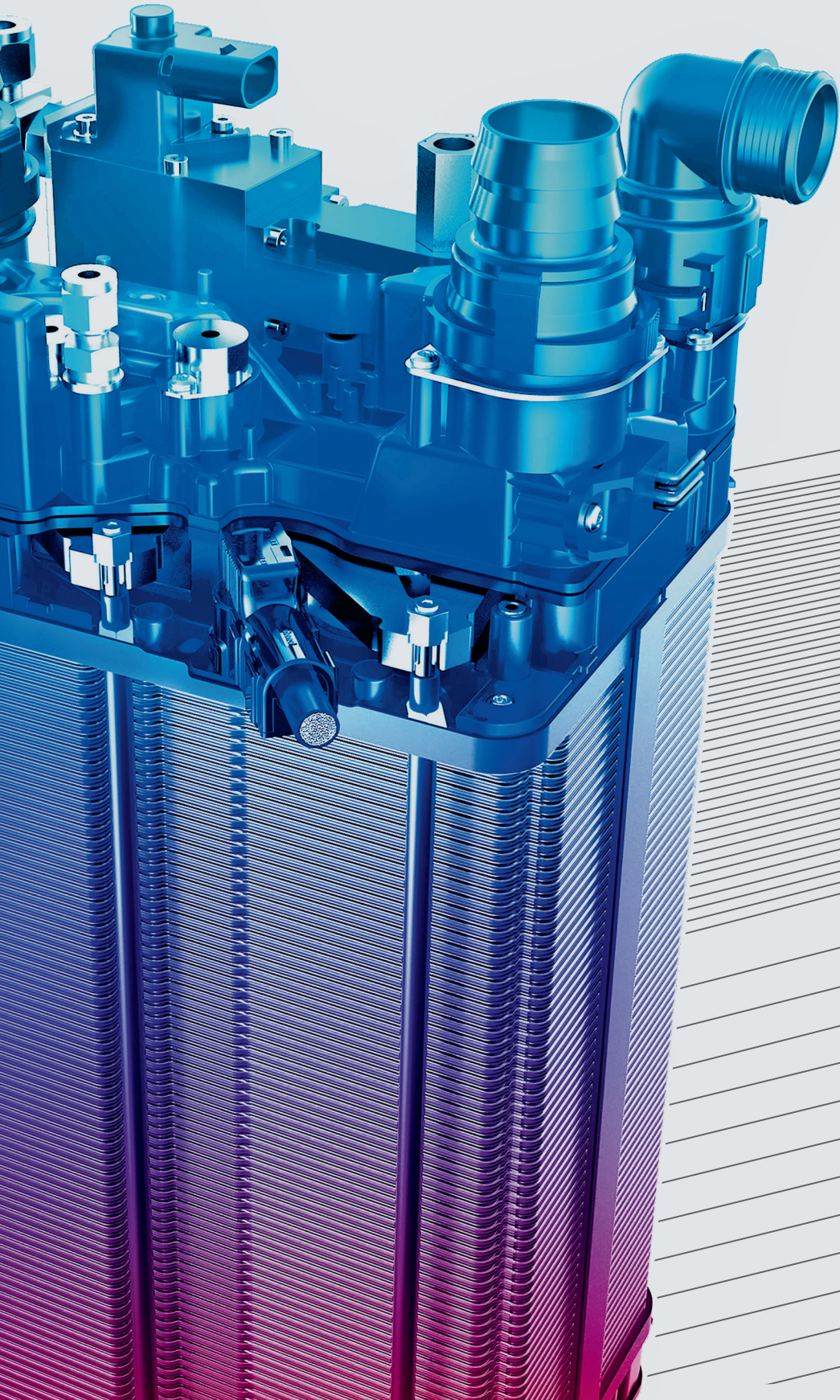


COMBINED
NON-FINANCIAL REPORT 2019



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This non-financial Group report has been combined with the non-financial report of the exchange-listed parent company ElringKlinger AG and relates to financial year 2019. Unless specified otherwise, the information presented refers to the ElringKlinger Group in its entirety.

The combined non-financial report has been prepared in accordance with the legal provisions set out in Section 289b et seqq. and Section 315b et seqq. of the German Commercial Code (Handelsgesetzbuch – HGB) and is not as yet based on a specific framework. Orientation and adaptation to a specific framework are objectives for the future. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft was commissioned to review the combined non-financial report of ElringKlinger AG for the period from January 1, 2019, to December 31, 2019, in the context of a limited assurance engagement.

For purposes of linguistic simplification, this report avoids the simultaneous use of both forms of grammatical gender (masculine and feminine). General designations referring to people relate to all persons, irrespective of gender.

As in previous years, the Group plans to publish a comprehensive sustainability report later in 2020.

Business model of the ElringKlinger Group

With a pedigree spanning 140 years, the ElringKlinger Group has established itself as an independent, globally positioned development partner, original equipment manufacturer, and series supplier in the automotive industry. Its extensive product portfolio encompasses innovative solutions for all types of drive systems, be it conventional combustion engines, hybrid drives, or battery- and fuel-cell-powered vehicles. The range consists of cylinder-head and specialty gaskets as well as lightweight plastic parts and housing modules used in drivetrain and vehicle body applications, in addition to acoustic and thermal shielding parts and components for environmentally-friendly battery and fuel cell technology and the electric powertrain. Beyond the automotive industry, the portfolio includes cross-industry products made of high-performance plastics as well as various machinable thermoplastic materials.

As a global automotive supplier, the Group is represented worldwide and has production sites in all the key vehicle markets. Operating in 21 countries and employing more than 10,000 people, ElringKlinger is active primarily in the three principal economic regions of Europe, North America, and Asia-Pacific. As of December 31, 2019, ElringKlinger had 39 production facilities, four sales offices, one logistics

center, and one company operating solely in the area of aftermarket sales. ElringKlinger maintains direct lines of contact with the majority of the world's major vehicle and engine manufacturers. In order to actively exploit the benefits of global interaction, ElringKlinger purchases raw materials in a number of different countries and has established an extensive network of suppliers for this very purpose. Around two-thirds of these goods are procured from Germany, China, and the United States.

The Group has categorized its operating business into five segments: Original Equipment, Aftermarket, Engineered Plastics, Services, and Industrial Parks. The Original Equipment segment, in turn, comprises several divisions. From an organizational perspective, the other segments correspond to divisions.

For ElringKlinger, acting in a sustainable manner is an integral part of its long-term corporate strategy aimed at increasing enterprise value. The objective is to combine long-term economic success and growth in all areas of the business with the preservation of social and ecological issues. Values, actions, and goals derived from aspects of sustainability are therefore reflected in the Group's guidelines.

Determining materiality

ElringKlinger conducted a materiality analysis for the purpose of determining matters of significance and compliance with statutory obligations in respect of environmental, social and employee-related matters, respect for human rights, and anti-corruption and bribery matters (Section 289c(3) HGB). In this context, internal experts from all relevant areas of the company, such as Human Resources, Legal Affairs, Quality, Purchasing, and Strategic Communications, evaluated and

prioritized the possible fields of action in respect of their business relevance and possible effects on the aspects. The main focus was on those issues that are significantly influenced by the business model and the value chain. On this basis, ElringKlinger identified five key matters. Among these issues, there is a particularly high relevance in relation to the business operations of the ElringKlinger Group; these business operations, in turn, have an especially strong

impact on the reportable matters. The exception is the social aspect, where no major issues were identified. The five key matters identified are:

- Combating corruption and bribery
- Responsibility in the supply chain
- Environmentally-friendly mobility
- Environmental protection in production
- Targeted recruitment and development of employees

Risk assessment

As regards the sphere of activity of the business operations covered in the combined non-financial report of ElringKlinger AG, no significant risks were identified that are associated with its own business activities and for which the business activities are very likely to have or will in the future have a severe negative impact on the reportable aspects. The risk assessment applies both to the Group's business activities and its business relations as well as the products and services of the ElringKlinger Group.

Risk management is seen as an all-embracing function within the company. As such, new risks that may potentially arise are incorporated into the existing risk management system. Relevant risk assessments have been performed by teams of experts for all significant issues presented in this non-financial report; they are continuously updated and reviewed.

Combating corruption and bribery

For ElringKlinger, awareness of and commitment to corporate responsibility are essential prerequisites for all business activities. This includes, among other topics, performing the full range of tasks and activities in compliance with the existing laws, rules, and values. ElringKlinger expects its employees to act in this manner. To this end, Group-wide guidelines apply to all employees around the world.

Due to the global scope of ElringKlinger's business operations, the Group is subject to both national legislation and various political, social, and cultural conditions. The management of ElringKlinger expects all employees to comply with laws and company directives when performing specific tasks and applying various processes. The Compliance Management System (CMS) helps the Group to avoid or detect legal violations in the areas of corruption, money laundering, competition and antitrust law, and corporate crime at an early stage. It is based on the three fundamental principles of prevention, detection, and investigation of compliance violations and, in addition to binding compliance rules, also includes requisite measures to comply with laws and directives and to act responsibly.

The "Vision and Mission" guideline was drawn up to prevent infringements relating to compliance directives. It includes fundamental values and objectives of ElringKlinger. The Code of Conduct and the Corporate Code, which in turn are complemented by further, more detailed guidelines for the specific areas, have been defined on this basis. The Code of Conduct includes information relating to the issues of corruption, gratuities, and conflicts of interest. The code serves as a source of orientation for all employees and as a benchmark for professional interaction. ElringKlinger's Corporate Code includes guidelines on how to deal with gifts and instances of attempted bribery. ElringKlinger expects each and every employee to assume responsibility when it comes to actively protecting and upholding the company's values, and to neither endorse nor tolerate corrupt conduct relating to gratuities from or to business partners.

The Chief Compliance Officer (CCO) is responsible for implementing, structuring, and refining the CMS. The CCO reports all events that take place directly to the CEO, who is responsible for ensuring compliance with the legal requirements and internal guidelines. The regions in which ElringKlinger operates have dedicated Compliance Officers who are supervised by and report to the CCO. The CCO is responsible for investigating all indications of potential compliance violations, the goal being to clarify all critical issues as quickly as possible and to initiate the necessary measures. As of now, these reports can be reported via the digital and anonymous whistleblower system introduced at the end of 2019 as an alternative to a telephone call, an e-mail, or a personal conversation with the regional Compliance Officer or the CCO. In addition, the information template "Global Case Management" developed in financial year 2018 for the purpose of providing a structured, Group-wide procedure in dealing with compliance-related allegations was tested and refined by the CCO in 2019. The roll-out of the entire compliance organization is scheduled for 2020.

Due to the importance of compliance issues for the Group as a whole, all new employees will be presented with a copy of the Code of Conduct and Corporate Code upon joining the company. Furthermore, compliance training is provided in particularly sensitive areas, e.g. for employees from Sales, Purchasing, or Project Management. Such training courses were held at the sites in Germany and Mexico in 2019. In this context, the issues of competition law, corruption, and dealing with gratuities and conflicts of interest were dealt with in greater depth.

Fundamentally, risks relating to infringements in the area of corruption and bribery exist throughout the entire ElringKlinger Group. However, in view of its firmly established corporate culture and expanded CMS, ElringKlinger considers the risk of significant compliance infringements

to be low. ElringKlinger was not aware of any case in 2019 in which significant breaches in connection with bribery and corruption occurred within the parent company or the subsidiaries.

Responsibility in the supply chain

ElringKlinger's business activities are subject to exacting standards and requirements. The same high standards also apply to the Group's suppliers. For this reason, an essential element of ElringKlinger's long-term strategy is to work only with suppliers who acknowledge their responsibility with regard to applicable labor, social, and environmental standards and are committed to meeting them accordingly.

At ElringKlinger, the Central Supplier Management department is responsible for selecting and approving new suppliers. The new fields of business that are becoming increasingly important require a large number of new suppliers. For this reason, the Supplier Management team was strengthened at several locations in 2019. In addition, supplier processes and the associated documents, such as the supplier manual, were refined by Supplier Management and Purchasing and aspects of sustainability, information security, and data protection were integrated accordingly.

To keep abreast of the current situation and developments in this area, the Management Board receives management reports at regular intervals, including information on supplier audits.

As is the case with its employees, ElringKlinger also attaches great importance to compliance with the rules and regulations when it comes to its suppliers. In addition to fundamental aspects such as the quality, reliability, and liquidity of suppliers, the criteria for supplier selection also include the issue of sustainability, in particular compliance with labor, social, and environmental standards.

ElringKlinger requires from its suppliers a management system according to ISO 9001 and a comprehensive quality and environmental management system according to ISO 14001, IATF 16949, or EMAS. The Group places great importance on environment-oriented management and structured conduct and procedures with regard to the implementation of the corporate environmental policy. The detailed requirements applicable in this area had previously been documented in ElringKlinger's quality and environmental policy. This was usually an integral part of the contracts with suppliers with whom framework agreements were concluded. At the end of 2019, the aforementioned guideline was replaced by a newly created supplier handbook. As part of this new approach, all ElringKlinger suppliers will be asked to accept the handbook at the beginning of 2020 and to comply with the aspects covered therein. The supplier handbook is based on the IATF 16949 standard and covers aspects such as compliance, social and working conditions, and corporate integrity. It also includes a code of conduct that contains requirements relating to the environmental management system, social responsibility, and occupational safety. This code is based on the principles of the International Labour Organization (ILO).

In 2019, around 67% (2018: approx. 67%) of approved direct suppliers accepted and signed the Group's previous quality and environmental guidelines. Approximately 87% (2018: around 90%) of suppliers were certified according to the quality management standard ISO 9001 in 2019; around 42% (2018: around 45%) were certified to environmental management standard ISO 14001, while roughly 40% (2018: approx. 40%) were certified to IATF 16949, the quality management standard for the automobile industry.

To monitor compliance with labor, social, and environmental standards, a number of supplier audits are conducted each year in accordance with the VDA 6.3 standard. In 2019, 118 (2018: 61) audits were carried out on the basis of the previously valid quality and environmental guidelines to review labor, social, and environmental standards. In the event of deviations from the previously valid quality and environmental guidelines, appropriate improvement measures must be implemented within a defined period of time. Supplier Management checks the implementation of the measures and reacts in the event of significant deviations by terminating supplier relationships.

ElringKlinger management implements its active supplier management policy with regard to the responsible use of raw materials through the "International Material Data System"

(IMDS). Information collected from all automotive suppliers on the material and chemical composition of semi-finished products and components is passed on to ElringKlinger and to customers via the IMDS. The advantage of the system is that all key automotive suppliers and suppliers throughout the supply chain can store their data in a single system. The documentation of all parts and their exact contents creates transparency, ensuring that products are not disposed of incorrectly at the end of their life cycle. Another key feature of the IMDS is that the corresponding supplier data is stored for all parts. If conflict minerals are detected in a semi-finished product or component during the IMDS check, the country of origin can be checked with the supplier. Conflict minerals are mainly mined in critical countries of origin such as the Democratic Republic of Congo, Burundi, Rwanda, the Republic of Congo, Zambia, Southern Sudan, Tanzania, Uganda, the Central African Republic, and Angola. These conflict-related materials include tantalum, gold, tungsten, and tin. ElringKlinger wants its purchasing patterns to impact positively on the environment, safety, health, and human rights. Although the Group does use small quantities of several of the aforementioned materials, it does not source these from the manufacturing countries stated. An analysis of raw materials procured by the ElringKlinger Group in 2019 based on supplier information provided no evidence that conflict resources were being sourced from the regions listed above.

Environmentally-friendly mobility

The changes taking place in the automotive industry are creating challenges for a number of companies. ElringKlinger, however, has been preparing for the transformation toward emission-free mobility for two decades now. The focus of the Group's activities is on developing innovative, emission-neutral concepts so as to meet legal and customer requirements. Over the long term, the ElringKlinger Group aims to generate at least 25% of its revenue from products with higher efficiency and lower emissions, such as batteries and fuel cells, electric drive systems, and lightweight structural components.

Around the globe, guidelines and laws aimed at reducing emissions are impacting on the automotive sector. At the end of 2018, amendments to the limits on vehicle emissions were adopted by the European Union, which under the Paris Agreement wishes to become carbon neutral by 2050. These amendments are intended to ensure that registered new vehicles in the fleet emit 37.5% less CO₂ relative to the 2021 baseline as of 2030. In Germany, the political emphasis is therefore on boosting demand for hybrid and electric vehicles through monetary and tax incentives for buyers. Electric vehicles currently account for only around 3% of the overall market in Germany; in Norway, they had a market share of 55.9% in 2019, making the country the European leader in this field.

While the market in Europe continued to develop, the number of newly registered electric vehicles in the USA fell, reducing the market share from 2.1% to 1.9%. In China, the world's largest market for electric vehicles, sales figures likewise dropped for the first time in 2019 due to cuts in subsidies for short-range electric vehicles as of 2020. Instead, China wishes to develop longer-range electric vehicles and do more to promote fuel cell technology. The government's plans envisage a million hydrogen-powered cars on the roads by 2030.

The clear goal of the world's largest vehicle market and the aforementioned political developments are driving the global changes that are taking place in the automotive industry.

Although demand for lower-emission vehicles still falls short of expectations, the transformation will be far-reaching. The management has therefore placed the Group on a broad footing in recent years. ElringKlinger now has market-ready products spanning batteries, fuel cells, and electric drive units. Beyond the new lines of business, the Group's innovations and enhancements continue to play a role in improving vehicles powered by combustion engines so as to reduce average fleet emissions over the short to medium term.

In battery technology, ElringKlinger commenced series production of components for lithium-ion batteries as long ago as 2011. In recent years, the Group's strategic focus has been on building further expertise so as to develop and manufacture end-to-end battery systems as well as components. In 2019, the Group began building its first industrialized production line, where series production of the first battery systems is set to commence in 2020.

In fuel cell technology, development activities center on mobile applications and therefore on the low-temperature PEM (proton exchange membrane) fuel cell system. ElringKlinger offers both complete fuel cell stacks and individual metallic bipolar plates and plastic media modules in three different performance categories. In 2019, as part of the EU-sponsored VOLUMETRIQ project, ElringKlinger was named the Best Success Story winner by the European Commission for its highest-performance fuel cell stack NM12.

In the field of electric drivetrains, ElringKlinger has significantly expanded its range of products and services through its engineering group hofer powertrain and its subsidiary hofer powertrain products GmbH, in which it has held an interest since 2017. The Nürtingen-based company's portfolio features products such as e-machines, power electronics, transmissions, thermal management/cooling, and safety concepts. At production subsidiary hofer powertrain products GmbH, innovations in electric drivetrains can be more swiftly industrialized together with the ElringKlinger Group, which contributes its expertise in production methods, industrialization, and process development.

Besides alternative drive technologies, ElringKlinger is forging ahead with innovations and enhancements in lightweighting and elastomer technology, as vehicle weight plays a central role when it comes to reducing or preventing emissions. As a rule of thumb, a lighter vehicle uses less fuel and has a longer range. In addition, lower vehicle weight has an impact on tire wear and therefore on particulate pollution. The portfolio comprises both engine-related plastic components such as oil pans and cam covers that replace traditional metal parts and polymer/metal hybrid components for structural lightweighting. Demand for light-

weight products has risen sharply in recent years. At the end of 2019, for example, ElringKlinger received not only many orders for plastic products, but another high-volume lightweight engineering contract from a US vehicle manufacturer that is to fit another vehicle model with lightweight structural components.

Over the long term, ElringKlinger hopes to generate at least 25% of its revenue in e-mobility and structural lightweighting, both strategic fields of the future. The share of revenue for 2019 was just over 8% (2018: around 7%) and is to be steadily improved.

2019 saw further important investments and progress made in future-focused technologies. The construction work that began on the development center at the Dettingen/Erms headquarters in 2018 was almost completed. The new building will be used to test and, if necessary, improve industrialized production of batteries and fuel cells at a very early stage of development. These Group activities underscore ElringKlinger's strategic approach of delivering innovative products to promote future-proof and environmentally-friendly mobility solutions.

Environmental protection in production

As a manufacturing company, ElringKlinger is aware of its responsibility to protect the environment and climate. For this reason, the Group aims to dedicate around 1% of its total capital expenditure* each year to measures to reduce emissions.

An important lever in combating climate change is the decarbonization of the world's industrial companies. ElringKlinger faces up to this responsibility and has formulated its clear commitment in its quality and environmental policy, which also applies to suppliers.

Overall responsibility for environmental protection and other sustainability-related matters rests with ElringKlinger's Management Board. ElringKlinger AG's environmental officer is always involved in investment decisions of environmental relevance. The corporate and business units are responsible for mapping out environmental topics, and the environmental officers appointed at the individual production sites are responsible for implementation.

As in the previous year, a total of 32 companies and their sites were included in environmental reporting in 2019. Besides 31 production sites, ElringKlinger Logistic Service GmbH in Ergenzingen, Germany, was also included. The excluded production sites in Nürtingen and Bissingen/Teck, Germany, and in Timisoara, Romania, Wels, Austria, Fremont and Fort Wayne, USA, Warwick, UK, and Chongqing, China, are not reported due to their small size and minor relevance to the environmental indicators. The site in Fort Wayne, USA,

is to be included in the analysis for the first time in 2020. In total, 79% of the Group's production sites were covered by environmental reporting in 2019, representing 91% of Group revenue and 94% of the Group's workforce.

All companies included in the reporting have an implemented environmental management system certified to international standard DIN EN ISO 14001:2015. The only exception is PT. ElringKlinger Indonesia, Karawang, Indonesia. In addition to external system certification, internal audits are also performed, on hazardous materials storage and waste management at the production sites, for example. The indicators shown below are calculated once per year, analyzed, and submitted to the Management Board for information purposes and as a basis for possible actions to be taken.

The ElringKlinger Group subdivides the environmental indicators into scope 1 and scope 2 emissions. Direct emissions attributable to the company itself include emissions from gas, heating oil, engine test benches, and the company's own vehicle fleet (scope 1 emissions). Scope 2 emissions are indirect CO₂ emissions caused by employee air travel and electricity consumption.

* The capital expenditure made in order to achieve the target (particularly additional capital expenditure on energy-saving measures) involves some of the investment in property and buildings, technical equipment and machinery, and other equipment (operating and office equipment).

	2019	2018
Total direct and indirect CO₂ emissions in t	115,300	118,300
CO₂ emissions per EUR 1 million of revenue in t	66.8	69.7
Total direct CO₂ emissions in t¹	25,500	23,300
of which direct CO ₂ emissions from gas, oil, engine test benches, etc. in t	24,300	22,200
of which direct CO ₂ emissions by the vehicle fleet in t ²	1,200	1,100
Total indirect CO₂ emissions in t	89,800	94,900
of which indirect CO ₂ emissions from electricity in t ³	84,800	87,500
of which indirect CO ₂ emissions from air travel in t	5,000 ^{4,5}	7,400 ⁵

¹ At the parent company, ElringKlinger AG, 12,200 (2018: 12,200) tons of direct CO₂ emissions arose from gas, oil, engine test benches, etc. Direct CO₂ emissions produced by the ElringKlinger AG vehicle fleet amounted to 800 (2018: 800) tons.

² Emissions are calculated by multiplying the annual mileage of vehicles by the CO₂ emissions stated by the relevant vehicle manufacturer. The fleet of company vehicles includes all vehicles at ElringKlinger sites in Germany. The figures for rental vehicles also comprise the Rest of Europe, the USA, and Canada.

³ At the parent company, ElringKlinger AG, 26,300 (2018: 28,400) tons of indirect CO₂ emissions arose from electricity.

⁴ Of the indirect CO₂ emissions from air travel, ElringKlinger AG accounted for 4,200 tons in 2019. As this indicator was calculated for the parent company for the first time in the period under review, there is no prior-year comparative figure.

⁵ Air travel from the sites in Germany, Austria, Switzerland, France, and Hungary, as well as centrally recorded flights from the sites in Italy, Turkey, and the USA

Total direct and indirect CO₂ emissions declined by 2.6% in 2019 to 115,300 (2018: 118,300) tons. The CO₂ emissions per EUR 1 million of total Group revenue stood at 66.8 (2018: 69.7) tons.

Of the total direct CO₂ emissions in tons, 24,300 (2018: 22,200) tons were scope 1 emissions, i.e., from gas and heating oil consumption. This figure is up on the previous year, in particular because more gas and heating oil was consumed as a result of weather conditions. New machinery and equipment was another contributor to the year-on-year increase in the amount of gas and heating oil consumed in the period under year.

The average CO₂ emissions per vehicle in the company vehicle fleet and by rental vehicles amounted to 137 (2018: 131) g/km in 2019. Direct CO₂ emissions by the vehicle fleet and rental vehicles remained on par with the previous year at 1,200 (2018: 1,100) tons. Although the number of company vehicles rose to 235 (2018: 219), this rise was offset by the increased use of electric and hybrid vehicles in the fleet. The fleet of company vehicles includes all vehicles at ElringKlinger sites in Germany. The figures for rental vehicles also relate to the Rest of Europe, the USA, and Canada.

In contrast to direct CO₂ emissions, total indirect CO₂ emissions fell by 5.4% to 89,800 (2018: 94,900) tons. These savings were achieved both through lower electricity

consumption and a reduction in air travel. The annual electricity requirement was down on the previous year to 201,100 (2018: 203,100) tons, enabling the electricity requirement in relation to Group revenue specifically to be reduced by 2.7%. This reduction in the amount of electricity required is due in particular to the fact that some plants did not need to work the weekend shift and machinery and equipment stood idle as a result.

ElringKlinger's sense of responsibility for climate protection is reflected in various measures. These include the construction of charging points for electric vehicles and the use of electric vehicles in the vehicle pool. Continuous process optimization and the procurement of energy-efficient equipment also help to lower consumption of finite resources. Other activities aimed at reducing emissions include building maintenance, such as roof refurbishment, for example, which also brings energy savings. Although these measures generally contribute to lower emissions, Group growth and the procurement of new equipment or the commissioning of further production plants may be accompanied by step-fixed increases in CO₂ emissions. Changes in the CO₂ emissions in the Group are constantly monitored and closely analyzed by the environmental officer.

In terms of environmental protection, ElringKlinger places great importance on making responsible use of the energy required to manufacture products. With ISO 50001 matrix

certification, which ElringKlinger introduced at its European production sites in 2016, the Group has intensified its overall examination of energy flows and set up a metering infrastructure at individual production plants. This has enabled previously unused potential for energy efficiency to be tapped, energy costs to be lowered, and the emission of greenhouse gases (e.g., CO₂ emissions) to be reduced. As part of the process of certification to ISO 50001, a steering and working group was established with the aim of defining systems and processes in such a way that energy-related performance can be continually improved.

Various environmental protection measures were taken at the production plants in 2019. The use of conventional electricity at the facility in Suzhou, China, was reduced by installing a solar plant. The company provides the operator with the space for the solar plant and was able to source 1,100 MWh of solar energy directly from it in 2019. In addition, the conventional lighting at various companies was replaced with energy-efficient LED lights. At the end of 2019, the Group implemented new energy management software at its Dettingen/Erms headquarters in order to better capture and analyze energy-related data.

As a manufacturing company with a total of 39 production sites worldwide, ElringKlinger is reliant on a constant supply of energy. The Group tries to use this as economically as possible. At some sites, ElringKlinger has installed combined heat and power (CHP) units as well as wind and solar plants so as to protect the environment and become more independent of electricity suppliers. The advantage of a CHP unit is that electricity and heat can be generated in parallel. In 2019, energy consumption (electricity, gas, heating oil, and fuel for engine test benches) was down on the prior-year level to 303,200 (2018: 312,800) MWh. Of this, 112,200 (2018: 119,400) MWh are attributable to ElringKlinger AG. This reduction in energy consumption is due to a lower capacity utilization rate at some plants compared to the previous year.

The target of investing around 1% of total capital expenditure in measures to reduce emissions was achieved in 2019. The Group's activities range from installing LED lights in some plants and refurbishing buildings to improve energy efficiency through to constructing electric vehicle charging points at the Dettingen/Erms headquarters.

Targeted recruitment and development of employees

Current corporate growth and the changing world of work are accompanied by an increasing and changing need for highly qualified employees. At the same time, there is an acute shortage of skilled workers in the German labor market. In order to meet this challenge successfully, ElringKlinger has introduced a range of staff recruitment and development programs. The concepts implemented are intended to foster employees' long-term loyalty to the company and provide them with comprehensive training.

The trend in the labor market in Germany continues to hold steady, with the unemployment rate stagnating at a very low level. The shortage of skilled workers is not expected to ease or disappear in the foreseeable future and therefore presents all companies with the challenge of adapting their staff recruitment to the situation accordingly. As qualified, dedicated staff are a key factor for a technology-oriented Group like ElringKlinger, human resourcing is something to which the company attaches considerable importance. Employees with high technical qualifications and in-depth expertise are sought in the forward-looking fields of alternative drive technologies, in particular. As these fields are of considerable strategic importance, the HR requirements are analyzed at an early stage with the involvement of the Management Board.

ElringKlinger's response to the situation in the labor market includes reaching out to potential employees in its target audiences. It does so through various channels such as social media, advertisements, university partnerships, and attendance of career fairs. Flat hierarchies, new working-hour models, and international training options help the Group to position itself as an attractive employer. Through the employee referral program "Bring a Talent," ElringKlinger draws on skilled workers available both internally and externally. This program enables employees to suggest people from their network who they find particularly dedicated and qualified. A total of nine employees have been recruited in this way since the program was implemented.

Besides recruiting skilled workers externally, ElringKlinger also continues to develop its internal vocational training program. Through the many years of experience amassed in existing vocational training and the numerous apprenticeships completed as a result, ElringKlinger is continuously building in-house expertise. In Germany, the company offers not only commercial and technical apprenticeships, but also various "dual study" (two-track) degree courses. In the third quarter of 2019, 39 "dual study" students and apprentices started their working life at the Dettingen/Erms headquarters.

The changes taking place in the automotive industry are also evident in the field of vocational training. In 2019, for example, preparations such as selecting apprentices and setting up the necessary infrastructure were made for the two new apprenticeships Electronics Technician for Devices and Systems and Mechatronics Engineer. When the apprenticeships begin in the fall of 2020, it is planned that six apprentices at the Dettingen/Erms headquarters learn the new trades for the first time. The new vocations extend the range of careers related to alternative drive technologies. ElringKlinger is also committed to retraining and upskilling engineers who already have vocational training. In 2019, work was carried out on a continuing professional development model for employees in the new lines of business together with the "Südwestmetall" employers' association. Continuing professional advancement will be used primarily for employees in fuel cell development and battery technology. ElringKlinger plans to develop an in-house training program for its employees on the basis of this model in 2020.

In Germany, ElringKlinger is continuously expanding the existing vocational training model based on its experience to date. Back in 2018, the dual study model was extended around the globe so as to enable the entire Group to benefit from the vocational training successes. Between 2018 and 2020 at the sites in Buford, USA, Toluca, Mexico, and Suzhou, China, the Group for the first time trained apprentices in two different professions based on the German system. The next group is scheduled to start their apprenticeship in fall 2020. In order to establish a uniform knowledge base throughout the Group, 80% of the vocational training model is based on standardized content. The remaining 20% is reserved for the plants' adaptations in line with regional requirements.

In 2019, an average of 132 employees in total (2018: 127) were undertaking vocational training at ElringKlinger AG, the parent company headquartered in Dettingen/Erms. As the total number of employees at ElringKlinger AG rose at a sharper rate, the share of vocational trainees in the workforce at the parent company (number of vocational trainees and internal students as a percentage of the total headcount) fell slightly to 3.9% on average in 2019 (2018: 4.0%). The percentage of vocational trainees in the ElringKlinger Group was on average 2.0%. The deviation from the Group ratio of 3.6% reported in the previous year is due to the introduction of a cloud-based system and the associated more precise allocation within employee categories. On a like-for-like basis, the percentage of vocational trainees in the ElringKlinger Group was 2.1% in 2018.

Its employees' continuing professional development is a principal element of human resources management at ElringKlinger. The emphasis here is on individual qualifications and the potential for improvement. The training offer at ElringKlinger ranges from language tuition and IT courses to communication training conducted by internal and external trainers. In addition, a range of mandatory training sessions were held in 2019 on topics such as data protection. In the same year, various ElringKlinger units collaborated on the design and development of a mobile Operations Academy that follows an interdisciplinary, business simulation-based approach and can be implemented at production sites

globally. The Operations Academy focuses on equipping internal trainers with appropriate skills and standardizing their methods and documents. The participants are employees who carry out management and production-related activities. The first training initiative was launched in North America in 2019 and was managed by internal trainers. The focus is on making production processes and their implementation more efficient.

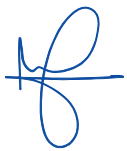
In 2019, a Group-wide high potential program was developed and designed with the aim of nurturing leaders. A program so far limited to German sites is set to be replaced by a global model in the spring of 2020. Towards the end of 2019, the process of selecting participants commenced in the regions of Asia-Pacific, North America, and South America.

The HR management system implemented in 2018 and rolled out in 2019 was implemented across the Group in the period under review. This system is being used to digitalize and standardize HR processes. With the aid of this cloud-based system, the HR cycle from recruitment through hiring to staff development is executed efficiently and, above all, transparently. This includes documenting and tracking all mandatory training, thereby enabling continuous process improvement. The system also allows all employees to keep their career profiles up to date for internal applications and management succession planning to be carried out. In this way, all ElringKlinger employees are trained in their various areas of responsibility.

Regular employee appraisals were conducted by line managers at ElringKlinger in 2019, as in previous years. At these appraisals, employees' individual needs are identified and assessed. In 2019, the appraisal rate (number of performance reviews carried out as a percentage of the average number of employees, excluding vocational trainees and internal students) stood at 73.6% for the Group. The decrease compared to the quota reported in 2018 of 75.5% is committed to the introduction of a cloud-based system and the associated more precise allocation within employee categories. On a like-for-like basis, the appraisal ratio was 74.4% in financial year 2018. This figure declined to 66.5% at the parent company ElringKlinger AG (2018: 70.9%).

Going forward, ElringKlinger intends to position itself as an attractive employer through a culture of being the Best Place to Work. The current challenge is to expand programs already introduced and provide staff with prompt development and training in alternative drive technologies. In 2020, ElringKlinger intends to focus on developing leaders, digitalizing processes, and fostering an organization that responds to changing conditions with the necessary flexibility.

Dettingen/Erms, March 25, 2020
The Management Board



Dr. Stefan Wolf
CEO



Theo Becker



Thomas Jessulat



Reiner Drews

Independent Auditor's Limited Assurance Report

The assurance engagement performed by Ernst & Young (EY) relates exclusively to the German version of the non-financial report 2019 of ElringKlinger AG. The following text is a translation of the original German Independent Assurance Report.

To ElringKlinger AG, Dettingen/Erms

We have performed a limited assurance engagement on the non-financial report of ElringKlinger AG according to § 289b HGB ("Handelsgesetzbuch": German Commercial Code), which is combined with the non-financial report of the group according to § 315b HGB, for the reporting period from 1 January 2019 to 31 December 2019 (hereafter non-financial report).

Management's responsibility

The legal representatives of the Company are responsible for the preparation of the non-financial report in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility includes the selection and application of appropriate methods to prepare the non-financial report as well as making assumptions and estimates related to individual disclosures, which are reasonable in the circumstances. Furthermore, the legal representatives are responsible for such internal controls that they have considered necessary to enable the preparation of a non-financial report that is free from material misstatement, whether due to fraud or error.

Auditor's declaration relating to independence and quality control

We are independent from the Company in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other professional responsibilities in accordance with these requirements.

Our audit firm applies the national statutory regulations and professional pronouncements for quality control, in particular the by-laws regulating the rights and duties of Wirtschaftsprüfer and vereidigte Buchprüfer in the exercise of their

profession [Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer] as well as the IDW Standard on Quality Control 1: Requirements for Quality Control in audit firms [IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW QS 1)].

Auditor's responsibility

Our responsibility is to express a limited assurance conclusion on the non-financial report based on the assurance engagement we have performed.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB). This Standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether the non-financial report of the Company has been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB. In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the auditor's professional judgment.

Within the scope of our assurance engagement, which has been conducted between January and March 2020, we performed amongst others the following assurance and other procedures:

- Inquiries of employees regarding the selection of topics for the non-financial report, the risk assessment and the concepts of ElringKlinger for the topics that have been identified as material,

- Inquiries of employees responsible for data capture and consolidation as well as the preparation of the non-financial report, to evaluate the reporting processes, the data capture and compilation methods as well as internal controls to the extent relevant for the assurance of the non-financial report,
- Identification of likely risks of material misstatement in the non-financial report,
- Inspection of relevant documentation of the systems and processes for compiling, aggregating and validating data in the relevant areas in the reporting period and testing such documentation on a sample basis,
- Analytical evaluation of disclosures in the non-financial report at the level of the parent company and the group,
- Inquiries and inspection of documents on a sample basis relating to the collection and reporting of selected data,
- Evaluation of the presentation of disclosures in the non-financial report.

Assurance conclusion

Based on our assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the non-financial report of ElringKlinger AG for the period from 1 January 2019 to 31 December 2019 has not been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

Intended use of the assurance report

We issue this report on the basis of the engagement agreed with ElringKlinger AG. The assurance engagement has been performed for the purposes of the Company and the report is solely intended to inform the Company as to the results of the assurance engagement and must not be used for purposes other than those intended. The report is not intended to provide third parties with support in making (financial) decisions.

Engagement terms and liability

The "General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms]" dated 1 January 2017 are applicable to this engagement and also govern our relations with third parties in the context of this engagement (www.de.ey.com/general-engagement-terms). In addition, please refer to the liability provisions contained there in no. 9 and to the exclusion of liability towards third parties. We assume no responsibility, liability or other obligations towards third parties unless we have concluded a written agreement to the contrary with the respective third party or liability cannot effectively be precluded.

We make express reference to the fact that we do not update the assurance report to reflect events or circumstances arising after it was issued unless required to do so by law. It is the sole responsibility of anyone taking note of the result of our assurance engagement summarized in this assurance report to decide whether and in what way this result is useful or suitable for their purposes and to supplement, verify or update it by means of their own review procedures.

Munich, 25 March 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Nicole Richter
Wirtschaftsprüferin
(German Public Auditor)

Annette Johne
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