actuarial losses at the end of the fiscal year	**126,345**	**137,976**

The assumptions for interest rates, rates of compensation increase and the expected return on plan assets on which the calculation for defined benefit obligations is based were established for each country as a function of their respective economic conditions. The discount rate was determined on the basis of top-tier, fixed-income corporate bonds. This involved referencing bonds that on the reporting date had maturities in line with the pension obligations and are quoted in the corresponding currency. AA-rated bonds were used as the basis for data to determine the discount rates.

The overview below shows the actuarial assumptions made to calculate the defined benefit obligation:

	2018				2017			
	UK	Germany	Switzerland	Total	UK	Germany	Switzerland	Total
Discount rate	2.89 %	2.02 %	0.80 %	2.12 %	2.38 %	1.93 %	0.70 %	1.88 %
Rate of wage and salary increase	3.21 %	2.50 %	1.00 %	2.47 %	3.18 %	2.50 %	1.00 %	2.51 %
Rate of compensation increase	3.07 %	1.75 %	0.00 %	1.91 %	3.05 %	1.75 %	0.00 %	1.98 %

The assumptions made for calculating net periodic pension costs are shown in the table below:

	2018				2017			
	UK	Germany	Switzerland	Total	UK	Germany	Switzerland	Total
Discount rate	2.38 %	1.93 %	0.70 %	1.88 %	2.62 %	1.72 %	0.65 %	1.91 %
Rate of wage and salary increase	3.18 %	2.50 %	1.00 %	2.51 %	3.25 %	2.50 %	0.75 %	2.46 %
Rate of compensation increase	3.05 %	1.75 %	0.00 %	1.98 %	3.10 %	1.75 %	0.00 %	1.98 %

The assumed mortality is based on published statistics and historical data in the respective countries. The valuation of the retirement benefit obligations in the United Kingdom was based on the S2NA mortality table and updated with the CMI 2017 core model index. The mortality tables used in Germany were the 'Heubeck-Richttafeln 2018 G'. These two assessment models were updated in 2018, the impact of which is contained in the actuarial changes due to demographic assumptions. As in the previous years, the 'BVG 2015 Generationentafel' was used in Switzerland.

The discount rate is the key determinant for the amount of net pension obligations. An increase or a decrease by 1 percentage point has the following impact on the defined benefit obligation:

2018	€ '000	**UK**	**Germany**	**Switzerland**	**Other**	**Total**
Defined benefit obligations at the end of the fiscal year		**195,226**	**124,510**	**96,994**	**12,268**	**428,998**
Discount rate plus 1 percentage point	Change:	(29,671)	(14,925)	(11,746)	(1,307)	(57,649)
	Defined benefit obligations:	165,555	109,585	85,248	10,961	371,349
Discount rate minus 1 percentage point	Change:	38,678	18,458	14,923	1,564	73,623
	Defined benefit obligations:	233,904	142,968	111,917	13,832	502,621

2017	€ '000	**UK**	**Germany**	**Switzerland**	**Other**	**Total**
Defined benefit obligations at the end of the fiscal year		**213,608**	**121,442**	**90,167**	**11,621**	**436,838**
Discount rate plus 1 percentage point	Change:	(36,205)	(15,060)	(11,173)	(1,238)	(63,676)
	Defined benefit obligations:	177,403	106,382	78,994	10,383	373,162
Discount rate minus 1 percentage point	Change:	48,051	18,729	14,205	1,574	82,559
	Defined benefit obligations:	261,659	140,171	104,372	13,195	519,397

The assumptions concerning the trends in salaries, pensions and mortality with respect to the pension plan in the Group have the effect on the defined benefit obligation set out below. It should be noted that a drop in the pension level is ruled out by law in Switzerland.

		2018			2017		
€ '000		UK	Germany	Switzerland	UK	Germany	Switzerland
Defined benefit obligations at the end of the fiscal year		**195,226**	**124,510**	**96,994**	**213,608**	**121,442**	**90,167**
Salary trend plus 0.5 percentage point	Change (absolute):	2,230	31	194	2,254	29	180
	Change (relative):	1.14 %	0.03 %	0.20 %	1.06 %	0.02 %	0.20 %
Salary trend minus 0.5 percentage point	Change (absolute):	(2,230)	(52)	(194)	(2,254)	(28)	(180)
	Change (relative):	(1.14) %	(0.04) %	(0.20) %	(1.06) %	(0.02) %	(0.20) %
Rate of compensation plus 0.5 percentage point	Change (absolute):	13,381	3,655	4,462	16,905	3,794	4,238
	Change (relative):	6.85 %	2.94 %	4.60 %	7.91 %	3.12 %	4.70 %
Rate of compensation minus 0.5 percentage point	Change (absolute):	(12,266)	(3,334)	n/a	(14,651)	(3,453)	n/a
	Change (relative):	(6.28) %	(2.68) %	n/a	(6.86) %	(2.84) %	n/a
Life expectancy plus 1 year	Change (absolute):	6,690	2,915	2,231	7,889	2,973	2,164
	Change (relative):	3.43 %	2.34 %	2.30 %	3.69 %	2.45 %	2.40 %

The mortality trend is taken into account in the three major pension plans through the use of generation tables. Calculation of the defined benefit obligation with a one-year rise in life expectancy raises the defined benefit obligation of the plans as follows: in the United Kingdom by 3.43 percent (previous year: 3.69 percent), in Germany by 2.34 percent (previous year: 2.45 percent) and in Switzerland by 2.30 percent (previous year: 2.40 percent).

The calculation of sensitivities was, as part of an observation performed on a ceteris paribus basis, based on changing an assumption, whereas all other assumptions remain unchanged, whereby dependencies between the assumptions are ruled out. The method for calculating sensitivities is identical to that for calculating the net pension obligation.

The defined benefit plan expense recognised in comprehensive income comprises the amounts contained in consolidated net income and in other comprehensive income:

€ '000	2018	2017
Current service cost	6,877	8,046
Net interest cost	3,316	3,427
Past service cost	603	0
Administrative costs and taxes related to plan management	716	719
Defined benefit plan expense recognised in consolidated net income	**11,512**	**12,192**
Actuarial (gains) / losses	(19,627)	1,949
Return on plan assets (excl. interest income based on discount rate)	7,996	(11,002)
Income / expense relating to defined benefit plans recognised in other comprehensive income	**(11,631)**	**(9,053)**
Defined benefit plan expense recognised in comprehensive income	**(119)**	**3,139**

The net interest expense that arose from applying the discount rate to the balance of defined benefit obligation less plan assets (net pension obligation) was presented under finance costs.

The expense recognised in consolidated net income was contained in the following items of the income statement:

€ '000	2018	2017
Cost of sales	3,311	2,806
General and administration expenses	2,051	1,945
Selling expenses	1,104	1,964
Research and development expenses	1,730	2,050
Finance costs	3,316	3,427
Defined benefit plan expense recognised in consolidated net income	**11,512**	**12,192**

Asset-liability matching strategies

At LEONI, the key benefit commitments are, in accordance with the Company's Articles of Association, furnished with a benefit reserve that is suited in its nature to funding the benefit payments when they are due and in the required amount. In the case of the German pension plan this is done exclusively by means of qualifying life insurance policies that are synchronised in their terms and amounts with the expected benefit payments. In the case of the pension plans in the United Kingdom and Switzerland, the boards of the independent trusts ensure adherence to the investment strategies. These strategies are aimed at minimising potential investment risks, having sufficient funds available at short notice to serve the benefit payments due and at generating a return that is in line with the market over the long term. Assessments of the investment portfolio are regularly conducted together with independent, outside specialists in the fields of asset investment and actuarial policies to review the attainment of strategic targets and for the boards on that basis to take investment decisions.

The breakdown of plan assets in the various classes is presented in the table below:

	2018		2017	
	€ '000	%	€ '000	%
Equity instruments	48,143	17.8	57,311	21.5
Debt instruments	36,330	13.5	33,967	12.8
Property	36,155	13.4	34,803	13.1
of which: prices not quoted on an active market	*20,053*	*7.4*	*18,814*	*7.1*
Securities funds	82,086	30.4	78,929	29.7
Qualifying insurance policies	43,278	16.0	39,981	15.0
Other plan assets	19,097	7.1	17,754	6.7
of which: prices not quoted on an active market	*13,227*	*4.9*	*11,891*	*4.5*
Cash and cash equivalents	5,005	1.9	3,344	1.3
Total plan assets	**270,094**	**100.0**	**266,089**	**100.0**

The plan assets from qualifying insurance policies stemmed almost exclusively from the reinsurance policies in Germany. Apart from the class comprising cash and cash equivalents, the assets of all other classes stated involved the plan assets of the pension plans in the United Kingdom and Switzerland, and broke down as follows:

2018	**UK** € '000	%	**Switzerland** € '000	%
Equity instruments	30,293	21.0	17,848	22.2
Debt instruments	0	0.0	36,330	45.2
Property	20,053	13.9	16,102	20.0
of which: prices not quoted on an active market	*20,053*	*13.9*	*0*	*0.0*
Securities funds	82,086	56.9	0	0.0
Other plan assets	11,830	8.2	7,267	9.0
of which: prices not quoted on an active market	*11,830*	*8.2*	*1,397*	*1.7*
Cash and cash equivalents	0	0.0	2,776	3.5
Total plan assets	**144,262**	**100.0**	**80,323**	**100.0**

2017	**UK** € '000	%	**Switzerland** € '000	%
Equity instruments	34,394	23.4	22,917	29.8
Debt instruments	3,969	2.7	29,998	39.0
Property	18,814	12.8	15,989	20.8
of which: prices not quoted on an active market	*18,814*	*12.8*	*0*	*0.0*
Securities funds	78,929	53.7	0	0.0
Other plan assets	10,730	7.3	7,024	9.1
of which: prices not quoted on an active market	*10,730*	*7.3*	*1,161*	*1.5*
Cash and cash equivalents	146	0.1	991	1.3
Total plan assets	**146,982**	**100.0**	**76,919**	**100.0**

The equity instruments in the United Kingdom and Switzerland comprised investments in equity funds and direct investments. In each case the funds included equities both based in the country and foreign ones. The debt instruments held in Switzerland involved both national and foreign corporate and government bonds. Investment in property in the United Kingdom and Switzerland was transacted exclusively by way of open-ended property funds. The securities funds in the United Kingdom involved diversified growth funds or liability-driven investments (LDIs). The other plan assets in the United Kingdom included investments in funds in which the portfolios comprised foreign utility and transport infrastructure organisations.

The breakdown of plan assets by the stated investment classes corresponds to the targeted investment classes set out in the statutes of the pension plans. The trustee continuously monitors the investment strategy especially for the plan in the United Kingdom. The objective is to ensure the best possible congruity with respect to long-term structure and interest rate as well as inflation sensitivities between pension obligations and the plan assets (liability-driven investments). The shift in the target allocation away from debt instruments and towards securities funds started in the previous year was thus continued. Securities funds are expected to provide more targeted hedging of the inflation and interest rate risk.

LEONI did not make any own use of plan assets.

The contributions to plan assets amounted to € 9,160 k and were projected at € 8,600 k for the subsequent financial year.

A breakdown of pension payments (excluding compensatory effects of payouts from the plans assets) was presented as follows:

Pension payments made	€ '000
2017	16,079
2018	**15,651**
Expected pension payments	€ '000
2019	15,991
2020	16,547
2021	16,013
2022	19,270
2023	17,415
2024 – 2028	94,275
Pension payments expected until 2028	**179,511**

The average, weighted Macaulay duration of benefit obligations was 18 years in the United Kingdom and 14 years in both Germany and Switzerland.

Some non-German companies provide defined contribution plans. In Germany and other countries, state plans were also recognised under defined contribution plans. The total cost of such contributions amounted to € 82,349 k in the financial year (previous year: € 88,403 k).

25 | Equity

Share capital

The share capital in the amount of € 32,669 k (previous year: € 32,669 k), which corresponded to the share capital of LEONI AG, is divided into 32,669,000 (previous year: 32,669,000) no-par-value shares.

Additional paid-in capital

As in the previous year, the additional paid-in capital amounted to € 290,887 k.

Statutory reserve

As in the previous year, the retained earnings included the statutory reserve of LEONI AG in the amount of € 1,092 k, which is not available for distribution.

Authorised capital

The Board of Directors is authorised to increase the share capital by up to € 16,334.5 k on or before 10 May 2022 with the Supervisory Board's approval by once or in partial amounts issuing up to 16,334,500 new bearer shares, each with a pro-rated share of € 1.00 in the share capital, on a cash or non-cash basis.

Shareholders must be granted a right to subscribe. However, shareholders at the Annual General Meeting entitled the Board or Directors, with the approval of the Supervisory Board, to rule out shareholders' subscription rights in cases specified in the Articles of Association.

Contingent capital

Furthermore, the Annual General Meeting on 07 May 2015 authorised the Board of Directors to issue convertible bonds and/or warrant-linked bonds until 6 May 2020. This involved a contingent increase in share capital by up to € 6,534 k. The contingent capital increase is only to be performed to the extent that option and/or conversion rights are exercised, or that the holders and/or creditors obliged to convert have met their conversion obligation, or so far as the Company exercises its right under such instruments either entirely or partially to grant shares in the Company instead of paying the cash amount due and provided no other forms of fulfilment are used.

Dividend payment

A dividend for the 2017 financial year of € 45,737 k was paid out in fiscal 2018, equating to a payout of € 1.40 per share entitled to dividend.

Dividend proposal

The Board of Directors and Supervisory Board will propose to shareholders at the Annual General Meeting to not pay out any dividend from the fiscal 2018 distributable profit of LEONI AG, amounting to € 18,236 k as determined under the German Commercial Code (HGB) and the German Stock Corporation Act (AktG), and to allocate the entire distributable profit of € 18,236 k to retained earnings.

26 | Contingencies and other obligations

Lease obligations

The Group leases property, plant and equipment that did not qualify as finance leases under IFRS and these are therefore classified as operating leases. Leasing expenses amounted to € 42,439 k in the financial year (previous year: € 38,422 k). The future (undiscounted) minimum rental payments on non-cancellable operating leases are:

Financial years	€ '000
2019	45,482
2020	36,151
2021	29,373
2022	23,061
2023	18,811
as of 2024	34,704
Total	**187,582**

Purchase order commitments

Purchase order commitments for property, plant and equipment as well as intangible assets amounted € 60,008 k on the balance sheet date (previous year: € 51,356 k).

Litigation and claims

Individual LEONI companies are involved in litigation or could be involved in further litigation, which could entail claims for compensation or other claims. Appropriate amounts with respect to such claims and, where applicable, claims against the insurers were recognised.

As reported, several civil proceedings in the form of class action lawsuits have been initiated against LEONI and other wiring systems manufacturers in the United States and Canada since October 2011 due to alleged breaches of competition law. LEONI was able to conclude all these proceedings in the 2016 and 2017 financial years without any acceptance of liability by way of settlement agreements. In the USA, there are now just a few proceedings pending involving individual claimants, which, from today's perspective, are likely to have far less impact than the hitherto concluded proceedings. LEONI therefore expects to be able to conclude these outstanding proceedings as well in the near future.

In November 2015, the Brazilian competition authority initiated proceedings against a LEONI company as well as other wiring system manufacturers, presumably in connection with the cartel proceedings before the European Commission that were already concluded in 2013. LEONI cooperated with the responsible authorities and ended the proceedings by paying a fine agreed in a settlement. The corresponding expense was already considered in the 2017 financial statements.

In July 2017, LEONI AG was presented with the complaint of a shareholder before the District Court of Nuremberg-Fürth asking for the resolution passed at the Annual General Meeting concerning the election of Dr.-Ing. Klaus Probst as a member of the Supervisory Board to be revoked. The claimant withdrew the complaint in September 2018. The election of Dr Probst took effect.

In 2017, another shareholder applied to the District Court of Nuremberg-Fürth for a decision on the composition of LEONI AG's Supervisory Board ('status proceedings'). The court of first instance dismissed the shareholder's application in 2018. His appeal against this decision also failed. The decision is therefore legally valid. The Supervisory Board of LEONI AG is properly composed. A claimant sued for damages of € 12 million with respect to the alleged breach of the law in connection with having taken over employees in France. LEONI cannot understand either the reasoning or the calculation of the alleged damages. We therefore still believe that we will be able to refute the allegations and to bring the proceedings to a successful conclusion.

Other than the above, there have not been any and there are currently no pending lawsuits or court proceedings that have any major impact on LEONI's business.

27 | Risk management and financial derivatives

Overview of financial instruments

The tables below show financial instruments held in the Group on 31 December 2018 and in the previous year:

€ '000	Measurement category in accordance with IFRS 9	Carrying amount 31/12/2018	Recognition according to IFRS 9: Amortised cost	Recognition according to IFRS 9: Fair value recognised in equity	Recognition according to IFRS 9: Fair value recognised in profit or loss	Fair value 31/12/2018
Assets						
Cash and cash equivalents	AC	**151,754**	151,754			**151,754**
Trade receivables	AC	**625,275**	625,275			**625,275**
Other financial receivables	AC	**44,680**	44,680			**44,680**
Other non-derivative financial assets						
Investments	FVTPL	**1,116**			1,116	**1,116**
Derivative financial assets						
Derivatives without a hedging relationship	FVTPL	**1,202**			1,202	**1,202**
Derivatives with a hedging relationship	n/a	**7,832**		7,832	0	**7,832**
Equity and Liabilities						
Trade payables	AC	**956,826**	956,826			**956,826**
Liabilities to banks	AC	**124,303**	124,303			**124,022**
Borrower's note loans	AC	**638,549**	638,549			**645,604**
Other financial liabilities	AC	**147,508**	147,508			**147,508**
Derivative financial liabilities						
Derivatives without a hedging relationship	FVTPL	**7,787**			7,787	**7,787**
Derivatives with a hedging relationship	n/a	**3,661**		3,661		**3,661**
Of which aggregated by categories in accordance with IFRS 9:						
Financial assets at amortised cost	AC	**821,709**	821,709			**821,709**
Financial assets at fair value through profit or loss	FVTPL	**2,318**			2,318	**2,318**
Financial liabilities at amortised cost	AC	**1,867,186**	1,867,186			**1,873,960**
Financial liabilities at fair value through profit or loss	FVTPL	**7,787**			7,787	**7,787**

€ '000	Measurement category in accordance with IAS 39	Carrying amount 31/12/2017[1]	Amortised cost	Cost	Fair value recognised in equity	Fair value recognised in profit or loss	Fair value 31/12/2017[1]
		Recognition according to IAS 39					
Assets							
Cash and cash equivalents	LaR	**185,084**	185,084				**185,084**
Trade receivables	LaR	**609,761**	609,761				**609,761**
Other financial receivables	LaR	**35,476**	35,476				**35,476**
Other non-derivative financial assets							
Available-for-sale financial assets	AfS	**1,115**		1,115			**1,115**
Derivative financial assets							
Derivatives without a hedging relationship	FAHfT	**4,323**				4,323	**4,323**
Derivatives with a hedging relationship	n/a	**4,755**			3,596	1,159	**4,755**
Equity and Liabilities							
Trade payables	FLAC	**909,414**	909,414				**909,414**
Liabilities to banks	FLAC	**256,596**	256,596				**257,796**
Borrower's note loans	FLAC	**333,128**	333,128				**341,590**
Other financial liabilities	FLAC	**83,658**	83,658				**83,658**
Derivative financial liabilities							
Derivatives without a hedging relationship	FLHfT	**4,040**				4,040	**4,040**
Derivatives with a hedging relationship	n/a	**6,953**			6,953		**6,953**
Of which aggregated by categories in accordance with IAS 39:							
Loans and Receivables (LaR)	LaR	**907,474**	907,474				**907,474**
Available-for-Sale Financial Assets (AfS)	AfS	**1,115**		1,115			**1,115**
Financial Assets Held for Trading (FAHfT)	FAHfT	**4,323**				4,323	**4,323**
Financial Liabilities measured at Amortised Cost (FLAC)	FLAC	**1,582,796**	1,582,796				**1,592,458**
Financial Liabilities Held for Trading (FLHfT)	FLHfT	**4,040**				4,040	**4,040**

[1] *prior-year figures adjusted*

Due to the short terms of the cash and cash equivalents, trade receivables and other current receivables, the fair values largely correspond to the carrying amounts as they did in the previous year.

The cash and cash equivalents do not include any amounts that were set aside as collateral security in bilateral agreements.

The fair values of other non-current receivables maturing after more than one year correspond to the present values of payments relating to the assets, in each case taking into account the current interest parameters that reflect market and partner-related changes in terms.

Trade liabilities and other liabilities usually mature in the short term; the amounts on the balance sheet represent approximations of their fair value.

The fair values of liabilities to banks, the borrower's note loans and the other non-current financial liabilities are determined as the present values of the payments relating to the liabilities based on the respectively applicable yield curves and taking into account the Group-specific margins. For this reason, the fair values are to be allocated to hierarchy level 3.

Capital management

The primary objective of LEONI's capital management is to ensure that it maintains a strong credit rating, a good equity ratio and appropriate gearing to support its business and increase shareholder value.

The Group manages its capital structure and makes adjustments based on the change in underlying economic conditions. To maintain and adjust its capital structure, the Group can make adjustments to dividend payouts to shareholders, repay capital to shareholders or issue new shares. In order to have as broad a range of funding options as possible, LEONI aims to seek approval during its Annual General Meeting for all anticipatory resolutions. LEONI controls its capital with gearing. Gearing is defined as the ratio of net financial debts to equity.

LEONI expects a sustained equity ratio of at least 35 percent. Due to fluctuation in elements of other comprehensive income that cannot be influenced, which may for example be caused by actuarial measurement of pension obligations or differences due to currency translation, the equity ratio could temporarily also drop below this figure. With respect to gearing, a figure below 50 percent is the target to be met on a lasting basis. During periods of acquisition this ratio may be temporarily exceeded. In principle, the aim is that capital spending on organic growth that exceeds the market average can be generated from operating cash flow and that reducing financial liabilities is possible.

€ '000	2018	2017 [1]
Financial liabilities	764,431	591,320
less cash and cash equivalents	(151,754)	(185,084)
Net financial liabilities	612,677	406,236
Equity	1,081,438	1,036,418
%		
Gearing	**57%**	**39%**

[1] *prior-year figures adjusted*

At the end of fiscal 2018, gearing stood at 57 percent (previous year: 39 percent) which, given virtually unchanged equity, is attributable to the increase in net financial liabilities.

A trend in financial liabilities is presented in the table below:

Financial liabilities

€ '000	Current	Non-current	Total
31/12/2017	**254,373**	**336,947**	**591,320**
Cash changes			
New borrowing	432,180	331,000	763,180
Repayment	(588,719)	0	(588,719)
Non-cash changes			
Reclassification	78,679	(78,679)	0
Effect of currency translation	1,423	(694)	729
Measurement effects	(1,386)	(693)	(2,079)
31/12/2018	**176,550**	**587,880**	**764,430**

€ '000	Current	Non-current	Total
31/12/2016	**150,345**	**462,143**	**612,488**
Cash changes			
New borrowing	101,527	770	102,297
Repayment	(105,516)	0	(105,516)
Non-cash changes			
Reclassification	125,257	(125,257)	0
Effect of currency translation	(8,391)	(670)	(9,061)
Measurement effects	(230)	(39)	(269)
Change in scope of consolidation	(8,619)	0	(8,619)
31/12/2017	**254,373**	**336,947**	**591,320**

Net results of the financial instruments

The net results of the financial instruments by measurement category were as follows:

€ '000	2018
Measurement categories under IFRS 9:	
Financial assets at amortised cost (AC)	1,955
Financial assets and financial liabilities at fair value through profit or loss (FVTPL)	(12,261)
Financial liabilities at amortised cost (AC)	(1,189)
Total	**(11,495)**

€ '000	2017[1]
Measurement categories under IAS 39:	
Loans and Receivables (LaR)	(21,844)
Derivatives (HfT)	6,159
Financial Liabilities measured at Amortised Cost (FLAC)	3,892
Total	**(11,793)**

[1] *prior-year figures adjusted*

Offsetting of financial instruments

LEONI had derivative assets and derivative liabilities vis-à-vis various financial institutions that do not fulfil the offsetting criteria under IAS 32.42. Accordingly, these derivative financial instruments were presented separately in the statement of financial position. However, the concluded master contracts do contain offsetting agreements in the case of insolvency. The overview below presents the corresponding figures:

31/12/2018 € '000	Gross figures	Offsetting	**Net figures**	Offsetting agreements	**Net figures**
Other financial assets					
Derivatives	9,034	0	**9,034**	(4,742)	**4,292**
Other financial liabilities					
Derivatives	(11,127)	0	**(11,127)**	4,742	**(6,385)**

31/12/2017 € '000	Gross figures	Offsetting	**Net figures**	Offsetting agreements	**Net figures**
Other financial assets					
Derivatives	8,279	0	**8,279**	(4,928)	**3,351**
Other financial liabilities					
Derivatives	(10,993)	0	**(10,993)**	4,928	**(6,065)**

Cash flow hedge reserve

The table below shows the trend in the cash flow hedge reserve within consolidated equity.

€ '000	**Cash flow hedge reserve**	**of which: hedging of currency risks**	**of which: hedging of interest rate risks**
01/01/2018	**(3,375)**	**(3,375)**	**0**
Change in value of the hedge from:			
hedging of sales, cost of sales and investment in property, plant & equipment as well as variable interest of the borrower's note loan	8,389	8,924	(535)
Reclassification in the income statement	(1,668)	(1,668)	0
Reclassification in the statement of financial position	(6)	(6)	0
Tax effect	(471)	(629)	158
31/12/2018	**2,869**	**3,245**	**(376)**

The underlying hedging transactions are described in the sections on currency and interest rate risks.

This table is presented for the first time in 2018 because the transitional rules under IFRS 9 do not require any adjustment of the comparative period.

Credit risk

The risk of default arises from deposits with banks and financial institutions, the contractual cash flows from debt instruments, derivative financial instruments with a positive fair value as well as, above all, from outstanding trade receivables and contract assets.

All customers that conclude business with the Group on a credit basis are subject to credit screening. Regular analysis of receivables and the structure of the receivables facilitates ongoing monitoring of the risk. Accounts receivable management is organised in a decentralised way but is controlled by head office, which sets conditions by means of the existing guideline for Group-wide accounts receivable management.

The table below shows the breakdown by region of receivables from customers:

in percentage points	2018	2017
EMEA	**59**	**48**
of which: France	13	2
Germany	12	8
Romania	5	3
Hungary	4	5
United Kingdom	4	6
Other	21	24
Asia	**26**	**34**
of which: China	21	24
South Korea	2	3
India	1	2
Other	2	5
Americas	**15**	**18**
of which: USA	11	14
Other	4	4

The following table shows the size categories of receivables from customers on the balance sheet date:

	2018 %	2018 total share in %	2017 %	2017 total share in %
Largest customer	9	9	9	9
Second largest customer	6	6	7	7
Third to fifth largest customers	4 – 5	14	4 – 5	14
Other customers	≤ 4	71	< 4	70

The valuation allowances for trade receivables as well as contract assets were as follows:

€ '000	2018	2017
Allowances on 1 January in accordance with IAS 39	**8,829**	**10,243**
Adjustment for initial application of IFRS 9	6,801	—
Allowances on 1 January in accordance with IFRS 9	**15,630**	—
Exchange rate differences	109	(85)
Additions (allowances recognised as expense)	6,538	1,499
Usage	(581)	(848)
Reversal	(4,221)	(1,980)
Allowances on 31 December	**17,475**	**8,829**

The increase in expense resulted mainly from a revised customer rating within the default risk categories.

The gross carrying amounts of and valuation allowances for trade receivables as well as contract assets break down as follows by default risk category:

€ '000	31/12/2018 Size of exposure (gross)	31/12/2018 Valuation allowance
Risk rating		
low risk	691,506	8,034
average risk	88,276	1,629
above-average risk	21,437	446
increased and high risk	10,702	2,593
very high risk	86	86
exposures at default	4,687	4,687
Total	**816,694**	**17,475**

Contract assets are allocated in full to the 'low risk' category of default risk:

This table is presented for the first time in 2018 because the transitional rules under IFRS 9 do not require any adjustment of the comparative period.

The table below shows non-current and current financial receivables that, in the previous year, were neither impaired nor overdue as well as overdue receivables that were not impaired:

€ '000	Carrying amount	of which: on the reporting date neither impaired nor overdue	of which: not impaired on the reporting date and overdue in the following periods					
			Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
	31/12/2017[1]							
Trade receivables	609,761	561,507	28,439	6,623	3,828	4,236	3,271	2,594
Receivables from associated companies and joint ventures	8,857	8,857	0	0	0	0	0	0
Other financial receivables	26,616	23,615	996	0	1,940	0	0	2

[1] *prior-year figures adjusted*

24 percent (previous year: 21 percent) of all receivables were covered, with insurance limits, by a Group master policy with a credit insurer or other local credit insurers. Insurance excess amounts were disregarded in determining the total amount insured. The amount actually insured was consequently slightly below this percentage. 43 percent (previous year: 49 percent) of the non-insured receivables involved customers that are exempt from contractually compulsory cover. The customers exempt from contractually compulsory cover were mainly major companies in the automotive as well as electronic/electrical engineering sectors. For 33 percent (previous year: 30 percent) of total receivables there was no cover from a credit insurer.

The table below shows the breakdown of insured and non-insured receivables from customers:

%	**2018**	**2017**
Receivables (insured)	24	21
exempt from compulsory cover	43	49
no cover	33	30

The insured subsidiaries must apply for credit insurance limits to the credit insurer for all receivables from customers that are not exempt from compulsory cover and that exceed the limits specified in the existing guideline. The following specific conditions apply: LEONI has an obligation to declare exposure to the credit insurers for all receivables from customers greater than € 50 k. A cover limit can also be obtained for smaller receivables. Consignment stores and manufacturing risks are covered by blanket insurance. The credit insurance policy reimburses 90 percent of the insured amount. Measurement and monitoring with respect to impairment of the non-insured receivables is supported among other things by the credit screening carried out by the credit insurer and other service providers.

The subsidiaries that were not insured will be integrated in the master policy so far as this makes sense from the aspect of the principal customer base and provided there are no regional or political reasons on the part of the credit insurer against inclusion. The subsidiaries that cannot be integrated are to be covered via local credit insurers. Internal credit limits are set for major customers that are exempt from mandatory cover and other non-insured customers. Limits are applied for without delay, on a decentralised basis and are monitored by head office accounts receivable management.

For selected customers, true sale factoring serves as a further tool to reduce the risk of default. Customers with good credit ratings are also included.

Liquidity risk

The Group monitors its current liquidity situation on a daily basis. Monthly, currency-specific, rolling liquidity planning for respective periods of at least twelve months is used to control future liquidity requirement. The planning takes into consideration the terms of investments and financial assets (e.g. receivables, other financial assets) as well as the expected cash flows from business activity. In addition, we analyse our existing finance based on our medium-term planning, which we revise annually. We initiate suitable measures in good time so far as there is any change in borrowing requirement.

The Group's objective is to ensure funding in the respectively required currency. Flexibility is maintained by using overdrafts, loans, leases, factoring, reverse factoring and capital market instruments. A wide variety of financial instruments is available to LEONI on the capital market, from banks and among suppliers without the need for an external rating, financial covenants or other collateralisation.

To ensure liquidity, there were on the balance sheet date credit lines from first-rate banks amounting to € 909,366 k (previous: € 536,938 k) with terms of up to four years and five months. These credit lines were drawn via current accounts and fixed deposits in the amount of € 59,920 k (previous year: € 86,776 k). Together with the short-term proportion of long-term loans, current liabilities to banks amounted to € 123,827 k (previous year: € 225,409 k).

The table below shows the contractually agreed (undiscounted) interest and principal payments pertaining to the primary financial liabilities as well as the derivative financial instruments with negative fair values:

2018 € '000	Carrying amount 31/12/2018	Cash flow 2019	Cash flow 2020	Cash flow 2021 – 2023	Cash flow starting 2024
Non-derivative financial liabilities					
Trade payables	(956,826)	(956,826)	0		
Liabilities to banks	(124,303)	(124,896)	(79)	(218)	(179)
Liabilities on bills of exchange and other financial debts	(1,578)	(1,578)			
Borrower's note loans	(638,549)	(57,902)	(202,871)	(161,230)	(252,365)
Other financial liabilities	(145,929)	(133,370)	(10,359)	(2,200)	
Derivative financial liabilities					
Currency derivatives without a hedging relationship	(7,465)	376,288	0		
		(384,640)	0		
Currency and interest rate derivatives	(3,661)	178,170	9,518		
in connection with cash flow hedges		(180,605)	(10,239)	(2,809)	(845)
Commodity future transactions	(322)	(322)			

2017 € '000	Carrying amount 31/12/2017	Cash flow 2018	Cash flow 2019	Cash flow 2020 – 2022	Cash flow ab 2023
Non-derivative financial liabilities					
Trade payables	(909,414)	(908,322)	(1,092)		
Liabilities to banks	(256,596)	(228,489)	(31,214)	(218)	(252)
Liabilities on bills of exchange and other financial debts	(1,596)	(1,596)			
Borrower's note loans	(333,128)	(31,202)	(53,939)	(250,006)	(12,720)
Other financial liabilities	(82,062)	(71,662)	(6,400)	(4,000)	
Derivative financial liabilities					
Currency derivatives without a hedging relationship	(4,040)	96,379	9,342		
		(97,458)	(12,579)		
Currency derivatives in connection with cash flow hedges	(6,953)	249,357	11,341		
		(253,515)	(11,318)		

All instruments held on the respective balance sheet date and for which payments were already contractually agreed were also included. Foreign currency amounts were in each case translated at the spot rate on the reporting date. The variable interest payments pertaining to the financial instruments were determined based on the interest rates fixed most recently prior to the respective balance sheet date. Financial liabilities repayable at any time are always allocated to the earliest period. In the case of the currency derivatives, both the cash outflow and the cash inflow are presented in the table above for the purpose of transparency.

Non-Deliverable Forwards (NDFs) were signed to hedge amounts in currencies that are not freely convertible. This form of foreign currency transaction involves fulfilment upon maturity being based not on handling the cash flows in the corresponding currencies, but in the form of a settlement payment.

Currency risks

Although we conduct business mainly in euros or in the local currency of the respective country, we are also exposed to currency risks due to the globalisation of the markets.

In the Group's holding company, LEONI AG, the Corporate Finance & Treasury department deals with the resulting currency risks in collaboration with and based on the conditions set by the currency committee with respect to limits and terms. Hedging transactions are executed in line with the existing underlying transactions as well as the planned transactions.

Selection of the hedging instrument to be used is based on regular, in-depth analysis of the underlying transaction to be hedged. Most of the hedging transactions are in pounds sterling, Chinese yuan, Mexican pesos, Polish zloty, Romanian leu and US dollars. The objective is to limit the impact of exchange rate variation on net income. Apart from the actual hedging transactions, we primarily take advantage of the option of netting foreign currency items within the Group to hedge our operating business activity. As a further currency-hedging measure, as a matter of principle we finance our foreign subsidiaries in their respective functional currencies by way of refinancing in the corresponding currency.

On the balance sheet date, there were currency-hedging transactions amounting to € 1,073,535 k (previous year: € 743,974 k), maturing within 22 months. The total market value of forward exchange transactions existing as of the balance sheet date was negative € 2,379 k (previous year: negative € 3,873 k). Forward exchange transactions amounting to € 492,664 k (previous year: € 396,241 k) met the conditions for hedge accounting (cash flow hedges). The ones that met the conditions for hedge accounting were all completed in the 2017 and 2018 financial years. Their total fair value of € 3,883 k (previous year: negative € 3,357 k) was recognised in other comprehensive income. The cash flow from the underlying transactions is expected in the 2019 to 2020 financial years. The changes in fair value recognised in other comprehensive income are derecognised via the income statement at the time the underlying transaction takes effect.

The remarks below refer to forward exchange transactions that met the conditions for hedge accounting.

There is a commercial relationship between the hedged items and the hedging instruments because the terms of the forward exchange contracts match the future transactions that will occur with high probability (this is the case with the nominal amount, currency and probable payment date). The underlying risk of the forward exchange contracts is identical to the hedged risk components. The Group has therefore stipulated a 1 to 1 hedge ratio for its hedging relationships.

The detailed breakdown of the nominal volumes and the average hedging rates of the forward exchange transactions that met the conditions for hedge accounting was as follows on the balance sheet date:

€ '000	Nominal value €'000				Average hedging rates	
	Residual term up to 6 months	Residual term 6 months to 1 year	Residual term 1 to 2 years	Total	Purchase	Sale
Assets						
Currency contracts	169,914	91,192	41,792	**302,899**		
Forward exchange transactions						
EUR – CNY	190	1,147	—	**1,337**	8.22	8.08
EUR – EGP	14,461	10,607	3,024	**28,092**	23.45	—
EUR – GBP	10,995	4,884	8,107	**23,986**	0.91	0.89
EUR – RON	60,433	38,033	6,927	**105,393**	4.82	—
EUR – USD	7,192	5,455	2,304	**14,951**	1.19	1.15
EUR – MXN	60,990	14,829	15,695	**91,514**	20.63	—
Other	15,653	16,237	5,736	**37,626**		
Total equity and liabilities						
Currency contracts	101,109	79,099	9,558	**189,766**		
Forward exchange transactions						
EUR – CNY	9,180	7,417	101	**16,698**	8.01	8.22
EUR – GBP	29,795	24,008	970	**54,773**	0.90	0.91
EUR – RON	12,567	15,784	6,927	**35,278**	4.77	—
EUR – USD	9,357	4,408	—	**13,765**	—	1.23
EUR – MXN	24,625	18,380	—	**43,005**	19.68	—
Other	15,585	9,102	1,560	**26,247**		

These hedging instruments, which LEONI has designated as hedging relationships, had the following impact on the balance sheet:

€ '000	Nominal value	Carrying amount	Balance sheet items	Change in value to determine ineffectiveness
Forward exchange transactions	**302,898**	**7,010**	current and non-current other financial **assets**	8,924
Forward exchange transactions	189,767	(3,127)	current and non-current other financial **liabilities**	

The fair values of the forward exchange transactions were based on current reference rates observable on the market and taking into consideration forward premiums or discounts. LEONI takes account of the risk of non-fulfilment by business partners as well as the risk of non-fulfilment on the part of the Group by determining correction values, known as credit value adjustments (CVAs) or debt value adjustments (DVAs), based on applying a premium / discount.

The hedged items had the following impact on the balance sheet:

€ '000	Change in value to determine ineffectiveness	Cash flow hedge reserve
Hedging of sales, cost of sales and investment in property, plant & equipment	8,935	3,245

The hedging relationships had the following impact on the income statement and other comprehensive income (OCI):

€ '000	Gain or loss on hedging recognised in OCI	Ineffectiveness reclassified from OCI to income statement	Item in the income statement	Amount reclassified from OCI to income statement	Item in the income statement
Hedging of sales, cost of sales and investment in property, plant & equipment	8,924	11	Other operating expenses	(1,679)	Sales revenues, cost of sales

These tables are presented for the first time in 2018 because the transitional rules under IFRS 9 do not require any adjustment of the comparative period.

The amounts recognised in other comprehensive income in the context of hedge accounting came to € 8,924 k in the financial year (previous year: negative € 4,315 k). An amount of € 1,668 k (previous year: negative € 10,525 k) was derecognised via the income statement as shown in the table below.

€ '000	2018	2017
Sales revenues	394	(2,034)
Cost of sales	1,285	(8,338)
Other operating income / expense (ineffectiveness)	(11)	(153)
Total	**1,668**	**(10,525)**

Other explanations

The currency hedging transactions were signed with first rate commercial banks, meaning that there is no significant counterparty risk either. This is subject to regular monitoring.

The effectiveness of hedging relationships is determined at the beginning of each hedging relationship and by regular, prospective assessment to ensure that a commercial relationship exists between the hedged item and the hedging instrument. Provided the features of the hedging instrument exactly match those of the hedged item, LEONI makes a qualitative assessment. Otherwise, or if changes in circumstances impact on the features of the hedged item to the extent that the key features no longer exactly match those of the hedging instrument, LEONI takes the hypothetical derivative approach to judge effectiveness.

When hedging foreign currency transactions, ineffectiveness can arise if the timing of the planned transaction changes vis-à-vis the original estimate, the hedged item does not occur to the expected extent or if changes in the default risk of the hedged item or the derivative's counterparty occur.

Exchange rate sensitivity

Changes in exchange rates that are by prudent judgement essentially possible would affect consolidated earnings due to the fair values of the monetary assets and liabilities. Additional factors would arise that would affect equity due to change in fair value in the context of cash flow hedge accounting. We consider the risk of changes in interest rates arising from the currency derivatives to be immaterial, which is why it is not included in the assessment.

The table below is based on the exchange rates as at the balance sheet date. It illustrates the impact arising, from the perspective of the Group companies concerned, from appreciation or devaluation of the foreign currencies to be taken into account by 10 percent either way versus the respective functional currency. Comprehensive income per currency therefore also includes the impact arising from appreciation or devaluation of the euro for those Group companies where the functional currency is one of those stated in the table.

2018		€ '000
Changes in exchange rates, equity	+ 10 %	(10) %
EGP	2,983	(2,441)
USD	(3,589)	2,936
CNY	2,526	(2,067)
RON	15,359	(12,567)
GBP	7,093	(5,803)
Changes in exchange rates, earnings	+ 10 %	(10) %
EGP	(124)	102
USD	(2,075)	1,702
CNY	291	(240)
RON	709	(580)
GBP	(2,348)	1,920

2017		€ '000
Changes in exchange rates, equity	+ 10 %	(10) %
EGP	1,883	(1,540)
USD	(3,450)	2,823
CNY	3,014	(2,467)
RON	20,082	(16,431)
GBP	1,889	(1,545)
Changes in exchange rates, earnings	+ 10 %	(10) %
EGP	(88)	72
USD	3,687	(3,006)
CNY	(918)	751
RON	(192)	157
GBP	(1,193)	977

Interest rate risks

Depending on the expected trend of interest rates, the LEONI Group uses either fair value hedges or cash flow hedges.

The extent of the LEONI Group's interest rate risk due to borrowing arises from both variable-rate borrower's note loans and fixed-interest borrower's note loans.

Fair value hedge

An interest rate swap was entered into for the borrower's note loan in the amount of € 25,000 k newly taken out in November 2013; in the same amount and with the same term to hedge the risk of changes in values. LEONI AG receives fixed interest on the nominal amount for the interest rate swap and pays a variable interest rate including a margin. The interest rate swap hedges the fair value of the borrower's note loan. The residual term is one year and ten months, and the EURIBOR was agreed as the reference interest rate for one year.

There is a commercial relationship between the hedged item and the hedging instrument because the terms of the interest rate swap match those of the fixed-interest loan. This applies to the nominal amount, the maturity, the payment dates and the repricing dates. The underlying risk of the interest rate swap is identical to the hedged risk component. The Group has therefore stipulated a 1 to 1 hedge ratio for such a hedging relationship. The Group takes the hypothetical derivative approach to test the effectiveness of the hedging relationship.

The nominal volume and the average hedging rate of the interest rate swap that met the conditions for hedge accounting was as follows on the balance sheet date:

	Nominal value		
€ '000	Residual term up to 2 years	Total	Average hedging rate in % based on current fixing
Assets **Interest-rate contract**			
Interest rate swap	25,000	25,000	2.072

The interest rate swap had the following impact on the balance sheet:

€ '000	Nominal value	Carrying amount	Balance sheet items	Change in value to determine ineffectiveness
Interest rate swap	25,000	822	Non-current other financial assets	(340)

The borrower's note loan designated as in a hedging relationship affected the balance sheet as follows:

€ '000	Carrying amount	Amount of the fair value hedge, adjustment of hedged item	Balance sheet items	Change in value to determine ineffectiveness
Fixed-interest borrower's note loans	25,890	882	Current financial liabilities	(340)

These tables are presented for the first time in 2018 because the transitional rules under IFRS 9 do not require any adjustment of the comparative period.

The reduction in the fair value of the 2013 interest rate swap excluding accrued interest (clean fair value) by € 340 k (previous year: € 384 k) was netted as an expense in the financial result with the corresponding positive amount from measurement of the borrower's note loan. There was no ineffectiveness. As in the previous year, change in fair value of 340 k (2017: € 384 k) was fully recognised in the income statement.

Cash flow hedge

Interest rate swaps to hedge the risk of rate changes were likewise entered into in the same amount and with the same terms as the variable-rate borrower's note loans totalling € 182,000 k that were placed in November 2018. LEONI AG receives a variable rate matching the 6-month EURIBOR and pays a fixed amount for these interest rate swaps. They hedge the future interest payments of the variable-rate borrower's note loans and have maximum residual terms of nine years and ten months.

Here, too, there is a commercial relationship between the hedged item and the hedging transaction because the terms of the interest rate swaps match those of the variable-interest loans. This applies to the nominal amount, the maturity, the payment dates and the repricing dates. The underlying risk of the interest rate swaps is identical to the hedged risk components. The Group has therefore stipulated a 1 to 1 hedge ratio for such a hedging relationship.

The detailed breakdown of the nominal volumes and the average hedging rates of these interest rate swaps that met the conditions for hedge accounting was as follows on the balance sheet date:

	Nominal value				
€ '000	**Residual term up to 2 years**	**Residual term 2 years to 6 years**	**Residual term 6 years to 10 years**	**Total**	**Average hedging rate in % based on current fixing**
Total equity and liabilities **Derivative interest-rate contracts**					
Interest rate swaps	—	174,000	8,000	182,000	0.5161

These hedging instruments, which LEONI has designated as hedging relationships, had the following impact on the balance sheet:

€ '000	**Nominal value**	**Carrying amount**	**Balance sheet items**	**Change in value to determine ineffectiveness**
Interest rate swaps	182,000	(535)	Other non-current financial liabilities	(535)

The hedged items had the following impact on the balance sheet:

€ '000	Change in value to determine ineffectiveness	Cash flow hedge reserve
Hedging variable interest of the borrower's note loan	(535)	(376)

The hedging relationships had the following impact on the income statement and other comprehensive income (OCI):

€ '000	Gain or loss on hedging recognised in OCI
Hedging variable interest of the borrower's note loan	(535)

The negative fair value totalling € 535 k of the new interest rate swaps was recognised in OCI. This resulted in neither ineffectiveness nor reclassifications in the income statement.

These tables are presented for the first time in 2018 because the transitional rules under IFRS 9 do not require any adjustment of the comparative period.

Other explanations
The fair values of the interest rate hedging instruments (interest swaps) were based on discounted future cash flows. The applicable market interest rates and volatilities were used for the maturities of the financial instruments.

We regard the counterparty risk as being very small because all interest rate derivatives were signed with national and international commercial banks that have first-class ratings. Counterparty risk is subject to regular monitoring.

The effectiveness of hedging relationships is determined at the beginning of each hedging relationship and by regular, prospective assessment to ensure that a commercial relationship exists between the hedged item and the hedging instrument. Provided the contract modalities of the hedging instrument exactly match those of the hedged item, LEONI makes a qualitative assessment. Otherwise, or if changes in circumstances impact on the terms of the hedged item to the extent that the key terms no longer exactly match those of the hedging instrument, LEONI takes the hypothetical derivative approach to judge effectiveness.

Ineffectiveness can arise from the contract terms differing between the interest rate swap and the hedged item as well as from credit value/debt value adjustments, which are not offset by changes in the fair value of the hedged loans.

Interest rate sensitivity

Consolidated earnings depend on the level of market interest rates. Any change in this level would impact on the Group's earnings and equity. The analysis we carry out covers all interest-bearing financial instruments that are subject to the risk of changes in interest rates. Risks of changes in interest rates that impact on other comprehensive income did not have to be considered.

When calculating the sensitivity of the interest rates we assume a parallel shift in the yield curve. The upward shift comes to 50 basis points; the downward shift comes to just 25 basis points because of the currently low level of interest rates. A rate of zero interest is applied as the floor. With respect to the currencies that are key to us in this respect, the shift impacts as follows on the income statement:

2018		€ '000
Changes in interest, equity	+ 0.50 %	(0.25) %
EUR	3,404	(1,136)
Changes in interest, earnings	+ 0.50 %	(0.25) %
CNY	470	(235)
EUR	(382)	0

2017		€ '000
Changes in interest, earnings	+ 0.50 %	(0.25) %
CNY	347	(174)
EUR	(540)	0

Risks related to raw material prices

Business within the Wire & Cable Solutions division is sensitive to changes in raw materials prices, especially of copper, but also gold and silver. For this reason, purchase prices for gold, silver and especially copper are hedged by way of future transactions to cover the usual future procurement volume. Such commodity future transactions are signed within ordinary business activity and as part of purchasing activity for required raw materials and therefore need not, in line with IFRS 9 (previous year: IAS 39), be accounted for as financial derivatives. Commodity future transactions that are settled in cash are recognised as derivatives, changes in the fair value of which are recognised in the cost of sales. The risks arising from these derivatives are of minor significance to the Group.

Derivative financial instruments in the previous year

The detailed breakdown of the fair values of the derivative financial instruments and their nominal volumes was as follows on 31/12/2017:

€ '000		31/12/17 Nominal value	31/12/17 Fair value
Assets			
Currency contracts		350,967	7,121
Forward exchange transactions			
	CNY	5,264	106
	GBP	64,843	968
	MXN	29,855	1,883
	PLN	22,724	384
	RON	41,680	114
	USD	140,497	2,754
	Other	46,104	912
(of which hedge accounting)		*129,191*	*3,596*
Derivative interest-rate contracts		25,000	1,159
Interest rate swaps		25,000	1,159
(of which hedge accounting)		*25,000*	*1,159*
Commodity future transactions		17,935	799
Total equity and liabilities			
Currency contracts		393,007	10,992
Forward exchange transactions			
	CNY	40,106	540
	GBP	52,908	835
	MXN	59,513	3,474
	PLN	1,796	17
	RON	169,418	2,439
	USD	18,641	168
	Other	50,625	3,519
(of which hedge accounting)		*267,050*	*6,953*

28 | Measurement of fair value

The measurement of the fair values of assets and liabilities by hierarchy levels was as follows:

31/12/2018 € '000	Prices quoted on active markets (step 1)	Valuation methods where all principal parameters are based on observable market data (step 2)	Valuation methods where all principal parameters are *not* based on observable market data (step 3)	Total
Assets measured at fair value				
Derivative financial assets				
Derivatives without a hedging relationship	0	1,202	0	**1,202**
Derivatives with a hedging relationship	0	7,832	0	**7,832**
Liabilities measured at fair value				
Derivative financial liabilities				
Derivatives without a hedging relationship	322	7,465	0	**7,787**
Derivatives with a hedging relationship	0	3,661	0	**3,661**

In neither fiscal 2018 nor the previous year was there any movement between the individual levels.

31/12/2017 € '000	Prices quoted on active markets (step 1)	Valuation methods where all principal parameters are based on observable market data (step 2)	Valuation methods where all principal parameters are *not* based on observable market data (step 3)	Total
Assets measured at fair value				
Derivative financial assets				
Derivatives without a hedging relationship	799	3,524	0	**4,323**
Derivatives with a hedging relationship	0	4,755	0	**4,755**
Liabilities measured at fair value				
Derivative financial liabilities				
Derivatives without a hedging relationship	0	4,040	0	**4,040**
Derivatives with a hedging relationship	0	6,953	0	**6,953**

29 | Earnings per share

Basic earnings per share are calculated as follows:

		2018		2017 [1]	
		Total Earnings	Amount per share	Total Earnings	Amount per share
		€ '000	€	€ '000	€
Numerator:	Income before taxes attributable to equity holders of the parent company	123,020	3.77	203,765	6.24
	Consolidated net income attributable to equity holders of the parent company	75,626	2.31	146,607	4.49
Denominator:	Weighted average number of shares outstanding	32,669,000		32,669,000	

[1] *prior-year figures adjusted*

As in the previous year, the number of shares outstanding on 31 December 2018, of 32,669,000, corresponded to the number of shares issued. As in the previous year, there was no dilution effect in the financial year under report.

30 | Auditor's professional fees

The following expenses were recognised in the financial year for work performed by the auditors appointed to audit the financial statements and consolidated financial statements as at 31 December 2018:

€ '000	**2018**	**2017**
Audit	1,187	1,442
Tax consulting services	99	321
Other assurance services	100	31
Other payments	148	16
Total	**1,534**	**1,810**

31 | Personnel expenses and employees

€ '000	2018	2017
Wages and salaries	928,698	860,709
Social-security contributions, expenses for pensions and retirement and fringe benefits	191,774	197,851
	1,120,472	**1,058,560**

The latter item includes the following retirement benefit expenses:

€ '000	2018	2017
Net periodic pension cost	11,512	12,192
Costs of defined contribution plans	82,349	88,403
	93,861	**100,595**

Annual average number of employees:

	2018	2017
Salaried staff	15,419	13,747
Wage earners	73,954	69,724
	89,373	**83,471**

The Group employed 92,549 people on the balance sheet date (previous year 86,340), of which 87,476 worked outside Germany (previous year: 81,753).

Other information

32 | Transactions with related parties

The compensation for management in key positions within the Group comprises the compensation for active members of the Board of Directors and the Supervisory Board.

The compensation for members of the Board of Directors broke down as follows:

€ '000	2018	2017
Benefits due in the short term	2,732	4,139
Other benefits due in the long term	282	3,994
Post-employment benefits	232	562
Payments for premature contract termination	0	1,137
	3,246	**9,832**

The short-term benefits included, along with the fixed compensation, a variable component of € 870 k (previous year: € 2,025 k). The other benefits due in the long term comprise the medium-term and long-term compensation components. The long-term compensation component is computed based on the Company's economic value added (EVA) and the market performance of its share, and is shown in a bonus account. An amount is paid out annually from this bonus account up to a cap, 50 percent of which members of the Board of Directors must invest in LEONI shares and which must be retained for a period of 50 months. Poor business performance will reduce the bonus account (penalty rule), which can drop to nil. The expense for the long-term compensation component in fiscal 2018 was € 166 k (previous year: € 1,877 k); the reversal of provisions provided income of € 1,000 k (previous year: € 0 k). A settlement payment of € 1,137 k for the premature termination of Dieter Bellé contract was included in the previous year. The receipts of the members of the Board of Directors pursuant to Section 314 (1) no. 6a of the German Commercial Code (HGB) totalled € 3,295 k (previous year: € 5,526 k).

The compensation for members of the Supervisory Board in the year under report totalled € 1,432 k (previous year: € 1,563 k). The basic principles of the compensation system and the receipts of individual members of the Board of Directors and Supervisory Board members are presented in the management report.

Compensation for employee-representative members of the Supervisory Board

The employee representatives on LEONI AG's Supervisory Board received compensation based on their service contracts at LEONI. LEONI's related expenses were € 531 k (previous year: € 490 k). On 31 December 2018, there were liabilities in the amount of € 38 k (previous year: 52 k) pertaining to service contracts with employee-representative members of the Supervisory Board.

Compensation for former members of the Board of Directors

The receipts in the financial year of former members of the Board of Directors and their surviving dependants amounted to € 747 k (previous year: € 738 k). There are pension obligations (DBO) vis-à-vis former members of the Board of Directors and their surviving dependants in the amount of € 20,373 k (previous year: € 14,401 k).

Joint ventures and associates

The Group had business relationships with joint ventures during the financial year. Transactions with these related parties result from normal trade in goods and services and were concluded on standard market terms. The extent of these business relationships with related entities and persons is presented in the following table:

€ '000	2018	2017
Trade receivables	15,268	8,725
Trade liabilities	1,477	1,319
Income from disposals and services	10,694	9,220
Purchases and services obtained	2,051	1,960

This includes primarily the business relationships with the joint venture in Langfang, China.

Other relationships with related parties

Dr Werner Lang has been a member of the Supervisory Board since 16 May 2012. He is managing director of Lang Verwaltungsgesellschaft mbH and thereby of MEKRA Lang GmbH & Co. KG, Ing. H. Lang GmbH & Co. KG, Lang Technics GmbH & Co. KG as well as Grundstücksgesellschaft Lang GbR. In the 2018 financial year, LEONI sold product to MEKRA Lang GmbH & Co. KG. in the amount of € 2,636 k (previous year: € 1,673 k). On the balance sheet date, there were liabilities to this company in the amount of € 205 k (previous year: € 92 k). The goods were supplied on standard market terms.

Ms Ingrid Hofmann was a member of the Supervisory Board from 12 May 2011 until 11 May 2017. Ms Hofmann is managing partner of I.K. Hofmann GmbH, a temporary employment business with subsidiaries in Austria, Czechia, Switzerland and the United States from which LEONI sourced services. These services were invoiced on standard market terms. In fiscal 2017, services were procured in the amount of € 431 k until the time of her departure.

There were no other reportable transactions with related parties.

33 | Declaration pertaining to the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG)

In December 2018, the Board of Directors and the Supervisory Board issued the updated declaration of conformity pursuant to Section 161 of the German Stock Corporation Act and made this available to shareholders on a permanent basis by publishing it on the internet (www.leoni.com). The Declaration of Conformity is also included in the Corporate Governance report, which is published in the 2018 Annual Report.

34 | Events after the balance sheet date

There have been no particular events that might have had a material effect on the Group's financial position or performance since the balance sheet date.

Nuremberg, 22 February 2019

LEONI AG
The Board of Directors

Aldo Kamper Bruno Fankhauser Karl Gadesmann Martin Stüttem

Scope of consolidation

		Ownership in %
I. Consolidated companies		
LEONI AG, Nuremberg, Germany		
LEONI Kabel GmbH, Nuremberg	1)	100
Haarländer GmbH, Roth	1)	100
KB Kabel Beteiligungs-GmbH, Nuremberg		100
LEONI Cable Assemblies GmbH, Roth	1)	100
LEONI Draht GmbH, Nuremberg	1)	100
LEONI elocab GmbH, Georgensgmünd	1)	100
LEONI Fiber Optics GmbH, Neuhaus-Schierschnitz	1)	100
LEONI HighTemp Solutions GmbH, Halver	1)	100
LEONI Kerpen GmbH, Stolberg	1)	100
LEONI protec cable systems GmbH, Schmalkalden	1)	100
LEONI Special Cables GmbH, Friesoythe	1)	100
j-fiber GmbH, Jena	1)	100
j-plasma GmbH, Jena	1)	100
LEONI Bordnetz-Systeme GmbH, Kitzingen	1)	100
LEONI Kabelsysteme GmbH, Neu-Ulm	1)	100
LEONI CIA Cable Systems S.A.S., Gellainville, France		100
LEONI Furas S.L., Barcelona, Spain		100
LEONI Italy S.r.l., Felizzano (Alessandria), Italy		100
LEONI Kabel Polska sp. z o.o., Kobierzyce, Poland		100
LEONI Kablo ve Teknolojileri Sanayi ve Ticaret Ltd. Sirketi, Mudanya, Turkey		95
LEONI Slovakia spol. s.r.o.,Trencin, Slovakia		100
LEONI Schweiz AG, Däniken, Switzerland		100
LEONI Studer AG, Däniken, Switzerland		100
Adaptricity AG, Zürich, Switzerland		76
LEONI Tailor-Made Cable UK Ltd., Chesterfield, Derbyshire, United Kingdom		100
LEONI Temco Ltd., Cinderford, Gloucestershire, United Kingdom		100
LKH LEONI Kábelgyár Hungária Kft., Hatvan, Hungary		100
neumatic cz, s.r.o., Mírová pod Kozákovem, Czech Republic		100
LEONI Wiring Systems Arad S.R.L., Arad, Romania		100
LEONI Wiring Systems France S.A.S., Montigny le Bretonneux, France		100
LEONI Wiring Systems Pitesti S.R.L., Sat Bascov, Romania		100
LEONI Wiring Systems RO S.R.L., Bistrita-Nasaud, Romania		100
LEONI Systems Spain, S.L.U., Santa Perpetua/Barcelona, Spain		100
LEONI Wiring Systems U.K. Ltd., Newcastle-under-Lyme, Staffordshire, United Kingdom		100
TOV LEONI Wiring Systems UA GmbH, Stryi, Ukraine		100
Leonische Portugal Lda., Lugar de Sao Martinho, Guimaraes, Portugal		100
OOO LEONI RUS, Zavolzhye, Russia		100
LEONI Wiring Systems Southeast d.o.o., Prokuplje, Serbia		100

	Ownership in %
LEONI Wiring Systems S.R.L., Chisinau, Moldova	100
LEONI Bulgaria EOOD, Sofia, Bulgaria	100
LEONI Fiber Optics, Inc., Williamsburg, Virginia, USA	100
LEONI (S.E.A.) Pte. Ltd., Singapore	100
LEONI Cable Maroc SARL, Aïn Sebâa, Casablanca, Morocco	100
LEONI Cable (China) Co., Ltd., Changzhou, China	100
LEONI Cable, Inc., Rochester, Michigan, USA	100
LEONI Cable S.A. de C.V., Cuauhtémoc, Chihuahua, Mexico	100
LEONI Cable de Chihuahua S.A. de C.V., Cuauhtémoc, Chihuahua, Mexico	100
LEONI Elocab Ltd., Kitchener, Ontario, Canada	100
LEONI Engineering Products & Services, Inc., Troy, Michigan, USA	100
LEONI Cable Solutions (India) Pvt. Ltd., Pune, India	100
LEONI Wire, Inc., Chicopee, Massachusetts, USA	100
LEONI Wire & Cable Solutions Japan K.K., Nagakuteshi, Japan	100
LEONI Middle East FZE, Dubai, United Arab. Emirates	100
LEONI Automotive do Brasil Ltda., Itú, Saõ Paulo, Brazil	100
LEONI Electrical Systems (Shanghai) Co., Ltd., Shanghai, China	100
LEONI Wiring Systems (Tieling) Co., Ltd., Tieling City, China	100
LEONI Wiring Systems Tunisia SARL, M'Saken-Sousse, Tunisia	100
LEONI Wiring Systems (Changchun) Co., Ltd., Changchun, China	100
LEONI ZhengAo Automotive Wire Harness Co., Ltd., Wuhan City, China (vormals: Wuhan Hengtong Automotive Wire Harness Co., Ltd., Wuhan City, China)	51
LEONI Wiring Systems Ain Sebaa S.A., Aïn Sebâa, Casablanca, Morocco	100
LEONI Wiring Systems Bouskoura S.A., Bouskoura, Casablanca, Morocco	100
LEONI Wiring Systems Berrechid S.A., Bouznika, Morocco	100
LEONI Wiring Systems de Durango S.A. de C.V., Chihuahua, Mexico	100
LEONI Wiring Systems Egypt S.A.E., Nasr City, Kairo, Egypt	100
LEONI Wiring Systems, Inc., Tucson, Arizona, USA	100
LEONI Wiring Systems Mexicana S.A. de C.V., Hermosillo, Mexico	100
LEONI Wiring Systems de Yucatán S.A. de C.V., Mérida, Mexico	100
LEONI Wiring Systems de Paraguay S.R.L., Asunción, Paraguay	100
LEONI Wiring Systems (Pune) Pvt. Ltd., Pune, Maharashtra, India	100
LEONI Wiring Systems Korea, Inc., Busan (Jisa-dong), Korea	100
LEONI Electrical Systems (Jining) Co., Ltd., Jining, China	100
LEONI Electrical Systems (Penglai) Co., Ltd., Penglai, China	100
II. Associated companies and joint ventures	
Wiring Systems Division	
Intedis GmbH & Co. KG, Würzburg, Germany	50
Intedis Verwaltungs-GmbH, Würzburg, Germany	50
Langfang LEONI Wiring Systems Co., Ltd., Sanhe downtown, China	50

[1] Companies that make use of the exemption under Article 264, Section 3 of the German Commercial Code.

Translation from the German language

Independent auditor’s report

To LEONI AG

Report on the audit of the consolidated financial statements and of the group management report

Opinions

We have audited the consolidated financial statements of LEONI AG, Nuremberg, and its subsidiaries (the Group), which comprise the consolidated income statement , the consolidated statement of comprehensive income and the consolidated statement of cash flows for the fiscal year from 1 January 2018 to 31 December 2018, the consolidated statement of financial position as of 31 December 2018, the consolidated statement of changes in equity for the fiscal year from 1 January 2018 to 31 December 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of LEONI AG for the fiscal year from 1 January 2018 to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the consolidated corporate governance statement contained in section 1.7 of the group management report or the non-financial statement contained in section 5.4 of the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB [“Handelsgesetzbuch”: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2018 and of its financial performance for the fiscal year from 1 January 2018 to 31 December 2018, and

- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the non-financial statement or the statement on corporate governance referred to above.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements and of the group management report” section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2018 to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1) Impairment test of goodwill, intangible assets and property, plant and equipment

Reasons why the matter was determined to be a key audit matter:
In addition to the prescribed annual impairment tests of goodwill and intangible assets with indefinite useful lives, impairment testing is required for other intangible assets as well as property, plant and equipment if triggering events occur.

The carrying amounts of goodwill, intangible assets and property, plant and equipment are material and the impairment test requires significant judgment, such as the estimation of future net cash flows by the executive directors as well as the discount rate that has been used and is therefore subject to significant uncertainty. In light of this, the impairment testing of goodwill, intangible assets and property, plant and equipment was a key audit matter.

Auditor's response:
The subsidiaries' business plans are consolidated by division and reviewed by the Board of Directors and the Supervisory Board of the parent company in a multi-step process. We examined the processes associated with the review and approval of the business plans as key basis for the impairment tests. Among other things we discussed with the Board of Directors the demarcation of cash-generating units as well as the definition of corporate assets and their allocation and assessed their consistency with the internal reporting structure. We involved our valuation specialists to reperform the calculation and method used in the valuation model and to derive the WACC and the main assumptions used to calculate future net cash flows. In deriving the WACC, we especially analyzed whether the peer group is substantiated by financial market data and the executive directors' qualitative estimates, evaluated the consistency of financial market data with external sources and verified the clerical accuracy. We compared the future cash flows used in the calculation with the current five-year plan, which was approved by the executive directors, comparing it with general and industry-specific

market expectations. We also performed our own sensitivity analyses to assess the impairment risk in the case of a reasonably possible change in one of the significant assumptions. In addition, we assessed the disclosures in the notes to the consolidated financial statements regarding key judgments and estimates as well as significant assumptions on impairment testing of goodwill with respect to the resulting requirements pursuant to IAS 1 and IAS 36.

Our audit procedures did not lead to any reservations relating to the calculation of potential impairment of goodwill, intangible assets or property, plant and equipment.

Reference to related disclosures:
Please refer to the disclosures made in note 1 ("Principles of consolidation as well as summary of key accounting and valuation methods", in the sections "Measurement of fair value", "Goodwill" and "Key judgments, estimates and assumptions"), note 17 ("Impairment testing of property, plant and equipment as well as intangible assets") and note 18 ("Goodwill") in the notes to the consolidated financial statements for information regarding impairment tests performed.

2) Income taxes– recognition and measurement of deferred tax assets

Reasons why the matter was determined to be a key audit matter:
Deferred tax assets are material for the consolidated financial statements of LEONI AG. Evaluating the appropriateness of recognition and the measurement of deferred tax assets requires LEONI to use judgment to evaluate tax matters and make estimates regarding future tax results, against which unused tax losses can be offset. In light of this, the evaluation of the appropriateness of recognition and the measurement of deferred tax assets was a key audit matter.

Auditor's response:
We examined in particular the underlying processes for the tax group of LEONI AG for the complete recognition and measurement of deferred taxes.

As part of our substantive audit procedures for the recognition and measurement of deferred taxes arising from temporary differences and unused tax losses, we compared the loss carryforwards as of the beginning of the fiscal year against the tax assessment notices on a spot test basis, assessed whether the loss for the current fiscal year was calculated in accordance with tax law and compared the tax forecasts with the business plan approved by the executive directors, taking into consideration the ongoing differences between the tax accounts and the commercial statement of financial position and the non-deductible operating costs and the applicable country-specific tax laws for the use of unused tax losses. As this requires specialist tax knowledge, we included internal specialists in the audit team. Our audit procedures did not lead to any reservations regarding the recognition and measurement of deferred tax assets by the executive directors.

Reference to related disclosures:
Please refer to the disclosures made in note 1 ("Principles of consolidation as well as summary of key accounting and valuation methods", in the sections "Income taxes" and "Key judgments, estimates and assumptions") and in note 10 ("Income taxes") in the notes to the consolidated financial statements for information provided by the Company regarding the recognition and measurement of deferred tax assets.

Other information

The executive directors or, as the case may be, the Supervisory Board are responsible for the other information. The other information comprises:

- the consolidated non-financial statement
- the remaining sections of the annual report, except for the audited consolidated financial statements and group management report as well as our Independent auditor's report
- the statement on corporate governance pursuant to Sec. 315d HGB and the corporate governance report pursuant to no. 3.10 of the German Corporate Governance Code and
- the responsibility statement pursuant to Sec. 297 (2) Sentence 4 HGB of the consolidated financial statements and the responsibility statement pursuant to Sec. 315 (1) Sentence 5 HGB of the group management report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the executive directors and the Supervisory Board for the consolidated financial statements and the group management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern.

In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.
The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation
We were elected as auditor of the consolidated financial statements by the Annual General Meeting on 3 May 2018. We were engaged by the Supervisory Board on 8 May 2018. We have been the group auditor of LEONI AG without interruption for at least 31 years.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

The fees stated in the table in paragraph (31) of the notes to the consolidated financial statements also include assurance services with regard to financial and non-financial information not required by law as well as advice on corporate governance matters.

German Public Auditor responsible for the engagement
The German Public Auditor responsible for the engagement is Udo Schuberth.

Nuremberg, 25 February 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Schuberth	Schütz
Wirtschaftsprüfer [German Public Auditor]	Wirtschaftsprüfer [German Public Auditor]

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Nuremberg, 22 February 2019

LEONI AG
The Board of Directors

Aldo Kamper · Bruno Fankhauser · Karl Gadesmann · Martin Stüttem

Additional information

Additional information

Extract from the financial statement of LEONI AG

LEONI AG income statement

€ '000 01/01/ – 31/12/ under HGB	2018	2017
1. Sales revenues	129,847	108,952
2. Own work capitalised	840	1,043
3. Other operating income	33,858	33,621
4. Cost of materials Cost of purchased services	(63,814)	(49,544)
5. Personnel expenditure:		
a) salaries	(37,246)	(36,419)
b) social security contributions and expenditure for retirement benefits and support payments	(5,096)	(4,750)
6. Amortisation of intangible investment assets and depreciation of property, plant and equipment	(8,028)	(7,639)
7. Other operating expenses	(76,005)	(66,344)
8. Income from profit transfer agreements	5,251	46,830
9. Investment income	107,951	0
10. Income from financial loans	26,195	22,248
11. Other interest and similar income	8,720	9,045
12. Writedowns on investments	(3,282)	(23,164)
13. Expenses due to loss assumption	(69,756)	(18,106)
14. Interest and similar expenses	(15,838)	(16,072)
15. Income taxes	(1,260)	(1,891)
16. **Earnings after taxes**	**32,337**	**(2,190)**
17. Other taxes	(33)	(31)
18. **Net loss / income**	**32,304**	**(2,221)**
19. Earnings brought forward from the previous year	542	999
20. Transfer to other retained earnings	16,152	0
21. Reversal from other retained earnings	0	47,500
22. **Retained income**	**16,694**	**46,278**

LEONI AG balance sheet

€ '000	under HGB	2018	2017
Assets	**Intangible assets**	**33,032**	**18,258**
	Property, plant and equipment	**3,466**	**2,586**
	Shares in affiliated companies	488,824	488,824
	Loans to affiliated companies	779,478	608,587
	Investments	**1,268,302**	1,097,411
	Fixed assets	**1,304,800**	**1,118,255**
	Accounts receivable and other assets	341,215	310,733
	Cash and cash equivalents	24,258	84,725
	Current assets	**365,474**	**395,459**
	Deferred charges	**8,573**	**4,342**
	Total assets	**1,678,847**	**1,518,056**
Equity and liabilities	**Equity** (contingent capital € 6,534 k)	**477,969**	**491,402**
	Pension plans and similar obligations	19,164	17,447
	Tax provisions	2	241
	Other provisions and accruals	24,176	30,928
	Provisions and accruals	**43,342**	**48,616**
	Debt	**749,461**	**538,860**
	Other liabilities	**408,075**	**439,178**
	Total equity and liabilities	**1,678,847**	**1,518,056**

Appropriation of profits

Retained earnings for fiscal 2017 determined
under the German Commercial Code (HGB)
amount to **16,693,636.52 €**

We propose to retain the full amount of fiscal-2018 distributable profit in other retained earnings.

Transfer to other retained earnings: **16,693,636.52 €**

Nuremberg, 22 February 2019

LEONI AG
The Board of Directors

Ten-year overview

under IFRS			2018
Sales	Group	€ '000	**5,101,123**
	EMEA (without Germany)	%	**42.4**
	Germany	%	**27.2**
	Americas	%	**15.6**
	Asia	%	**14.8**
	Germany	%	
	Europe (without Germany)	%	
	Rest of world	%	
	Wire & Cable Solutions	%	**37.9**
	Wiring Systems	%	**62.1**
Expenses	Cost of materials	€ '000	**2,998,025**
	Cost of materials	% of sales	**58,8**
	Personnel expenses	€ '000	**1,120,472**
	Personnel expenses	% of sales	**22,0**
	Depreciation and amortisation	€ '000	**158,590**
	Depreciation and amortisation	% of sales	**3.1**
Earnings	EBITDA	€ '000	**302,843**
	EBIT	€ '000	**144,253**
	EBIT margin	% of sales	**2.8**
	Income / loss before taxes (from continuing operations)	€ '000	**120,922**
	Net income / loss	€ '000	**73,245**
Cash flow[1]	Free cash flow	€ '000	**(146,902)**
Balance sheet	Property, plant and equipment, intangible assets, goodwill	€ '000	**1,422,408**
	Reinvestment rate	%	**216.2**
	Net debt	€ '000	**612,676**
	Equity	€ '000	**1,081,438**
	Equity	% of balance sheet total	**31.2**
	Return on equity (ROE)	%	**6.8**
	Return on capital employed (ROCE)[4]	%	**8.3**
Employees	Employees [as per 31 December]		**92,549**
	employed abroad	%	**94,5**
Share	Market capitalisation 31 December	€ million	**989.2**
	Consolidated net income / loss per share	€	**2.31**
	Dividend per share	€	**0.00**[2]
	Dividend yield	%	**0.0**[2]

[1] Changed measurement from 2016
[2] Subject to approval by shareholders at the Annual General Meeting
[3] Prior-year figures adjusted
[4] Changed measurement from 2017

2017[3]	2016	2015	2014	2013	2012	2011	2010	2009
4,925,297	4,431,322	4,502,940	4,103,434	3,917,886	3,809,007	3,701,487	2,955,671	2,160,117
41.5	40.8	39.9	39.0	40.6	42.9	46.8	46.5	
27.7	28.3	25.5	27.0	27.8	27.0	28.8	31.8	
15.2	15.8	16.4	15.1	14.7	15.1	12.8	11.2	
15.6	15.1	18.2	18.9	16.9	15.0	11.6	10.5	
								34.4
								42.0
								23.6
37.8	39.3	40.7	41.5	40.8	42.1	45.3	44.7	43.3
62.2	60.7	59.3	58.5	59.2	57.9	54.7	55.3	56.7
2,880,569	2,554,381	2,675,797	2,436,320	2,354,687	2,294,370	2,238,455	1,738,408	1,253,333
58,5	57.6	59.4	59.4	60.1	60.2	60.5	58.8	58.0
1,058,560	971,336	925,453	816,751	766,038	730,873	669,119	607,687	530,663
21,5	21.9	20.6	19.9	19.6	19.2	18.1	20.6	24.6
149,524	151,094	147,029	123,392	120,992	116,202	107,045	110,282	111,457
3.0	3.4	3.3	3.0	3.1	3.1	2.9	3.7	5.2
376,686	230,247	298,356	305,897	284,137	354,094	344,186	241,006	(4,862)
227,162	79,153	151,327	182,505	163,145	237,892	237,141	130,724	(116,319)
4.6	1.8	3.4	4.4	4.2	6.2	6.4	4.4	(5.4)
202,223	54,799	125,859	150,719	131,220	199,326	196,250	89,599	(157,309)
145,508	11,518	77,269	115,060	105,896	157,049	155,959	67,246	(138,081)
11,065	(27,494)	(5,194)	(37,878)	36,788	86,211	119,204	46,785	1,783
1,263,505	1,167,442	1,131,546	1,040,410	940,455	917,691	837,693	809,617	796,567
188.2	139.5	168.3	174.9	139.2	132.7	128.4	93.5	73.4
406,236	403,574	321,565	316,200	256,990	249,169	233,922	444,558	495,367
1,041,886	917,164	996,328	917,755	827,597	783,972	737,481	481,160	369,126
33.1	31.1	35.1	34.4	34.5	32.9	31.8	23.8	21.0
14.0	1.3	7.8	12.5	12.8	20.0	21.1	14.0	(37.4)
14.5	5.1	10.0	13.7	13.4	20.9	24.0	13.9	(12.0)
86,340	79,037	74,018	67,988	61,591	59,393	60,745	55,156	49,822
94,6	94.5	94.1	93.7	93.1	93.0	93.4	93.2	92.4
2,038.2	1,105.8	1,190.6	1,613.7	1,774.9	932.7	841.2	978.6	485.6
4.49	0.33	2.36	3.51	3.23	4.80	4.99	2.26	(5.04)
1.40	0.50	1.00	1.20	1.00	1.50	1.50	0.70	0.00
2.2	1.5	2.7	2.4	1.8	5.3	5.8	2.1	0

Glossary

A	**Alternative drive technologies**	Power engine with hybrid, electric or fuelcell technology
	Asset tracing	Identifying, tracking and recovering assets
C	**Capital employed**	Non-interest bearing assets less non-interest bearing liabilities
	Cash flow	Balance of cash inflow and outflow; key figure for assessing financing resources
	Cloud	Computer network for online-based storage and computer services
	Compliance	Adherence to legal requirements and corporate guidelines
	Corporate Governance	Responsible business management
	Coverage	Regular monitoring of a company by financial analysts
	CSR – RUG	Corporate Social Responsibility – Guidelines Implementation Law
D	**D & O insurance**	Covers the cost of compensation claims made against a business's directors and key managers (officers)
	DEL quote	Copper price quote (Deutsche Elektrolyt-Kupfer-Notierung = German electrolyte copper quote)
	Derivatives	Financial instruments whose price or value depends on the prices of other merchandise
	Digitalization	The process of converting analogue signals into a digital format so as to electronically save or process them
	Due diligence investigation	Thorough investigation of risks, e.g. when buying or disposing of businesses
E	**EBIT**	Earnings before interest and taxes
	EBIT margin	EBIT / sales
	Economic Value Added (EVA)	Increase in enterprise value taking the cost of capital into consideration
	EMEA	Europe, Middle East and Africa
F	**Factoring**	Sale of receivables
	Financial covenants	Provisions included in a loan agreement
	Forward exchange transactions	Hedging transactions to reduce the risks of exchange rate fluctuations
	Free cashflow	Performance of operating cash flow taking capital expenditures into consideration
G	**Gearing**	Ratio of net debt to equity
	Global trends	Future social developments
H	**Hedge accounting**	Reporting of various financial instruments that are in a hedging relationship
I	**iEVC**	illuminated Electrical Vehicle charging Cable (illumination indicates charge status for electric and hybrid vehicles)
	Impairment tests	Review of the value of asset items
	Industry 4.0	Digital networking of production with the help of state-of-the-art IT and communications technology
	Intelligent cables and systems	Cables and cable systems with additional functions that, for example, improve the safety, uptime or the efficiency of the application
	Internal Control System (ICS)	Principles and procedures to ensure the efficiency of Corporate Governance, the reliability of accounting and adherence to pertinent legal requirements

J	**Just-in-sequence delivery**	Delivery in the required sequence
	Just-in-time delivery	Delivery in the required time
L	**Leverage**	Ratio of net financial liabilities to equity
M	**Market segment**	Area of application for LEONI products and solutions
	Monte-Carlo-Simulation	Simulation method based on multiple trial runs using random variables
N	**Net financial liabilities (Net financial debts)**	Financial liabilities less cash and cash equivalents
O	**oneLEONI**	Strategic approach to transformation in the LEONI Group
	OEM customers	OEM (original equipment manufacturer) customers
P	**Power over Ethernet**	Power supply via an Ethernet cable
R	**Restructuring expenses**	Spending on the reorganisation or closure of a facility, especially on severance payments
	Return on Sales	EBIT/Sales
	Reverse factoring	Factoring agreement to pre-finance supplier liabilities
	ROCE	Return on capital employed
S	**Scope of consolidation**	Totality of the companies that belong to a group and are included in the consolidated financial statements
	Segment	Division
	Smart grid	Intelligent power grid
	Strand	Combination of several single wires
T	**True Sale Factoring**	Complete sale of receivables including risk overhang
U	**UN Global Compact**	The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption
W	**WACC**	Weighted Average Cost of Capital
	Wiring system	A vehicle's network of electrical/electronic cables including components
	WLTP testing procedure	Worldwide Harmonised Light Vehicle Test Procedure (for emissions)
	Working capital	Net current assets (inventories plus trade receivables less trade liabilities)

Key dates

Balance sheet press conference 2019
Analyst and investor conference 2019
19 March 2019, 10:00 hours
Kitzingen
Followed by:
Capital Markets Day

Annual Report 2018
19 March 2019

Annual General Meeting 2019
16 May 2019, 10:00 hours
Nuremberg

Quarterly release
1st quarter 2019
15 May 2019

Interim report
1st half 2019
14 August 2019

Quarterly release
1st – 3rd quarter 2019
13 November 2019

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