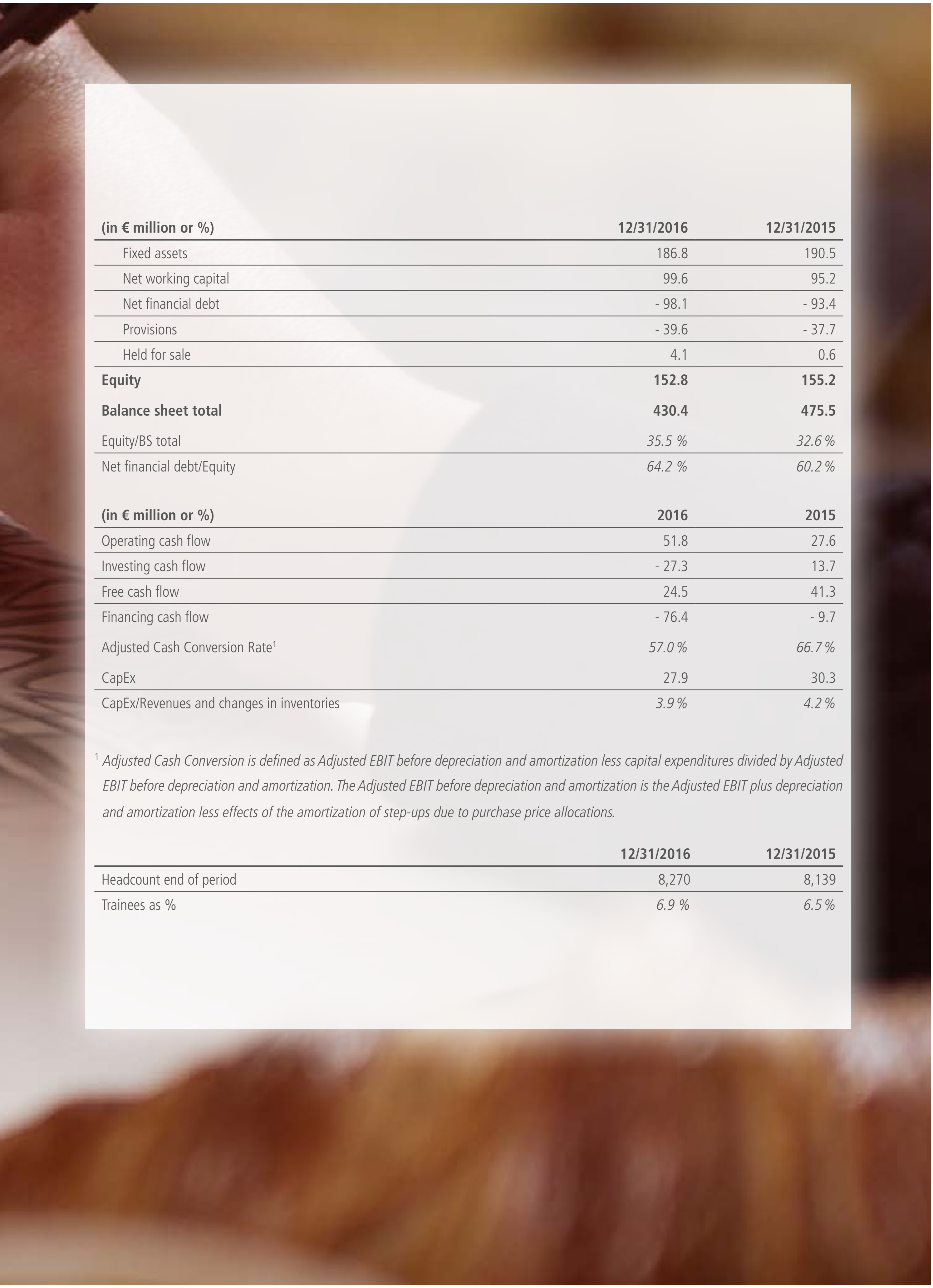
EDAG

WE DEVELOP THE FUTURE

EDAG ANNUAL REPORT 2016

SELECTED **PERFORMANCE FIGURES** FROM CONSOLIDATED FINANCIAL STATEMENT

(in € million or %)	2016	2015
Vehicle Engineering	454.3	455.0
Production Solutions	118.4	119.8
Electrics/Electronics	152.3	158.9
Consolidation/Others	- 10.1	- 11.7
Total revenues and changes in inventories	**714.9**	**722.0**
Growth of core business:		
Vehicle Engineering	*- 0.2 %*	*9.0 %*
Production Solutions	*- 1.2 %*	*12.6 %*
Electrics/Electronics	*- 4.2 %*	*28.4 %*
Total change of revenues and changes in inventories	***- 1.0 %***	***13.7 %***
Vehicle Engineering	28.1	45.7
Production Solutions	11.9	15.7
Electrics/Electronics	4.2	11.5
Others	- 0.4	- 0.3
Adjusted EBIT	**43.8**	**72.6**
Vehicle Engineering	*6.2 %*	*10.0 %*
Production Solutions	*10.0 %*	*13.1 %*
Electrics/Electronics	*2.8 %*	*7.2 %*
Adjusted EBIT-margin	***6.1 %***	***10.1 %***
Profit or loss	**18.0**	**36.3**
Earnings per share (€)	0.72	1.45



(in € million or %)	12/31/2016	12/31/2015
Fixed assets	186.8	190.5
Net working capital	99.6	95.2
Net financial debt	- 98.1	- 93.4
Provisions	- 39.6	- 37.7
Held for sale	4.1	0.6
Equity	**152.8**	**155.2**
Balance sheet total	**430.4**	**475.5**
Equity/BS total	*35.5 %*	*32.6 %*
Net financial debt/Equity	*64.2 %*	*60.2 %*

(in € million or %)	2016	2015
Operating cash flow	51.8	27.6
Investing cash flow	- 27.3	13.7
Free cash flow	24.5	41.3
Financing cash flow	- 76.4	- 9.7
Adjusted Cash Conversion Rate[1]	*57.0 %*	*66.7 %*
CapEx	27.9	30.3
CapEx/Revenues and changes in inventories	*3.9 %*	*4.2 %*

[1] *Adjusted Cash Conversion is defined as Adjusted EBIT before depreciation and amortization less capital expenditures divided by Adjusted EBIT before depreciation and amortization. The Adjusted EBIT before depreciation and amortization is the Adjusted EBIT plus depreciation and amortization less effects of the amortization of step-ups due to purchase price allocations.*

	12/31/2016	12/31/2015
Headcount end of period	8,270	8,139
Trainees as %	*6.9 %*	*6.5 %*

INTERVIEW BETWEEN CHAIRMAN OF THE BOARD OF DIRECTORS AND THE CEO ON THE SUBJECT **OF THE 2016 FINANCIAL YEAR**

THOMAS EICHELMANN AND JÖRG OHLSEN ON DEVELOPMENTS IN THE 2016 FINANCIAL YEAR AND FORECASTS FOR 2017

What is your verdict on EDAG's first financial year as a listed Company?

Thomas Eichelmann:
2016 presented us with a number of challenges, in particular the reorganization of one of our customers took longer than expected. For this reason, we had to correct our forecast twice - not what we would have wished for EDAG as a newcomer to the stock exchange. However, as we utilized the situation to further improve and professionalize processes and structures within the corporate group, we are optimistic about the future.

Jörg Ohlsen:
Incoming orders totaled € 744.9 million, which was slightly above the previous year's level. Our sales revenues and changes in inventories amounted to € 714.9 million, and our adjusted EBIT € 43.8 million, which is equal to an adjusted EBIT margin of some 6.1 percent. At the end of the year, we employed a workforce of 8,270, including our apprentices. Even though we had plans for growth, we still regard the results achieved as acceptable. As always, our engineers and technicians did a good job. However, the hesitance of our customers to award major contracts to external companies and increasing price pressure both had a marked impact.

What was the greatest challenge to the EDAG Group in 2016?

Jörg Ohlsen:
Delays in the awarding of contracts on the part of our customers on the one hand, and on the other, the knowledge that we have to be on the spot with our expertise in the trend areas if we are to have a part in helping to successfully shape the future and future technologies did not make things easy for us. But I think we have prepared the groundwork for ensuring that we will be able to meet our customers' requirements even more precisely, by means of better resource planning for instance.

Thomas Eichelmann:
Alongside of this, the EDAG Group had to learn how to operate as a listed Company on the capital market in 2016. It was necessary to become accustomed to processes which had not previously existed in the Company.

What measures were initiated to master the situation?

Thomas Eichelmann:
The Board of Directors was involved in ongoing talks with the Group Executive Management, and closely tracked the group results, so as to optimize results. Besides the regular meetings, there was also intense communication aimed at increasing cost awareness, improving processes and resource utilization and gearing strategy towards the future. At second level, this led to personnel reinforcements. We are delighted, for example, to have appointed Harald Keller, another outstanding individual, to our Vehicle Engineering division.

Jörg Ohlsen:
In 2016, we carried out a detailed analysis of every division, to develop individual improvement measures for each. One of the key elements here is our improved resource management tool, by means of which we can ensure that our employees are deployed even more effectively in projects. In the process, a

THOMAS EICHELMANN
Chairman of the Board of Directors

number of points for optimization came to our notice, some of which we began to tackle immediately, and will continue to work on in 2017. These include, for instance, the advancement of our competence centers. To the current "Lightweight Design, Materials and Technologies", "Lighting Technology" and "Electric Mobility" competence centers we will be adding our "Competence Center for Integral Safety". In addition, we have now bundled our competencies in Wolfsburg at our new Warmenau site, and as a result of the ensuing geographical proximity of all staff are able to handle projects in a completely different way than was possible when people were working at different sites. Within Germany, we complement our services for German vehicle manufacturers through the improved integration of our global sites, and can in this way satisfy our customers' wishes more effectively. On the other hand, we took a close look at our cost structure and discovered a number of potential savings which, as far as possible, were also tapped in 2016.

What are your strategic focuses for the 2017 ?

Jörg Ohlsen:
We are, of course, not blind to the trends of the automotive world: We are well aware that e-mobility is and will remain one of the mega-trends of our age, as will connectivity. At the same time, subjects such as "Industrie 4.0" and "digitization" are also of great importance to our customers. These fields can be served by our subsidiary EDAG Production Solutions GmbH & Co. KG - where, with the appointment of Dirk Keller, there has also been an addition to the management since January 2017.
We believe that safety is one of the most important points for the user of a vehicle. This applies to a number of different aspects: the safety of the driver and his data from outside influences, but also the safety of the environment from the vehicle, and the coordination of existing systems with one another. Solutions still have to be found for various themes here. With our Competence Center for Integral Safety, we are actively working on ways of assisting our customers not just with the development of corresponding systems, but also in the hope of generating new ideas: in the same way as we succeeded in Lightweight Design, with the EDAG Light Cocoon which we then developed into the EDAG Soulmate in 2016 in cooperation with Bosch. This subject is, by the way, still very much alive in the industry, only themes such as energy efficiency and Lightweight Design have recently been overshadowed by digitization-related matters in the media.
Principally, we see three focuses for the engineering service market in the coming years. First of all, there will be a greater degree of variance in powertrain technologies which will have to be further developed and integrated in vehicles. Secondly, as these powertrain techno-

logies will make a number of different demands, this will affect the derivative portfolio of an OEM - who will hand over project responsibility through to total Vehicle Integration to engineering service providers, in order to be able to focus better. Thirdly, digital services and product functions will take up a central position in automobile development. Exactly what possibilities this might open up is not yet clear.

Thomas Eichelmann:
At the same time, neither our existing customers nor our existing strengths will be neglected. We are one of the leading engineering service providers with competence in the development of complete motor vehicles: this is not, however, any reason for us to rest on our laurels. Our competition is also hard working and successful, and this motivates us to sharpen our profile.
Accordingly, we will be tailoring our facilities more specifically to the needs of our customers, and reinforcing our position wherever it makes sense. Our analysis on this subject has not yet, however, been completed.

What M&A activities are planned for 2017? And how is their financing to be structured?

Thomas Eichelmann:
We do not have any major acquisition objectives in the pipeline at the moment. However, should suitable objects become available, this could very quickly change. We share the view that, particularly in the electrics/electronics and e-mobility segment, there will be a market adjustment due to the fact that smaller companies will reach the limits of their personnel capacity. In this area, we are very willing to acquire additional capacity for the Company. With acquisitions, we are generally keen to ensure that everything fits in well - not just on paper - so that what we wanted to acquire still really does exist after integration. As our emphasis is not so much on production, attitudes and mentality are what have to fit. This calls for a very fine instinct on the part of our management. Details of exactly how this will be financed must still be clarified, though we do have sufficient financial leeway both internally and externally. Depending on target and market situation, we would also - if necessary - be open to the possibility of making use of the capital market. However, there are no specific plans for this either.

JÖRG OHLSEN
CEO
Chief executive officer

How do you determine the nature of the cooperation within the Board of Directors and the Group Executive Management, and the cooperation with the shareholders?

Jörg Ohlsen:

Cooperation between the Group Executive Management and the Board of Directors is close and extremely constructive. This has not changed since the last annual report, and we look forward to working together again to get 2017 off to a flying start.

Relations with our mainly institutional investors are also good. We are pleased that ATON has decided to increase its shareholding, an indication of its clear commitment to our Company. Although we are aware of the fact that the voting trust agreement is due to expire following this year's annual general meeting, we do not believe that the end of the contract will bring about any change in relations between ATON and EDAG. Cooperation between the companies is professional, and everyone concerned is aware of the fact that good corporate governance is crucial for Company success.

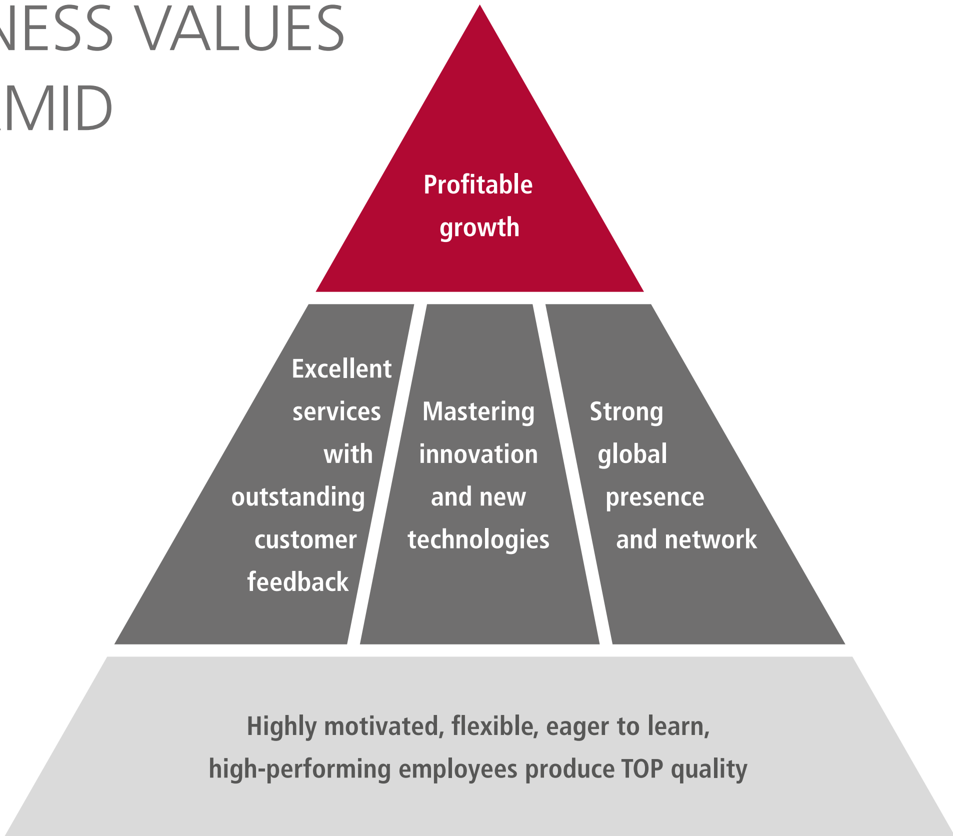
Will you be sticking to the previous dividend policy in 2017?

Thomas Eichelmann:

When the Company went public, we firmly resolved that shareholders would participate fairly in the Company's success. Particularly after the last year, we don't want to have it said that we fail to keep our promises. For this reason, the Board of Directors has decided that, at this year's general meeting, it will recommend paying a dividend of € 0.75 per share.

BUSINESS VALUES

BUSINESS VALUES PYRAMID



We are the experts in the development of vehicles, production plants and the optimization of processes.
When it comes to automobile development, what is needed is a fully integrated approach to the question of mobility. Development with passion. That's us. Our expertise includes the integrated development and optimization of vehicles, production facilities, derivatives and modules. This has made us what we are today: the acknowledged, independent engineering experts for the automotive industry. And the business contact for the mobility of the future!

EDAG is when our mobility ideals mean re-defining the limits.
Our business values should always reflect this.

Employees who are highly motivated, flexible, eager to learn and high-performing produce TOP quality
We attach great importance to our professional development. Because our aim is to become better every day. This applies to the team as a whole and to each one of us individually.
To achieve this, we set great store on a constant willingness to learn. We are flexible, because only people with a desire to keep moving themselves - not just aimlessly, but in order to impress and fire enthusisam - can possibly further the mobility aspirations of others. And because top performance is only possible as part of a team, we expect our employees to be willing to work together to the maximum. The benefit for our customers is clear: A high-performance, TOP level partner.

Excellent services with outstanding customer feedback

Mobility fascinates our customers. Progress in mobility creates enthusiasm. A great deal of passion often goes into developments that impress others. Our aim is not only to leave a lasting good impression on account of our work, attitude and manner, but also to guarantee a competitive edge for our customers. Outstanding feedback from highly satisfied customers is what spurs us on.

Mastering innovation and new technologies

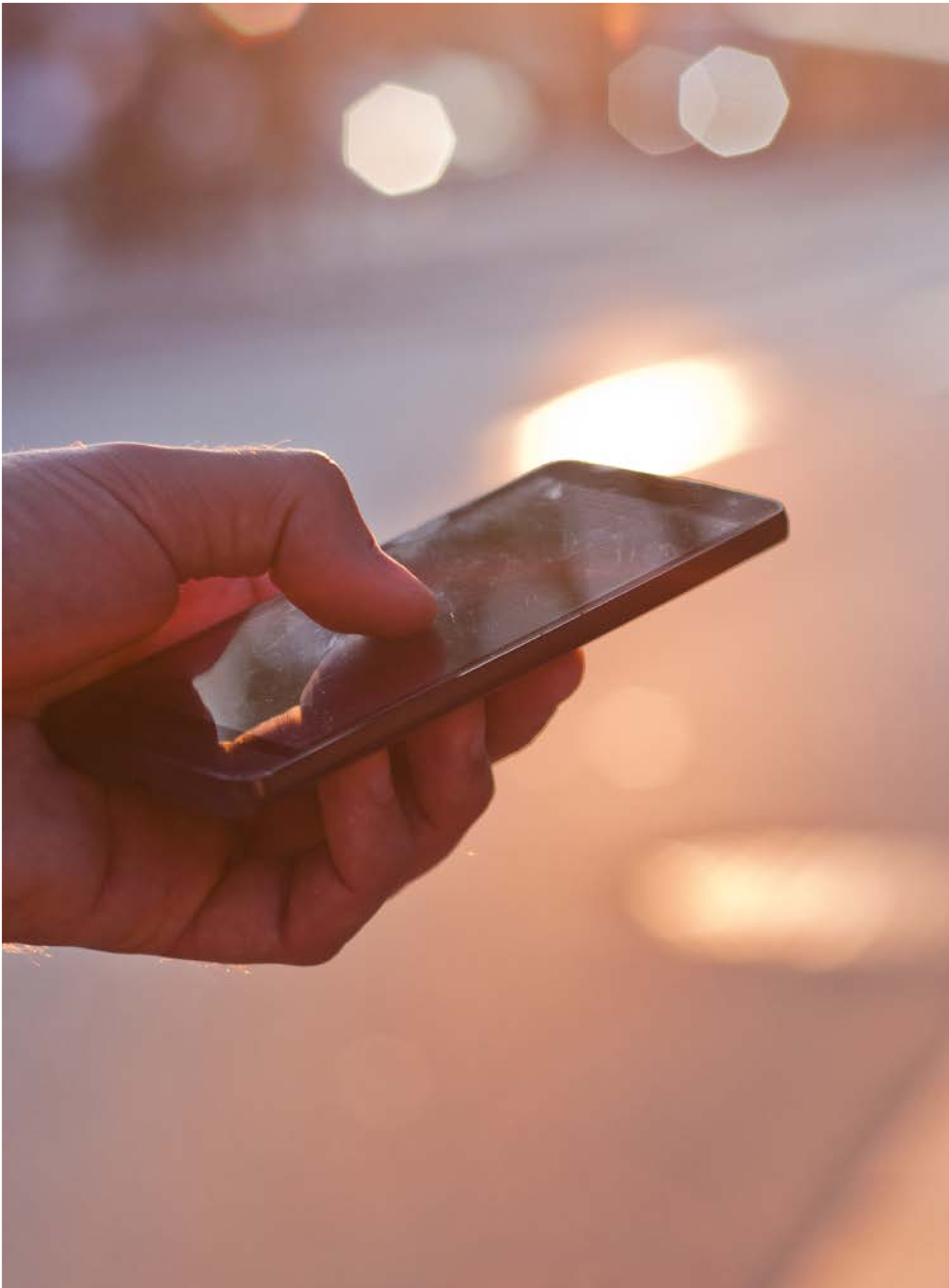
Our work influences the future of the market. Not only do we work on current challenges, we also recognise trends and changes in the automobile industry at an early stage. We refuse to accept the status quo, since our aim is to continually improve product and production development and process quality, and it would seem that in doing so, we often manage to do the near-impossible. In this way, we deliver innovative solutions and new technologies for our customers, while ensuring that we maintain our leading position.

Strong global presence and network

Mobility is a basic global need. Just like our customers, we also display a strong global presence. However, Germany is and remains our base, since the future needs a past. As every nation has its own mobility requirements, our aim at all sites is to deliver best practice for the challenges in the automobile industry. To us, an excellent international network and dedicated teamwork are not only important, we see them as essential to achieving this aim.

Profitable growth

We also want to be among the best on the market when it comes to growth and profitability. Growth and profitability are not just claims made by the management, nor are they ends in themselves. They are a matter of common understanding between all managers and employees. Due to our inner strengths, values and scope for creative solutions, we are always discovering new opportunities for further development and improvement. In doing so, we provide constant impetus for growth, and are able to continue to develop our core services. We apply our strengths to the full, and make use of any opportunities that will promote our long-term advancement. This is the best form of sustainability, and a guarantee of the profitability of our growth strategy.



EDAG – AUTOMOTIVE PACE SETTER

HIGHLIGHTS OF THE YEAR 2016

After the successful IPO in December 2015, EDAG starts the new financial year as one of the world's largest independent engineering specialists for the integrated development of vehicles and manufacturing facilities with a global workforce of over 8,100.

The EDAG brand trive.me was commissioned by one of the major German commercial vehicle OEMs for the preliminary development of "connected" services. The focus here is on the use of mobile applications and end devices for opening new (digital) business models in the fields of logistics and maintenance.

EDAG hosts the European premiere of the "EDAG Soulmate" at the Geneva Motor Show. The interior of the concept car - a joint project with Bosch - is an impressive example of the options that will be available on board a networked car in the near future, and shows how the car can be seamlessly integrated into the digital world of the driver. At the same time, the "Soulmate" is an appeal for a new form of lightweight automobile design, as it uses revolutionary technologies from the field of "3D printing" or additive manufacturing.

EDAG establishes a new Development Center at the Wolfsburg site. The first teams from the seven existing offices in the Wolfsburg area move into the new complex, now concentrating all capacities and technical divisions at one site. The new branch in the direct vicinity of our customer Volkswagen covers an area of about 25,000 m², providing capacity for up to 1,100 engineering experts.

In response to the shortage of skilled labour in the technical environment, EDAG sets up a new mentoring program to focus on potential that is already in the Company. June 21, 2016 saw the start of a 24-month program for 30 ambitious junior staff. At the heart of the module is the mentor principle. Each of the 30 participants has at his or her side an experienced mentor who will provide an on the job introduction to managerial tasks and solution strategies.

Successful completion of a full vehicle development project for Ford: In the past 30 months, EDAG was responsible for the development of the exterior (including body in white), interior and electrics/electronics volumes of the Ford Focus RS performance vehicle.

For the ninth time in a row, EDAG won a "Top Employer" award, taking 2nd place in the "Automotive" category.

With effect from April 1, 2016, EDAG Engineering GmbH is the new owner of DuvedeC Europe B.V., which has its head office in the Netherlands. With the acquisition of the engineering service provider, EDAG continues to extend its presence in Europe, and strengthens its long-standing customer relations in the Benelux states. The EDAG Group's 58th facility offers customers personal, local project support and access to our worldwide engineering network.

January | February | March | April | May | June

In the first week of their summer vacation, 20 schoolgirls participated in the "Girls MINT Camp" at the Fulda site. To give the participating girls a first hand impression of the vehicle development process, the EDAG training team prepared a project for them to work on that would call for creativity, technical understanding and craftsmanship. This event is part of EDAG's program aimed at promoting the interest of young girls and women in technical professions.

At the IAA for Commercial Vehicles in Hanover, EDAG presented four concrete concepts for making the commercial vehicle of tomorrow safer and lighter and, above all, for producing it more flexibly. With the use of a demonstrator, EDAG presented a clever, almost weight-neutral method of independent wheel suspension integration. Or of quickly re-charging e-buses in the future, and designing commercial vehicle cabs so that they weigh significantly less.

TSN Systems GmbH commissioned EDAG with the software development for a graphic user interface for an automotive Ethernet development tool. With this new development tool, it is possible to carry out a multi-signal analysis, particularly for the mega-trends autonomous driving and digitization, in the future vehicle electric/electronic architectures.

EDAG Production Solutions is awarded a contract for the implementation of a battery assembly by a German OEM in the premium SUV segment. The order covers the detailed planning, design and simulation of the assembly plant.

The EDAG Group presents the "EDAG Integration Excellence Award 2016", acknowledgement of the outstanding performance of the university teams that competed in the international Formula Student Award event. The "Global Racing Team Ravensburg" took first place ahead of the Universities of Weingarten and Berlin in the final round of the contest.

With 199 new apprentices and dual students, the EDAG Group continues its commitment to junior staff development in Germany. More than 2,300 young people have been apprentices at EDAG in the past 43 years. The excellent exam results - for instance with Mirko Betz, Vehicle Body and Structure Mechanic, who recently won the National Championships – bear witness to the high quality of EDAG's training system.

EDAG successfully completed the development of the plug-in hybrid variant of a solid model for the Chinese market. The EDAG Group was commissioned to act as general developer for this project by an OEM from the south of Germany.

EDAG won the MATERIALICA AWARD for the "Next Generation Spaceframe Concept", a combination of classic roll forming technology and industrial 3D printing.

The newly set up e-laboratory at the Ingolstadt test center receives its first order for the validation of components for vehicle electrical systems of one of the world's leading suppliers of vehicle electrical systems, cables and plastics technology. In this way, EDAG extended its presence in the field of testing electric and electronic components to include the south of Germany.

The concept car "EDAG Light Cocoon" was awarded the famous Red Dot Award 2016 at the presentation ceremony in Singapore.

The "Red Dot: Best of the Best" award pays tribute to top design quality that demonstrates outstanding innovation in both form and function.

July August September October November December

COMPETENCIES FOR THE FUTURE

INTERVIEW WITH HEADS OF EDAG **COMPETENCE CENTERS**

Dr.-Ing. Martin Hillebrecht – Head of Competence Centers,
Head of Competence Center for Lightweight Design, Materials & Technologies

Dr.-Ing. Marc Hohmann – Head of Competence Center for Electric Mobility

Dipl.-Ing. (TU) Jörg Hölig – Head of Competence Center for Integral Safety

Alternative drive systems, digitization, autonomous driving, industrial 3D printing, new materials. Now, more than ever before, the automobile is on the threshold of being reinvented, to enable it to incorporate ecological and sociopolitical changes. This implies a technological transition which independent design engineering companies in the automotive industry can help to shape and define. On the basis of these expectations, the EDAG Group has established competence centers for Lightweight Design, materials & technologies and Electric Mobility since 2008, to develop solutions, concepts and strategies for important future-related issues in the engineering services business, and expand technical competencies. In 2016, the Competence Center for Integral Safety took up a third subject of strategic relevance throughout the automotive industry.

What is the intention behind the competence centers (CCs)?

Martin Hillebrecht: Our competence centers are "enablers" for EDAG, to make it possible to identify our customers' requirements as early as possible, and provide concepts, solutions and pre-competitive competencies for the development of the automobile of the future, which we can then implement with the manufacturers and suppliers.
The issues addressed in the CCs are geared to the strategic levers for the development of the automobile, i.e. their future solutions and pre-competitive technologies.

From a technological point of view, where do you see the greatest movement?

Martin Hillebrecht: At the moment, alternative drive systems are among the greatest technological challenges. In this field, engineering specialists like EDAG are called on to develop specific vehicle architectures to permit the optimum integration of the power units and energy storage systems. The modular body concepts now possible offer enormous freedom of design, and this must be exploited. At the same time, the additional weight introduced into the car must be compensated for. On account of the battery powered drive systems, hybrid drive systems and fuel cells with or without range extenders, specially due to target ranges, Lightweight Design has undergone an enormous renaissance. Eight years ago, we presented the "EDAG Light Car" technology carrier, a reliable initial concept for scalable electric platforms.

Marc Hohmann: Parallel to this, in the CCs, we work hand in hand with the technical divisions on the drive concept itself. Battery management and battery analysis/maintenance through to charging concepts are among the things our research activities center on.

Jörg Hölig: A further megatrend is networking the vehicle with the customer's external data world, other road users and the backend servers of the infrastructure operators and other mobility service providers. Intelligent usage and netwo-

MARC HOHMANN
Head of Competence Center for Electric Mobility

MARTIN HILLEBRECHT
Head of Comepetence Centers
Head of Competence Center for
Lightweight Design, Materials & Technologies

king of vehicle, traffic and infrastructural data respecting ultimate standards for data security and protection of the user's private sphere, is one of the essential conditions for implementing autonomous driving; we see this as one of the important key technologies for the future of the automobile.

How is know-how transferred from the competence centers to EDAG's technical divisions?

Martin Hillebrecht: We provide coaching and support for technical innovations from the vision to market readiness. In this way, we form a central interface in the Company, and communicate between the various technical departments and with external partners. The important thing here is interdisciplinary thinking, a necessary gift that not every expert has.

Jörg Hölig: Our pilot projects and the examples of innovative developments we present and communicate on the market are indicative of our future potential, and stimulate dialog – we see ourselves as interior and exterior innovation catalysts.

Lightweight Design is a central subject throughout the industry. What new developments do you see in this important area?

Martin Hillebrecht: Although Lightweight Design and materials have always been the royal discipline for the vehicle manufacturers, ambitious CO_2 targets have brought with them completely new pressure levels. This has given rise to material and concept competition among the car manufacturers, sometimes in parallel competition, and highly dynamic. In the result, it is possible to reverse the weight spiral for the first time ever. Automobile manufacturers are currently working all out on the development of vehicles due to go into production between 2018 and 2022. The new cars with conventional drive systems are to weigh approx. 100 kg less, provide high rigidity for excellent handling and meet demanding legal crash load cases.
Economical lightweight steel design for mass production still predominates, but things become far more challenging when it comes to steel-intensive hybrid

design for mid-sized luxury cars. Where premium manufacturers can afford it, aluminum and material mixes are used. Even though ultra-Lightweight Design only accounts for about 1 percent of the market in the royal discipline, EDAG is nevertheless active in this area, develops many of these special vehicles, and plans the corresponding production plants.

Every material must be in the right application and right place to achieve the ideal effect. What is striking, however, is how little time it now takes for new technologies to be industrialized: take, for example, the production of carbon components or qualification of industrial 3D printing for prototyping and production equipment. We are also involved in hybrid concepts such as those being researched at the Open Hybrid LabFactory in Wolfsburg. These are aimed at the era after 2030.

How intensive is your cooperation with universities?

Martin Hillebrecht: Networks are always bad for people who don't have them. For years now, we have been using these contacts as a trend radar to scan the entire environment – customers, suppliers, competitors and universities. To put it in a nutshell, we are technically always up to the minute. What is more, our close cooperation with universities enables us to meet ambitious young talent for our technical departments, so we can recruit young people who are willing and able to approach technically demanding challenges with fresh ideas and their eyes wide open into the Company.

Electric Mobility is picking up pace. What subjects are you dealing with at the moment?

Marc Hohmann: Electric Mobility is a very diverse subject area. The rapid development of new technologies and changes in mobility behavior and utilization concepts call for expert technological knowledge and vehicle concepts specialists.

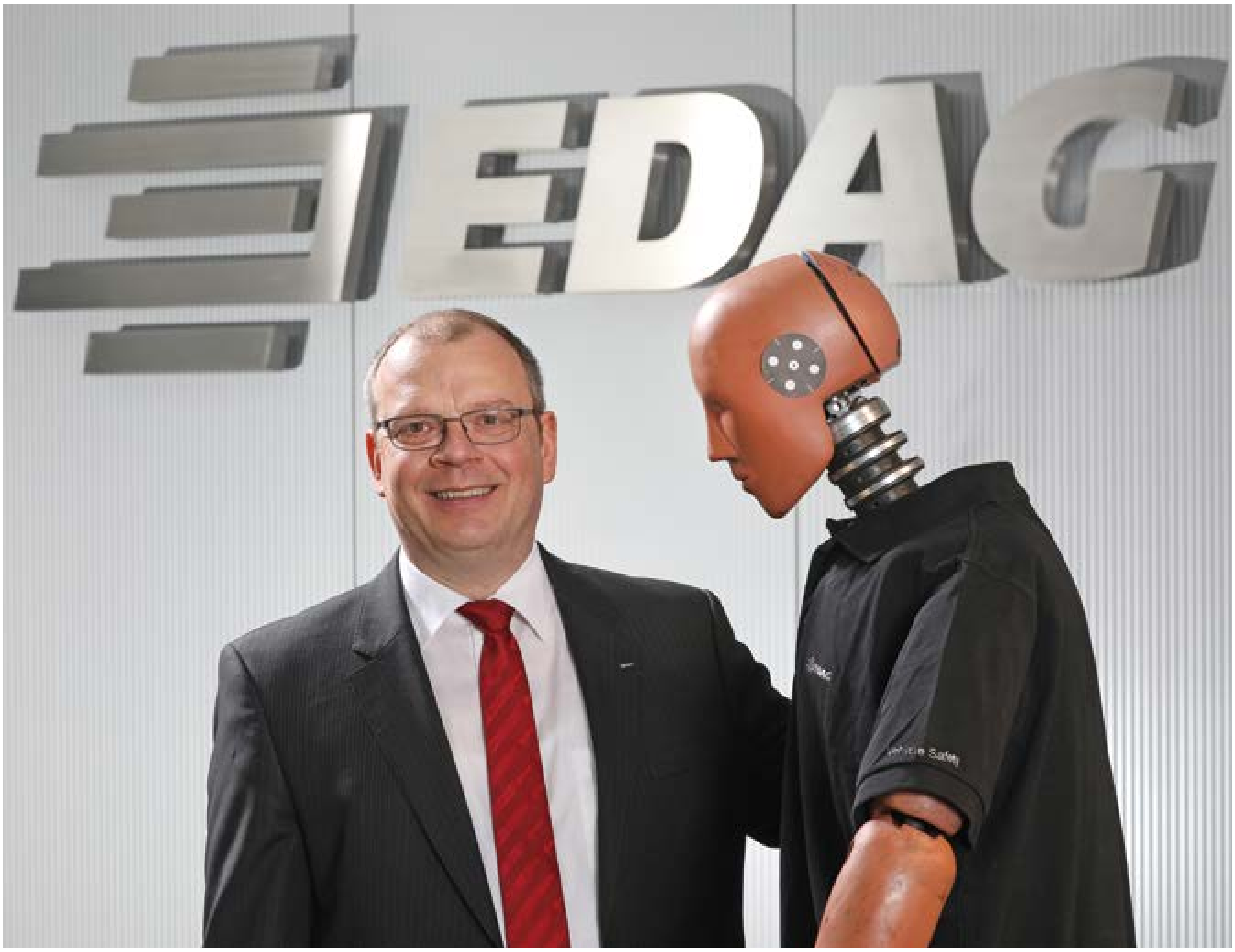
In the competence center, we principally deal with the full range of subjects, starting with new mobility concepts and innovative system concepts through to the technological examination of individual components and materials. Our current focus is on working out innovative vehicle concepts, which are directly taken up by the experts in the technical divisions, and incorporated into customer projects.

What effects does e-mobility have on existing business models?

Jörg Hölig: At the moment, the sustained changes occurring in our industrial sector are calling into question business models which have taken almost a hundred years to develop, and forcing market participants to cooperate more closely – even across industry boundaries.

Marc Hohmann: Generally speaking, start-ups have far less trouble developing a car of the future than traditional manufacturers; on account of their immense experience and innovative ability, however, it would be a mistake to underestimate the latter. We have gathered valuable experience by bringing together the protagonists of the future value chain and and then working together to develop visionary concepts. This role makes us a sought-after engineering partner.

JÖRG HÖLIG
Head of Competence Center for Integral Safety



What motivated you to establish the CC for Integral Safety?

Jörg Hölig: More than anything else, road users want safe mobility. Modern design principles and safety systems have helped to reduce the number of road injuries and deaths to a fraction of the all-time high recorded in 1970. Passive safety, i.e. the protection that is offered in the event of an accident, has by now reched a high level. As a consequence, further measures will be increasingly complex, while only providing small contributions to further road safety improvement. Active safety, which aims to avoid accidents or greatly reduce their severity, offers one way out of this saturation situation.

The interlinking of new accident prevention systems with passive safety systems is at the heart of integral, or comprehensive safety. The latest in sensor technology and the increasing interconnection of all safety systems in the vehicle open up new possibilities for passenger and partner safety.

But more than anything else, the intelligent link-up of information while crossing the limits of the car itself offers really fascinating potential: if the vehicle supplements its own sensor data with information on the route ahead, e.g. road condition, traffic volume or a lost cargo, then the driver's scope of perception can be considerably extended – a significant contribution towards anticipating events and therefore driving safely – and also towards a further megatrend, automated driving. With the CC for Integral Safety, we at EDAG would like to look into the potential of and possible solutions for this type of comprehensive safety, and test solution concepts.

Is there a recipe for successfully launching a product idea on the market?

Jörg Hölig (laughing): Yes, of course, there are several, and each brings about different results. No, seriously, let me give you an answer based on our experience and the way we see things. Successful products meet (or even create) the user's needs. Intuitive handling, smooth integration in the user's existing world and positive user experience are the keys to the success of a product. This means it is the consumers (and not the technologies, as is often claimed) who are the drivers of the providers of products and business models. We think that success is the result of the clever combination of technologies - with a convincing business model behind them. If the consumer is using a hi-tech product intuitionally and with pleasure - then the recipe was good.

You are lateral thinkers. Is that in itself enough?

Marc Hohmann: There is nothing wrong with being a lateral thinker, or even getting lateral thinkers involved, to get a completely different angle on a particular issue. Having said that, the questions that come our way call for a great deal of technical expertise, and sometimes even specialization. We need generalists who have a feeling for the new business models to complement us. It all comes down to having a useful combination of these abilities.

Today, almost all universities offer courses that lead to innovation management qualifications. What do you think of this?

Martin Hillebrecht: Almost all universities now offer high quality further education and study courses that are supposed to lead to innovation management qualifications. From my point of view, however, sound technical engineering skills provide a reliable basis. It starts to get interesting when sufficient work experience and a clear technical specialization are combined with the special ability to think in interdisciplinary terms. Unfortunately, it is just about impossible to learn these skills during a degree course; a title is not very much help here. To be honest, your hair should already be turning gray before you even venture to take a step into professional innovation management. In addition, the Company's working environment must provide these development paths for employees, because the principle of lifelong learning is particularly important here. Innovation management in companies such as EDAG calls for ambitious and experienced engineering professionals, by all means with a start-up or consulting gene in their blood.


EDAG

SUNLIGHT IN THE TANK

HOW AGILE DEVELOPMENT METHODS HELP TO OVERCOME FEARS CONCERNING THE RANGE OF ELECTRIC CARS

Solar cells on roofs have become a common sight. The sunlight absorbed is converted into electrical power, and is thus able to supply an entire house with electricity. The advantages of this form of renewable energy are obvious – no annoying price fluctuations imposed by electricity suppliers, lower CO_2 emissions and the sun is an inexhaustible resource. So why not also use the marvelous power of this heat and light emitting heavenly body for our cars?

Experts from EDAG and the Chinese corporate group "Hanergy" put their heads together to address this issue. The Far Eastern corporate group has been working with renewable energy since 1994. Pioneers in the field of thin-film solar cells, the Beijing-based group were last year looking for a partner in the automotive industry to combine outstanding design with a high level of engineering expertise. Their aim was to construct an electrically powered show car that would have a solar cell area of at least 6 square metres and a unique, futuristic and iconic character. In EDAG, Hanergy found what they were looking for.

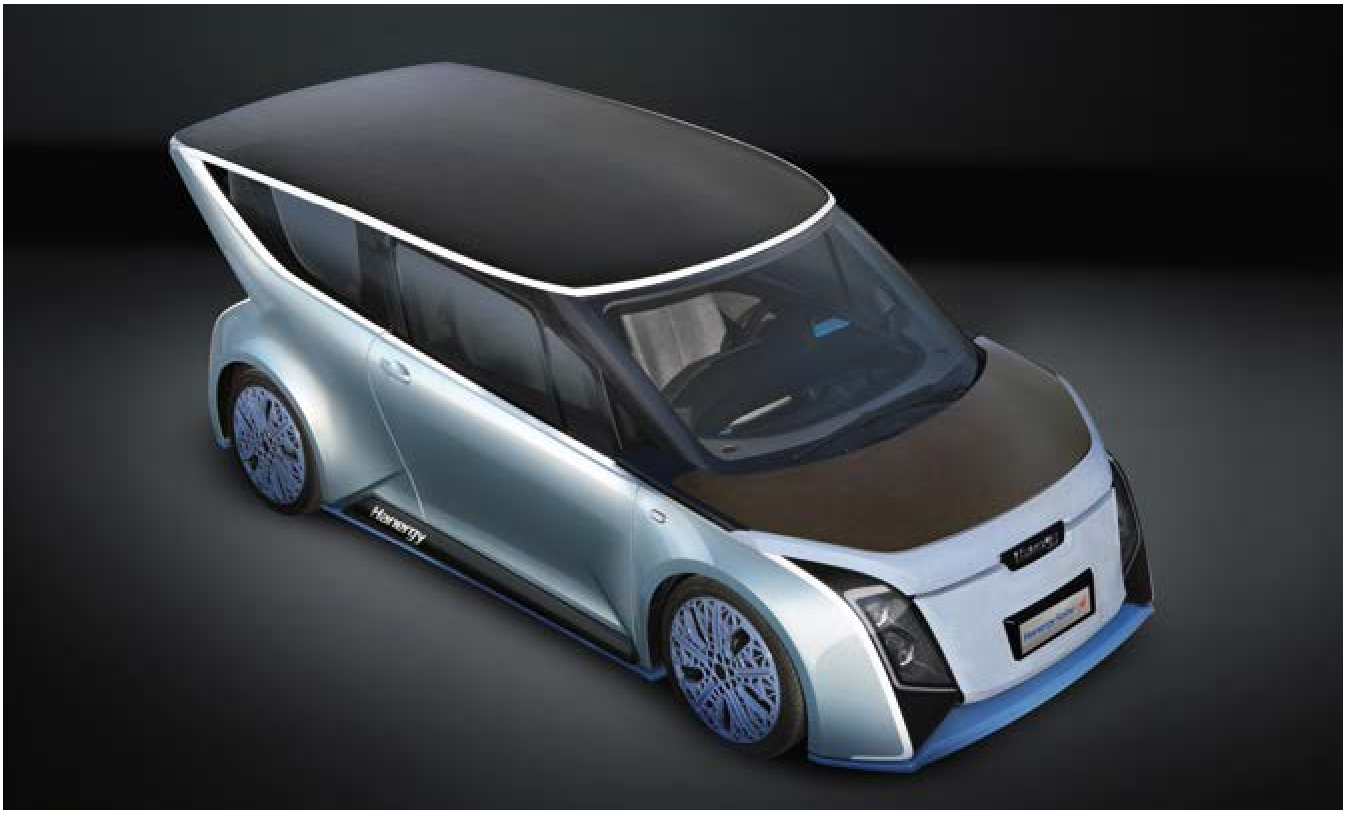
LEARNING FROM SOFTWARE DEVELOPMENT

Volker Amelung, overall project manager, reports on the beginnings of the "Hanergy Solar Demonstrator" show car: "First of all, we had to convince Hanergy of our concept. As this was an absolutely innovative subject, it was quite clear to us that we would not be able to fall back on the classic waterfall model for project management. What we had to do was look at things from a different angle. We therefore had a look in the agile software developers' tool box, and decided to use their scrum method. A key aspect of scrum is that a project is not sequentially planned from A to Z. We therefore decided to start with a "story" on the show car, after which we divided the project into 12 "sprints". Working on one sprint after another, the product specifications were then sharpened and the show car developed."

Implementation was effected all around the world, with work on vehicle design, exterior styling and the solar cell assemblies being carried out in Fulda, interior styling and the drive concept in Gaimersheim, engine and chassis calibration at a test centre in Boxberg, and the headlights in Wolfsburg. The design and final assembly were undertaken in China, with the active support of the local EDAG office. "We clearly benefitted from our extensive and diversified expertise when it came to the 'Hanergy Solar Demonstrator' project," explains Volker Amelung. "With the support of our technical departments, for instance lighting technology, body manufacturing, but also Feynsinn, an EDAG Group brand specialising in user interface design and virtual reality, we were able to create the show car in just one year - from the initial idea to completion."

REFUEL WHILE YOU DRIVE - ONLY POSSIBLE WITH SOLAR POWER

The chief attraction of the Hanergy Solar Demonstrator is that the collectors can absorb sunlight and recharge the battery while the car is in motion. This increases the range while driving, so is in effect an integrated range extender. With up to 7 square metres of flexible gallium arsenide solar cells, the car has a very high performance grade: up to 1.5 kW under standard test conditions of 1000 W/m² and an outside temperature of 25°C. This can mean an additional range of up to 50 km if the battery is fully charged when you set off. Thanks to a high-efficiency converter developed by EDAG, the incident solar energy is effectively raised to the battery's high voltage level. This means that the battery can always be charged, regardless of whether the car is stationary or in motion.



Show Car "Hanergy Solar Demonstrator"

There are a number of reasons why this was such a special project for Amelung: "First of all, we had a fantastic team! Despite the pressure and stress that are always in the air when a show car is being developed and built, we had a lot of fun. And of course we couldn't wait to see the finished automobile at the end of our work. That was a great source of motivation."
The Hanergy Solar Demonstrator will be going on tour in China in the next few months, where it is expected to take various test sites by storm. As a tribute to renewable energy, the EDAG Hanergy Solar Demonstrator demonstrates how much of the potential of e-mobility still remains untapped.
A remarkable project, and one in which thinking outside the box really paid off. With the "Hanergy Solar Demonstrator", EDAG has proved that agile project management methods can be used not only for software development, but also for vehicle engineering.

BATMOBILE ON TWO WHEELS

FUTURISTIC BIKE CONCEPT WITH SERIES POTENTIAL

When Sebastian Sturm, a member of the Motorcycle team at EDAG Munich, presents his innovative motorcycle concept to his friends, it is sure to meet with incredulous astonishment. Even experienced bikers will look twice and have to rub their eyes in disbelief. Why? Because the bike's handlebars appear to hover above the front wheel, with no connection to the bike. The classic telescopic fork is missing, and it looks as though it has been airbrushed out. The 29-year-old is not, however, a Hollywood set decorator or artist for science fiction comics – in fact, Sebastian is a Bachelor of Engineering, and has been working as a chassis design engineer at "EDAG Motorcycle" at the Munich branch for the last 4 years.

"While I was still a student, I was already thinking about an alternative front wheel drive for motorcycles. I really didn't like the way the bike bucked during braking with the classic telescopic fork. Especially in bends or if you are braking in a emergency, any bucking of the bike significantly changes the driving geometry, and this is not always an advantage. In fact, it is a drawback to the driver, and restricts safety, comfort and vehicle stability", explains Sebastian Sturm. "There had to be an alternative. I wanted to find a different solution."

With his aim of wanting to bring about an improvement, the lateral thinker found in EDAG a congenial partner and an employer open to original ideas.

Besides seeing to regular day-to-day business, Marc Dongus, head of the Motorcycle + Chassis department at EDAG Munich, gave him the time and technical support he needed to turn his idea into a patented, close-to-production concept.

In essence, this new concept is a novel type of front wheel suspension integrated in an innovative motorcycle platform concept. As a result, not only is it possible to adjust bucking – something other systems can already do today – but the new concept also provides a far greater degree of variability, e.g. for alternative drive concepts such as an electric powertrain with a battery pack or hybrid solutions. As with passenger cars, the internal combustion engine has long since ceased to be the only dynamic means of getting about on two wheels.

"I was definitely inspired by the platform strategy adopted in the passenger car segment. In addition, I planned a few extras that would improve my concept from a point of view of cost," explains Sebastian Sturm. Shifting the chassis structure to the lower third of the vehicle creates new package options, and these can provide potential for improved flow conditions for the cooler and air intake. There is no longer any need for intricate measures to install modules such as the powertrain or body parts in the chassis, as these can now be attached one after the other. Another advantage is that, due to the design, the load paths within the structure can be ideally shortened, to create a chassis platform that is both lightweight and strong. This does away with the great distance between the handlebars and the front wheel via the telescopic fork, prevents unwanted friction forces in the fork, while also saving material during production.

Instead of ball joint bearings and linear guides, his solution makes use of antifriction bearings, as these tend to be more durable and have a significantly lower breakaway torque under high loads. Tried and tested brake systems and front wheel rims can also be used without any changes being made.

In addition, the steering angle of up to 40 degrees in the new model is identical to that of the classic telescopic fork, so the only thing the biker has to get used to is the futuristic appearance.

When presented at the Aachen Colloquium, the new concept developed by "EDAG Motorcycle" in Munich met with enormous interest. And it has the additional attraction of being the fascinating subject of the theses written by five students.

With this new close-to-production concept, EDAG's motorcycle team have proved that they are highly qualified partners well capable of creating new ideas and taking these, as a complete project, through to SOP.

INDUSTRIE 4.0 –
ENGINEERING IN THE ATMOSPHERE OF (R)EVOLUTION

FRANK BREITENBACH (DR.-ING.), EDAG PRODUCTION SOLUTIONS

"INDUSTRIE 4.0": THE BIG BANG

At the very latest, when the final report entitled "Recommendations for Implementing the Strategic Initiative INDUSTRIE 4.0" was published by the "Industrie 4.0" working group at the Hanover Fair in 2013, a hype was initiated that is still in force today, and is sure to continue to occupy us for years to come.

"Industrie 4.0" is the fourth industrial revolution following the combustion engine, division of labour and automation – and its main intention is to effectively strengthen the German economy and keep it competitive.
But what is it all about? To reduce "Industrie 4.0" to nothing more than the (US) Internet of Things would be failing to do it full justice. It goes without saying that smart product worlds are involved; but the idea behind "Industrie 4.0" goes far beyond this, and incorporates various other features. These include horizontal integration via value networks, the digital consistency of engineering across the entire value chain, and vertical integration and networked production systems.

As specialists in the engineering of complete production facilities and factory planning, EDAG PS already began to define the Company's response to the future challenges of "Industrie 4.0" three years ago.

THE EDAG PS 4.0 PHILOSOPHY

"Theory without practice is empty, practice without theory is blind." (Immanuel Kant 1724-1804).

The fully integrated purpose of "Industrie 4.0" is complex, and needs to be analyzed from several angles.

Primarily, the role that people play in the "Industrie 4.0" environment needs to be examined. How will the workplace and the work carried out there change? What qualifications will be required, and which will become obsolete? It is reassuring to know that, in the course of previous industrial revolutions, working people have already survived many drastic interventions in their environment, and so are far more flexible and resistant that many a pessimist would claim.

One tendency of the Internet of Things shows that computational intelligence is diffused from central locations to subordinate instances. Our tools are becoming more and more intelligent and smart. In turn, this means we have to re-think software and move beyond programming to configuration. The new work environment will clearly not only be peopled by computer scientists, but by people who understand how to put together intelligently programmed modules to create new functional systems.

Let us first consider the subject top-down, using the philosophical strategic approach. For EDAG PS, this gives rise to three main dimensions in the area of "Industrie 4.0":

A. Systematic horizontal and vertical networking within the value chain.

If information is provided, then it should be possible for it to be used by everybody involved in the network. A simple example of this is the process chain from the end customer via the manufacturer to the supplier.

B. The value-adding networking of product development and production engineering.

This has already been practiced by EDAG PS for more than 10 years. Genuine efficiency in the production system can only be achieved through constant, multilateral communication in the product development process. For us, this becomes reality in mechatronic engineering and the digital factory, both of which will be discussed in the third section.

C. The complementary interplay between the physical and digital worlds.

We start off digitally – with product development and the development of the production system. Our aim is for the planning to reach an advanced stage of development as early as possible, before beginning work on the physical construction. The digital systems always fully complement the physical world. Where errors are unavoidable, we want to make them at the

virtual stage. Errors in the physical world are generally (still) far more expensive. If the physical factory exists, then its digital twin also exists.

BOTTOM-UP: OLD AND NEW CONCEPTS AND SERVICES

Many supposedly new concepts and solutions have lain dormant for years in desk drawers and people's heads. However, new means of communication and networking have now made them viable and, what is more, affordable. Examples that come to mind here are CIM (Computer-Integrated Manufacturing) or agent-controlled production systems. The concept of the digital factory that came into being in the 1990s corresponds largely with today's idea of the digital twin of a factory.

The EDAG PS "Industrie 4.0" portfolio is divided into subjects relating to the digital product, the digital factory (digital twin) and the physical "smart factory". For years now, the FEYNSINN Company division has been looking into methods and tools, processes and systems for fully integrated, virtual product development, advising customers accordingly, and then successfully implementing them in concrete customer projects.

The digital engineering process and our years of experience with all of the standard digital factory tools and networked methods have been channeled into our engineering projects for about 20 years. Front-loading in the project, a high design status at an early point in time, the avoidance of modification loops: this is the credo of our engineers.

Once individual processes have been optimized, synergies are the only way of improving efficiency. Our concept for this is mechatronic engineering, the systematic parallelization of mechanical and electrical engineering with automation. In our production IT department in particular, solutions for the smart, or intelligently controlled factory are produced. Under the motto "paperless factory", our developments include software for smart watches, tablets or smartphones, by means of which, for instance, maintenance personnel can receive early warning of and sufficient information on errors, maintenance and repair tasks. Another field of application is the use of tablets to replace the documents accompanying products. An enormous source of faults is eliminated simply by avoiding the "human" interface in data transfer.

A further future-oriented field is "predictive maintenance". This makes it possible to save expenses by avoiding downtimes and also by avoiding maintenance on intact production equipment. However, this is only practicable with an intensive data analysis in a large data quantity, which is filled by control system sensors and usually held in a cloud.
In a smart factory, it is generally important that the correct data from the flood of data available should be correctly interpreted at the correct time. So that a digital twin in production can also start a process simulation run with the current production data at any time, we supply it with genuine availability data from the factory's MES (Manufacturing Execution System) via our product PROzwo®. This ensures that exactly that equipment that is working in the factory is simulated, and not some idealized system.

"INDUSTRIE 4.0" FOR (ALMOST) EVERYBODY

Products, methods, tools and processes that come into being under the heading "Industrie 4.0" make significant increases in efficiency possible in almost all fields of industry: in multinationals and small or medium-sized firms alike. What will not work is an "across the board" approach. Companies and their products are all different, and the solutions that will help individual companies to get ahead will be equally as varied.
The process calls for courage on the part of the customer, and process knowledge and an all-round approach on the part of the service provider. At EDAG PS, we see ourselves as heavyweights in this field, working out customer-specific solutions and then implementing them professionally and effectively.

AWARDS AND PRIZES –
WHEN PERFORMANCE BECOMES VISIBLE

The EDAG Group aims to retain its position as a top-level technology Company and employer. Motivated by this principle, the Company has set up competence centers which strongly support the proactive development of new technologies and concepts for the automotive future, and invests in the constant expansion of its employee offerings. A number of prizes and awards were received during the financial year just ended: tribute to this continuing commitment.

NEXT SPACE FRAME GENERATION WORTH ITS WEIGHT IN GOLD

At the end of October, the EDAG Group and its partners LZN, Concept Laser and BLM won the gold MATERIALICA award. The MATERIALICA Awards jury paid tribute to the great potential of the competition entry, a next generation space frame concept, with regard to resource efficiency and manufacturing flexibility.

The growing number of alternative powertrains and vehicle derivatives currently represent an enormous challenge for vehicle manufacturers and engineering companies. The important thing here is to design body concepts capable of accommodating the increase in vehicle and powertrain variance in terms of flexible integration and economical production. The advantage of the concept presented lies in the combination of 3D-printed steel body nodes and intelligently rolled profiles. The result is a bionically designed, load path-optimized spaceframe structure featuring a combination of the ultimate in bionic Lightweight Design and "Industry 4.0" production strategies.

TOP EMPLOYER FOR THE 9TH TIME IN A ROW

As an employer, too, EDAG received a top-level award in 2016. For the ninth time in a row, the Company won a "Top Employer" award, taking 2nd place in the "Automotive" category.

According to the jury's decision, the EDAG Group demonstrates outstanding employee orientation, and offers its employees excellent working conditions. "We are delighted that our continued commitment to HR work has met with such a positive response. The constant further development of an attractive complete package for our employees is our maxim.

"In my eyes, the combination of technically demanding challenges, a value-oriented working culture and modern working conditions is a decisive factor for success. At the end of the day, career prospects and the feel good factor have to be just right, in order to be able to keep and recruit highly motivated employees," explains Harald Poeschke, EDAG COO and Chief Human Resources Officer. On the basis of these standards, EDAG has implemented a wide range of training opportunities in the course of the last few years. In addition to this, a number of health management and work-life balance programs and a mentoring program for future managers have been introduced. "What does the Company do" or "how much does it pay" are not the only crucial questions on today's recruitment market: people also want to know exactly how a Company defines and implements its working culture.

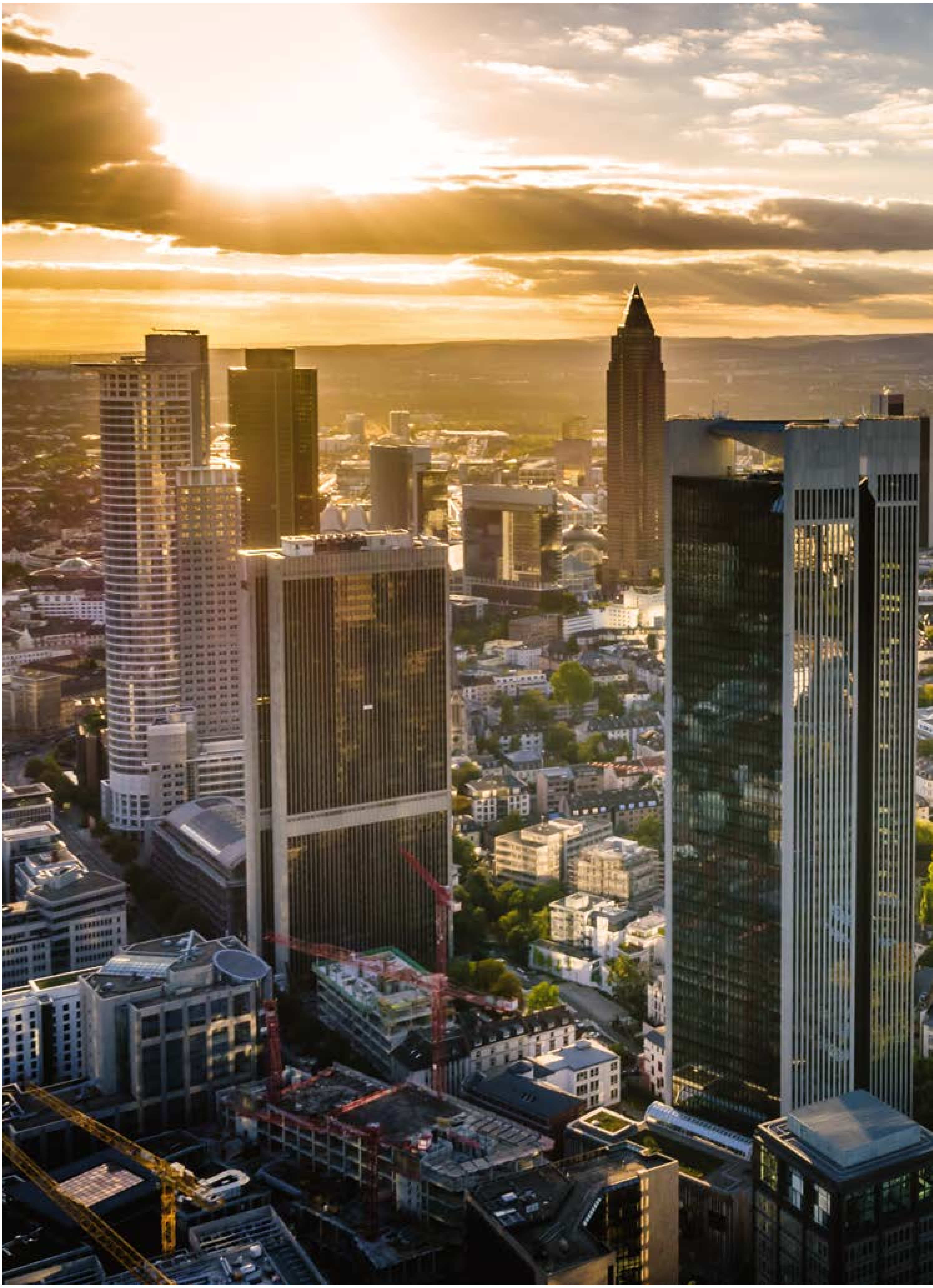
GOLD MEDAL FOR DESIGN IS RED

At the end of the year, the concept car "EDAG Light Cocoon" was awarded the famous Red Dot Award 2016 at a presentation ceremony in Singapore.

The Cocoon's combination of bionic design and sophisticated lighting concept capable of back-lighting the vehicle's outer skin in a wide variety of different colours won over the international Red Dot jury. However, the EDAG Group's concept car stands for far more than just smart automobile design. "The reason we used a printed skeleton structure was to demonstrate what intelligent future Lightweight Design might look like," explained EDAG's Chief Designer Johannes Barckmann. "Nature has its own strategy for Lightweight Design: material is put to use only where it is absolutely essential for stability.

"We are proud of the fact that the independent Red Dot jury has decided to reward our combination of design and innovation," affirmed Johannes Barckmann, Head of EDAG's Design Studio.

Every year, the jury selects the best product and concept designs from some 5,000 entries from more than 50 countries, making Red Dot Award one of the major international product competitions in the world.



EDAG ON THE CAPITAL MARKET

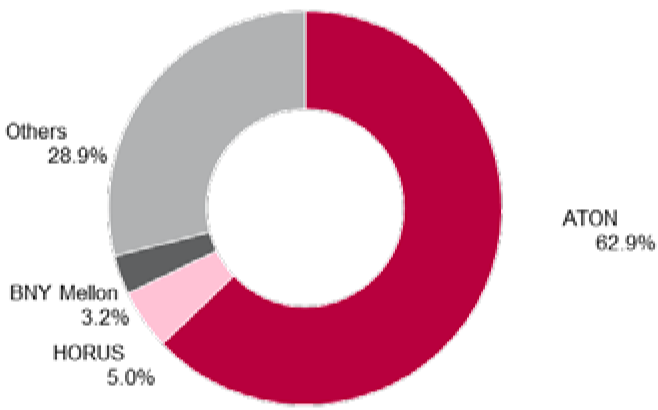
EDAG ON THE CAPITAL MARKET

1 Basic Share Information

ISIN	CH0303692047
Security code number	A143NB
Symbol	ED4
Initial listing	December 2, 2015
Subscribed capital	1,000,000 CHF
Number of shared issues	25,000,000
Market segment	Prime Standard
Exchanges	Xetra, Frankfurt, München, Düsseldorf, Berlin, Stuttgart

2 Shareholder Structure

The largest individual shareholder of EDAG Engineering Group AG ("EDAG Group AG") is ATON Austria Holding GmbH, which holds 62.89 percent. Further shareholders with holdings of more than three percent are HORUS Vermögensverwaltungs-GbR with 4.98 percent and BNY Mellon Service Kapitalanlage-Gesellschaft mbH with 3.22 percent. All information is based on voting rights notifications as per § 21 Abs. 1 WpHG (German Securities Trading Law), received by the Company on or before March 1, 2017.

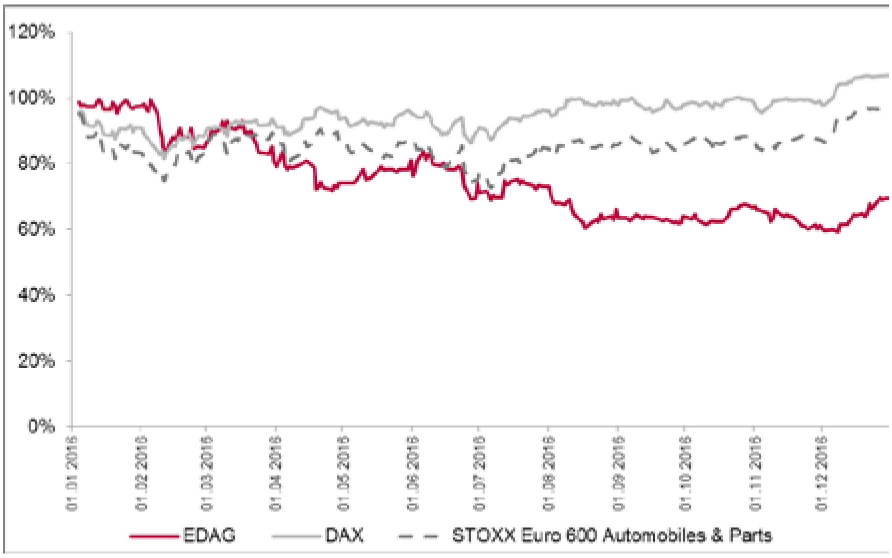


Ownership structure of EDAG Engineering Group AG. All information is based on notifications as per § 21 Abs. 1 WpHG (German Securities Trading Law), received by the Company on or before March 1, 2017.

3 Price Development

On January 4, 2016, the opening price of the EDAG share in Xetra trading was € 22.50. From the second quarter of the year on, the automobile sector came under strong selling pressure for a number of reasons including the diesel affair. Delays in the awarding of contracts by a major customer and increased price pressure in the market for engineering services had a negative effect on the performance of the Company and share price. The lowest closing price, € 13.35, was reached on December 8, 2016. The share price subsequently recovered and closed at € 15.60 on December 30, 2016. In 2016, the average Xetra trade volume was 21,308 shares a day.

The German Stock Index (DAX) exhibited almost 7 percent growth, while STOXX Euro 600 Automobiles & Parts fell by a good 4 percent in the same period. The current EDAG share price is available on our homepage, on http://ir.edag.com.



Source: Comdirect

4 Key Share Data

	1/1/2016 – 12/31/2016
Prices and trading volume:	
Share price on December 31 (€)[1]	15.60
Share price, high (€)[1]	22.42
Share price, low (€)[1]	13.35
Average daily trading volume (number of shares)[2]	21,308
Performance per share:	
Earnings per share (€)	0.72
Dividend per share (€)[3]	0.75
Operating cash flow per share (€)	2.07
Price-earnings ratio	21.61
Market capitalization on December 31 (€ million)	390.00

[1] Closing price on Xetra

[2] On Xetra

[3] Proposed by Management and the Board of Directors

5 Analysts' Recommendations

The following summary contains recommendations and price targets of financial analysts who regularly review EDAG:

Bank	Recommendatio	Target Price	Published	Source
Deutsche Bank	Hold	15 €	23 Jan 17	Research Report
COMMERZBANK	Hold	15 €	04 Nov 16	Research Report
Morgan Stanley	Hold	15 €	12 Dec 16	Research Report
M. M. Warburg & CO	Buy	19 €	14 Nov 16	Research Report
Hauck & Aufhäuser	Hold	15 €	11 Nov 16	Research Report
Bankhaus Lampe	Hold	16 €	23 Nov 16	Research Report
BERENBERG	Buy	21 €	17 Jan 17	Research Report

The summary makes no claim to being complete, nor does it represent the opinions, estimates and forecasts of EDAG or the EDAG management. Likewise, the publishing of these recommendations and target prices does not indicate that EDAG or the EDAG management share the opinions, estimates and forecasts of the analysts. A current summary of the analysts' recommendations and target prices is available on our homepage, on http://ir.edag.com.

6 Dividends

At the general meeting on May 31, 2017, the Executive Management and Board of Directors will recommend paying a dividend of € 0.75 per share. This is equivalent to a distribution quota of 103.9 percent of EDAG's consolidated net income.

7 Financial Calendar

Apr 5, 2017	- Publication Annual Report 2016 - Analyst-Call for Annual Report 2016 - Annual press briefing
May 11, 2017	Publication Interim Report Q1/2017
May 31, 2017	General shareholder meeting
Aug 17, 2017	- Publication Half Year Report 2017 - Analyst-Call H1/2017
Nov 15, 2017	Publication Interim Report Q3/2017

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

EDAG regards Corporate Governance as elementary to perform successfully in international business and to promote long-term and sustainable profitability.

Corporate Governance Objectives

Neither the Swiss Code of Best Practice (Swiss Code) nor the German Corporate Governance Codex are directly applicable to EDAG Engineering Group AG ("EDAG Group AG"). Nonetheless, EDAG Group AG decided to essentially comply with the Swiss Code unless actual circumstances require a deviation from it.

The principles and objectives of Corporate Governance are stated in the Swiss Code of Obligations, the Articles of Association, Organizational Group Regulations of the Group, and the EDAG Group Code of Conduct. Articles of Association, Organizational Group Regulations and Code of Conduct are regularly reviewed and revised accordingly.

The Articles of Association and the Code of Conduct can be downloaded at http://ir.edag.com/websites/edag/English/501030/statutes.html.

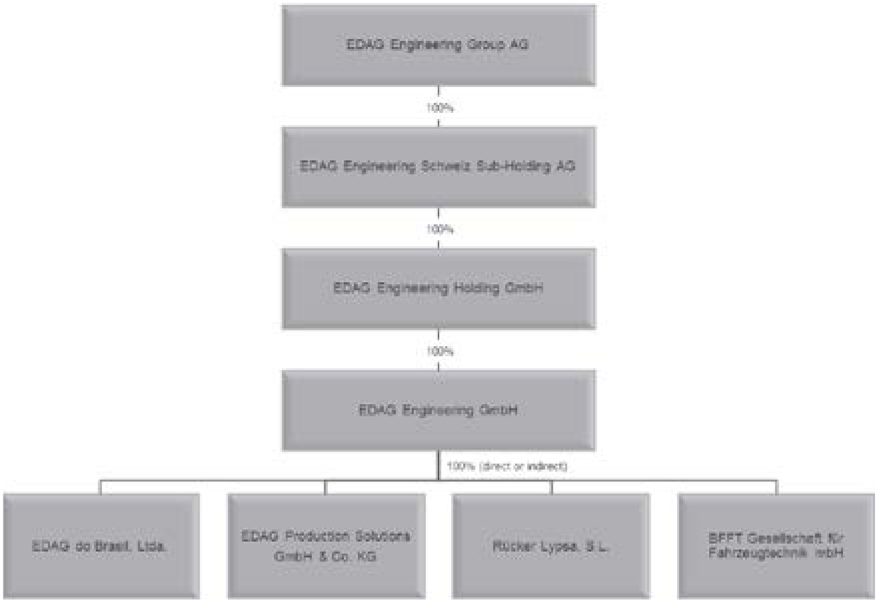
1 Group Structure and Shareholders

The Group is organized in the three segments Vehicle Engineering, Electrics/Electronics und Production Solutions.

1.1 Group Structure

The EDAG Group AG is the responsible parent Company of the group. The registered address is Schlossgasse 2, 9320 Arbon, Switzerland. The Company's business operations are conducted through EDAG group companies. The EDAG Group AG is a holding Company organized under Swiss law and directly or indirectly owns all EDAG Group companies worldwide.

The main subsidiaries and the simplified group structure are:



1.2 Stocklisted Companies

None of the subsidiaries is publicly traded. The subsidiaries and affiliated companies are listed under "Shareholdings" of the Consolidated Financial Statements.

1.3 Significant Shareholdings

The shareholder structure is reported in "EDAG on the capital market".
The shares held by ATON Austria Holding GmbH and HORUS Vermoegensverwaltungs-GbR are each attributed to their shareholder Dr. Lutz Helmig.
The notifications of major shareholdings received by EDAG Group AG in 2016, each disclosed promptly pursuant to Sec 26 para. 1 WpHG (German Securities Trade Law), can be downloaded at http://ir.edag.com.
The Company does not hold shares in treasury.

1.4 Cross-Shareholdings

There are no cross-shareholdings.

2 Capital Structure

2.1 Capital

The share capital of the Company on December 31, 2016 amounted to CHF 1,000,000 and was divided into 25,000,000 bearer shares (*Inhaberaktien*) with a nominal value of CHF 0.04 each. The share capital has been fully paid up. On November 2, 2015, the Company was incorporated and was entered into the Commercial Register on November 3, 2015 as a stock corporation under Swiss law. The original share capital of CHF 1,000,000 was procured by the selling shareholder via cash contribution. The General Meeting on May 31, 2016 did not decide any changes in share capital.

2.2 Authorized and Conditional Capital

The Company has neither authorized nor conditional capital.

2.3 Transferability of Shares

Legal regulations apply without statutory restrictions.
The exception to the above is described under *6. Change of Control and Defensive Measures* of this Corporate Governance Report.

2.4 Nominee Registrations

Legal regulations apply without statutory restrictions.

2.5 Options

No options program exists.

3 Board of Directors

3.1 Members of the Board

All members of the Board of Directors may be reached at the Company's offices at Schlossgasse 2, 9320 Arbon, Switzerland (tel. +41 71 447 36 11).

Thomas Eichelmann, German citizen

Non-executive member
Born: 1965
First elected: 2015

He holds a degree in Economic Sciences from the University of Zurich, Switzerland. From 1984 to 1986 he trained as a bank clerk at Deutsch Bank AG before studying Economic Sciences at the University of Zurich, Switzerland from 1988 to 1994. From 1994 to 1997, Mr. Eichelmann worked at Boston Consulting Group in Frankfurt am Main before becoming manager at Bain & Company in Munich. In 2000, Mr. Eichelmann joined Roland Berger Strategy Consultants in Munich, where he became part of the worldwide management team in 2003. From 2007 to 2009 Mr. Eichelmann was a member of the management board of Deutsche Börse AG but also held various other management positions within the Deutsche Börse Group during that time. In 2010, Mr. Eichelmann joined ATON GmbH as a member of the Board of Directors and was also appointed member of the Board of Directors of EDAG Engineering GmbH & Co. KGaA.

He currently holds the following offices outside EDAG Group:
In Accordance with art. 23 Sec 1.1 of the Articles of Association:

- ATON Group Finance GmbH (Going am Wilden Kaiser, Austria), managing director

In Accordance with Art 23 Sec 1.2 of the Articles of Association:

- HAEMA AG (Leipzig, Germany), member of the supervisory board
- J.S. Redpath Holdings, Inc. (North Bay, Canada), member of the board of directors
- V-Bank AG (Munich, Germany), vice-chairman of the supervisory board

In Accordance with art. 23 Sec 1.3 of the Articles of Association:

- ATON 2 GmbH (Munich, Germany), managing director
- ATON GmbH (Munich, Germany), managing director

- ATON Oldtimer GmbH (Munich, Germany), managing director
- ATON US Inc., (Wilmington, Delaware, USA), member of the board of directors
- ATON Aero Verwaltungs GmbH (Munich, Germany), managing director
- EDAG Holding GmbH, (Munich, Germany), managing director
- FFT GmbH & Co. KGaA (member of the supervisory board)
- HORUS Beteiligungs-GmbH (Munich, Germany), managing director
- HORUS Ellwanger & Geiger Holding GmbH (Munich, Germany), managing director
- HORUS Finanzholding GmbH (Munich, Germany), managing director
- HORUS Spiekermann Holding GmbH (Munich, Germany), managing director
- L53 Immobilien BV GmbH (Munich, Germany), managing director
- L53 Immobilien GmbH (Munich, Germany), managing director
- Bankhaus Ellwanger & Geiger KG (Stuttgart, Germany), chairman of the board of directors
- OrthoScan, Inc., (Scottsdale, Arizona, USA), member of the board of directors

In Accordance with art. 23 Sec 1.4 of the Articles of Association:

- Stadtsparkasse München (Munich, Germany), member of the economic advisory council
- Stiftung Deutsche Sporthilfe (Frankfurt am Main, Germany), member of the advisory board
- Stiftung Wir helfen München (Munich, Germany), member of the advisory board

Dr. Michael Hammes, German citizen

Non-executive member
Born: 1955
First elected: 2015

He holds a degree in Economics from the University of Mainz and a doctoral degree in Economic Policy from the Johannes-Gutenberg-University in Mainz. Furthermore, he obtained an additional qualification in Banking Management from the Johann-Wolfgang-Goethe-University in Frankfurt am Main. From 1982 to 1984 Dr. Hammes worked at the Landesbank Rheinland-Pfalz before joining McKinsey & Company in Frankfurt am Main where he became a partner in 1991. In 1996, Dr. Hammes left McKinsey & Company to found CONSART Management Consultants GmbH in Frankfurt am Main where he was managing shareholder until 2006. Thereafter, he founded senco Management Consultants GmbH in Frankfurt am Main, where he acted as managing shareholder until 2016.

He is currently member/chairman of the following boards/administrative bodies outside EDAG Group:

In Accordance with art. 23 Sec 1.2 of the Articles of Association:

- Bankhaus Ellwanger & Geiger KG (Stuttgart, Germany), member of the administrative board
- V-Bank AG (Munich, Germany), member of the supervisory board
- Spiekermann & Co AG (Osnabrück, Germany), chairman of the supervisory board

Dr. Philippe Weber, Swiss citizen

Non-executive member

Born: 1965

First elected: 2015

He holds a degree in law and a doctoral degree in jurisprudence from the University of Zurich and an LL.M. from the European University Institute (EUI) in Fiesole, Italy. He is admitted to the bar (Rechtsanwalt) in Zurich. From 1990 to 1992 he was a research assistant at the University of Zurich before joining the foreign affairs committees of the two chambers of the Swiss parliament as a legal clerk. In 1994 he joined the law firm Niederer Kraft & Frey AG, Zurich, where he became an associate in 1996. In 2002 he was made a partner at Niederer Kraft & Frey AG. In 2009 he was elected to the executive committee of Niederer Kraft & Frey AG, which he chairs (Managing Partner) since 2015.

He currently holds the following offices outside EDAG Group:

In Accordance with Art 23 Sec 1.3 of the Articles of Association:

- Newron Suisse SA (Bale, Switzerland), member of the board of directors

In Accordance with Art 23 Sec 1.2 of the Articles of Association:

- Niederer Kraft & Frey AG (Zurich), chairman of the board of directors and managing partner
- Robert Aebi AG (Regensdorf), member of the board of directors
- Banca del Ceresio SA (Lugano, Switzerland), member of the board of directors

Sylvia Schorr, German Citizen
Non-executive member
Born: 1980
First elected: 2015

Sylvia Schorr holds a degree in Business Administration from the Furtwangen University (formerly Fachhochschule) and was appointed as an auditor in 2010. From 2005 to 2010 she worked at Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft in Eschborn before joining PHOENIX Pharmahandel GmbH & Co. KG in Mannheim until 2011. From 2011 to 2013, Sylvia Schorr worked at Fresenius Medical Care AG & Co. KGaA in Bad Homburg before joining ATON GmbH in Munich, where she was appointed head of group treasury in 2016.
Sylvia Schorr does not currently hold any mandates outside of the EDAG Group.

3.2 Cross- Involvements

There are no cross-involvements.

3.3 Composition, Election & Duration

At the General Meeting of the Company on May 31, 2016, the members of the Board of Directors were elected individually. This applies as well for the Chairman of the Board of Directors as the members of the nomination and compensation committee and of the audit committee. Eligible for election as a member of one of these committees are members of the board, only.

3.4 Internal Organisational Structure

The Board of Directors consists of one chairman and three other members in accordance with art. 15 of the Articles of Association. The chairman does not have a casting vote pursuant to art. 18 of the Articles of Association. The business relationship of the members of Board of Directors with the Company are explained in the "Compensation Report" as well as in the chapters "Related Parties" and "Compensation of the Members of the Board of Directors and the Group Executive Management".
The Board of Directors meets at least six times per year. Members of the Executive Management or other guests may participate in the meeting of the Board of Directors at the discretion of the chairman.

Committees

The members of the Board of Directors constitute the following committees:

- Audit Committee
- Nomination and Compensation Committee

Audit Committee (AC)

The AC consists of two members of the Board. The term of office end at the next General Meeting. Re-election is possible. The AC meets as often as it seems necessary, usually before a regular meeting of the Board of Directors.
The AC supports the Board of Directors in its function to supervise, namely with respect to completeness of the financial statements, compliance with legal regulations, enabling the auditors and performance of the internal revision and the external auditors.

The AC assesses the expedience of the financial reporting, the internal control system and the general supervision of business risks. It ensures the continuous communication to external auditors and internal revision concerning the financial situation and general course of business of EDAG Group.

Nomination and Compensation Committee (NCC)

The NCC consists of two members of the Board. The term of office end at the next General Meeting. Re-election is possible. The NCC meets as often as it seems necessary, usually before a regular meeting of the Board of Directors.

The NCC reviews and proposes to the Board of Directors the compensation and benefits policies and programs, reviews the performance criteria relevant to compensation and determines individual executive compensation and benefits of the members of the Board of Directors and the Executive Committee, subject to the approvals of the total compensations by the Annual General Meeting.

3.5 State of Organisation

In accordance with the law and the Articles of Association, the Board of Directors is the ultimate decision-making authority for EDAG Group AG in all matters except those decisions reserved by law or the Articles of Association for the shareholders. The Board of Directors has sole authority, particularly for the following, in accordance with and supplementary to art. 716a of the Swiss Code of Obligations (non-transferable and inalienable duties of the Board of Directors) and art. 17 of the Articles of Association:

- to ultimately direct the Company and issue the necessary directives
- to determine the organization;
- to organize the accounting, the internal control system (ICS), the financial control and the financial planning, the approval of the annual budget and business plans and to perform a risk assessment;
- to appoint and recall the persons entrusted with the management and representation of the Company and to grant signatory power;
- to ultimately supervise the persons entrusted with the management, in particular with respect to compliance with the law, the Articles of Association, regulations and directives;
- to prepare the annual report, as well as the General Meeting and to implement the latter's resolutions;
- to prepare the compensation report;
- to inform the judge in the event of over-indebtedness;
- to pass resolutions regarding the subsequent payment of capital with respect to non-fully paid-in shares;
- to pass resolutions confirming increases in share capital and regarding the amendments to the Articles of Association entailed thereby;
- to examine compliance with the legal requirements regarding the appointment, election and the professional qualifications of the Auditors;
- to execute the agreements pursuant to art. 12, 36 and 70 of the Merger Act.

3.6 Working Method

In 2016, the Board of Directors met on the following days:
February 18, 2016, March 16, 2016, April, 19 2016, May 10, 2016, May 31, 2016 (statutory meeting of the newly elected Board of Directors), June 23, 2016, August 11, 2016, August 23, 2016, October 24, 2016, November 10, 2016 and December 19, 2016. The four members were present or dialed in by phone, respectively.

The AC met on April 18, 2016, am May 09, 2016 as well as November 07, 2016; the NCC met on April 26, 2016 and April 29, 2016.

3.7 Information and Control Instruments vis-à-vis the Executive Committee

The Board of Directors ensures that it receives sufficient information from the Group Executive Management to perform its supervisory duties and make decisions that are reserved for the Board of Directors.

The Board of Directors obtains the information required to perform its duties in various ways:

- The CEO and the CFO regularly inform all directors about current developments
- Informal meetings and teleconferences between the CEO and the Chairman of the Board of Directors
- The members of the Group Executive Management are invited to attend meetings of the Board of Directors on a regular basis
- The members of the Board of Directors are entitled to request information from members of the Group Executive Management or any other EDAG senior manager

Risk Management

The AC ensures to be informed about the group-wide established Risk Management System. For details, please refer to chapter "Risk Management and Internal Control System" of the management report.

Internal Control and Financial Reporting

The AC ensures to be informed about the group-wide established Internal Control System and financial reporting. For details, please refer to chapter "Internal Control System and Risk Management System in relation to the Group Accounting Process", on page 130, of the management report.

Compliance Management

The AC ensures to be informed about the group-wide established Compliance Management System.

Internal Revision

The AC ensures to be informed about the results of group-wide assessments of Internal Revision.

4 Group Executive Management

4.1 Members of the Group Executive Management

For other positions within EDAG Group of the members of the Group Executive Management, please refer to the "Compensation Report" of Annual Report.

Jörg Ohlsen, German Citizen

Chief Executive Officer (CEO)
Born: 1969

He holds a degree in mechanical engineering from the Hamburg University of Applied Sciences (*Fachhochschule*). Jörg Ohlsen joined EDAG Group in 1994 as project manager for simulation technology. After various managerial positions in Product and Manufacturing Simulation as well as Vehicle Integration he was appointed as a managing director of EDAG Engineering GmbH in 2005 responsible for Product Development. In 2008, Jörg Ohlsen was appointed chief executive officer and became a member of the Group Executive Management of EDAG Group AG in 2015. Jörg Ohlsen holds the following honorary positions:

- Chamber of Commerce of Fulda (Fulda, Germany), member of the general assembly
- German Association of the Automotive Industry (Verband der Automobilindustrie e.V.) (Berlin, Germany), member of the advisory board
- Automobiltechnische Zeitschrift (Wiesbaden, Germany), member of the advisory board

In addition, Jörg Ohlsen is member of the advisory board of Werner-Gruppe in Fulda, Germany, since January 2016.

Jürgen Vogt, German Citizen

Chief Financial Officer (CFO)
Born: 1953

He holds a degree in Economic Science (*Diplomkaufmann*) from the Johann-Wolfgang-Goethe-University in Frankfurt am Main. From 1979 to 1981 Jürgen Vogt worked at AEG-Telefunken before joining Société Générale where he was stationed in New York from 1986 to 1990. He managed Lignotock GmbH from 1991 to 1995. From 1995 to 1999, Jürgen Vogt was a member of the management board of SAI Automotive in Frankfurt, working out of New York from 1997 to 1999. In 2000, he joined Rücker AG in Wiesbaden and became managing director of EDAG Engineering GmbH in 2014 and a member of the Group Executive Management of EDAG Group AG in 2015.

4.2 Management Contracts

Management Contracts with third Parties

The members of the Group Executive Management do not hold management contracts with third parties. However, Jörg Ohlsen holds a position on the Advisory Board of Werner-Gruppe in Fulda, Germany.

The EDAG Group AG does not hold management contract with third parties.

Contractual Arrangements with Members of the Group Executive Management

Each member of the Group Executive Management has a contract with EDAG Group AG in Switzerland and in accordance with Swiss law. As they fulfill their duties as managing director of EDAG Engineering GmbH as well, they hold contracts with this Group Company as well. However, it is ensured that their notice periods does not exceed 12 month in neither of these contracts and that other, mandatory requirements of Swiss law are fulfilled by the contracts with EDAG Engineering GmbH.

Compensation, Shareholdings and Loans

Please refer to the "Compensation Report" and chapter "Related parties" and "Compensation of the Members of the Board of Directors and Group Executive Management" of the financial statement.

5 Shareholders' Participation-Rights

Each registered share entitles the holder to one vote at the Annual General Meeting. Shareholders have the right to receive dividends and such other rights as are granted by the Swiss Code of Obligations.
Shareholders are required to provide evidence of their shareholdings in the Company.

5.1 Voting Right Restrictions

The major shareholders ATON GmbH sold its shares to its subsidiary ATON Austria Holding GmbH ("ATON Austria") in 2016. ATON Austria entered into all existing voting right agreements of ATON GmbH, so that is still valid that ATON Austria and HORUS Vermögensverwaltungs-GbR ("HORUS") have entered into an agreement with the Company in which they have undertaken for a period starting on the first day of trading of the shares of the Company on the Frankfurt Stock Exchange (December 2, 2015) and ending on the second ordinary general meeting of the Company after the first day of trading, however, at least for a period of 19 months after the first day of trading and with respect to such number of shares of the Company directly or indirectly held by ATON Austria or HORUS respectively upon settlement of the Offering

- to exercise its voting rights in ordinary shareholders' meetings of the Company only with regard to half of the persons that are eligible as members for the Board of Directors;
- to exercise its voting rights in extraordinary shareholders' meetings of the Company regarding the election of additional members of the Board of Directors only in so far as and to the extent that, in case of election of such person, the overall number of members of the Board of Directors that were elected with the voting rights of ATON Austria or HORUS respectively does not constitute the majority;
- not to exercise their voting rights in extraordinary shareholders' meetings of the Company, in which the removal of a member of the Board of Directors shall be decided, in so far as in case of the removal of such person the majority of the members of the Board of Directors would have been elected with the voting rights of ATON Austria or HORUS. However, in case of an extraordinary shareholders' meeting of the Company held before the first ordinary shareholders' meeting after the first day of trading, ATON Austria or HORUS would, at any rate, exercise their voting rights only with regard to a removal of Thomas Eichelmann or Sylvia Schorr (or their successors); and
- to vote, in ordinary or extraordinary shareholders' meetings, against the removal of the provision in the Articles of Association according to which the Chairman of the Board of Directors has no casting vote.

5.2 Proxy Voting

Pursuant to the Compensation Ordinance and the Articles of Association, the shareholders' meeting elects the independent proxy for a term ending at the conclusion of the next annual shareholders' meeting. Re-election is possible.

At the general meeting held on May 31, 2016, ADROIT Attorneys at- law, Kalchbühlstrasse 4, CH-8038 Zurich, Switzerland were elected as the independent proxy for the term ending at the conclusion of the next annual shareholders' meeting.

5.3 Statutory Quorums

In accordance with art. 31 of the Articles of Association, a quorum of two thirds of the represented share votes and the absolute majority of the represented shares par value is mandatory for cases listed in art. 704 para. 1 CO and in art. 18 and 64 of the Federal Act on Merger, Demerger, Transformation and Transfer of Assets (Merger Act) or any change to the provisions of this art. 13 of the Articles of Association.

5.4 Convocation of the Annual Shareholder Meeting

The Articles of Association do not contain any rules that differ from the standard terms proposed by law.

5.5 Agenda

According to art. 9 of the Articles of Association shareholders individually or jointly representing at least 3 percent of the share capital of the Company may demand that items be put on the agenda. Such demands have to be submitted to the Chairman of the Board of Directors at least 45 days before the date of the General Meeting and shall be in writing, specifying the item and the proposals.

6 Change of Control and Defensive Measures

There are no clauses on changes of control in agreements with members of the Board of Directors and the Group Executive Management as well as other management executives.

Since neither the provisions of the German Takeover Code (Wertpapiererwerbs- und Übernahmegesetz), nor the Swiss law rules set forth in the Swiss Stock Exchange and Securities Dealer Act regarding voluntary and obligatory takeover offers will be applicable, the ATON Austria and HORUS agreed with the Underwriters in the Underwriting Agreement that it will not, for a period of three years from the settlement of the offering of the Company, directly or indirectly, enter into an agreement with a third party to sell a position in the Company which, ATON Austria or HORUS know, will result in a controlling interest of the purchaser, unless such purchaser contractually commits to extend a tender offer to the other shareholders of the Company offering a purchase price per share which is at least equal to the price contractually agreed between the ATON Austria or HORUS respectively and the purchaser.

This covenant is only valid to the extent that the purchaser would be under an obligation (and no exemption would be available from the duty) to extend a mandatory tender offer to the other shareholders of the Company if German takeover laws were applicable in case of such a transaction and only for as long as neither Swiss nor German takeover laws apply. Subject to certain conditions, transfers to or amongst affiliates of ATON Austria or HORUS are exempt.

ATON Austria or HORUS undertaking does not give rise to any rights of third parties and neither ATON Austria nor HORUS is not obliged to ensure that the purchaser actually adheres to its contractual obligation to extend an offer to other shareholders of the Company.

7 Information Policy

Pursuant to art. 31 of the Articles of Association, the publication instrument of the Company is the Swiss Official Gazette of Commerce and the Electronic Federal Gazette of Germany during the period of the admission of the shares on the Frankfurt Stock Exchange or any other German stock exchange. The Board of Directors may designate further means of publication. Notices by the Company to the shareholders and other announcements shall be published in the Swiss Official Gazette of Commerce and in the Electronic Federal Gazette for all notices and other announcements during the period of the admission of the shares on the Frankfurt Stock Exchange or any other German Stock Exchange.

Currently, EDAG informs its shareholders and the financial market regularly about important developments of its business. This policy is implemented mainly via regular press releases, quarterly reportings and information published on the websites of EDAG Group (www.edag.de and www.ir.edag.com respectively). In addition, there are regular discussions with financial analysts.

7.1 Financial Calendar

The financial calendar is reported in chapter "EDAG on the capital market".

7.2 Annual Shareholder Meeting

The next regular annual shareholder meeting is scheduled for May 31, 2017.

7.3 Publications

All information pertaining to press releases or investor updates can be obtained online via ir.edag.com or from the following contact address:
EDAG Engineering Group AG
Schlossgasse 2
9320 Arbon
ir@edag-group.ag
Tel.: +41 (0)71 544 33 – 11
Fax: +41 (0)71 544 33 – 10

Voting rights announcements, ad hoc releases and directors' dealings are distributed Europe-wide via EQS/DGAP and are available at http://ir.edag.com/websites/edag/English/30/announcements.html. It is possible to subscribe to new information via Email. To use this service, please fill out the order form at http://ir.edag.com/websites/edag/English/401030/order-form.html.

8 Auditors

8.1 Duration of the Mandate and Term of Office

PricewaterhouseCoopers ("PwC") has held the mandate since EDAG Group AG was established on November 2, 2015. The shareholders' meeting held on May 31, 2016 reconfirmed the auditors for the fiscal year 2016 until the end of the shareholders' meeting.

The principle of rotation applies to the lead auditor, Patrick Balkanyi, who was appointed in 2015. The Audit Committee ensures that the position of lead auditor is changed regularly. The shareholders must confirm the appointment of the auditors on an annual basis at the shareholders' meeting.

8.2 Auditing Fees and additional Fees

The auditing and additional fees of PricewaterhouseCoopers AG are reported in chapter "Auditor´s Fees and Services", on page 263, of the consolidated financial statement.

8.3 Supervisory and Control Instruments regarding the Auditors

The AC of the Board of Directors is responsible for overseeing and evaluating the performance of the external auditors on behalf of the Board of Directors and recommends to the Board of Directors whether PwC should be proposed to the Annual General Meeting for reelection.

Criteria applied for the performance assessment of PwC include technical and operational competence, independent and objective view, employment of sufficient resources, focus on areas of significant risk to EDAG, ability to provide effective and practical recommendations, and open and effective communication and coordination with the AC, Group Accounting, internal revision, and management.

In 2016, two meetings were held with the external auditor's representatives. The meetings were attended by members of the AC, partner and senior manager of the auditor and the CFO. In addition, conference calls were held between external auditor's representatives, members of the AC as well as with the Head of Group Accounting & Tax of EDAG Engineering GmbH.

The auditors communicate audit plans and findings to the AC and issue reports to the Board of Directors in accordance with art. 728b of the Swiss Code of Obligations.

COMPENSATION REPORT

COMPENSATION REPORT

The Compensation Report describes the principles underlying the compensation policy, and provides information about the steering process and the compensation actually paid to the Board of Directors and Group Executive Management. It meets the requirements of art. 14 to 16 of the Swiss Ordinance Against Excessive Pay at Publicly Listed Companies of November 20, 2013 ("VegüV"), the SIX Swiss Exchange's Directive on Information relating to Corporate Governance, the principles of economiesuisse's Swiss Code of Best Practice, which have been in effect on June 30, 2015 and relies on the Articles of Association of EDAG Engineering Group AG ("EDAG Group AG").

1 Compensation Principles of the Company

In accordance with the Compensation Ordinance, art. 12 of the Articles of Association provides that each year the shareholders' meeting must vote separately on the proposals by the Board of Directors regarding the aggregate amounts of the:

- **fixed compensation of the Board of Directors** for the term of office until the next shareholders' meeting, as well as any possible additional compensation of the Board of Directors for the preceding business year as specified in art. 25 paragraph 1 of the Articles of Association (i.e., at the annual shareholders' meeting 2016, shareholders have, for the first time, voted on the compensation of the Board of Directors for the period from the annual shareholders' meeting in 2016 until the shareholders' meeting in 2017 and approved it to the maximum amount of € 1,000 thousand);
- **fixed compensation of the Group Executive Management** to be paid in the subsequent business year as specified in art. 26 of the Articles of Association (i.e., at the annual shareholders' meeting 2016, shareholders have, for the first time, voted on the fixed compensation of the Group Executive Management for the business year 2017 and approved it to the maximum amount of € 1,250 thousand); and
- **variable compensation of the Group Executive Management** based on the results and targets achieved in the preceding business year, which generally shall be paid after approval (i.e., at the annual shareholders' meeting 2016, shareholders have, for the first time, voted on the variable compensation of the Group Executive Management for

the business year 2015 and approved it in the amount of € 506 thousand. The special bonus for the initial public offering has been approved separately even before by an extraordinary shareholders' meeting).

If the shareholders' meeting does not approve the amount of the proposed fixed and proposed variable compensation, as the case may be, the Board of Directors may either convene a new extraordinary shareholders' meeting with new proposals for approval or submit the proposals regarding compensation for retrospective approval at the next annual shareholders' meeting. Furthermore, the Board of Directors may make proposals to the shareholders' meeting for approval in relation to (i) total amounts and/or parts of the compensation for other periods and/or (ii) additional amounts for certain parts of the compensation.

The aggregate compensation amounts are deemed to be inclusive of all social security and pension contributions by the members of the Board of Directors, the Group Executive Management and by the Company (i.e., contributions by employee and employer).

Art. 28 of the Articles of Association provides that the Company shall not grant loans, credits, pension benefits (other than from occupational pension funds) or securities to the members of the Board of Directors or the Group Executive Management. Art. 28 of the Articles of Association further provides that, in principle, the Company will not make payments to pension funds or similar institutions for the members of the Board of Directors. However, in exceptional cases, such payments may be made upon request of the Nomination and Compensation Committee, subject to the approval by the shareholders' meeting, if the members in question do not have other insurable income from subordinate employment or if required by mandatory applicable law.

2 Compensation of the Board of Directors

In accordance with the requirements of the Compensation Ordinance, art. 25 of the Articles of Association sets out the principles for the compensation of the members of the Board of Directors.

The members of the Board of Directors shall receive a fixed compensation and additional fixed compensation for memberships in committees of the Board of Directors that is determined by the full Board of Directors based on the proposal of the Nomination and Compensation Committee and subject to and within the limits of the aggregate amounts approved by the shareholders' meeting. The compensation is awarded in cash. In exceptional cases and subject to and within the limits of the approval by the shareholders' meeting, the members of the Board of Directors may be awarded an additional bonus. The annual fixed compensation of the members of the Board of Directors has been set at € 300 thousand for the Chairman and € 100 thousand for each other member, plus € 50 thousand for each committee membership. For the financial year ended December 31, 2016, the fixed compensation of the members of the Board of Directors amounted to € 350 thousand for the Chairman and € 150 thousand for each other member of the Board of Directors (plus Swiss social insurance contributions, if any). It also includes the compensation for each committee membership during that period.

The Chairman of the Board of Directors, Thomas Eichelmann, is also Chairman of the Supervisory Board of EDAG Engineering Holding GmbH, as well as of EDAG Engineering GmbH. The members of the Board of Directors, Sylvia Schorr (previously Schwing) and Dr. Michael Hammes, are also members of the Supervisory Board of EDAG Engineering Holding GmbH, as well as of EDAG Engineering GmbH. The members of the supervisory board of EDAG Engineering GmbH receive a fixed remuneration which is governed by the statutes of EDAG Engineering GmbH and specified by shareholder resolution. With effect from April 18, 2016 the amount of this fixed remuneration was set to € 0. As of April 18, 2016 the members of the supervisory board of EDAG Engineering GmbH receive an attendance fee in the amount of € 1 thousand per physical participation. An attendance fee in the amount of € 0.5 thousand per physical participation, as well as a fixed remuneration in the amount of € 0 for the business year 2015 and 2016, was set by shareholder resolution for the members of the supervisory board of EDAG Engineering Holding GmbH. For the period from Januar 1, 2016 until December 31, 2016, the total amount of these additional compensations for the membership in the supervisory board of EDAG Engineering GmbH as well as EDAG Engineering Holding GmbH to Thomas Eichelmann, Dr. Michael Hammes and Sylvia Schorr amounted to € 66 thousand.

Based on the above, the total compensation to the members of the Board of Directors for their term of office until December 31, 2016 amounted to € 866 thousand (plus Swiss social insurance contributions, where applicable), of which € 381 thousand being the highest compensation paid to an individual member during that period (For further details see the table "Compensation Board of Directors" below). In accordance with the Articles of Association, the compensation to the Board of Directors for their term of office until the ordinary shareholders' meeting 2017 was already approved by the shareholders' meeting in 2016, and the annual shareholders' meeting 2017 will be asked to approve a maximum aggregate amount of fixed compensation of the members of the Board of Directors for the period from the annual shareholders' meeting in 2017 until the shareholders' meeting in 2018.

Members of the Board of Directors providing consulting services to the Company or other group companies in a function other than as members of the Board of Directors may be compensated in cash according to standard market rates subject to approval by the shareholder's meeting. The Company may indemnify members of the Board of Directors from any damage and other losses incurred by them in connection with any proceedings, disputes and settlements relating to their activity for the EDAG Group and make related advance payments and provide insurance cover.

3 Compensation of the Group Executive Management

Art. 26 of the Articles of Association sets out the principles for the compensation of the members of the Group Executive Management. The compensation of the members of the Group Executive Management shall consist of a fixed compensation and a variable performance and success-based compensation ("**Variable Compensation**"), each payable in cash.

The Variable Compensation is based on the level of achievement of specific pre-defined targets for a one year performance period. The targets may relate to at least 50 percent (i) to financial performance indicators namely turnover, EBIT, distributable profit and up to another 50 percent (ii) to the achievement of special projects as well as other Company related and/or individual target values and also financial key figures. Upon proposal by the Nomination and Compensation Committee, the Board of Directors is responsible for the selection and weighting of target categories.
The level of the Variable Compensation is determined by the Board of Directors for each

member of the Group Executive Management as a percentage of the fixed compensation and may not exceed an amount equal to 100 percent of such compensation. The targets are determined annually for each member of the Group Executive Management at the beginning of the one year performance period by the Board of Directors upon proposal by the Nomination and Compensation Committee.

For the twelve-month period ended December 31, 2016, the fixed and variable compensation for services rendered by the two members of the Group Executive Management for all entities of the EDAG Group amounts to an aggregate of € 918 thousand for the fixed part and € 344 thousand for the variable part, of which € 530 thousand (fixed) and € 172 thousand (variable) apply to Jörg Ohlsen and € 388 thousand (fixed) and € 172 thousand (variable) apply to Jürgen Vogt (all amounts including social insurance contributions).
The above-stated total amounts comprise the compensation for services of the two Group Executive Management members in favor of EDAG Group AG as well as the services rendered by them to other EDAG Group companies from December 1, 2016 until December 31, 2016. They also contain a subsequent billing of variable compensation for the business year 2015 in the amount of € 47 thousand for each member of the Group Executive Management.

The compensation of the Group Executive Management includes any non-cash benefits (including the non-cash benefits from Company cars). It does not contain the aggregated insurance expenses for accidents, legal protection and D&O in the amount of € 151 thousand (2015: € 77 thousand). Moreover, EDAG Group AG did not grant any loans or advances on the members of the Group Executive Management. The present value of the pension provisions for the active Group Executive Management as of December 31, 2016 amounts to € 3,046 thousand (2015: € 2,497 thousand). The current service cost for the pension provisions according to IFRS in 2016 aggregates to € 0 thousand (2015: € 151 thousand).

No equity related securities or options shall be allocated and no additional compensation shall be awarded for activities in companies being directly or indirectly controlled by the Company.

According to art. 12 of the Articles of Association, in 2017 the annual shareholders' meeting will be required to approve (i) the variable compensation of the Group Executive Management for the business year 2016; and (ii) the fixed compensation of the Group Executive Management to be paid for the business year 2018.

4 Relationship with Members of the Board of Directors

Dr. Philippe Weber is a member of the Board of Directors and the managing partner of the law firm Niederer Kraft & Frey AG, Zurich, which acted as Swiss legal counsel for the Company in connection with the initial public offering and provides certain corporate law advice to the Company.

Thomas Eichelmann holds a 7.6 percent share in KINREFD GmbH, which is the sole shareholder of several companies with which our subsidiary EDAG Engineering GmbH concluded purchase and transfer agreements and lease agreements regarding five properties previously owned by EDAG Engineering GmbH. Furthermore, Thomas Eichelmann is a managing director of HORUS Beteiligungs-GmbH which is the general partner of HORUS Vermögensverwaltungs GmbH & Co. KG. HORUS Vermögensverwaltungs GmbH & Co. KG holds a 49.9 percent share in KINREFD GmbH.

Furthermore, on October 14, 2015, EDAG Engineering GmbH concluded a lease agreement with MD 7 Immobilien GmbH for a building and open space at Max-Diamand-Straße 7 in Munich. The lease agreement has a fixed term until October 31, 2031 and the monthly rent amounts to € 54 thousand (€ 56 thousand starting January 1, 2017). EDAG Engineering GmbH used to rent this property from Semper Constantia Immo Invest GmbH, which had sold the property to MD 7 Immobilien GmbH in June 2015. The shareholders of MD 7 Immobilien GmbH are HORUS Vermögensverwaltungs GmbH & Co. KG (with a share of 49.9 percent), Habermann Vermögensverwaltungs GmbH (with a share of 40 percent) and Thomas Eichelmann (with a share of 10.1 percent).

Moreover, on December 21, 2015, EDAG Engineering GmbH concluded a lease agreement with MD 7 BV GmbH for operational equipment at Max-Diamand-Straße 7 in Munich. The lease agreement has a fixed term until October 31, 2031. The monthly rent amounts to € 221.88. The shareholders and the shareholding structures of MD 7 Immobilien GmbH apply equally to MD 7 BV GmbH.

Additionally, on February 23, 2016, EDAG Engineering GmbH concluded a lease agreement with FD 3 Immo GmbH for a building and open space at Reesbergstraße 2 in Fulda. The lease agreement has a fixed term until February 23, 2026 with a monthly rent in the amount of € 9 thousand. The shareholders of FD 3 Immo GmbH are HORUS Vermögensverwaltungs GmbH & Co. KG (with a share of 49.9 percent), Habermann Vermögensverwaltungs GmbH (with a share of 40 percent), Thomas Eichelmann (with a share of 7.6 percent) and Joseph W. Braun (with a share of 2.5 percent).

in € thousand	Fixed compensation	
Board of Directors	**2016**	**2015**
Thomas Eichelmann	**381**	**187**
Chairman of the Board of EDAG Engineering Group AG (in 2015 pro rata) [Chair Nomination and Compensation Committee]	350	29
Chairman of the Board of EDAG Engineering Schweiz Sub-Holding AG (in 2015 pro rata) [Chair Nomination and Compensation Committee]	-	73
Chair Supervisory Board of EDAG Engineering Holding GmbH	2	-
Chair Supervisory Board of EDAG Engineering GmbH	29	85
House rent (in 2015 pro rata)	-	-
Sylvia Schorr	**167**	**74**
Member of the Board of Directors of EDAG Engineering Group AG (in 2015 pro rata) [Member of the Audit Committee]	150	13
Member of the Board of Directors of EDAG Engineering Schweiz Sub-Holding AG (in 2015 pro rata)[Member of the Audit Committee]	-	31
Member Supervisory Board EDAG Engineering Holding GmbH	2	-
Member Supervisory Board EDAG Engineering GmbH	15	30
Dr. Michael Hammes	**168**	**91**
Member of the Board of Directors of EDAG Engineering Group AG (in 2015 pro rata) [Chair of the Audit Committee]	150	13
Member of the Board of Directors of EDAG Engineering Schweiz Sub-Holding AG (in 2015 pro rata)[Chair of the Audit Committee]	-	31
Member Supervisory Board EDAG Engineering Holding GmbH	1	-
Member Supervisory Board EDAG Engineering GmbH	17	47
Dr. Philippe Weber	**150**	**44**
Member of the Board of Directors of EDAG Engineering Group AG (in 2015 pro rata) [Member of the Nomination and Compensation Committee]	150	13
Member of the Board of Directors of EDAG Engineering Schweiz Sub-Holding AG (in 2015 pro rata)[Member of the Nomination and Compensation Committee]	-	31
Legal Services via Nieder Kraft & Frey AG	-	-
Total Board of Directors	**866**	**396**

Table: Compensation Board of Directors

Additional income		Employer social insurance contribution		Total	
2016	2015	2016	2015	2016	2015
303	**69**	**-**	**-**	**684**	**256**
-	-	-	-	350	29
-	-	-	-	-	73
-	-	-	-	2	-
-	-	-	-	29	85
303	69	-	-	303	69
-	**-**	**-**	**-**	**167**	**74**
-	-	-	-	150	13
-	-	-	-	-	31
-	-	-	-	2	-
-	-	-	-	15	30
-	**-**	**9**	**-**	**177**	**91**
-	-	9	-	159	13
-	-	-	-	-	31
-	-	-	-	1	-
-	-	-	-	17	47
27	**85**	**9**	**3**	**186**	**132**
-	-	9	1	159	14
-	-	-	2	-	33
27	85	-	-	27	85
330	**154**	**18**	**3**	**1.214**	**553**

in € thousand	Fixed compensation		Variable compensation	
Group Executive Management	**2016**	**2015**	**2016**	**2015**
Jörg Ohlsen	**500**	**350**	**172**	**225**
Chief Executive Officer EDAG Engineering Group AG	75	6	26	-
Chief Executive Officer EDAG Engineering Schweiz Sub-Holding AG	-	13	-	-
Chief Executive Officer EDAG Engineering GmbH	425	331	146	225
Jürgen Vogt	**351**	**275**	**172**	**188**
Chief Financial Officer EDAG Engineering Group AG	53	4	26	-
Chief Financial Officer EDAG Engineering Schweiz Sub-Holding AG	-	9	-	-
Chief Financial Officer EDAG Engineering GmbH	298	262	146	188
Total Group Executive Management	**851**	**625**	**344**	**413**

[1] Special bonus total: € 1,000 thousand. Thereof already set up as a provision in 2014: € 498 thousand.

Table: Compensation Group Executive Management

Employer social insurance contribution		Non-cash benefit from Company car		Special bonus[1]		Total	
2016	2015	2016	2015	2016	2015	2016	2015
15	**12**	**15**	**16**	**-**	**251**	**702**	**854**
7	1	-	-	-	500	108	507
-	-	-	-	-	-	-	13
8	11	15	16	-	- 249	594	334
24	**23**	**13**	**13**	**-**	**251**	**560**	**750**
6	1	-	-	-	500	85	505
-	-	-	-	-	-	-	9
18	22	13	13	-	- 249	475	236
39	**35**	**28**	**29**	**-**	**502**	**1,262**	**1,604**

SHARES HELD BY BOARD OF DIRECTORS AND GROUP EXECUTIVE MANAGEMENT

As at the respective call date, the individual members of the Board of Directors and Group Executive Management held the following number of shares in EDAG Engineering Group AG.

Number of shares	12/31/2016	12/31/2015
Board of Directors		
Thomas Eichelmann	87,500	87,500
Sylvia Schorr	-	-
Dr. Michael Hammes	-	-
Dr. Philippe Weber	-	-
Total Board of Directors	**87,500**	**87,500**
Group Executive Management		
Jörg Ohlsen	13,157	13,157
Jürgen Vogt	3,631	2,631
Total Group Executive Management	**16,788**	**15,788**

Table: Number of Shares

REPORT OF THE STATUTORY AUDITOR (REMUNERATION REPORT)

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF EDAG ENGINEERING GROUP AG, ARBON

We have audited the accompanying remuneration report of EDAG Engineering Group AG for the year ended 31 December 2016. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables of the remuneration report.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report of EDAG Engineering Group AG for the year ended 31 December 2016 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

PATRICK BALKANYI	ICARE REGNIER
Audit expert	Audit expert
Auditor in charge	

Zurich, 4 April 2017

COMBINED MANAGEMENT REPORT AND JOINT MANAGEMENT REPORT

Since December 2, 2015, EDAG Engineering Group AG, Arbon ("EDAG Group AG") has been listed for trading on the regulated market of the Frankfurt Stock Exchange with concurrent admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard): According to § 37v Abs. 2 No. 2 letter b of the German Securities Trading Law (WpHG), there is an obligation to prepare a management report for the separate financial statement. According to § 315 section 3 of the German Commercial Code (HGB) in conjunction with § 298 section 3 of the German Commercial Code (HGB), a combined management report will be prepared for the individual and consolidated financial statements. With this management report, the requirements set out in §§ 298 and 315 of the German Commercial Code (HGB) have been met.
The consolidated financial statement of EDAG Group AG and its subsidiaries for December 31, 2016 has been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as they are to be applied pursuant to Directive No. 1606/2002 of the European Parliament and Council regarding the application of international accounting standards in the EU. The separate financial statement of EDAG Group AG has been prepared in accordance with Swiss law.

1 Basic Information on the Group

1.1 Business Model

SEGMENTATION

Business is divided up into a number of segments: Vehicle Engineering, Production Solutions and Electrics/Electronics.
Our main focus is on the automobile and commercial vehicle industries.

Three Segments

With the parent Company, EDAG Engineering Group AG, Arbon (Switzerland), the EDAG Group is one of the largest independent engineering partners to the automotive industry, and specializes in the development of vehicles, derivatives, modules and production facilities. Our special know-how, particularly at the largest subsidiary, EDAG Engineering GmbH, is in complete vehicle and module development, and in the guidance and support of customers from the initial idea through to the finished prototype. In addition, BFFT Gesellschaft für Fahrzeugtechnik mbH, one of our subsidiaries, has specialized technical knowledge in the field of electrical and electronic development. EDAG Production Solutions GmbH & Co.KG offers particular expertise in the development of production facilities and their implementation.

Business is divided up into a number of segments: Vehicle Engineering, Production Solutions and Electrics/Electronics. The principle we work on is that of production-optimized solutions.

This means that we always ensure that development results are in line with current production requirements.
Our main focus is on the automobile and commercial vehicle industries. A closely integrated global network of some 60 facilities ensures our customers of our local presence.

Presentation of the Vehicle Engineering Segment

The "Vehicle Engineering" segment consists of services along the vehicle development process as well as responsibility for derivative and complete vehicles. The segment is divided into the following divisions:

Our **Body Engineering** department brings together all of our services such as package & ergonomics, body assembly as well as interior and exterior. This also includes the development of door, cover and lid systems. Further, the Body Engineering department is involved with new technologies and Lightweight Design, as well as commercial vehicle development and the development of car lights such as headlamps, rear and small lamps. Interface management and the management of complex module developments are taking on an increasingly significant role in the projects. Our **Vehicle Integration** department is responsible for the complete functional integration and for vehicle validation. This department employs computer-aided engineering (CAE) to carry out the early validation of products and their properties. In addition to dealing with computation and simulation, the Dimensional Management team works on the reproducibility and geometrical quality of the products. Functionality is validated and durability analyzed on the test equipment and facilities at our certified test laboratories, in readiness for start of production. This includes tests on individual components, modules, engines, motors, transmissions, and even complete vehicles. In the **Design Concepts** department, we offer a full range of styling, ideation and design services, and in our design studios we are able to realize the virtual design validation process and construct physical models for all phases of vehicle engineering. In the associated Testing and Vehicle department, we create complete test vehicles as well as sub-assemblies and vehicle bodies for the physical validation of these modules and systems. The development and production of individual vehicle conversions rounds off the portfolio of this division. This also includes the construction of classic cars, including custom-made spare parts. Complete vehicle development and large-scale interdisciplinary module packages, some of them calling for the involvement of our international subsidiaries, are managed by the **Project Management** division. The **Product Quality & Care** department provides assistance with consulting and support for quality-related matters, as well as services which explain a product and enable it to be used effectively.

VEHICLE ENGINEERING

Among other things, this division offers development in the fields of body in white, interior, exterior and hinged systems.

PRODUCTION SOLUTIONS

This segment handles the development and implementation of production processes.

Presentation of the Production Solutions Segment

The "Production Solutions" segment – operating through the independent Company EDAG Production Solutions GmbH & Co. KG ("EDAG PS"), its international subsidiaries and profit centers – is an all-round engineering partner which accepts responsibility for the development and implementation of production processes at 18 sites in Germany and at international sites in South Korea, India, the Czech Republic, Russia, Hungary, Brazil, Mexico and China. In addition to handling the individual stages in the product creation process and all factory and production systems-related services, Production Solutions are also able to optimally plan complete factories over all fields, including cross processes, and to provide the realization from a single source.

In the field of **Concept Engineering**, Production Solutions provides its customers with an integral approach to process planning. This means that Production Solutions provides companies with factory and production planning support – with both the implementation of new plans and with the conversion, expansion or optimization of existing systems while operation is in progress. By offering support from concept engineering to the preparation of detailed product specifications, it is possible to cover all the steps required for the production process, and to design optimum interfaces with other media, buildings and logistics. In the context of "Simultaneous Engineering", Production Solutions favors an integrative approach, with the product development, systems planning and production simulation divisions all working together to design optimum project interfaces.

In the **Implementation Engineering** department, to guarantee that the functional requirements of body in white facilities are met, Production Solutions use digital factory methods in all production lines: digital, virtual and real-life. To meet customers' requirements, Production Solutions engineers develop realistic 3D simulation cells in which the planning, design and technological concepts are implemented and validated in line with process requirements. Early involvement during the engineering process enables Production Solutions to systematically optimize production processes. This places Production Solutions in a position to develop ideal production concepts for customers.
Productions Solutions' portfolio is also complemented by **"Feynsinn"**, a process consulting and CAx development department. Here, IT-supported sequences and methods are developed, as are software for product design, development, production and marketing. Feynsinn also offers consulting, conceptual and realization services in the field of visualization technologies. Customized training opportunities complete the portfolio.

Presentation of the Electrics/Electronics Segment

The range of services offered by the "Electrics/Electronics" segment includes the development of electrical and electronic systems for the comfort, driver assistance and safety functions of a vehicle, and the development and integration of systems in the fields of Electric Mobility and power distribution. These services are provided by four divisions focusing on the following competencies:

The **E/E Vehicle Engineering** division is responsible for function development in the course of complete vehicle or derivative projects. The range of tasks extends from the concept phase to production support. Further fields of activity include the development of new electronic architectures, and approval, drafting and control activities in the development or integration of physical vehicle electrical systems. Alternative drive systems such as electric or hybrid drives, have a significant influence on the E/E architecture and the vehicle electrical system. The E/E Vehicle Engineering department is dealing more and more with these trends.

The **E/E Systems Engineering** division works on the elaboration and definition of demands on the electrical and electronic systems. It also deals with the integration of several system components (control unit, sensors, actuators) to give a whole system, and with the subsequent validation of the system with regard to function, networking and diagnosis. A further skill is the physical and functional integration of E/E systems in vehicles and their subsequent validation by means of appropriate test procedures. Due to the trend towards partially and highly automated driving, the driver assistance system department is experiencing above-average expansion.

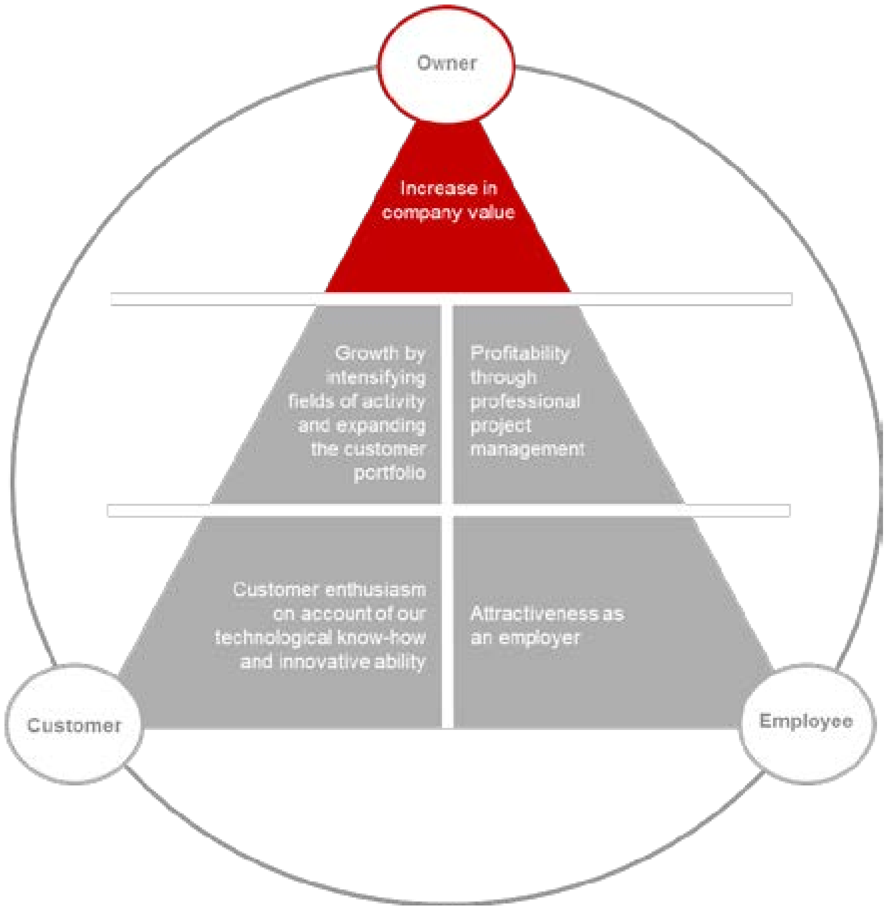
E/E Embedded Systems develops and validates hardware and software for electronic control units, from the conceptual design, through production-ready development, to model set-up and commissioning.

E/E Car IT markets services and software developed in-house as products for the networked mobility industry. The division's range of services also includes development and standardization services and networking advice for vehicle manufacturers, system suppliers and IT companies. Under the brand name trive.me EDAG is developing innovative software solutions and products for the networked mobility of tomorrow, and offering this digital transformation expertise on the market.

ELECTRICS/ELECTRONICS

The Intigration of newe E/E Components and modules and hardware and software development are the services offered by this segment.

1.2 Targets and Strategies



As a capital market-oriented Company, our primary objective is to bring about a sustained increase in EDAG's Company value (market value of equity), i.e. across the different industrial cycles. This is to be achieved by means of a strategy composed of the following four central areas, each with its own operationalizable objectives:

- Growth by intensifying and extending our fields of activity and customer portfolio
- Customer enthusiasm on account of our technological know-how and innovative ability
- Attractiveness as an Employer
- Profitability through professional project and resource management

As interdependencies exist between these areas of activity and their objectives, all measures are applied analogously, and goals pursued simultaneously. We also see strategy as a continual process, and therefore subject any goals we have set to critical scrutiny, adjusting them wherever necessary.

Growth by intensifying and extending our fields of activity and customer portfolio

Our intention is to continue our growth, and remain one of the world's leading engineering service providers for the automotive industry in the future. Over the last few years (2010 to 2014), the market for engineering services underwent an average annual growth of 6.1 percent, and forecasts for the years 2014 to 2020 predict an average annual growth of 6.7 percent during this period. Our aim is, in the medium term, to realize above-average growth by implementing the following measures:

- Development of electrics/electronics competencies: Trends such as Electric Mobility, highly automated driving and connectivity are becoming increasingly important. EDAG is therefore developing its competencies and capacity in the electrics/electronics field, in order to be able to meet market requirements and the increasing demands of our customers in this area.
- Extending existing customer relations: We enjoy close relations, some of which have already existed for several decades, with the major German vehicle manufacturers and suppliers. In the past, it was our flexibility and speed, as well, of course, as the quality of our work that engendered the enthusiasm of our customers and earned us our good reputation. At the same time, the long-standing, intensive cooperation with and close proximity to our customers at home and abroad enabled us to gain a thorough understanding of their requirements. These two aspects and our proactive customer relationship management will also enable us to benefit from the increasing outsourcing of engineering services by our customers in the future.
- Establishing new customer relations: We make active use of our technical know-how, experience and reputation throughout the industry as well as our presence in almost all of the world's automobile development centers to constantly expand our customer portfolio and gain more new customers in the form of ambitious, international technology companies and car manufacturers.
- Increasing our project scope: The major vehicle manufacturers in particular are tending more and more to award complete development packages spanning several fields of engineering to engineering service providers. Key requirements for being able to handle such large projects are the organizational setup, technical competence and adequate capacity to be able to develop complete vehicles and/or their modules and systems. As EDAG meets these requirements, we are convinced that we will be able to profit greatly from awards of

GROWTH OF THE MARKET FOR ENGINEERING SERVICES

Forecasts for the years 2014 to 2020 predict an average annual growth of 6.7 Percent during this period.

REALIZATION OF GROWTH

We focus on six measures to realize this growth
- *Further development of electrics/ electronics skills*
- *Expansion of existing customer relations*
- *Building up new customer relations*
- *Expansion of project volumes*
- *Using our own skills for work contracts*
- *Making use of inorganic growth opportunities*

comprehensive major projects.

- Using our competencies for work contracts: Due to planned legal restrictions on employee leasing, our customers almost always place orders on the basis of work contracts, and allow contracts for leased staff to expire. As a result, engineering service providers must now arrange for in-house office space for and the technical organization of their employees. However, as EDAG has always worked exclusively on the basis of work contracts, and already has engineering offices in in the direct vicinity of almost all the major vehicle manufacturers' engineering centers, we are confident that we will be able to make use of this trend to strengthen our market position.
- Using inorganic growth opportunities: Our measures for strengthening our market position focus on organic growth. Nevertheless, we will still carefully check any opportunities of acquiring competitors that might arise in the expected consolidation process of our industry.

Customer enthusiasm on account of our technological know-how and innovative ability

Our intention is to continue to be a sought-after and acknowledged know-how and technology partner to the automotive industry in the field of product and production development in the future; one that is capable of handling increasingly technologically challenging and pre-competitive projects for our customers. We closely follow and support our customers in the transformation process to E/E and IT services. The keys to this are our technological expertise and our innovative ability – two aspects that set us apart from our competitors and motivate our customers to work with us. Our aim therefore is to master state of the art technology, to identify and quickly develop competencies ahead of the competition, and to place these skills at the service of our customers:

- Bundling know-how in competence centers: The know-how relating to innovative matters is pooled together in inter-divisional competence centers to which every department in the EDAG Group has access. As a result, know-how is increased and broad access to state of the art technology made possible. There are currently four competence centers in existence, each with its own focus:
  - Lightweight Design, Materials & Technologies
  - Lighting Technology
  - Electric Mobility
  - Integral Safety
- Know-how networks: In order to be able to continually develop and keep our technical experts' knowledge of important engineering disciplines up-to-date, we have established know-how networks with universities, research institutes, technology start-ups and

experts, and are constantly expanding them.

- Realization of our own technology projects: Again and again, our ability to develop complete vehicles enables us to successfully accomplish the cross-divisional handling of major projects. This interdisciplinary cooperation is an important driver for innovation and the application of new technologies. In our own in-house technology projects, for instance with the scalable electric platform LightCar technology carrier in 2010, or the "EDAG Light Cocoon" in 2015, we demonstrate our innovative abilities and our ability to identify customer requirements and trends, and then strategically align our service portfolio to these.
- Education and training of our employees: When it comes down to it, innovation and engineering performance take place in the heads of our engineers, and our technological know-how is ultimately the know-how contributed by our employees. Besides the transfer of knowledge, project and engineering know-how from "experienced" to "young" engineers, we also offer a wide range of in-house training and education programs such as dual apprenticeships and study courses, as well as numerous training courses and workshops.

TECHNOLOGICAL FOCUS

We focus on four measures to guarantee our own innovative strength

– Bundling of know-how in competence centers
– Expansion of know-how networks
– Own technology projects
– Staff development

Attractiveness as an Employer

Our intention is to continue to be a sought-after employer for engineers, because well educated, experienced and committed employees are our central resource for the provision of top quality services. The following measures in particular are aimed at maintaining and increasing out attractiveness as an employer:

- Intensification of the recruiting process: Due to the fierce competition for well qualified engineers, we already present ourselves as an attractive employer in the recruiting process. To this end, we employ not only the classic recruiting channels such as online job markets, job fairs and our own careers website, but are also making increasing use of alternative methods, such as social media recruiting and active sourcing at universities offering engineering, mathematics and science courses. We will be intensifying our activities in this area, and are particularly keen to interest women in EDAG.
- Continuation of staff training: As a result of the "war for talent" on the graduate market, EDAG some time ago decided to take staff training into its own hands. By offering a number of apprenticeships and dual study courses, we offer school leavers training opportunities with a strong practical emphasis and the chance of permanent employment following their training.
- Investment in staff training: To guarantee our technological competence and innovative ability, it is essential that our employees keep their knowledge up-to-date and continue to

EDAG AS AN ATTRACTIVE EMPLOYER

We apply various measures to guarantee our attractiveness

– Intensification of multi-channel recruitment
– Staff training
– Staff development
– Optimum working environment
– Early assumption of responsibility
– Variety in project business

develop their skills. For this reason, we will continue to provide extensive training opportunities as an investment in the know-how of EDAG employees, which at the same time will also increase their value on the labor market.

- Optimization of the working environment: Motivated employees are committed employees. As the working environment has a substantial influence on motivation, we constantly endeavor to provide our employees with an optimum working environment. This includes modern workplaces that comply with the latest ergonomic requirements, flexible working hours and development of home office and child care facilities.
- Motivation through responsibility: For EDAG, another central motivating factor is the early transfer of responsibility to suitable employees. Creating scope for decision making promotes creativity, which in turn contributes to innovation – a skill that is extremely important to EDAG.
- Motivation through change: EDAG is involved in project business, which means that we can offer our employees new challenges with every new project we begin. Change is therefore guaranteed, and in addition encouraged by offering employees the opportunity to temporarily switch to another division or department in the Company, if they are interested in such a move.

Profitability through professional project and resource management

Our strategic aim of achieving further growth is inextricably linked with the premise that this will be done in a profitable way. Only if the Company is profitable we can rise above our competitors and continue to offer our customers outstanding services, guarantee our employees' jobs and offer our owners an appropriate return on the capital they have invested. In 2016, our adjusted EBIT margin stood at 6.1 percent. Our aim is to further improve our profitability. To this end, our intention is to continually optimize the efficient handling of our projects, and we will be paying particular attention to the following aspects:

SAFEGUARDING PROFITABILITY

Several measures are employed to help us improve profitability

- *Systematic capacity management*
- *Operative flexibility through high-performance IT hardware and software*
- *Administrative support for the productive technical departments*
- *Continual process improvement*

- Systematic capacity management: Our time recording system provides us with an exact, up-to-date indication of utilization levels of our engineering resources. Insufficient capacity can therefore quickly be compensated for by free capacity somewhere else, and under-utilization kept to a minimum.
- Operative flexibility: High-performance IT hardware and software and high transfer capacity data networks – for transfers between our own branches and also with customers' offices – facilitate efficient, virtual cooperation, which significantly reduces traveling time and expenses. At the same time, our powerful network of locations enables us to break work orders down into packages and have these handled by the branch with the best

cost/performance ratio.

- Our productive departments are supported by a number of overhead functions – in particular controlling, accounting, tax, treasury, quality management, HR and IT. This adds to the professionalism of our goods and services, and relieves our technical departments of the burden of administrative work. Growth results in economies of scale in these areas.
- Continual process improvement: In both our productive and our overhead areas, we draw on tried and tested processes. Nevertheless – in particular as a result of new developments in the IT world – we frequently find indicators for ways of improving processes, and thus increasing their efficiency. In the future, too, we will continue to make systematic use of such indicators.

1.3 Internal Management System

A responsible Company management that has the aim of achieving a sustainable increase in the Company's value calls for the use of a control system. The management of the individual companies is subject to the same principles as the Group, and is based on IFRS standards as applied in the EU.

To this end, EDAG has also drawn up group-internal regulations for the handling of compliance and risk management, and defined financial and non-financial performance figures which display the value system, performance and success of the Company. In the following, first the management process is explained, and then the key performance figures of the EDAG Group.

The starting point for controlling the EDAG Group is the annually prepared budget and medium-term planning. This serves to illustrate and safeguard defined targets and long-term strategies from both a technical and an economical point of view. This involves identifying developments on the market and in the segment, then taking these as the basis for assessing anticipated new order volumes from which a sales revenue and earnings plan is derived. Further integrated components are the staff, investment and financial planning based on this.

The budget in the first year is planned across individual months, and is binding. Every month, this budget is compared with the actual figures realized, and any deviations analyzed. If necessary, plans of action are drawn up to safeguard the budgeted targets. While taking the actual values that have already been realized, current estimates for the remainder of the year and any chances and risks reported into account, the projection for the current financial year is adjusted in a forecast. The validity and attainability of the operative targets for the current financial year are therefore at the center of ongoing controlling operations.

To implement the control process at EDAG, the following central key performance figures have been defined on the basis of figures in accordance with IFRS:

- Total sales revenue and changes in inventories
- (Adjusted) EBIT and (adjusted) EBIT margin[1]

Sales revenues and changes in inventories are the financial reflection of our market success. The adjusted EBIT, i.e. earnings before tax and interest and adjusted for special effects, is indicative of the economic success of our Company, and is the Group's central management parameter. The EBIT margin is calculated from the relationship between the operating profit (EBIT) and sales revenues and changes in inventories, and helps to compare the performance of the segments, subsidiaries, technical divisions and profit centers.

Alongside the central key performance figures, the following performance figures are also analyzed:

- Incoming orders/orders on hand
- Number of employees
- Productivity/capacity utilization
- Investments

The incoming orders and orders on hand serve as early indicators for changing market requirements and demand patterns. They are indicative of the anticipated sales revenues for the following quarter. The number of employees is a measured variable for the achievement of growth targets. It is important here to keep a watch not only on the number of new appointments to the technical divisions and subsidiaries, but also on fluctuation. Productivity is defined as the quotient obtained when the hours worked on customer projects is divided by the available working hours of our employees. As it highlights utilization peaks and free capacity, it is an important element for managing our technical divisions and group-wide resources. The EDAG Group makes targeted investments to safeguard its innovative strength and capacity to compete. Every month, reports are presented comparing their development with the plans, and adherence to the budget is monitored.

[1] For the defintion see page 194 " [8] Reconciliation of the Adjusted Operating Profit (Adjusted EBIT)".

1.4 Research and Development (Innovation)

Overview

Research and development is per se a definition of the business activities of EDAG. In 2016, the Company's integrated portfolio of services and skills relating to the development of vehicles, modules and production facilities, from concept to start of production, enabled EDAG once again to successfully participate in the ongoing trend of the global model and technology initiatives launched by the leading vehicle manufacturers. The strategic advancement of market-relevant technological subjects and the continual development of pre-competitive competencies and engineering activities in the three segments – EDAG Vehicle Engineering, EDAG Electrics/Electronics and EDAG Production Solutions – were the focus of the Company's innovation strategy and Company management during the reporting year.

Technological developments in cooperative pilot projects and demonstrators permits local and intensive exchange with the community. Through trade fairs and association work, we ensure that research and development is carried out in technologically and socially relevant fields, to guarantee technological leadership.

In its pre-competitive and service-independent research and development, EDAG continued to develop the future-oriented areas of "Lightweight Design, Materials and Technologies", "Lighting Technologies" and "Electric Mobility" by expanding the respective competence centers (CC) and corresponding research and development projects. "Lighting Technology" and "Integral Safety" competence centers are currently being established, to accommodate the increase in vehicle networking and autonomization.

Furthermore, the former "Car IT" competence centre was transformed into an independent start-up – "trive.me" – in the Electrics/Electronics department, because an expansion of the workforce and a separate business model are possible in this innovative field.

In the reporting year, research and development expenses amounted to € 3,302 thousand (2015: € 2,917 thousand). In addition, development costs in the amount of € 2,310 thousand (2015: construction in progress, € 865 thousand) were activated.

AREAS OF INNOVATION

We are continuing our innovation strategy by focusing on "Lightweight Design", "Materials and Technology", "Lighting Technology", "Electric Mobility" and, in the future, will also be adding "Integral Safety".

The start-up "trive.me" enables the "Car IT" and Electrics/Electronics divisions to set up a business model of their own and expand the workforce.

CC for Lightweight Design, Materials and Technologies

LIGHTWEIGHT DESIGN

Only a very few engineering partners such as EDAG are able to assess the cost and usefulness of innovative lightweight solutions in accordance with the interests of the vehicle manufacturers.

The car of the future will have to meet new requirements. To facilitate optimum fleet consumption and cut CO_2-emissions, vehicle bodies will be required to weigh less, possess a high degree of rigidity for better handling, and meet the requirements of demanding crash load cases. Thanks especially to intelligent Lightweight Design in hybrid construction, vehicles can weigh around 100 kg less than their predecessors, depending on which segment they belong to. In addition, weight savings of a further 10 – 20 percent are possible in the vehicle body and add-on parts.

With the support of EDAG and other experts, many manufacturers have already succeeded in bringing about a weight reduction. In the mass production of automobiles, however, Lightweight Design is always also subject to the condition that manufacturing costs should be acceptable. Only a very few independent engineering partners such as EDAG can make an economical cost-effectiveness assessment of innovative Lightweight Design solutions, and thus act in the interests of the OEMs and leading suppliers. EDAG has repeatedly identified promising technological approaches and accompanied them through research and development up to the demonstrator, so as to perhaps gradually, starting with low quantities, bring these designs into series production.

CC for Electric Mobility

ELECTRIC MOBILITY

We have established our position as technology experts with all manufacturers and system suppliers, and can already look back on a number of successful projects dealing with the development of electric vehicles. The aim of this EDAG field of technology is to be able to guarantee a fully integrated concept for the development of electric vehicles.

The Electric Mobility theme in 2016 was "transformation". Alongside of the electrification of vehicles and the new mobility services business field, more and more attention is being focused on agile development methods, so as to be able to react more quickly to market requirements. EDAG has already made use of these methods in many projects, and integrated them as standard tools in the EDAG development process.

The trend towards the electrification of vehicles turned into a separate electric vehicle segment during the last year. In this segment, EDAG has established its position as a technology expert with all manufacturers and system suppliers, and can already look back on a number of successful projects dealing with the development of electric vehicles.

Last year, EDAG invested in technological trends in energy management, new E/E architectures and the networking of electric-powered vehicles, and is continuing to develop its competencies in these fields. Our aim is to guarantee a fully integrated concept for the development of electric vehicles.

CC for Lighting Technology

Not only does the LED backlighting of the Light Cocoon concept car make the structure of the Cocoon visible; in fact it transforms the vehicle into a screen. The look is no longer static. The customer can change the appearance of his car at any time, and select the color of his choice. The variable light design is in line with consumer requirements for greater individuality. In 2015 EDAG had already developed a first fully functional, ready-for-approval "personalized headlamp" with individualized daytime running light for small series (GenLight). The headlamp demonstrates how additive manufacturing potential can be used in the field of "Lighting Technology". An additional attribute is the ability to further increase the luminous power of the LEDs used by means of active/passive cooling.

LIGHTING TECHNOLOGY

Our "personalized headlamp" demonstrates the potential of additive manufacturing in this vehicle domain.

CC for Integral Safety

The new Competence Center for "Integral Safety", which was founded in 2016, addresses active safety and driver assistance functions. To this end, EDAG's long-standing competencies in passive vehicle safety, chassis control systems and the E/E domain of "driver assistance and safety systems" have undergone interdisciplinary bundling. Since its foundation, strong support has been given to the establishment of a partner network.

This subject has also received marketing support through the publishing of technical art. and attendance at special events. An appreciable number of enquiries are already being received from customers who had not previously been identified, and some of these have already been booked as incoming orders.

INTEGRAL SAFETY

With this field of technology, we address "active safety" and "driver assistance functions".

Car IT Start-up: trive.me

In the automotive industry, 2016 was given over entirely to the digitization of both processes and products. This initiated a trend which seriously calls the automotive industry's present business models into question, and therefore marks the starting point for far-reaching organizational changes.

New business models also require new models for cooperation. Vehicle manufacturers and suppliers are intensifying cooperation with start-ups and companies from the IT sector, in order to initiate necessary changes in development processes.

With the founding of the independent brand trive.me, EDAG is following this trend and providing vehicle manufacturers in the agile development environment with appropriate solutions in the fields of innovation management, own products and services (mobile app development front end, rear end development, integration of applications and services into the vehicle).

TRIVE.ME AS A START-UP IN THE FIELD OF CAR IT

With trive.me, an independent brand was created, to accommodate new requirements and new business models in the car IT environment.

For EDAG's vehicle manufacturing and supplier customers, this results in the following picture: systematic technology scouting means that innovations in the mobility environment are being constantly sought and assessed – interesting innovations are further developed and marketed as independent products – downstream, the competence built up with the product development is positioned as know-how in the service field. The products serve as references. The portfolio is also successively offered to customers in other fields.

With "trive.me", the Electric/Electronic division has become an all-round provider in the strategic "networked vehicle" and "automated driving" business segments, and, with its own products, offers a basis for the systematic development of skills in in the fields of networked vehicles and autonomous driving.

Technical Experts at EDAG Production Solutions

DEVELOPMENT IN THE PRODUCTION TECHNOLOGY FIELD

We are concentrating our technological focus on digital twins and the smart factory – i.e. on the close interlinking of mechanical, electrical and IT processes. Another technology we are pursuing and actively helping to shape is additive manufacturing.

Under the heading "digitization", EDAG PS essentially addresses two subjects, Digital Twin (digital factory) and Smart Factory (real factory). Digital factory concepts, which the Company has actively implemented and helped to shape since the 1990s, pave the way to mechatronic engineering, i.e. the close (simultaneous) interlinking of mechanical, electrical and IT processes. The workflow developed in this way offers completely new potential for dispersed project handling and the cooperation of individual technical disciplines in a project. Meanwhile, the focus of innovative planning projects is shifting increasingly towards the field of modular factory structures, which, especially with a view to shorter model life cycles, the growing number of derivatives and a resulting reduction in lot sizes, are becoming more and more important.

Smart Factory development activities, especially those carried out jointly with customers, concentrate on such areas as the paperless factory and proactive, predictive maintenance. In both cases, the focus is on the skillful preparation of data which is then used to increase efficiency in maintenance and repair work, either as a simple source of information (e.g. Smart Watch for maintenance personnel) or proactively, by remedying problems before their effects come to bear (predictive maintenance).

"Additive manufacturing" is a promising technology, the use of which is currently being considered, checked and implemented in many areas of production. EDAG PS concerns itself with influence on the development of components in the production equipment environment, and with the development of production systems.

New Battery Development Center in Berlin

Electric Mobility in all of its facets and the related necessity for the electrification of cars is a key aspect of current and future vehicle development. With BFFT Fahrzeugtechnik GmbH, the EDAG Group is in possession of very specific technical skills in this field. In order to do justice to future requirements, a decision was made to bundle and strategically expand these skills within the entire Group.

In the new battery development center in Berlin, work is currently being carried out to create conditions needed to develop, construct and validate energy storage systems at this site.

This is a reaction on the part of the EDAG Group to market changes and customer requirements, and one which puts the Company in a position to develop components for electric vehicles. In the future, this will play a crucial role in the development of complete vehicles with alternative drive concepts.

Concept Cars

The product "automobile" is on the verge of its next revolution. Aside from the increasing importance of alternative drive systems, digitization is set to become a new megatrend in the industry. EDAG's development specialists, too, expect to see the seamless integration of the car into the digital world of the driver. EDAG and Bosch worked together on a joint project to develop the "EDAG Soulmate", for the first time ever turning their vision of "connected mobility" into reality.

At the same time, the "EDAG Soulmate", which was first presented at the Geneva Motor Show 2016, is an appeal for a new form of lightweight automobile design, as it uses revolutionary technologies from the field of industrial 3D printing or "additive manufacturing" and impressive use cases relating to highly automated driving and the human-machine interface created in mutual cooperation with Bosch.

The vehicle's interior is an impressive example of the options that will be available on board a networked car in the near future, and shows how the connection between the driver and his vehicle will change. In the interior of the "Soulmate", Bosch have transformed the entire instrument panel, including the centre console, into an electronic display. Its contents adapt not only to the vehicle's current environment, but also to the driver's calendar and personal preferences. If, for instance, an appointment should be canceled, the vehicle automatically adjusts the route – to a road where automated driving is allowed, for instance, to give the driver more free time. Thanks to the Bosch system, the driver also has constant access to his smart home functions via the "Internet of Things".

EDAG SOULMATE

"EDAG Soulmate", a concept car constructed in a joint project, is an example of the options that will be available on board a networked car in the near future, and shows how the connection between the driver and his vehicle will change.

The networked infotainment navigates the driver not just through the traffic, but also through the tasks of the entire day. Soulmate permits fully integrated access to online services and smartphone apps.

The concept of highly flexible, variant-intensive "on demand" production inspired EDAG to develop a highly flexible concept for the front end of a commercial vehicle. EDAG and Georg Fischer Automotive joined forces at the 2016 IAA for Commercial Vehicles, and with their demonstrator gave a graphic representation of a clever, almost weight-neutral method of integrating an independent wheel suspension.

Bridging technology consisting of large cast nodes and longitudinal and cross members with rolled profiles makes prompt implementation possible. Both technologies are tried and tested and so capable of being quickly transferred into the series. The charm lies in the connection of the two systems and their load-dependent modular design. This makes it very easy to depart from the traditional ladder frame: developed in cooperation with Georg Fischer Automotive AG, the new system provides significantly more installation space in the front end and its modular design makes it so versatile that frame concepts can be flexibly and economically adapted to meet diverse needs: for long-distance transport (with independent wheel suspension), construction vehicles (with leaf springs), and the specific requirements of public transport.

2 Financial Report

2.1 Macroeconomic and Industry-Specific Conditions

Basic Conditions and Overall Economic Development

According to forecasts made by the International Monetary Fund (IMF), the world economy exhibited 3.1 percent growth in 2016, as it did in the previous year. Moderate growth in the developed economies was countered by a decrease in the growth rates in the developing countries and emerging markets.

The eurozone's growth rate in 2016 was 1.7 percent, following 2 percent in the previous year. The German economy grew by 1.7 percent last year, slightly more than in the previous year. Economic performance in the USA increased by 1.6 percent, in Japan by 0.9 percent. At 6.7 percent and 6.6. percent respectively, the growth rate in China and India was significantly higher. There was a downturn in economic activities in Russia (-0.6 percent) and Brazil (-3.5 percent).

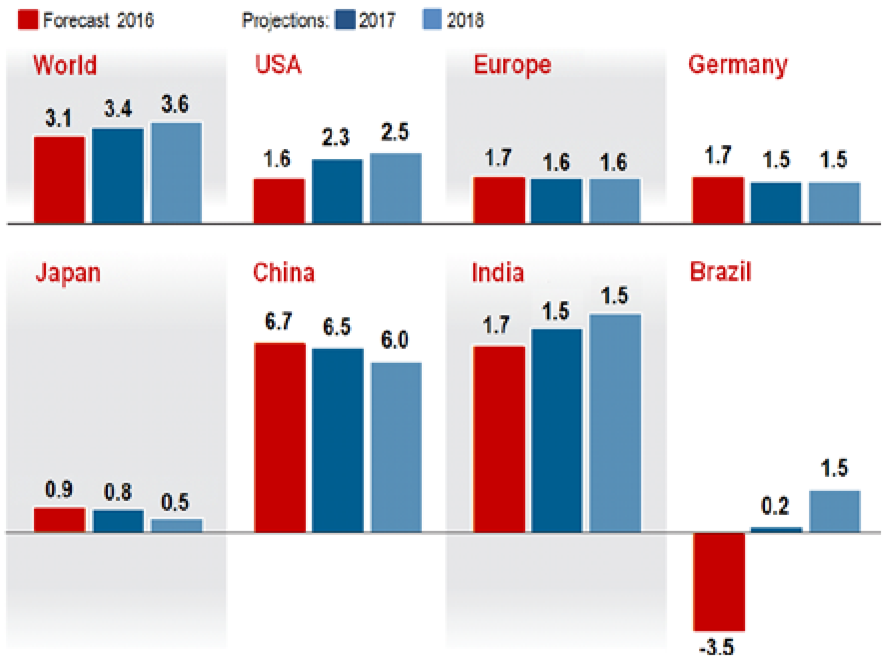
2016 was overshadowed by geopolitical risks (the Ukraine, the Middle East and Brexit), a slow-down in growth in China, and reductions in a number of commodity prices. Despite the continuing existence of geopolitical risks, global economic growth is expected to pick up pace in 2017 and 2018.

MACROECONOMIC DATA FOR 2016

Global economic growth 3.1 percent
Euro area growth: 1.7 percent
German growth: 1.7 percent

Growth Forecast 2016/2017

Change of gross domestic product in percent



Source: IWF/WEO, taken from financial paper dated January 17, 2017

Automotive Industry Development

The VDA (Association of the German Automotive Industry) forecast sales of a total of 82.9 million new vehicles for the year just ended, some 6 percent more than in the previous year. As in the previous year, the largest auto market was China. 23.7 million units were sold there – a growth of some 18 percent compared to the previous year. The United States recorded a moderate increase in vehicles sold to 17.5 million units (+0.4 percent). Sales in Western Europe increased by 6 percent. In Japan, Russia and Brazil, however, sales declined. Growth rates of some 3 percent are anticipated for 2017.

Sale of passenger cars in thousands	2015	Forecast 2016	Forecast 2017
West Europe (EU15 + EFTA)	13,201	13,974	14,106
new EU states (EU13 without Malta)	1,001	1,160	1,232
Russia*	1,602	1,426	1,497
USA*	17,396	17,465	17,508
Mexico*	1,351	1,602	1,682
Brazil*	2,481	1,989	1,989
China	20,111	23,694	24,879
India	2,772	2,966	3,233
Japan	4,216	4,146	4,188
World	**78,228**	**82,880**	**84,966**

** including but not limited to America and Russia, incl. light trucks/light commercial vehicles (up to 3.5 t)*

Source: VDA, Konjunktur und Absatzmärkte (Economy and Sales Markets) dated February 3, 2017

Development of the Engineering Market

The rapid technological development of the vehicle and its development process continues to stimulate the market for engineering services. The volume of engineering services externally awarded by the automotive OEMs and their suppliers will continue to increase in the future. Studies anticipate an average annual global growth rate of 6.7 percent for the period until 2020. According to a study by A.T. Kearney[2], Market Assessment Engineering Service Provider Automotive 2020, August 2015, this means an increase in market volume from € 15.3 billion in 2014 to an estimated € 22.6 billion in 2020. At 8 percent, it is estimated that growth in China will be slightly higher than in other countries. In Europe, an increase of 7 percent to € 9.7 billion is expected. This means that Europe represents some 42.9 percent of the global market volume.

[2] *A.T. Kearney, Market Assessment Engineering Service Provider Automotive 2020, August 2015*

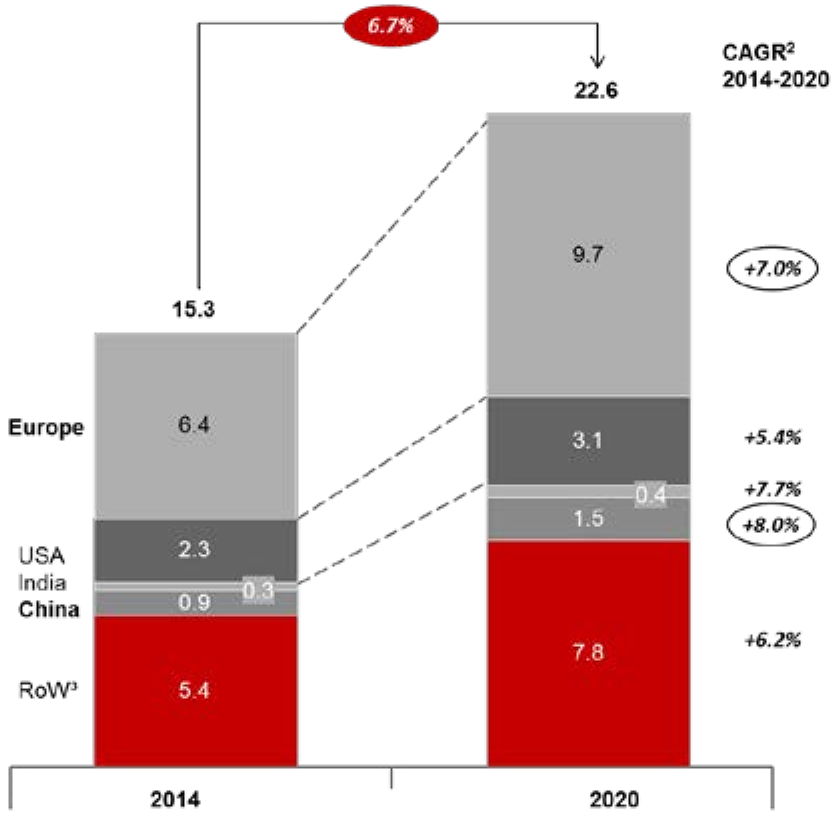
ENGINEERING MARKET DATA

- *Global growth rate: 6.7 percent per annum*
- *European growth: 7 percent*
- *There are signs of a tendency towards a shift in the r&d budgets of major OEMs*

In addition, there is a tendency towards a shift in the R&D budgets of major OEMs towards subjects such as driver assistance systems, autonomous driving, digitization and Electric Mobility. This type of development can involve both risks and opportunities for the engineering service market.

Expected Global Growth (2014-2020)

Automotive engineering service provider market by region (in € billion)[1]



[1] Automotive engineering service market including commercial vehicles, automobiles and suppliers

[2] Compound annual growth rate

[3] RoW: Rest of World

Source: A.T. Kearney, Market Assessment Engineering Service Provider Automotive 2020, August 2015

2.2 Financial Performance, Cash Flows and Financial Position of the EDAG Group in accordance with IFRS

Financial Performance

Development of the EDAG Group

For the financial year 2016, the EDAG Group generated incoming orders amounting to € 744.9 million, which compared to the previous year (€ 731.4 million), represents an increase of € 13.6 million.

At € 714.9 million, the sales revenues and changes in inventories decreased by € 7.1 million or 1 percent compared to the same period in the previous year (2015: € 722.0 million). As of December 31, 2016, orders on hand amounted to € 318.9 million, compared to € 287.3 million as of December 31, 2015.

Compared to the previous year, the EBIT decreased by € 22.4 million to € 37.8 million (2015: € 60.2 million). This means that an EBIT margin of 5.3 percent was achieved (2015: 8.3 percent). Adjusted for the depreciation, amortization and impairments from the purchase price allocations of the previous financial years and special effects and further restructuring expenses in connection with the fusion of EDAG and Rücker in 2014, that were recorded in the reporting period, the adjusted EBIT figure was € 43.8 million (2015: € 72.6 million), which is equivalent to an adjusted EBIT margin of 6.1 percent (2015: 10.1 percent).

Overall, business development was unsatisfactory in the financial year just ended. The reason for the reduction in sales revenues and changes in inventories and in the EBIT margin is the difficult engineering service market environment. This results in increasing price pressure on the one hand, and in delays in awarding contracts with difficult supplementary negotiations with customers on the other, and led to lower productivity in the reporting period compared to the same period in the previous year. As a consequence of this difficult market environment, it proved impossible during the reporting period to achieve the executive management´s predicitons of 7 to 10 percent growth in sales revenues and changes in inventories and modearte increase in the adjusted EBIT.

The materials expenses decreased by 0.9 percent to € 99.1 million. At 13.9 percent, the materials expenses ratio was at the same as previous year (2015: 13.9 percent).
The EDAG Group's personnel expenses increased by € 7.8 million or 1.8 percent to € 454.9

DATA ON THE RESULTS OF THE EDAG GROUP

Incoming orders: € 744.9 million
Sales revenues and changes in inventories: € 714,9 million
Orders on hand: € 318.9 million
Adjusted EBIT margin: 6.1 percent

million compared to the same period in the previous year. As of December 31, 2016, the Company had a workforce of 8,270 employees, including apprentices (12/31/2015: 8,139 employees).
The ratio of personnel expenses in relation to sales revenues and changes in inventories, which stood at 63.6 percent, increased considerably compared with the same period in the previous year (2015: 61.9 percent). The reasons for this increase are lower productivity due to changes in market conditions on the one hand, and increased employee capacity for the performance of an equivalent service on the other. Further, the Board of Directors approved measures for capacity adjustment in August 2016, which had an impact on the personnel expenses.

Depreciation, amortization and impairments totaled € 27.7 million (2015: € 25.6 million). The ratio for other expenses in relation to sales revenues and changes in inventories was 15.7 percent and thus slightly above last year's level (2015: 15.1 percent).

In the year just ended, the financial result was € -9.1 million (2015: € -6.8 million), a drop of € 2.2 million compared with the same period in the previous year. One significant effect was a decline in the results of investments accounted for using the equity method compared with the same period in the previous year. Lower interest charges were almost completely compensated for by interest expenses.

Development of the "Vehicle Engineering" Segment

VEHICLE ENGINEERING DATA

Sales revenues and changes in inventories:
€ 454.3 million
EBIT: € 23.4 million

With a value of € 482.6 million, incoming orders in the past financial year increased by 4.4 percent over the previous year (2015: € 462.2 million). Sales revenues and changes in inventories decreased by 0.2 percent to € 454.3 million (2015: € 455.0 million). All in all, an EBIT of € 23.4 million was achieved for the Vehicle Engineering segment in 2016 (2015: € 40.3 million). The EBIT margin amounted to 5.2 percent (2015: 8.9 percent). Without the effects from the purchase price allocations, this resulted in an adjusted EBIT margin of 6.2 percent (2015: 10 percent). The deviation in the results compared to the same period in the previous year is due to the generally difficult engineering service market environment, and in particular to a reduction in project margins in the Design Concepts segment and short time being worked by some employees in the Body Engineering division at the Osnabrück and Wolfsburg branches.

Development of the "Production Solutions" Segment

In this segment, incoming orders increased by € 3.8 million over the previous year to € 119.6 million (2015: € 115.8 million), which represents an increase of 3.3 percent. Sales revenues and changes in inventories decreased by 1.2 percent to € 118.4 million (2015: € 119.8 million). Overall, an EBIT of € 11.6 million (2015: € 15.5 million) was generated for the Production Solutions segment in 2016. Although there is also price pressure in the market in this segment, capacity utilization remains at a high level. At 10 percent, therefore, the adjusted EBIT margin is below the previous year's outstanding level (2015: 13.1 percent).

PRODUCTION SOLUTIONS DATA

Sales revenues and changes in inventories: € 118.4 million
EBIT: € 11.6 million

Development of the "Electrics/Electronics" Segment

Incoming orders decreased by € 20.3 million to € 154.1 million compared to the same period in the previous year (2015: € 174.5 million). Sales revenues and changes in inventories decreased by € 6.6 million or 4.2 percent to € 152.3 million (2015: € 158.9 million). The EBIT stood at € 2.6 million (2015: € 9.9 million). At 1.7 percent, the EBIT margin is well below the previous year's level (2015: 6.2 percent). Without the effects from the purchase price allocations, this resulted in an adjusted EBIT margin of 2.8 percent (2015: 7.3 percent). The negative effects on the EBIT margin described in "Development of the EDAG Group" were felt particularly strongly in this segment. Further reasons for the unsatisfactory EBIT margin are the loss or cancellation of additional order values previously confirmed by customers.

ELECTRICS/ELECTRONICS DATA

Sales revenues and changes in inventories: € 152.3 million
EBIT: € 2.6 million

Cash Flows and Financial Position

Compared to December 31, 2015, the EDAG Group's statement of financial position total decreased by € 45.1 million or 9.5 percent to € 430.4 million. Non-current assets decreased by € 3.7 million, primarily due to the reclassification of a property. At the same time, the assets being held for sale increased by € 3.4 million. In the current assets, there was an increase of € 13.3 million in current accounts receivable and other receivables of € 2.3 million in other receivables. This was countered by a decrease in receivables from construction contracts in the amount of € 6.4 million and a reduction in the cash and cash-equivalents in the amount of € 51.6 million. The reasons for this were the dividend payout of € 18.8 million, gross investments of € 27.9 million, and the repayment of a loan to ATON Group Finance GmbH (including interest) in the amount of € 52.5 million.

On the equity, liabilities and provisions side, equity decreased by € 2.5 million to € 152.8 million, and the quota is now approximately 35.5 percent (12/31/2015: 32.6 percent). This decrease is primarily due to the dividend payout to the shareholders in the amount of € 18.8 million, and to the decrease in the profits and losses recognized directly in equity resulting from a decrease in the actuarial interest rate in the amount of € 2.2 million. The opposite

DATA ON THE FINANCIAL POSITION OF THE EDAG GROUP

Statement of financial position total: € 430.4 million
Equity: € 152.8 million
Equity ratio: 35.5 percent

effect was had by current profits totaling € 18.1 million.

Non-current liabilities and provisions decreased by € 44.8 million from € 171.1 million on December 31, 2015 to € 126.3 million on December 31, 2016. A decisive factor here was the repayment of a loan to ATON Group Finance GmbH (excluding interest) in the amount of € 46 million and a reduction of the deferred tax liabilities in the amount of € 2.5 million. In contrast, as a result of the effects of the adjustment of the actuarial interest rate, pension provisions were increased by € 5.0 million.

Current liabilities increased by € 2.1 million from € 151.4 million on December 31, 2015 to € 152.9 million; this was primarily due to an increase of € 5.4 million in the reported future liabilities from construction contracts, compared to December 31, 2015.

A positive operating cash flow of € 51.8 million was achieved in the reporting year (2015: € 27.6 million). The reason for the positive development is that there was a substantial build-up of working capital in the previous year, which was marked by strong corporate growth. There was no such change in working capital during the reporting year.

At € 27.9 million, gross investments in the reporting year were some € 7.9 percent below the previous year's level (2015: € 30.3 million). Deposits from disposals of tangible fixed assets totaling € 1.2 million resulted from the receipt of payments for a building sold in the reporting year.

On the reporting date, unused lines of credit in the amount of € 98.4 million exist in the Group. The Executive Management regards the overall economic situation of the EDAG Group as good. With an equity ratio of 35.5 percent, the Company has a sound financial basis, and was able to fulfil its payment obligations at all times throughout the reporting year.

2.3 Financial Performance, Cash Flows and Financial Position of EDAG Engineering Group AG in accordance with the Swiss Code of Obligations (OR)

Financial Performance

According to the Company's statutes, the Company's objective is the holding and administration of domestic and foreign investments. The Company performs no operative business activities, and thus generates no sales revenues from operative business (holding privilege).

The salaries of the Executive Management, Board of Directors and administrative employees, which total € 1.3 million (2015: € 1.6 million), are listed under the personnel expenses of EDAG Group AG. In the previous year, one-off personnel expenses (IPO[3] special bonus payments) in the amount of € 1.5 million for the members of the Executive Management of EDAG Engineering GmbH, Wiesbaden, which was initially paid by the same, were also included here.

The other operating expenses in the amount of € 0.6 million (2015: € 0.3 million) refer primarily to expenses for consulting and auditing.
An annual loss of € 1.9 million (2015: € 2.5 million) was realized in the reporting year.

Cash Flows and Financial Position

The statement of financial position total of EDAG Group AG amounts to € 453.3 million (2015: € 475.5 million). On the assets side, the key asset is the investment in EDAG Engineering Schweiz Sub-Holding AG, which stands at € 452.1 million (2015: € 474.7 million).

With the establishment of the price on December 1, 2015, ATON GmbH, by way of the non-cash contribution, placed all shares of EDAG Engineering Schweiz Sub-Holding AG in the capital reserves of the Company, although no new shares were issued. EDAG Engineering Schweiz Sub-Holding AG indirectly holds all the shares in EDAG Engineering GmbH, Wiesbaden, through EDAG Engineering Holding GmbH, a German intermediate holding Company based in Munich. In principle, this Company, with its subsidiaries, manages the entire operative business of the corporate group.

On the equity, liabilities and provisions side, the capital reserves in the amount of € 455.8 million (2015: € 474.6 million) is the most important item. On December 1, 2015, these

[3] Initial Public Offering

capital reserves were generated by the inclusion of EDAG Engineering Schweiz Sub-Holding AG, Arbon, by way of the non-cash contribution by the previous shareholder ATON GmbH, Munich.

In the reporting year, a negative operating cash flow of € 3,385 thousand (2015: € 155 thousand) was achieved.
At € 14 thousand (2015: € 61 thousand), gross investments in the investing cash flow the reporting year were in the moderate range. Furthermore, an incoming payment from EDAG Engineering Schweiz Sub-Holding AG, Arbon in the amount of € 22,600 thousand was recorded, reducing the investment book value.
In the financing cash flow dividend payments were made to shareholders in the amount of € 18,750 thousand. There was an outflow of liquid resources totaling € 800 thousand from further finance activities.
The Executive Management regards the overall economic situation of EDAG Group AG as good. At 99.8 percent (12/31/2015: 99.5 percent), the equity ratio stands at a very high level, and the Company was able to fulfil its payment obligations at all times throughout the reporting period.

2.4 HR Management and HR Development

The success of the EDAG Group as one of the leading engineering service providers in the automotive sector is inextricably linked to the skills and motivation of its employees. Behind the Company's comprehensive service portfolio are people with widely differing occupations and qualifications. In addition, the EDAG Group is also characterized by the special commitment and mentality of its employees. Throughout its 47-year history, EDAG has always ensured that both young and experienced employees are offered interesting and challenging activities and projects, and are provided with the prospect of and the necessary space for personal responsibility and decision-making.

DATA ON THE PERSONNEL STRUCTURE OF THE EDAG GROUP

Employees, worldwide: 8,270
Apprentices/dual system students: 570
Average age: 38 years
Average length of service: 7 years

Number of Employees in the EDAG Group

Both at home and abroad, the number of employees in in the EDAG Group remains at a high level. On December 31, 2016, the EDAG Group employed a worldwide workforce of 8,270, including 570 trainees and work-study students.
At the end of the year, 6,272 employees were employed in Germany. 1,998 people were employed at our non-domestic companies.

Age Structure and Continuous Employment

Besides pursuing the target of high qualification levels, EDAG also strives to maintain a diversified workforce. Our mix of experienced and young employees is an integral part of the EDAG Group's strategy for success. The average age of 38 years is representative of a young, dynamic and at the same time technically adept team. 30 percent of the workforce is younger than 30 years old, and have been working for the EDAG Group for an average of 3 years. The average 7 years of continuous employment across the entire workforce is an indication of high employee satisfaction and identification with the Company.

HR Development and Vocational Training

For the EDAG Group as a future-oriented and innovative technology Company, but also with regard to our customers' quality requirements, the consistent encouragement of both the professional and personal development of our workforce is a key factor in the Company's success. In 2016, a new mentoring program for management trainees was introduced.

The program is targeted at young employees with up to 5 years' work experience and who aspire to project, line or sales and marketing management responsibility. The program is structured in such a way that, for 24 months, the junior employees receive the support of mentors who have acquired years of experience in managerial positions. Besides passing on professional knowledge, the mentors also help the mentees to identify and strengthen their own competencies and skills. In addition, the mentees are put through an extensive training program.

The number of training activities to improve technical, methodological and management skills was increased again in 2016, and the range of subjects extended.
Due to the large number of in-house trainers, the available Company know-how of our employees is put to optimum use and further developed in a targeted manner.
All in all, the EDAG Group invested more than € 3 million in HR development and training measures in the reporting year.

Training

Vocational training, which supports the future development of the Company, is afforded high priority within the EDAG Group. For over 40 years, the EDAG Group has demonstrated particular responsibility in this area and in 2016, achieved a trainee quota of 8.3 percent in Germany (2015: 8 percent) and 6.9 percent worldwide (2015: 6.5 percent) The fact that our apprentices repeatedly receive local and national-level awards for their excellent examinati-

INVESTMENT IN TRAINING

The sum of more than € 3 million was invested in vocational training and qualification courses.

The focus in 2016 was on a new mentoring program for management trainees.

APPRENTICE/TRAINEE QUOTA

Our apprentice/trainee quota of 8.3 percent in Germany is an excellent value compared with other companies in this sector.

on results is evidence of the high quality and continuity of EDAG's training scheme.
In the reporting year, the EDAG Group increased its commitment to occupational training, and hired 199 young people as apprentices or work-study students (2015: 126). In 2016, school leavers were able to choose from a wide range of occupations requiring formal vocational training and dual study programs, to find their personal, professional entry into the world of engineering. EDAG continually adjusts its training and study program to meet the industry's current technological requirements.

A point of particular note is the Company's commitment to encouraging girls to consider "MINT"-based professions (mathematics, IT, natural science, technology). This also includes Girls' Day events at various EDAG Group locations. Nationwide, this day is an integral part of the vocational training activities to showcase at an early stage the work areas in vehicle and production plant engineering for girls.

In 2016, the Company also held a so-called MINT Girls Camp at its Fulda site for the fifth time in a row. In cooperation with various educational institutions, the focus was on familiarizing young girls with the various professions in the fields of mathematics, computer science, natural sciences and technology (in German: MINT) as part of a project week. Together with trainers and trainees from the fields of electrics/electronics, model making, computer science, production and development, they spent a week designing a model car – the so-called "EDAG MINT Car" - and thus were able to experience the various phases of the vehicle development process in an interactive, condensed format.

EDAG IS A TOP EMPLOYER

EDAG was presented with the "Top Automotive Employer" award for outstanding human resource management.

Awards

Once again, our apprentices achieved good to outstanding results in their final examinations in the reporting year. These good to outstanding grades are the result of an excellent training system. A number of awards presented to apprentices were particularly gratifying: Regional Champion for Hesse in the "IT Management Assistant" program, and Hessian Guild, Regional and National Champion in the "Vehicle Body and Structure Mechanic" program.

The Company again won the "Top Automotive Employer 2016" – a clear acknowledgement of the excellence of our human resource management, and the EDAG group was again able to document its appeal to the public and present itself as a competitive employer.

Recruiting

In 2016, the EDAG Group offered apprentices, career entrants and people with work experience a wide variety of jobs and career opportunities.

With the intention of presenting the EDAG Group as an attractive employer with numerous career opportunities for people with work experience and career entrants, the Company implemented a systematic HR marketing program.

A variety of different target group-oriented formats were used to address potential applicants. Importance continued to be placed on a goal-oriented presence at graduates' and specialist job fairs. Our target groups were addressed by means of radio and bollard advertising, by placing advertisements in selected media and by making intensive use of social media platforms. We have also intensified our cooperation with universities since 2016, offering careers days to give an idea of what goes on behind the scenes at EDAG.

In addition, EDAG also supports Formula Student, a renowned design competition for students, where each team plans, designs and builds its own racing car, and also participates in racing events. In this way, EDAG comes into direct contact with dedicated students and opens up new and valuable networks for recruiting future top performers.
Last but not least, the media campaign to recruit women for technical and managerial positions that was started in the previous reporting year was further expanded.

Principles of the Compensation System for the Executive Management and Board of Directors

The compensation report of EDAG Group AG explains the principles of the Company's compensation policy, and provides information on the procedure for establishing compensation and compensation actually paid to the Board of Directors and the Executive Management. It satisfies the requirements of art. 14 to 16 of the Swiss regulation to counter excessive compensation in listed companies (VegüV) of November 20, 2013, the SIX Swiss Exchange directive regarding information on corporate governance, the principles of the Swiss Code of Best Practice of Economiesuisse, which came into force on June 30, 2015, and is based on the Articles of Association of EDAG Group AG.
The compensation report is a constituent part of the annual report, and is published on the following web site: http://ir.edag.com/edag/pdf/2016_Consol._Financial_Statements_EN.pdf

Outlook

In the current financial year, 2017, human resource activities will continue to focus on supporting Company targets by continually and organically increasing the work force, improving personnel processes and outstanding commitment in eduction and training.

2.5 Non-financial Performance Indicators

The EDAG Group continuously reviews the working environment of its employees and develops it further. Besides a fair market salary structure, another focus is on promoting non-monetary components, for example in the fields of continuing education and training, individual career planning, flexible working time models, health management, occupational health and safety and environmental protection.

"For us, development serves one purpose: Improvement." This sentence defines our brand essence and our attitude – and also with regard to our human resource activities. We want our employees to become better and better, and to feel good. Not only does this mean constant technical and methodological training; it also involves joint reflection with employees to decide where and in which function they will find an ideal environment for their personal development. The best possible match between personal preferences and the requirements of our Company is the goal for both sides. Wellbeing generates employee satisfaction. Employee satisfaction is the basis for achieving maximum performance, which is what we aim to achieve in our challenging and dynamic market. The success factors of modern HR work have, however, long since ceased to be reduced to salary and status. Our objective is to concentrate more strongly on making EDAG a family-friendly Company, to promote the motivation and loyalty of our employees in a highly competitive environment.

Employees

Competent, motivated employees are the basis for the business capacity and competitiveness of the EDAG Group.
Our strong commitment to professional training as well as what we consider to be a large number of technical and methodological training courses contribute to the Group's sustainability.
As a global growth-oriented Company with international teams, we also attach particular importance to unprejudiced relations between people of all nationalities, regardless of gender, age, religion or any other characteristics protected by law.

"Work-Life Balance" and "Health Management" Programs

Family-friendly businesses have become a relevant decision factor for qualified job applicants.

A number of years ago, the EDAG Group launched its "Family & Work" program, which offers a wide range of part-time working models and working time accounts to improve the work-life balance. With this program, the EDAG Group already goes some way towards meeting applicants' needs for greater family friendliness.

With the Company's health management program, the EDAG Group attaches particular importance to the long-term promotion and preservation of the fitness for work, commitment and motivation of its employees. The program is aimed at supporting the health-conscious behavior of employees and creating healthy workplaces and organizational processes. With its various on-site activities, Company health management is an important part of EDAG's corporate culture.

At nearly all locations, measures for health promotion, health days, campaigns and relevant information events have been established.

Occupational Health and Safety

Annual health and safety briefings, inspections by the health and safety officers and internal audits are held to ensure that employees are consistently advised and encouraged to use the work materials and equipment provided in a responsible and safe manner, and instructions are issued to ensure the correct handling of the hazardous substances that need to be processed and used in our day-to-day business.

In addition to the actual inspection of business processes in connection with external standards, a check is also kept on the general working conditions by carrying out internal audits and holding occupational health and safety committee meetings in cooperation with the safety officer. A certification program in accordance with OHSAS 18001 (occupational health and safety) was carried out for the central functions (Fulda and Wiesbaden) and for the Munich offices in the reporting year.

ATTRACTIVE WORK ENVIRONMENT AT EDAG

Balancing family and work:
For instance part-time working models

Health management:
The program is aimed at supporting the health-conscious behavior of employees and creating healthy workplaces and organizational processes.

Sustainability and Environmental Issues

The integration of sustainability in our business model and along our entire value chain contributes to the economic success of the Company. For us, responsible corporate management means that economic activity must be reconciled with the concerns of ecology and society, and in particular those of our stakeholders. Responsibility for this lies not just with the individual business units, but also with the central divisions. By carrying out external certification programs, for instance the environmental management system according to DIN EN ISO 14001, we guarantee our internal process. Our aim is the continual improvement of EDAG's energy performance.

The energy sources used by EDAG Engineering GmbH are electricity, natural gas, district heating and diesel. The most important energy users are heating, cooling units, lighting, machinery and IT technology. On account of the quantities involved and the large proportion of the cost of the Company's overall energy consumption, these were analyzed more closely during the energy audit. A rough estimate was made of the other significant energy users.

During energy audits carried out according to DIN EN 16247-1 at the separate EDAG Engineering GmbH sites, specially trained energy auditors assess potential for improving energy efficiency. The aim of the energy audits is to analyze the Company's energy consumption and determine the energy baseline. The main energy users are mathematically worked out and, as far as possible, metrologically verified.

3 Forecast, Risk and Reward Report

3.1 Risk and Reward Report

Risk Policy

EDAG Engineering Group AG is a globally positioned and internationally operating Company. Any form of entrepreneurial activity opens up not only new business opportunities, but also numerous risks. The risk policy of the Group Executive Management of the EDAG Group is aimed at securing the existence of the Company, and at increasing the long-term Company value. Commercial success is conditional on opportunities being taken and put to optimum use. Risks must be spotted at an early date, evaluated and proactively managed, provided this will bring about a reasonable enhancement in value. Risks that might jeopardize the existence of the Company must be avoided.

Risks are any events and possible developments, both inside and outside the Company, which may have a negative effect on the planned economic success of the Company. Risks which cannot be directly measured in figures, e.g. risks to our reputation, also fall under this definition.

We see opportunities as possibilities to secure or exceed planned targets as a result of events, developments or activities.

The aim of the risk management system is to increase risk awareness throughout the Company, in this way establishing a risk culture that enables us to identify opportunities and risks at an early date, and realistically assess them so as to minimize or completely avoid risks, and/or take advantage of opportunities. EDAG's risk management system covers all fully consolidated companies and segments in the EDAG Group. Should rewards and risks affect individual segments only, this will be indicated accordingly.

Risk Management and Internal Control System

The sustained success of our Company depends on how early we identify risks and opportunities in our operating activities, and how much foresight we employ in managing them. In the EDAG Group, the responsible handling of risks and opportunities is supported by an internal control system and an extensive risk management system.

CONTROL SYSTEM IN PROJECT BUSINESS

Project steering committees and acceptance processes ensure that the opportunity/risk profile of tenders is critically reviewed.

Internal Control System

The internal control system is the sum total of all systematically defined controls and monitoring activities aimed at guaranteeing accounting accuracy, and ensuring correctness and effectiveness.

The accounting tasks are for the most part carried out independently by the consolidated companies In Germany, there is a central shared service center for all the German companies. Content-wise, it depicts information that includes accounting-related data as well as key performance indicators and risks and rewards. The system is organized in such a way that the subsidiaries are requested to provide relevant and up-to-date information each month, and this information is then verified, summarized and presented to the Executive Management by the corporation's specialist departments.

The accounting-related part primarily consists of the single-entity financial statements of each subsidiary, drawn up in accordance with the relevant national laws, then converted to IFRS and consolidated on a quarterly basis, taking into account corporate, valuation and accounting directives.

Apart from commenting on economic performance, with the key performance data, we concentrate on future, market-related information and prospects for personnel development and productivity.

Special requirements arise as a result of our project business. These are dealt with by means of so-called "project steering committees". Moreover, a project acceptance process has also been established. Before binding quotations are submitted or contracts entered into, specialists from various departments first perform detailed checks on the commercial and contractual conditions, and then present these to the Executive Management. The aim of this procedure is to avoid any uncontrollable risks being accepted. Depending on the volume of tenders, certain procedures and formalities that are defined in the corresponding directives must be followed. This procedure therefore commences even before risks arise, by critically reviewing the opportunity/risk profile of any tenders. Should the opportunity/risk profile prove to be unacceptable, then the Executive Management will not permit a contract sign-off.

As an independent supervisory body, the internal audit department also helps to ensure the correctness of the established internal accounting control system on a random basis using system and function checks. By carrying out risk-oriented audits, the department assists

Company management and the administrative bodies in their monitoring and risk management tasks, with the aim of ensuring correctness and effectiveness, and in this respect complements the internal control system.

Risk Management System

The risk management system includes organizational rules and measures for risk detection and how to manage entrepreneurial risks. As risk management is anchored in operative and strategic controlling, it is possible for this system to be integrated in the planning and reporting processes. Foresighted risk management also serves the interests of investors and other stakeholders.

Procedural guidelines and directives guarantee the uniform implementation of the risk management process. All operating units and key central departments of EDAG Group and all Company employees in all Company divisions and at all hierarchical levels are integrated in this process.

The first stage of the risk management process involves identifying risks, with the aim of recording and evaluating the serious risks to the Company. This is done on the basis of the knowledge of the operative units in the divisions or local international branches, with regular meetings being held with the executive management to closely coordinate the risk contents and countermeasures undertaken.

A risk is evaluated on the basis of the potential extent of loss, i.e. the gross risk without any account being taken of measures to reduce and manage it. Building on this, there follows an evaluation of the net risk, taking into account the effects of any countermeasures. The expected value of loss of a risk is calculated by multiplying the expected probability of occurrence by the extent of loss of the net risk.

The following categories exist for the probabilities of occurrence:

- low: probability of occurrence < 25%
- medium: 25% ≤ probability of occurrence < 50%
- high: 50% ≤ probability of occurrence < 75%
- very high: probability of occurrence ≥ 75%

Risks are to be reported if the determined loss expectancy leads to a deviating result exceeding € 250 thousand. For existing opportunities, the reporting threshold also lies at an opportunity expectation value of € 250 thousand.

The following categories based on the amount of the expected value of loss of an individual risk have been classified:

- Low risk corresponds to an expected loss value < € 500 thousand
- Medium risk corresponds to an expected loss value ≥ € 500 thousand and < € 1,250 thousand
- High risk corresponds to an expected loss value of ≥ € 1,250 thousand

Aggregated at Group level, risks are classified into A, B or C risks:

- A category A risk corresponds to an expected loss of ≥ € 2.50 million
- A category B risk corresponds to an expected loss of ≥ € 1.25 million
- A category C risk corresponds to an expected loss of < € 1.25 million

The EDAG Group AG's risk management system thus covers all opportunities and risks which might seriously affect the group's financial performance. The risk/reward profile of the EDAG Group is regularly updated and represented in an aggregated report which enables the executive management to get a general idea of the risk situation of the EDAG Group. New risks that occur ad hoc and are deemed sufficiently important are reported to the executive management immediately.

In the following, we will explain the risks and rewards to which EDAG Group AG is exposed on account of its wide and international range of services.

Risk and Reward Profile

Macroeconomic Risks and Rewards

MACROECONOMIC FORECAST FOR 2017

Global economic growth: 3.4 percent

The global economic recession bottomed out during 2016. International Monetary Fund (IMF) forecasts predict that, in the next two years, there will be a increase in global production of 3.4 percent and 3.6 percent respectively. For the United States, a 2.3 percent rise in production is expected for the next year, and 2.5 percent in the year after. For China, the researchers anticipate slower growth rates, namely 6.5 percent in 2017 and just 6 percent in 2018. Though economic expansion in the emerging markets is slowly beginning to pick up pace, no great momentum has yet developed due to the relatively low commodity price levels and numerous structural problems still to be resolved.[4]

It continues to be difficult to make any predictions with regard to the development of the global economy. Risks here arise in particular from the financial markets, as the divergences in monetary policy in the major currency areas could lead to turbulence. Furthermore, the

[4] *Source: IWF,World Economic Qutlook update 01/2017*

long-term effects of the protectionist measures announced during the US election campaign and of the Brexit vote in Great Britain are still not clear, and also carry significant risks. We are therefore monitoring the relevant country-specific conditions very closely, so as to be able to quickly implement measures to minimize risks, should the need arise.

We estimate the macroeconomic risks and rewards for our business as for the most part unchanged compared to the previous year. This risk is classified as a category C risk (2015: category B risk) with a low probability of occurrence.

Industry Risks and Rewards

The discussion on the question of exhaust emission testing for passenger cars that was triggered in the third quarter of 2015 and the ensuing political dispute concerning the possibility of adapting the measuring method continue unabated. As a result, our customers are checking their long-term strategic concepts for model planning and the drive technologies used. In the process, a technological transition is becoming apparent in the industry, with conventionally driven vehicle variants are being reduced and models with alternative drive systems advanced. Risks exist in the form of project stoppages, if the further development or model updates of conventionally driven models already on the market are to be discontinued. On the other hand, rewards can result from new models with alternative drive systems with no predecessors. In our opinion, it is still too early to be able to assess the full extent of the results of this reorientation for EDAG.

OUTLOOK FOR THE SECTOR

The transition towards greater use of alternative drive technologies offers chances for positive business development

EDAG's business model is still focused on the major German OEMs. This could lead to the risk of dependence, particularly with regard to our customers' outsourcing strategies. In the past, the OEMs continually expanded the outsourcing of engineering services due to the growing number of models and powertrain variants and to the shorter model cycles. According to a study by A.T. Kearney in August 2015, the development of the market for engineering services continues to be seen in a positive light. It anticipates an average annual growth rate of 6.7 percent for the market between 2014 and 2020. However, EDAG also sees risks here, for example a possible increase in insourcing on the part of the manufacturers, on the one hand to build up know-how in their own companies, and on the other hand due to the need to save money in other areas, having made massive investments, for instance, in the development of electric fleets. The result for EDAG would be a decrease in business volume, which might have a negative effect on our financial position and financial performance. To counteract this, we constantly check our strategy and focus on building up and expanding new business fields and future technologies, to continue to secure our position as a strategic engineering service provider for Germany's OEMs. Another way in which we hope to counter this risk long-term is to expand our customer base and our global presence.

Conditions in the engineering service market remain highly competitive. As a result of measures to improve cost efficiency, the manufacturers are also attempting to further reduce their purchase prices. This means that the EDAG Group still faces considerable price pressure and calls to relocate development volumes to countries where wage levels are lower. In our opinion, these trends are long-term, and will continue to gather strength. We counter there market conditions by focusing workforce growth on the concrete requirements at home and abroad, and by continually improving our cost structure.

The trend towards outsourcing large work packages remains unchanged. Also, it is not yet possible to make a definitive assessment of the effects of the adjustments to the laws on temporary employment. However, a tendency to award more work contracts is becoming apparent, and this will increase the volume and responsibility in the projects for EDAG, thus leading to rewards and risks. On the one hand, contract awarding conditions and therefore requirements relating to the quotation process and drafting of contracts are being tightened up, while on the other hand, the manufacturers are advancing the consolidation of the potential suppliers as a result of these changes. The larger engineering service providers profit from this, as they have the know-how and capacity necessary to handle the increased volumes.
In our opinion, the risks have increased compared to the previous year. We now estimate that all risks and rewards in this risk category are category A risks (2015: category C risks) with a medium (2015: low) probability of occurrence.

OPERATIVE RISKS

Continual project management, regular project assessments and project steering committees are all methods employed to counter the risk of exceeding deadlines or costs in major projects.

Rewards and Risks from Operative Business

Project work, by its very nature, entails opportunities and risks. Major projects are usually highly complex and are often carried out in several countries simultaneously. Sometimes, details of services are not discussed until a total price has been finalized. Occasionally, work volumes are not clearly formulated, leading to extra work. Unforeseen developments in a project can lead to deadlines and costs being exceeded, as well as to quality defects, which burden the Company's financial performance, cash flows and financial position. Through continuous project management, regular project evaluations and detailed reporting within the context of project steering committees, the EDAG Group is not only in a position to identify these kinds of risks at an early stage and counteract them, but also can take advantage of any opportunities that may arise.

Risks to the EDAG Group could also arise as a result of the postponement of projects or even the complete discontinuation of development contracts. As a rule, and depending on the order situation, it is not always possible to fully compensate for the fluctuations in capacity this might bring. We are countering this risk by constantly optimizing our resource management, so as to be able to identify potential workload deficiencies at an early date and counteract them by reducing external capacity, creating flexible deployment opportunities for our employees and the flexible use of working time accounts, to level out the temporarily volatile capacity situation. In addition, we also try to safeguard a basic long-term workload by acquiring projects to cover longer periods of time.

The increasing complexity of the IT system landscape presents the EDAG Group with a variety of challenges. As engineering service providers, we rely to a great degree on a fully functioning IT and safe data connections with our customers. Disruptions and attacks on the IT systems and networks cannot, however, be completely ruled out. An IT system breakdown or data loss could have serious consequences for EDAG. The main risk is that strictly confidential information, particularly with regard to new technological findings or partnerships in the field of research and development, might be leaked to our competitors. This could have an adverse effect on our good market position. In order to guarantee a disruption and error-free workflow, we attach great importance to the availability of the IT resources and services. For the most part, our IT structures are standardized. We have implemented a series of safety standards to protect confidential information, and these are regularly checked by various committees (e.g. internal auditing), to ensure that they are effective. Applicable safety guidelines undergo continual updating and are therefore regularly adapted to the latest technical changes; information events and IT safety training ensure that our employees have the necessary knowledge and skills.

OPERATIVE CHANCES

Systematic development of our competence centers with the focus on innovative engineering solutions enables us to make use of market opportunities.

Besides continually improving our project management skills, further expanding own internal, best-cost resources, our lean organizational structure and efficient cost management, the EDAG Group's medium-term aim is to gain entry into new projects and markets geared even more strongly towards technology and engineering, particularly in the areas of Lightweight Design, CO_2 reduction, new types of powertrains and driver assistance systems. For years, EDAG has successfully addressed this development with its competence centers. Our cooperation with technology partners and research institutes enables us to be constantly expanding our internal skills in future-relevant areas while consolidating our role as a proactive and innovative engineering Company. We have now set up a new "Integral Safety" competence center in order to strengthen this position and make systematic use of the opportunities being offered on the market. In our estimation, there is a growing need for know-how here, and this will be reflected in continuing price increases.

Taking into account the arrangements that have been made, our assessment of the risks from the operating divisions as category A risks with a medium probability of occurrence remains unchanged.

PERSONNEL RISKS

Risks in conjunction with the fluctuation of know-how carriers are countered by measures to establish our position as an attractive employer.

Personnel Risks and Rewards

The success of EDAG Engineering Group AG depends to a significant extent on committed and well qualified employees. There is a risk that it might prove difficult to find such employees to fill any or all vacant positions. A further potential risk is the loss of competent employees to the competition or to a customer offering lucrative prospects. Finding replacements for such positions frequently involves increased recruiting and induction costs for the EDAG Group.

We counter these risks by positioning ourselves as an attractive employer worldwide, using our international network to acquire new talent, and creating ties between the Company and our employees. A wide range of activities such as targeted recruiting, the ongoing training and education of our staff, work-life balance initiatives, the promotion of skilled young people and a wide range of apprenticeships help us to guarantee the availability of the know-how we will need for the future.

In order to introduce potential managerial staff to managerial tasks and solution strategies and ensure their loyalty to the Company, an internal mentoring program was initiated in 2016.

During the past financial year, EDAG again received the German "Top Automotive Employer 2016" award. Awards like these confirm the effectiveness of the measures we undertake. We therefore rate the nature of the individual personnel risks as a category B risk (2015: category A risk) with a medium probability of occurrence, as in the previous year.

Financial Risks

In the course of our business activities, we are subject to financial risks. These include default risks for customer receivables, liquidity risks, as well as changes in exchange rates and interest rates. Identified potential risks are controlled by defined guidelines and suitable security measures within the Group. For more details see chapter "Financial Risk Management Objectives and Methods", on page 250 .

Accounts receivable are generally settled by customers according to previously agreed terms of payment. To minimize the risk of non-payment, creditworthiness is checked, especially when dealing with new customers. Individual, overdue receivables are taken into account by valuation allowances in the statement of financial position according to defined rules. The risk of individual bad debts remained unchanged compared to the previous year.

The Company is primarily financed by related companies and lines of credit with house bank and bond insurers. With the financial debt remaining stable overall due to increased lines of credit with the house banks, the EDAG Group was able to raise potential funding levels and increase financial scope in 2016. We currently see no risks in this regard.

The risk from currency fluctuations for foreign currency receivables and/or planned cash flows is partially secured by forward currency contracts. However, this is not of primary importance for the Company's assets, financial and earnings situation. The same applies to the interest rate risk. Risks posed by changes in interest rates and fluctuations in exchange rates at the reporting date are secured by derivative financial instruments which are used exclusively for hedging and not for speculative purposes.

The Company's financial situation is still sound due to a solid liquidity forecast and the available but only moderately used lines of credit. It is monitored regularly and currently harbors no significant risks. Group liquidity was guaranteed at all times in the reporting year. We continue to assess this risk as a category C risk, though with a medium (2015: low) probability of occurrence.

Legal Risks

As an internationally active Company, EDAG Group AG is subject to the risk of possibly being involved in legal disputes in the future. With regard to the operative business, this particularly concerns the following legal areas: product liability, anti-monopoly legislation, intellectual property rights, but also general civil law.

FINANCIAL RISKS

Overall, the financial debt in 2016 remains stable. Financial scope was increased by extending credit lines.

Company-wide standards – such as general terms and conditions of business, standard contracts for various applications or implementing regulations in the form of organizational guidelines – are continually updated and reduce the possibility of new legal risks to the EDAG Group. For processes that are not covered by the standards developed for day-to-day business, the Group's legal department regularly calls upon external specialist lawyers for advice.

Due to our listing on the Frankfurt Stock Exchange in Prime Standard and to the Market Abuse Regulation (VO EU 596/2014), which has been in force since July 3, 2016 and is flanked by amendments to the Securities Trading Act and other regulations, not only have the regulatory requirements on the EDAG Group become tighter, but the level of fines imposed for any offenses has also been increased. To avoid risks due to the listing of EDAG Group AG on the stock exchange, the executive bodies of the EDAG Group and their employees and members were provided with comprehensive information concerning their responsibilities. In addition, departments that might be affected also consult with the legal department, which in turn consults with external specialist lawyers at home and abroad, to guarantee compliance with the relevant rules and regulations.

At the present point in time we do not anticipate any significant negative effects on the assets, financial position and financial performance from the risks classified here. Our assessment of this risk therefore remains unchanged, and has been assigned a class C status with a low probability of occurrence.

LEGAL AND TAX RISKS

There are no material legal or tax risks in existence during the reporting period that might prove disadvantageous to the EDAG Group.

Tax Risks

As an internationally active Company, EDAG Group AG is subject to the relevant country-specific tax laws and regulations. Any changes in these can lead to greater tax expense and to higher tax payments. We are also active in countries with complex tax regulations that can be interpreted in a number of different ways. Future interpretations and/or developments of the tax system could affect tax liabilities, profitability and business activities. Any resulting need for action is counteracted by internal regulations. Any resulting measures are coordinated and implemented between the "Group Accounting & Tax" department and the companies concerned. Aggregated over the Group, this risk is assigned to category B status. Given the numerous preventive regulations, the probability of occurrence is considered to be low.

There are no new tax risks in the EDAG Group that represent a substantial influence on the financial performance, cash flows and financial position for the reporting period.

Compliance-relevant Risks

Besides the wide variety of opportunities open to EDAG as one of the world's leading engineering companies in the automotive industry, we also face growing challenges and ever-increasing responsibility. More than ever, therefore, one of the most important basic conditions for our success is to combine business activities with ethical principles and act with responsibility in all respects. For our Company, unconditional compliance with legal requirements is imperative, and forms an integral part of the EDAG values.

To accommodate these exacting requirements, EDAG has set up a compliance management system (CMS). The objective of the EDAG CMS is to avoid any damage being caused to the Company or any of its employees as a result of infringements of applicable law and in-house guidelines. To this end, the EDAG CMS outlines all organizational measures undertaken by the Company to guarantee that the behavior of the Company's executive bodies and employees is always legally compliant. Our main focus here is preventive, with our compliance organization offering employees advice and support with regard to their responsibilities, so as to avoid the occurrence of any such infringement. The EDAG CMS has been integrated into the EDAG risk management system, and is therefore an integral part of our risk-based reporting system.

Further, an internal compliance hotline is available to all EDAG employees, and can be used to report actual or suspected contraventions.

For a compliance management system to be effective, it is essential that the attention of the Company's employees should be drawn to the subject of compliance, and an awareness of critical issues in the daily working environment be developed. This sensitivity for compliance can be brought about by providing staff training. In the 2016 financial year, we therefore expanded the compliance training program, a central element of our CMS, and continued to offer our web-based compliance training as an obligatory training activity.

At EDAG, particular importance is attached to sustainability. It involves both a long-term business policy and the integration of ecological and social aspects in the management system. We see this as a contribution towards safeguarding the future of our Company and towards long-term economical and social development. With the EDAG Code of Ethics, EDAG commits to the continued support of the ten UN Global Compact principles and to continual improvement in their implementation. The EDAG Code of Ethics can be accessed via: http://ir.edag.com/websites/edag/English/501040/code-of-conduct.html

COMPLIANCE SYSTEMS

A compliance management system has been set up at EDAG to ensure responsible behavior at all levels.

As there were no compliance-relevant risks in 2016, we have assigned these risks to category C, with a low probability of occurrence.

Risks Regarding the Use of Financial Instruments

The key financial liabilities used by the Company include financial liabilities, accounts payable and other liabilities. The main purpose of these financial liabilities is to finance the business activities of the Company. The Company has accounts receivable and other receivables as well as cash and short-term deposits that result directly from its operations.

The Company is subject to credit and liquidity risks. Management of these risks is the responsibility of Company management. Management ensures that financial activities by the EDAG Group associated with risks are carried out in accordance with the relevant operating instructions and that financial risks are identified, assessed and managed in accordance with these guidelines and taking into account the the Company's willingness to take risks. Risk management also takes risk concentrations regarding individual transactions or group companies into account.

CURRENCY RISKS

Due to a number of different hedging activities, EDAG was not exposed to any significant currency risks in the operating divisions on the reporting date.

Due to the fact that the Group is primarily financed through fixed interest loans from a major shareholder or one of its subsidiaries and/or related companies as well as the VKE Versorgungskasse EDAG-Firmengruppe e.V., we are of the opinion that any risk posed by fluctuations of market interest rates is not significant. Financial risks would therefore only result if credit lines were not extended.

Regarding leasing liabilities, the respective asset counts as security. The maturity of the financial liabilities is depicted in the notes. The Executive Management analyses the term of certain financial instruments and ensures their timely prolongation as far as these resources are still needed.

Currency-related risks to EDAG result from financing measures and operating activities. Insofar as they have a significant effect on the Group cash flow, foreign currency risks are always hedged. Foreign currency risks from financing activities result from financial liabilities in foreign currencies and foreign currency loans. These risks are covered by the Treasury Department. Currency derivatives are used to convert financial obligations and intra-group loans denominated in foreign currencies into the Group entities' functional currencies.
In the operating area, the individual group companies do most of their business in their own functional currencies. This means that any currency risk to EDAG from current operating

activities is assessed as being moderate. Some group companies are, however, exposed to foreign currency risks in connection with planned payments not in their own functional currencies. Here, too, EDAG hedges with foreign currency derivatives. Due to these hedging activities, EDAG was not exposed to any significant currency risks in the operating divisions on the reporting date.

Other Rewards and Risks

By law, the Company is liable for any damage suffered by the customer as a result of deficient or delayed performance. In an extreme case, such as in a widespread recall by a car manufacturer due to a defective EDAG design or service, this could threaten the existence of the Company.

In international projects, the applicable legal standards are often the ones that apply in the foreign country where the customer's Company is based – and are largely unknown in Germany. Our risks are further increased by contractual warranty risks resulting from the disposal of companies and by liability limitations specific to certain customers, which cannot always be fully passed on to subcontractors.

The EDAG Group counteracts these risks by ensuring the high quality of our services, by employing attorneys with international experience and – to complement these measures – by taking out liability insurance.
As in the previous year, these risks are assigned to category C, associated with a low probability of occurrence.

Overall Assessment

The risk management system in use provides the basis on which we assess our overall risk. It includes all the material risks and rewards that are reported by the divisions, subsidiaries and administrative departments, and is regularly checked by the Group Executive Management.

On the date of publication of this annual report, no individual or aggregate risks that could, in the long term, jeopardize the assets, financial and earnings situation and thus the existence of the Company can be identified.

Findings indicate that our most significant risk exposure currently relates to operative risks and industry risks (in terms of expected loss value). Considering the measures taken and our

APPRAISAL

Considering the measures taken and our position on the market, we are confident of our ability to contain the existing risks and deal successfully with the resulting challenges.

position on the market, we are confident of our ability to contain the existing risks and deal successfully with the resulting challenges.

Internal Control System and Risk Management System in Relation to the Group Accounting Process

OBJECTIVE OF GROUP ACCOUNTING PROCESS

The internal control and risk management system ensures that all business matters are properly recorded, processed and evaluated and adopted in the external accounting procedures.

The main features of the internal control system and the risk management system in relation to the (Group) accounting process in operation at EDAG Group AG can be described as follows:

- The EDAG Group is characterized by a clear organizational, corporate as well as control and monitoring structure.
- Group-wide coordinated planning, reporting, controlling and early warning systems are in place to perform a comprehensive analysis and control of earnings-related risk factors and existential risks.
- The functions in all areas of the accounting process (e.g. financial accounting and controlling) are clearly assigned.
- The IT systems used for accounting purposes are protected against any unauthorized access.
- Standard software adapted to the needs of Company is used predominantly in the financial systems area.
- Appropriate internal guidelines (such as a valid Group-wide risk management guideline) are set up, which are adjusted as needed.
- The departments involved in the financial reporting process meet the quantitative and qualitative requirements.
- The completeness and accuracy of any accounting data is ensured by the established internal accounting control system and the internal reporting system and primarily verified by plausibility analyses. The internal audit department also ensures the correctness of the established internal accounting control system on a random basis using system and function checks.
- The existing group-wide risk management system is continuously adapted to current developments and regularly tested for effectiveness.
- As a general rule, the principle of dual control and functional segregation are observed in all accounting-related activities.
- Among other things, the Board of Directors addresses issues pertaining to accounting, risk management, the audit mandate and its key aspects.

The internal control and risk management system for the accounting process, the main features of which have been described above, ensures that all business matters are properly recorded, processed and evaluated and adopted in the external accounting procedures. The clear organizational, corporate, control and monitoring structure, as well as the adequate composition of the accounting department in terms of personnel and material, represent the basis for efficiency in those departments involved in accounting. Clear legal and corporate rules and policies ensure uniform and proper accounting. Risk identification by the risk management system ensures proper accounting. The internal control and risk management system at EDAG Group AG ensures that accounting at the Company and all companies included in the consolidated financial statements are uniform and in accordance with the legal and statutory requirements and internal guidelines. In particular, the group-wide risk management system, which fulfills the statutory requirements, has the task of identifying risks in good time, assessing these and communicating these in an appropriate manner. As a result, the recipients of the report are informed in good time.

3.2 Forecast

MACROECONOMIC FORECAST FOR 2017

Global economic growth 3.4 percent
Increase in global sales of passenger cars: 3 percent

After a slow start in the first half of 2016, the global economy gained considerable momentum in the third quarter, with a growth rate of 0.9 percent. Following a 3.1 percent increase in global economic activity in 2016, the IMF's current forecast predicts growth rates of 3.4 percent for 2017 and 3.6 percent for 2018, indicating that a further increase in momentum is anticipated. IMF experts see the USA and China as the key forces behind this growth. The Fund's economists have made a slight upwards revision of the growth projections for the United States following the US presidential election. Due to the probability of changes in policy in the USA, they now anticipate a 2.3 percent growth in the US economy for 2017, and 2.5 percent for 2018. The IMF experts do, however, point out that the current forecast is extremely uncertain. As they point out, the future fiscal policy of the USA and its ramifications are still unclear. The IMF has also warned of growing protectionism and voiced its concern that the policies of the new US government might impact the poorer countries in the world. Projections for India, Mexico and Brazil have been revised downward by the economists. The IMF anticipates that the eurozone will remain largely unchanged. In line with previous forecasts, 1.6 percent growth is expected in the single currency area in the next two years. At 1.5 percent for each year, the rate for Germany is slightly below this.

The 2017 forecast for the automobile industry remains positive. In its current forecast for global sales of passenger cars, the VDA (Association of the German Automotive Industry) anticipates a further increase of 3 percent to a total of 85 million vehicles in 2017, following a growth rate of 6 percent in 2016. Projections for commercial vehicles are equally pleasing: here, the VDA anticipates a further increase of 1 percent in 2017 following a growth rate of 6 percent in 2016. On account of this positive outlook for the sales figures, EDAG, as an engineering service provider, continues to expect that this will also produce positive effects for the research and development expenditures of our customers.

Technological and digital trends are, however, of far greater significance for our business model than sales figures. This means that the valid emission standards force the OEMs not only to further the development of classic powertrain types but also to intensify the integration of further alternative powertrain types, with BEV/PHEV[5] technologies becoming increasingly important. The trend towards accident-free, autonomous driving presents the industry with immense challenges, and will increase the pace of technological change. The interconnectivity of vehicles necessitates increased engineering and capacity requirements, to enable new digital business fields and mobility services to be developed. For this reason, leading vehicle

[5] Battery Electric Vehicle (BEV)/ Plug-In-Hybrid Electric Vehicle (PHEV)

manufacturers are already working on the development of a personal digital assistant. What is more, the continuing consolidation of the engineering service providers and the forthcoming changes in personnel leasing legislation and the drafting of work contracts will bring about lasting changes in the market for engineering services.

According to an analysis carried out by A.T. Kearney, these trends will lead to ongoing positive development in the market for technology consulting and engineering services. The study anticipates a definite average annual growth rate of 6.7 percent up to 2020. According to the study, the large, top-selling companies are at an advantage, as they have the capacity and infrastructure needed for the outsourcing of larger and more complex work packages. It also identifies a shift in demand towards innovative solutions in the fields of software, embedded systems and electrics/electronics. Engineering service providers who address this challenge and undertake strategic realignment will have the edge over those working on commodity issues, as the manufacturers there will increase their efforts to save costs.

ENGINEERING SERIVCE MARKET FORECAST FOR 2017:

Annual global increase: 6.7 percent

Worldwide, EDAG is a solutions-oriented and competent partner to its customers, and, with innovative ideas and high levels of technological know-how, aims to operate successfully and achieve profitable growth rates under the conditions described. EDAG is one of the top three independent engineering service providers in the automotive sector, and this places us in a position where we are able to handle the changes in the market towards increasingly large and complex projects with more and more engineering responsibility. By making targeted investments in our performance and technology spectrum, we have further strengthened our international market position for fully integrated vehicle development and large module packages. We have already succeeded in fulfilling our customers' requirements for global, low cost projects incorporating "German engineering" by ensuring the flexible and mobile application of our expertise, by utilizing own internal, best-cost resources, and by performing the work under the direction of an international project management team. Qualified and committed employees are essential factors of the success on which we focus. By offering specific continuing training measures and above-average occupational training, the EDAG Group will continue to meet the high customer requirements in the future. This applies equally to both experienced and young professionals.

The influencing factors presented can represent not just opportunities, but also risks to EDAG's future business. Assuming favorable economic conditions – that the economy will continue to grow, manufacturers will maintain or expand their research and development expenditures at a high level and continue to outsource development services, and that qualified personnel are available – the EDAG Group expects positive business development. For 2017, the EDAG management sees opportunities for increasing sales up to 5 percent, and expects the increase in the E/E and PS segments to be ahead of the increase in the VE segment. With regard to the adjusted EBIT, we anticipate a margin of approximately 6 to 8 percent, given the challenges outlined above. The VE segment is expected to be within this range, with the PS segment slightly above it, and the E/E segment slightly below. Because of the sustained growth, we expect investments to be above the level of previous years. Due to the continuing good financial performance, we also expect a positive development of our financial situation in the future.

4 Other Information

4.1 Declaration on Corporate Management

The Executive Management and Board of Directors of EDAG Group AG submitted a declaration on corporate management in accordance with § 289a of the German Commercial Code (HGB) on April 4, 2017, and published it on the following web site: http://ir.edag.com/websites/edag/English/501030/statutes.html

4.2 Takeover-relevant Information [in accordance with § 289 section 4 and § 315 section 4 HGB (German Commercial Code) and Explanatory Report]

The fully paid-in subscribed capital of EDAG Group AG in the amount of € 920 thousand as at December 31, 2016 is backed by 25 million bearer shares with a nominal value of CHF 0.04. The shares are denominated in Swiss francs. The operating currency is the euro, and shares are traded in euros. The Company's shares are briefed in a global certificate and deposited with Clearstream. Each Company share entitles its holder to a vote at the Company's general meeting.

The largest individual shareholder of EDAG Group AG is ATON Austria Holding GmbH, which holds 62.89 percent[6]. With the voting rights notification of May 30, 2016, the announcement was made that 59.75 percent of the EDAG shares had been transferred from ATON GmbH, Munich to ATON Austria Holding GmbH, Going am Wilden Kaiser. In this context, the following existing voting restriction with an identical period of validity was likewise transferred. According to this, restrictions on voting rights exist to the extent that the majority shareholders ATON GmbH ("ATON") and HORUS Vermögensverwaltungs-GbR ("HORUS") have entered into an agreement with the Company in which they have undertaken for a period starting on the first day of trading of the shares of the Company on the Frankfurt Stock Exchange (December 2, 2015) and ending on the second ordinary shareholders' meeting of the Company after the first day of trading, however, at least for a period of 19 months after the first day of trading and with respect to such number of shares of the Company directly or indirectly held by ATON or HORUS respectively upon settlement of the offering to exercise its voting rights in ordinary shareholders' meetings of the Company only with regard to half

[6] More detailed information on the shareholder structure can be found in the chapter "EDAG on the Capital Market"

of the persons that are eligible as members for the Board of Directors.
For the financial year ending December 31, 2016, the Company shares fully qualify for dividends.

The appointment and dismissal of the members of the Board of Directors are carried out in accordance with the provisions of art. 698 section 2 No. 2 of the Swiss Code of Obligations (OR) in conjunction with art. 15 of the Articles of Association of EDAG Group AG, and are the responsibility of the General Meeting. According to art. 17 of the Articles of Association, the Board of Directors is responsible for the appointment and dismissal of the persons entrusted with the management of the Company.

4.3 Voting Rights Notification and Directors‘ Dealings

Information on directors' dealings pursuant to § 15a of the German Securities Trading Act (WpHG) are published on our website at http://ir.edag.com, under the heading "Announcements", menu item "Directors' Dealings".
Also published on this website are communications from the reporting year pursuant to § 21 et seq. of the German Securities Trading Act (WpHG). These can be found under the heading "Announcements", menu item "Voting Rights Announcements".

5 Disclaimer

The management report contains future-based statements related to anticipated developments. These statements are based on current projections, which by their nature include risks and uncertainties. Actual results may differ from the statements provided here.

REPORT OF THE STATUTORY AUDITOR (JOINT MANAGEMENT REPORT)

REPORT OF THE STATUTORY AUDITOR TO THE BOARD OF DIRECTORS OF THE EDAG ENGINEERING GROUP AG, ARBON

Report on the audit of the joint management report

Opinion on the joint management report

We have audited the joint management report of the EDAG Engineering Group AG, Arbon/Switzerland, which is combined with the stand-alone entity's management report, for the financial year from 1 January to 31 December 2016.

In our opinion, on the basis of the information gained during our audit, the accompanying joint management report provides an accurate overall picture of the Group's situation. The joint management report corresponds in all material aspects with the consolidated financial statements, complies with the legal requirements and accurately presents the opportunities and risks in relation to future developments.

Basis for opinion on the joint management report

We conducted our audit of the joint management report in accordance with the German generally accepted standards on auditing management reports as promulgated by the IDW (Institute of Public Auditors in Germany). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the joint management report

The Board of Directors is responsible for the preparation of the management report, which provides an accurate overall picture of the Group's situation and corresponds with the consolidated financial statements, complies with the legal requirements and accurately presents the opportunities and risks in relation to future developments. Further, the Board of Directors is responsible for the provisions and measures (systems) that the Board of Directors considers as necessary to prepare the joint management report in accordance with art. 315a para. 1 HGB (German Commercial Law), enable the application of the German legal requirements and be able to provide appropriate and adequate evidence for the statements made in the joint management report.

Auditor's responsibilities for the audit of the joint management report

Our objective is to obtain reasonable assurance about whether the joint management report provides an accurate overall picture of the Group's situation and corresponds in all material aspects with the consolidated financial statements and the information gained during our audit, complies with the legal requirements and accurately presents the opportunities and risks in relation to future developments in order to issue an auditor's report that includes our opinion on the joint management report.

We conduct our audit of the joint management report in accordance with the German generally accepted standards on auditing management reports as promulgated by the IDW. In this regard, we emphasise the following:

- The audit of the joint management report is integrated into the audit of the stand-alone entity's management report.
- We obtain an understanding of the provisions and measures (systems) relevant to the audit of the joint 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 arrangements and measures (systems).
- We perform audit procedures on the forward-looking statements made by the Board of Directors in the joint management report. In doing so, on the basis of sufficient and appropriate audit evidence, we specifically verify the assumptions underlying the forward-looking statements made by the Board of Directors and assess the appropriateness of these assumptions and the proper derivation of the forward-looking statements based on these assumptions. We do not express an opinion on these forward-looking statements or on these underlying assumptions. There is a significant and unavoidable risk that events in the future will deviate materially from the forward-looking statements.
- We do not express an opinion on any specific statements in the joint management report but rather express an opinion on the joint management report as a whole.

PricewaterhouseCoopers AG

PATRICK BALKANYI	ICARE REGNIER
Audit expert	Audit expert
Auditor in charge	

Zurich, 4 April 2017

CONSOLIDATED FINANCIAL STATEMENTS

1 Consolidated Statement of Comprehensive Income

in € thousand	Notes	01/01/2016 – 12/31/2016	01/01/2015 – 12/31/2015
Profit or loss			
Sales revenues and changes in inventories		714,851	721,967
Sales revenues	(1)	714,955	722,137
Changes in inventories	(2)	- 104	- 170
Other income	(3)	16,839	20,109
Material expenses	(4)	- 99,087	- 100,034
Gross profit		**632,603**	**642,042**
Personnel expenses	(5)	- 454,859	- 447,011
Depreciation, amortization and impairment	(6)	- 27,692	- 25,564
Other expenses	(7)	- 112,216	- 109,255
Earnings before interest and taxes (EBIT)	**(8)**	**37,836**	**60,212**
Result from investments accounted for using the equity method	(9)	- 984	1,213
Financial income	(10)	488	2,356
Financing expenses	(11)	- 8,567	- 10,387
Financial result		**- 9,063**	**- 6,818**
Earnings before tax		**28,773**	**53,394**
Income taxes	(12)	- 10,677	- 17,046
Profit or loss		**18,096**	**36,348**

in € thousand	Notes	01/01/2016 – 12/31/2016	01/01/2015 – 12/31/2015
Profit or loss		18,096	36,348
Other comprehensive income			
Reclassifiable profits/losses			
Financial assets available for sale			
Profits/losses included in equity from valuation at fair value		1	- 7
Deferred taxes on financial assets available for sale		-	2
Currency conversion difference			
Profits/losses included in equity from currency conversion difference		426	- 436
Total reclassifiable profits/losses		**427**	**- 441**
Not reclassifiable profits/losses			
Revaluation of net obligation from defined benefit plans			
Revaluation of net obligation from defined benefit plans before taxes	(25)	- 3,112	2,614
Deferred taxes on defined benefit commitments and similar obligations		947	- 766
Share of other comprehensive income of at-equity accounted investments, net of tax		- 55	14
Total not reclassifiable profits/losses		**- 2,220**	**1,862**
Total other comprehensive income before taxes		- 2,740	2,185
Total deferred taxes on the other comprehensive income		947	- 764
Total other comprehensive income		**- 1,793**	**1,421**
Total comprehensive income		**16,303**	**37,769**
From the profit or loss attributable to:			
Shareholders of the parent Company		18,045	36,301
Minority shares (non-controlling interest)	(14)	52	47
Of the total comprehensive income attributable to:			
Shareholders of the parent Company		16,251	37,722
Non-controlling interests		52	47
Earnings per share of sharholders of EDAG Group AG [diluted/basic in EUR]			
Eearnings per share	(15)	0,72	1,45

2 Consolidated Statement of Financial Position

in € thousand	Note	12/31/2016	12/31/2015
Assets			
Goodwill	(16)	64,521	64,235
Other intangible assets	(16)	35,053	41,399
Property, plant and equipment	(17)	71,648	67,908
Financial assets	(18)	158	182
Investments accounted for using the equity method	(19)	15,434	16,733
Non-current accounts receivable and other receivables	(20)	902	1,323
Deferred tax assets	(21)	1,109	780
TOTAL non-current assets		**188,825**	**192,560**
Inventories	(22)	1,919	1,599
Future receivables from construction contracts	(20)	86,881	93,257
Current accounts receivable and other receivables	(20)	127,309	111,792
Other financial assets	(18)	61	68
Income tax assets	(21)	2,298	4,979
Cash and cash-equivalents	(23)	19,067	70,654
Assets held for sale	(13)	4,056	635
TOTAL current assets		**241,591**	**282,984**
TOTAL assets		**430,416**	**475,544**

in € thousand	Note	12/31/2016	12/31/2015
Equity, liabilities and provisions			
Subscribed capital		920	920
Capital reserves		40,000	40,000
Retained earnings		123,374	123,982
Reserves from profits and losses recognized directly in equity		- 9,954	- 7,735
Currency conversion differences		- 1,577	- 2,004
Equity attributable to shareholders of the parent Company		**152,763**	**155,163**
Non-controlling interests		1	80
TOTAL equity	**(24)**	**152,764**	**155,243**
Provisions for pensions and similar obligations	(25)	27,038	21,991
Other non-current provisions	(26)	3,030	3,244
Non-current financial liabilities	(27)	88,080	135,167
Non-current accounts payable and other liabilities	(28)	-	3
Non-current income tax liabilities	(29)	1,460	1,460
Deferred tax liabilities	(29)	6,691	9,208
TOTAL non-current liabilities and provisions		**126,299**	**171,073**
Current provisions	(26)	9,485	12,462
Current financial liabilities	(27)	29,190	28,942
Future liabilities from construction contracts	(28)	29,689	24,284
Current accounts payable and other liabilities	(28)	76,017	78,792
Income tax liabilities	(29)	6,972	4,748
TOTAL current liabilities and provisions		**151,353**	**149,228**
TOTAL equity, liabilities and provisions		**430,416**	**475,544**

3 Consolidated Cash Flow Statement

in € thousand		01/01/2016 – 12/31/2016	01/01/2015 – 12/31/2015
	Profit or loss	**18,096**	**36,348**
+	Income tax expenses	10,677	17,046
-	Income taxes paid	- 7,476	- 26,220
+	Financial result	9,064	6,818
+	Interest and dividend received	720	2,315
+/-	Impairment from revaluation at fair value less costs of disposal	-	577
+/-	Depreciation and amortization/write-ups on tangible and intangible assets	27,692	24,987
+/-	Other non-cash item expenses/income	- 1,746	2,403
+/-	Increase/decrease in non-current provisions	4,732	- 2,191
-/+	Profit/loss on the disposal of fixed assets	554	- 50
-/+	Increase/decrease in inventories	- 312	5,294
-/+	Increase/decrease in future receivables from construction contracts, receivables and other assets that are not attributable to investing or financing activities	- 9,279	- 5,929
+/-	Increase/decrease in current provisions	- 3,470	- 354
+/-	Increase/decrease in accounts payables and other liabilities and provisions that are not attributable to investing or financing activities	2,510	- 33,468
=	**Cash inflow/outflow from operating activities/operating cash flow**	**51,762**	**27,576**
+	Deposits from disposals of tangible fixed assets	1,238	44,798
-	Payments for investments in tangible fixed assets	- 23,222	- 24,185
+	Deposits from disposals of intangible fixed assets	29	203
-	Payments for investments in intangible fixed assets	- 4,681	- 6,079
+	Deposits from disposals of financial assets	30	66
-	Payments for investments in financial assets	- 33	- 52
-	Payments for investments in shares of fully consolidated companies/divisions	- 681	- 1,096
=	**Cash inflow/outflow from investing activities/investing cash flow**	**- 27,320**	**13,655**

	in € thousand	01/01/2016 – 12/31/2016	01/01/2015 – 12/31/2015
-	Payments to shareholders/partners (prior year dividend, capital repayments, other distributions)	- 18,783	- 36
-	Interest paid	- 7,593	- 8,844
+	Borrowing of financial liabilities	82	24,811
-	Repayment of financial liabilities	- 47,796	- 30,199
-	Repayment of leasing liabilities	- 2,333	- 941
+/-	Repayment/Investment in financial receivables	-	5,539
=	**Cash inflow/outflow from financing activities/financing cash flow**	**- 76,423**	**- 9,670**
	Net Cash changes in financial funds	**- 51,981**	**31,561**
-/+	Effect of changes in currency exchange rate and other effects from changes of financial funds	394	- 409
+	Financial funds at the start of the period	70,654	39,502
=	**Financial funds at the end of the period [cash & cash equivalents]**	**19,067**	**70,654**
=	**Free cash flow (FCF) – equity approach**	**24,442**	**41,231**

For a more detailed account of the cash flow statement, see chapter 5.6 "Notes on the Cash Flow Statement", on page 237.

4 Consolidated Statement of Changes in Equity

in € thousand	Subscribed capital	Capital reserves	Retained earnings		Currency conversion
			Legal reserves	Other retained earnings	
As per 1/1/2016	**920**	**40,000**	**-**	**123,982**	**- 2,004**
Profit or loss	-	-	-	18,045	-
Other comprehensive income	-	-	-	-	427
Total comprehensive income	-	-	**-**	**18,045**	**427**
Special bonus	-	-	-	98	-
Dividends	-	-	-	- 18,750	-
As per 12/31/2016	**920**	**40,000**	**-**	**123,374**	**- 1,577**

in € thousand	Revaluation from pension plans	Securities available for sale	Shares in investments accounted for using the equity method	Total equity attributable to majority shareholders	NCI	Total equity
As per 1/1/2016	**- 7,706**	**- 4**	**- 25**	**155,163**	**80**	**155,243**
Profit or loss	-	-	-	18,045	52	18,096
Other comprehensive income	- 2,164	-	- 55	- 1,792	-	- 1,792
Total comprehensive income	**- 2,164**	**-**	**- 55**	**16,253**	**52**	**16,305**
Special bonus	-	-	-	98	- 98	-
Dividends	-	-	-	- 18,750	- 33	- 18,783
As per 12/31/2016	**- 9,870**	**- 4**	**- 80**	**152,763**	**1**	**152,764**

in € thousand	Subscribed capital	Capital reserves	Retained earnings: Legal reserves	Retained earnings: Other retained earnings	Currency conversion
As per 1/1/2015	**20,000**	**40,746**	**2,000**	**65,756**	**- 1,568**
Impact legal reorganization: EDAG Engineering GmbH, Wiesbaden	- 20,000	- 40,746	- 2,000	- 65,756	1,568
Impact legal reorganization: EDAG Engineering Holding GmbH, Munich	1,000	40,746	-	67,756	- 1,568
Capital increase EDAG Engineering Holding GmbH, Munich	-	6	-	-	-
After 1st legal reorganization	**1,000**	**40,752**	**-**	**67,756**	**- 1,568**
Impact legal reorganization: EDAG Engineering Holding GmbH, Munich	- 1,000	- 40,006	-	- 67,756	1,568
Impact legal reorganization: EDAG Engineering Schweiz Sub-Holding AG, Arbon	22,905	40,000	-	64,856	- 1,568
After 2nd legal reorganization	**22,905**	**40,746**	**-**	**64,856**	**- 1,568**
Impact legal reorganization: EDAG Engineering Schweiz Sub-Holding AG, Arbon	- 22,905	- 40,000	-	- 64,856	1,568
Impact legal reorganization: EDAG Engineering Group AG, Arbon	920	40,000	-	87,681	- 1,568
After 3rd legal reorganization	**920**	**40,746**	**-**	**87,681**	**- 1,568**
Profit or loss	-	-	-	36,301	-
Other comprehensive income	-	-	-	-	- 436
Total comprehensive income	**-**	**-**	**-**	**36,301**	**- 436**
Capital increase	-	754	-	-	-
Special bonus	-	- 1,500	-	-	-
Dividends	-	-	-	-	-
As per 12/31/2015	**920**	**40,000**	**-**	**123,982**	**- 2,004**

For explanations concerning equity, see chapter [24] "Equity", on page 216.

in € thousand	Revaluation from pension plans	Securities available for sale	Shares in investments accounted for using the equity method	Total equity attributable to majority shareholders	NCI	Total equity
As per 1/1/2015	**- 9,554**	**1**	**- 39**	**117,342**	**69**	**117,411**
Impact legal reorganization: EDAG Engineering GmbH, Wiesbaden	9,554	- 1	39	- 117,342	- 69	- 117,411
Impact legal reorganization: EDAG Engineering Holding GmbH, Munich	- 9,554	1	- 39	98,342	69	98,411
Capital increase EDAG Engineering Holding GmbH, Munich	-	-	-	6	-	6
After 1st legal reorganization	**- 9,554**	**1**	**- 39**	**98,348**	**69**	**98,417**
Impact legal reorganization: EDAG Engineering Holding GmbH, Munich	9,554	- 1	39	- 97,602	- 69	- 97,671
Impact legal reorganization: EDAG Engineering Schweiz Sub-Holding AG, Arbon	- 9,554	1	- 39	116,601	69	116,670
After 2nd legal reorganization	**- 9,554**	**1**	**- 39**	**117,347**	**69**	**117,416**
Impact legal reorganization: EDAG Engineering Schweiz Sub-Holding AG, Arbon	9,554	- 1	39	- 116,601	- 69	- 116,670
Impact legal reorganization: EDAG Engineering Group AG, Arbon	- 9,554	1	- 39	117,441	69	117,510
After 3rd legal reorganization	**- 9,554**	**1**	**- 39**	**118,187**	**69**	**118,256**
Profit or loss	-	-	-	36,301	47	36,348
Other comprehensive income	1,848	- 5	14	1,421	-	1,421
Total comprehensive income	**1,848**	**- 5**	**14**	**37,722**	**47**	**37,769**
Capital increase	-	-	-	754	-	754
Special bonus	-	-	-	- 1,500	-	- 1,500
Dividends	-	-	-	-	- 36	- 36
As per 12/31/2015	**- 7,706**	**- 4**	**- 25**	**155,163**	**80**	**155,243**

5 Notes

5.1 General Information

The EDAG Group are experts in the development of vehicles, derivatives, modules and production facilities, specializing in complete vehicle development. As one of the largest independent engineering partners for the automotive industry, we regard mobility not simply as a product characteristic, but rather as a fully integrated purpose.

The parent Company of the EDAG Group is EDAG Engineering Group AG ("EDAG Group AG"). EDAG Group AG was founded on November 2, 2015, and entered in the commercial register of the Swiss canton Thurgau on November 3, 2015. The registered office of the Company is: Schlossgasse 2, 9320 Arbon, Switzerland.

Since December 2, 2015, the Company has been listed for trading on the regulated market of the Frankfurt Stock Exchange with concurrent admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard):

ISIN[1]: CH0303692047
WKN[2]: A143NB
Trading symbol: ED4

[1] International Securities Identification Number

[2] Security Identification Number

The shares are denominated in Swiss francs. The operating currency is the euro, and shares are traded in euros. The Company's shares are briefed in a global certificate and deposited with Clearstream. Each Company share entitles its holder to a vote at the Company's general meeting. Restrictions on voting rights exist to the extent that the majority shareholders ATON GmbH ("ATON") and HORUS Vermögensverwaltungs-GbR ("HORUS") have entered into an agreement with the Company in which they have undertaken for a period starting on the first day of trading of the shares of the Company on the Frankfurt Stock Exchange (December 2, 2015) and ending on the second ordinary shareholders' meeting of the Company after the first day of trading, however, at least for a period of 19 months after the first day of trading and with respect to such number of shares of the Company directly or indirectly held by ATON or HORUS respectively upon settlement of the offering to exercise its voting rights in ordinary shareholders' meetings of the Company only with regard to half of the persons that are eligible as members for the Board of Directors. With the voting rights notification of May 30, 2016, the announcement was made that 59.75 percent of the EDAG shares had been transferred from ATON GmbH, Munich to ATON Austria Holding GmbH, Going am Wilden Kaiser. In this context, the existing voting restriction with an identical period of validity was likewise transferred.

For the financial year ending December 31, 2016, the Company shares fully qualify for dividends.

The 2016 annual financial statements of EDAG Group AG and the consolidated financial statements of EDAG Group AG will be issued with an unqualified audit certificate by PricewaterhouseCoopers AG, Zurich (Switzerland), and submitted to the operator of the Electronic Federal Gazette in Germany.

The financial statements of the companies included in the consolidated financial statement have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the European Union as of the financial reporting date of EDAG Group AG (December 31).

The consolidated financial statements have been prepared using the euro as the reporting currency. Unless otherwise stated, all amounts are given in thousands of euros. Where percentage values and figures are given, differences of +/- € 1 thousand may occur due to rounding.

In order to improve the clarity and informational value of the consolidated financial statements, individual items consolidated both in the statement of financial position and in the statement of comprehensive income (including profit or loss), the cash flow statement and the statement of changes in equity will be disclosed and explained separately in the notes.
In accordance with IAS 1, the statement of financial position is divided into non-current and current assets, liabilities and provisions. Assets and liabilities are classified as current if they are expected to be sold or settled respectively within a year or within the Company's or group's normal operating cycle. In compliance with IAS 12, deferred taxes are posted as non-current assets and liabilities. Likewise, pension provisions are also posted as non-current items.

The statement of comprehensive income is structured according to the nature of expense method.

5.2 Basic Principles and Methods

Basic Accounting Principles

The consolidated financial statement of EDAG Group AG and its subsidiaries for December 31, 2016 has been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as they are to be applied pursuant to Directive No. 1606/2002 of the European Parliament and Council regarding the application of international accounting standards in the EU. In addition to the International Financial Reporting Standards, the term IFRS also includes the still valid International Accounting Standards (IAS), the Interpretations of the International Financial Reporting Standards Interpretations Committee (IFRIC) and those of the former Standing Interpretations Committee (SIC). The requirements of all accounting standards and interpretations resolved as of December 31, 2016 and adopted in national law by the European Commission have been fulfilled. Please also see chapter 5.2 "c) Synoptic Presentation of the Main Differences between IFRS IASB and IFRS EU", on page 159.

In addition to the statement of financial position and the statement of comprehensive income (including profit or loss), the IFRS consolidated financial statement also includes additional components, namely the statement of changes in equity, the cash flow statement and the notes. The separate report on the risks of future development is included in the management report.

All estimates and assessments required for accounting and valuation in accordance with the IFRS standards are in conformity with the respective standards, are regularly reassessed, and are based on past experience and other factors including expectations as to future events that appear reasonable under the given circumstances. Wherever large-scale estimates were necessary, the assumptions made are set out in the note relating to the relevant item in the following.

New, Changed or Revised Accounting Standards

a) New and changed standards in use in 2016

EDAG Group AG has applied the following accounting standards adopted by the EU and legally required to be applied since January 1, 2016, although they did not have any significant effect on the assets, financial and earnings situation of the consolidated financial statements:

- IFRS 11: Change in accounting for acquisitions of interest in joint operations
- IAS 16/IAS 38: Change to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: Clarification of acceptable methods of depreciation and amortization
- IAS 16/IAS 41: Agriculture: Bearer plants
- IAS 27: Change in the use of equity method in separate financial statements
- IAS 1: Change: Disclosure initiative
- IFRS 10, IFRS 12, IAS 28 (IASB publication: December 18, 2014; EU endorsement: open): Change in investment companies - applying the consolidation exception
- Annual improvements of IFRS 2012-2014 (Annual Improvement Project 2014):
  - IFRS 5: Non-current assets held for sale and discontinued operations
  - IFRS 7: Financial instruments
  - IAS 19: Employee benefits
  - IAS 34: Interim financial reporting

b) Standards, interpretations and changes to published standards, which are not yet mandatory for 2016, and which have not been applied prematurely by the Company

The new, changed or revised accounting standards will be applied, without exception, from the time when use is compulsory in each given case.

	Standard/Interpretation[3]	Published by the IASB	Compulsory use	Endorsement by EU-Commission	
				Effected on	Planned for
IAS 12	Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	01/19/2016	01/01/2017		Q2 2017
IAS 7	Amendments to IAS 7: Disclosure initiative	01/29/2016	01/01/2017		Q2 2017
IFRS 9	Financial instruments	07/24/2014	01/01/2018	11/22/2016	
IFRS 15	Revenue	05/28/2014	01/01/2018	09/22/2016	
IFRS 15	Revenue: Clarifications	04/12/2016	01/01/2018		Q1 2017
IFRS 2	Classification and Measurement of Share-based Payment Transactions	06/12/2016	01/01/2018		Q3 2017
IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	09/12/2016	01/01/2018		Q3 2017
IFRS 16	Leases	01/13/2016	01/01/2019		Q4 2017
Various	Annual Improvements to IFRS Standards 2014 – 2016 Cycle	12/08/2016	01/01/2017/ 01/01/2018		Q3 2017
IFRIC 22	Foreign Currency Transactions and Advance Consideration	12/08/2016	01/01/2018		Q3 2017
IAS 40	Amendments to IAS 40: Transfers of Investment Property	12/08/2016	01/01/2018		Q3 2017

[3] Until 12/31/2016

IFRS 15 – Recognition of revenue should be applied for reporting periods beginning on or after January 1, 2018:

The regulations and definitions set out in IFRS 15 will in future replace the contents of IAS 18 "Revenue" and of IAS 11 "Construction Contracts". On the one hand the aim of the amended standards is to standardize the previous, somehwat limited provisions of the IFRS, and on the other hand the extremely detailed, sometimes industry-specific US-GAAP provisions, and improve in this way the transparency and comparability of financial information. According to IFRS 15, revenue is to be recognized when the customer obtains control of the promised goods and services, and can benefit from them. The critical point is no longer the transfer of significant chances and risks set out in the old regulations in IAS 18 "Revenue". Revenue is to be evaluated with the amount of consideration the Company expects to receive. The new standard establishes a five-step model for recognizing revenue, and first of all requires identification of the contract with a customer and of the performance obligations in the contract. Following this, the transaction price of the contract with the customer must be determined and the separate performance obligations allocated. Finally, the new standard requires recognition of revenue for each performance obligation in the amount of the allocated proportionate transaction price as soon as the promised goods have been delivered or services rendered, or the customer has obtained control of the goods/services (control model). Predetermined criteria are applied to determine whether the satisfaction of a performance obligation occurs at a point in time or over time. Particularly with performance obligations to be satisfied over time (e.g. work contracts) in countries outside of the DACH[4] region, there is a possibility of the occurrence of unenforceable claims for payment, making it impossible to realize a proportion of the profits. Further, multi-component contracts could lead to significant changes in evaluation, due to the different times at which revenue is recognized and to the distribution of the transaction price to separate performance obligations. As EDAG almost never enters into multi-component contracts with customers, the new standard is not expected to have any significant effect on the Group. The only differences that arise will be in the notes to be presented. The EDAG Group plans a complete retrospective application of the new standard.

[4] Germany, Austria and Switzerland

IFRS 16 – Leases should be applied for reporting periods beginning on or after January 1, 2019:

The standard published on January 2016 replaces IAS 17 "Leases" and associated interpretations (IFRIC 4, SIC-15 and SIC-27). The impact on lessees financial reporting in particular is expected to be substantial. The rules and regulations for lessors remain largely unchanged, although there may be differences in the details, for instance with subleasing, sale and leaseback transactions. The areas affected by the key amendments to IFRS 16 include:

- **Lease:** More emphasis will be placed on the principle of control over use, while the pricing structure will no longer play a role in the classification of an agreement as a lease.
- **Accounting model for the lessee:** Lessees must account for all leases. The right of use is depreciated on a straight line basis and the lease liability valued using the effective interest method. However, there are two exceptions to restrict the burden on the lessee. In addition, the regulation may also be used on a leasing portfolio, provided that this does not present any material change compared to an individual analysis.

The application of IFRS 16 – Leases will have far-reaching effects on the financial figures of the EDAG Group:
The general obligation to prepare accounts for leases, for instance, is expected to lead to a significant extension of the Group statement of financial position total. Further, due to the typical faster reduction of the rights of use (straight-line depreciation) compared to the lease liability (effective interest method), a reduction of the Group's equity ratio is anticipated, and with it a higher debt ratio.

Due to the elimination of operating leasing (in the lessee model) and the future inclusion of an amortization and interest rate component in the statement of comprehensive income, a positive effect on the Group EBIT is generally anticipated, compared with the application of IAS 17.

IFRS 9 – Financial instruments should be applied for reporting periods beginning on or after January 1, 2019:
On July 24, 2014, IASB published the standard IFRS 9 "Financial Instruments", which replaces IAS 39. IFRS 9 includes amended specifications for the classification and valuation of financial assets and a new risk prevention model, which will now take anticipated losses into account for the calculation of the provisions for risks. In addition, the new hedge accounting provisions published in November 2013 have now been included in the final version of IFRS 9. The examination of the application of the new regulations and the effect they will have on the consolidated financial statements has not yet been completed. In particular, effects may arise as a result of the new impairment regulations based on the anticipated credit defaults for non-current receivables, as anticipated future losses must also be included, whereas IAS 39 simply stipulates that impairments that have already been incurred should be recorded.

c) Synoptic presentation of the main differences between IFRS IASB and IFRS EU

IAS 19 Employee Contributions (IASB publication: November 21, 2013; EU endorsement: December 17, 2014 with diverging effective date on or after February 1, 2015): Clarification of the recognition of contributions from employees or third parties in respect of service, and simplification of accounting requirements when the amount of contributions is independent of the number of years of service.

Annual Improvements 2010–2012 (IASB publication: December 12, 2013; EU endorsement: December 17, 2014 with diverging effective date on or after February 1, 2015): Amendments and clarifications in

- IAS 16 and/or IAS 38 when using the revaluation method
- IAS 24: Related Parties
- IFRS 2: Share-based Payments
- IFRS 3: Business Combinations
- IFRS 8: Operating Segments
- IFRS 13: Fair Value Measurement

IFRS 14 Regulatory Deferral Accounts (IASB publication: January 30, 2014; EU endorsement: no): The provisions of this standard apply to an entity's first annual IFRS financial statements in accordance with IFRS 1, and is regarded as an interim standard. At the end of 2015, the European Commission decided not to adopt this interim measure, and instead to wait for the IASB's final, comprehensive ruling.

IFRS 10/IAS 28 (IASB publication: September 11, 2014; EU endorsement: open): Change in sale or contribution of assets between an investor and its associate or joint venture The EU endorsement has been postponed indefinitely.
The adoption of the full IFRS-IASB compared to the IFRS-EU, would not have any significant effects on the assets, financial position and financial performance.

Consolidation Principles

The basis for the preparation of the consolidated financial statement is formed by the individual financial statements of EDAG Group AG and its subsidiaries which have been presented pursuant to IAS 10, according to standardized accounting and valuation methods. All the companies included – with the exception of EDAG Engineering & Design India Private Limited, New Delhi/India and EDAG Technologies India Private Limited, New Delhi/India – use the calendar year as their financial year.

The country-specific financial statements of the Indian companies are prepared as of March 31. However, as of the balance sheet date December 31, interim financial statements were prepared according to the IFRS requirements.

Capital consolidation is carried out according to the purchase method described in IFRS 3, by offsetting the acquisition costs for the Company merger against the proportional equity capital of the subsidiary included in the consolidated financial statement upon first-time consolidation. In order to determine the proportional equity capital at the time of acquisition, a valuation of all identifiable assets, debts and contingent liabilities of the acquired Company is carried out, including those which were not applied by the acquired Company, at their fair values applicable at the date of acquisition. Non-current assets held for disposal pursuant to IFRS 5 are valued at their fair value less disposal costs.

Should the acquisition costs exceed the fair value of the Group's share of the identifiable assets, liabilities and provisions and contingent liabilities of the subsidiary as of the acquisition date, the excess is allocated to one or several Cash Generating Units (CGU) and accounted for separately as goodwill. At least once a year – more frequently if there is reason to believe this is indicated – an impairment test is carried out to check the intrinsic value of the Company's goodwill. In the event of impairment, unscheduled amortization is carried out. In the event of the disposal of a subsidiary, the attributable share of the goodwill is taken into account when calculating the result of the disposal.

Non-controlling interest represents the proportion of the result and the net assets which is not attributable to the shareholders of the Group. Shares of other shareholders are shown separately in the Group statement of comprehensive income and in the Group statement of financial position according to their shares in the fair values of the identifiable assets, liabilities and provisions and contingent liabilities. This item is reported under equity in the Group statement of financial position, separately from the equity attributable to the shareholders of the parent Company.

Assets and liabilities and also sales revenues, expenses and income between consolidated companies have been offset. No significant effects result from the intercompany profit consolidation, taking deferred taxes into account.

The first-time valuation of joint-venture companies is carried out at acquisition cost. For the subsequent valuation, the share of the profits and losses generated after the acquisition of the Company accounted for using the equity method is recorded through profit or loss and the investment valuation increased or decreased accordingly. The investments valued using the equity method are recorded with the proportional, newly valued equity capital. The statement of comprehensive income includes the Group's share in the success of the joint venture. Changes reported directly in the equity capital of the joint venture are recorded by the Group in the amount of its share and – if applicable – reported in the statement of changes in equity capital. Profits and losses from transactions between the Group and the joint venture are eliminated in proportion to the share in the joint venture. The balance sheet date and the accounting and valuation methods for similar business transactions and results under comparable circumstances of the joint venture and the Group correspond.

Scope of Consolidation

In addition to EDAG Group AG, all material subsidiaries are included in the consolidated financial statement. Subsidiaries are companies in which EDAG Group AG exercises direct or indirect control.

Control exists when a parent Company is subject to variable returns from its involvement with the subsidiary, or is entitled to and has existing rights (art. of association, Company contract or a contractual agreement) that grant the ability to affect those returns through its power over the subsidiary.

With all such investments, this is based on the majority of voting rights held directly or indirectly by the parent Company. The financial statements of the subsidiaries are included in the consolidated financial statements by means of consolidation from the date of gaining control until the parent Company ceases to control the subsidiary.

In addition to EDAG Group AG, the consolidated financial statement includes the companies listed in the list of shareholdings, which are fully consolidated as per IFRS 10.

As the inclusion of several companies individually and overall is of little importance with regard to the obligation to give a fair presentation of the net assets, financial position and financial performance of the Group, this has been waived. These subsidiaries have been reported at acquisition cost, as per IAS 39 (see notes).

The following German incorporated and registered partnerships controlled according to IFRS 10 were included in the consolidated financial statements and group management report of EDAG Group AG, Arbon, Switzerland, in accordance with the regulations set out in § 292 section 1 HGB (German Commercial Code) in conjunction with § 291 section 1 HGB (German Commercial Code). The conditions for exemption from the preparation of their own consolidated financial statement have been fulfilled.

- EDAG Engineering Holding GmbH, Munich
- EDAG Engineering GmbH, Wiesbaden
- EDAG Production Solutions GmbH & Co. KG, Fulda
- BFFT Holding GmbH, Munich
- BFFT Fahrzeugtechnik mbH, Gaimersheim

Companies on which EDAG Group AG can, through involvement in their financial and business policies, have a significant effect (associated companies) are accounted for using the equity method as per IAS 28. As a general rule, "a significant effect" is assumed in cases where the share of voting rights is from 20 to 50 percent. Determination of when exactly the associated companies will be included in, or withdrawn from, the circle of companies to be accounted for using the equity method is analogous to the principles applicable to subsidiaries.

In the period January 1, 2015 to December 31, 2016, the group of combined or consolidated companies developed as follows:

	Switzerland	Germany	Others	Total
Fully consolidated companies				
Included as of 1/1/2015	**1**	**10**	**27**	**38**
Included for the first time in current financial year	2	2	1	5
Withdrawn in current financial year	-	2	4	6
Included as of 12/31/2015	**3**	**10**	**24**	**37**
Included for the first time in current financial year	-	-	1	1
Withdrawn in current financial year	-	1	-	1
Included as of 12/31/2016	**3**	**9**	**25**	**37**
Companies accounted for using the equity method				
Included as of 1/1/2015	**-**	**3**	**-**	**3**
Included for the first time in current financial year	-	-	-	-
Withdrawn in current financial year	-	2	-	2
Included as of 12/31/2015	**-**	**1**	**-**	**1**
Included for the first time in current financial year	-	-	-	-
Withdrawn in current financial year	-	-	-	-
Included as of 12/31/2016	**-**	**1**	**-**	**1**
Companies included at acquisition cost				
Included as of 1/1/2015	**-**	**2**	**2**	**4**
Included for the first time in current financial year	-	1	-	1
Withdrawn in current financial year	-	-	2	2
Included as of 12/31/2015	**-**	**3**	**-**	**3**
Included for the first time in current financial year	-	-	-	-
Withdrawn in current financial year	-	1	-	1
Included as of 12/31/2016	**-**	**2**	**-**	**2**

The companies included at acquisition cost are for the most part non-operational companies and general partners. The Company accounted for using the equity method that is included is an associated Company.

VR-Leasing Malakon GmbH & Co Immo. KG is included as a fully consolidated Company, although the Group holds only 25 percent of the voting rights. On the other hand, it has an almost 100 percent share in the capital. Agreements under Company law, however, result in control by EDAG in accordance with IFRS 10.7. EDAG is under no obligation to grant the Company financial assistance. EDAG has not in the past voluntarily granted any such financial assistance, nor does the Company have any intention of doing so in the future.

The following companies were merged with EDAG Engineering GmbH, Wiesbaden with retrospective effect from January 1, 2016:

- Zweite FOM Objekt GmbH & Co.KG, Wiesbaden (registered on July 11, 2016)
- Zweite FOM Beteiligungs GmbH, Wiesbaden (registered on July 11, 2016)

Acquisition of Duvedec Europe B.V., Netherlands on April 1, 2016

The cash outflows due to the acquisition of the Company were as follows:

in € thousand	2016
Outflow of cash and cash equivalents, total	587
Cash and cash equivalents acquired with the subsidiary	1
Actual cash outflow	586

The following table sets out the assets, liabilities and provisions identified for the acquisition of the Company and assumed at the time of acquisition.

in € thousand	Historical book values (IFRS)	Adjustments to fair values	Fair values at time of acquisition
Intangible Assets	-	267	267
Property, plant and equipment	10	-	10
Non-current accounts receivable and other non-current receivables	1	-	1
Other non-current assets	11	-	11
Non-current assets	**22**	**267**	**289**
Accounts receivable and other receivables	223	-	223
Cash and cash equivalents	1	-	1
Current assets	**224**	**-**	**224**
TOTAL assets	**246**	**267**	**513**
Financial liabilities	3	-	3
Trade payables	62	-	62
Other current liabilities	172	-	172
Deferred tax liabilities	-	53	53
TOTAL liabilities and provisions	**237**	**53**	**290**
Acquired net assets	**9**	**214**	**223**

in € thousand	2016
Attributable fair value of the purchase price for net assets	**587**
Net assets at book values	9
Difference	**578**
Adjustment to fair values	
Intangible Assets	267
Deferred tax liabilities on adjustments	**- 53**
Capitalized goodwill	**365**

With effect from April 1, 2016, EDAG acquired 100 percent of the shares in Duvedec Europe B.V., which has its head office in the Netherlands. This acquisition is a further extension of EDAG's European site network, and enables the Company to provide local presence and support in the Netherlands for the first time ever. Founded in 1982, Duvedec Europe B.V. has successfully established its position as an engineering partner to European vehicle manufacturers and suppliers. Its current 18-strong workforce is based in Helmond, and provides engineering services in the field of interior and exterior development, mainly for the commercial vehicle industry. The resulting goodwill in the amount of € 365 thousand is not tax-deductible, and consists primarily of non-separable values for the knowledge of the employees and benefits from the expected synergies with other companies. The goodwill has been fully assigned to the "Vehicle Engineering" CGU. The sales revenues of Duvedec Europe B.V. included in the consolidated statement of comprehensive income since the acquisition date amounted to € 1,450 thousand, the recognized profit to € 66 thousand. Had the inclusion of the Company been effected by January 1, group sales revenues would have been € 319 thousand higher, and earnings after tax € 2 thousand higher.

Currency Conversion

For initial recognition, foreign currency transactions in the individual annual financial statements accounts of the Group companies included are valued using the exchange rate at the time of the business transaction. Monetary assets and debts in a foreign currency (cash and cash equivalents, receivables and liabilities) are valued at the value on the balance sheet date. The exchange rate gains and losses arising from the valuation or settlement of monetary items are shown in the statement of comprehensive income. Equity and non-monetary items are valued at historical rates.

The annual financial statements of the foreign Group companies are converted into euros, on the basis of the concept of functional currency, as per the modified reporting date rate method (functional currency of the key Group companies). Due to the fact that the subsidiaries conduct their business with financial, commercial and organizational independence, the functional currency is always identical to the national currency of the Company in question. In the consolidated financial statements, therefore, the expenses and revenues from subsidiaries' financial statements drawn up in a foreign currency are converted at average rates of exchange for the year, while assets and liabilities are converted at year-end exchange rates. The currency difference arising from the conversion of equity is posted in other comprehensive income. The conversion differences resulting from differing exchange rates between the statement of financial position and the statement of comprehensive income are also disclosed in this separate item and recognized directly in equity. When dealing with the disposal of a subsidiary, the currency translation differences recorded in equity during the years it belonged to the group are reversed to profit or loss.

Currency conversion was based on the following exchange rates.

Country	Currency 1 EUR = Nat. currency	12/31/2016 Spot rate on balance sheet date	2016 Average exchange rate for period	12/31/2015 Spot rate on balance sheet date	2015 Average exchange rate for period
Great Britain	GBP	0.8562	0.8189	0.7340	0.7259
Brazil	BRL	3.4305	3.8616	4.3117	3.6912
USA	USD	1.0541	1.1066	1.0887	1.1095
Malaysia	MYR	4.7287	4.5842	4.6959	4.3313
Australia	AUD	1.4596	1.4886	1.4897	1.4765
Hungary	HUF	309.8300	311.4593	315.9800	309.8912
India	INR	71.5935	74.3553	72.0215	71.1648
China	CNY	7.3202	7.3496	7.0608	6.9720
Mexico	MXN	21.7719	20.6550	18.9145	17.5970
Czech Republic	CZK	27.0210	27.0343	27.0230	27.2841
Switzerland	CHF	1.0739	1.0902	1.0835	1.0676
Poland	PLN	4.4103	4.3636	4.2639	4.1827
Romania	RON	4.5390	4.4908	4.5240	4.4453
Russia	RUB	64.3000	74.2224	80.6736	68.0001
Sweden	SEK	9.5525	9.4673	9.1895	9.3538
Japan	JPY	123.4000	120.3138	131.0700	134.2736
South Korea	KRW	1,269.3600	1,284.5640	1,280.7800	1,255.5980

Accounting and Valuation Principles

The consolidated financial statement has been prepared on the basis of historical acquisition/production costs. The one exception to this rule are specific financial instruments which are reported on the basis of their fair value.

When preparing the consolidated financial statement for the year ending December 31, 2016, the same basic accounting and valuation methods were applied as for calculating the comparative figures.

Realization of Income and Expenses

Income is measured at the fair value for the consideration received or to be received for the sale of goods and services within the context of the ordinary business activity, less the discounts, price reductions and volume discounts granted by the Company. VAT and other duties are not taken into account. Income is reported if the economic benefit is likely to accrue to the Group, and the amount of the income can be reliably ascertained.

With the sale of goods and services, this is the point in time at which ownership and risk are transferred, or the service is performed.

Income from service business and construction contracts is reported as income with reference to the stage of completion, if the result of the construction contract can be reliably estimated (percentage of completion method, PoC method). This is the case, if both the total income and any costs incurred up to the balance sheet date and any costs anticipated until the order has been completed, and the degree of completion can call be reliably ascertained, and it is probable that the economic benefits resulting from the business will flow to the EDAG Group. The degree of completion is ascertained on the basis of the costs incurred by the balance sheet date, as a percentage rate of the total costs estimated for the respective project. If the result of a production order cannot be reliably forecast, income is only posted to the extent to which the costs incurred can be recovered (zero-profit method).

Service contracts in accordance with § 611 et seq. of the German Civil Code (BGB) and deliveries in accordance with § 433 BGB play only a minor role in the EDAG Group, as the scope of such contractual arrangements is small. For the most part, EDAG works on construction contracts and and has therefore generally entered into work contracts in accordance with § 631 et seq. BGB with its customers, or performs a contract for labor and materials in accordance with § 651 BGB.

In the statement of financial position, the parts of the order – both for services and for construction contracts – for which income has been accounted for with the PoC method are posted to "future receivables from construction contracts", after deducting the advance payments received. Should the down payments received in relation to the individual customer project exceed the accumulated contract revenue accounted for, this is reported under "future liabilities from work contracts". Losses from customer-specific construction contracts are initially offset on the asset side with the status as of the reference date and the remainder is immediately posted in its full amount as pending loss.

Interest income and expenses are posted on a pro rata temporis basis, applying the effective interest method. Dividends are recorded when entitlement is legally effective.
Operating expenses are posted as costs when the service is utilized, or at the time they are incurred.

Research and Development Costs
For accounting purposes, research costs are defined as costs relating to targeted investigations which are intended to deliver new scientific or technical findings and insights. Development costs are defined as expenses relating to the application of research results or technical knowledge in production, production processes, services or goods prior to the start of commercial production or use. The EDAG Group mainly provides customers with development services which can then be capitalized within the context of a customer project, and subsequently accounted for.

Research costs are immediately recorded through profit and loss. Development costs are capitalized if they fulfil specific, precisely defined valuation criteria (IAS 38.57). Capitalization is effected if the development activity is sufficiently certain to lead to future inflows of funds which will also cover the corresponding development costs.

Production costs include directly attributable costs and directly attributable material and production overheads, and also interest on borrowed capital, where this is applicable.
Depreciation begins on completion of development, when the asset is available for use. Depreciation is on a straight line basis, over the period during which sales revenues are anticipated. During the development period, in which the asset is not yet ready for use, it is reviewed annually with regard to impairment.
In the reporting year, research and development expenses amounted to € 3,302 thousand (2015: € 2,917 thousand).

Other Intangible Assets

Intangible assets are posted as per IAS 38 ("Intangible Assets"), and capitalized accordingly if (a) the intangible asset is identifiable (i.e. it is separable or results from contractual or other right), (b) it is likely that the future economic benefit (e.g. liquid funds or other benefits, such as cost savings) which results from the asset will flow to the Company and, (c) the costs of the intangible asset can be reliably measured. The intangible assets of the EDAG Group include customer relations, concessions, industrial property rights and similar rights, IT software, and capitalized development costs.

Intangible assets acquired for consideration are capitalized at acquisition cost and written off over their useful life. The depreciation of intangible assets, with the exception of goodwill, is always carried out on a straight line basis, over the following period:

	Years
Customer relations	8 – 10
Capitalized orders on hand	1
Capitalized development services	3 – 5
Concessions, industrial property rights and similar rights	4 – 6
IT software	3 – 8

Depreciation begins as soon as the asset can be used, i.e. when it is at the location and in the condition necessary for it to be capable of operating in the manner intended by management. Impairments are accounted for by means of unscheduled depreciation. Should reasons for unscheduled depreciation be discontinued, corresponding write-ups are carried out to the recoverable amount, which must not exceed the acquisition costs carried forward. The development costs for a project are only capitalized as an intangible asset if the technical implementation, the intention of completion and the utilization or sale of the intangible asset can be demonstrated. Production costs cover the directly and indirectly attributable costs, and also, in the case of qualified assets in accordance with IAS 23, borrowing costs incurred during the production period. Depreciation is on a straight-line basis over their estimated useful lives, which as a rule is not longer than five years.

In cases in which no own intangible asset can be recognized, the development costs are recognized as expenses in the period in which they occur.

Goodwill is checked for possible impairment once a year. In the event of incidents or changed circumstances indicating a possible reduction in value, the impairment review is to be carried out more frequently. Further details of the procedure to be followed in the annual impairment tests can be found in the section "Impairment".

Impairment

For each balance sheet date, or more frequently should incidents indicate the necessity, the Group checks the book values of the intangible assets and property, plant and equipment, to determine whether there is any evidence indicating impairment. Should this be the case, the recoverable amount of the asset in question is ascertained and compared with its book value, to determine the value of any adjustment that might need to be made. Should it not be possible to determine a recoverable amount for an individual asset, the recoverable amount is to be determined for the smallest identifiable group of assets which generate cash and to which the individual asset can be allocated (cash generating units).

The goodwill is divided up and assigned to the CGUs, and recoverability is checked at this level. The net book value of the CGUs is compared with their recoverable amount, i.e. the higher amount of fair value less the cost of disposal and value in use. The net selling price is the revenue which can be obtained by selling an asset in a transaction using market conditions between two qualified parties willing to enter into a contract (fair value), less disposal costs. The EDAG Group first determines the value in use in the course of the impairment test. Should this prove to be lower than the book value, the net disposal value after deduction of the disposal costs is determined. The cash generating unit's value in use is equal to the present value of the cash flow which, taking into account the continual usage of the strategic business unit and its disposal, can be expected at the end of its useful life. Payment prognosis is based on the current, long-term plans of the EDAG Group. The planning period is three years. At EDAG, the cost of capital is calculated as the weighted average of the equity and debt capital costs; the crucial factor here being the proportion of each of the total capital. The equity cost rate is determined with the Capital Asset Pricing Model (CAPM), from a zero-coupon bond interest rate with a time to maturity of 30 years plus a risk premium equivalent to one of the separate CGUs. The cost of equity amounts to 8.82 percent (2015: 9.10 percent). The borrowing costs used amount to 2.38 percent (2015: 2.81 percent), and represent the long-term funding conditions. Both components are derived from information on the capital market, and represent an interest rate before tax. The resulting WACC[5] is 11.51 percent before taxes (2015: 12.09 percent). There are no specific capitalization rates for the segments, as the peer group is identical in all cases.

The planning is based on expectations with regard to the future development of the global economy, on assumptions derived from the development of the engineering market, and on

[5] *WACC = Weighted Average Cost of Capital*

concrete customer commitments relating to individual projects. A perpetuity growth rate of 1 percent (previous year: also 1 percent) has been taken into account.

In cases in which the book value of the cash generating unit is higher than its recoverable amount, there is a depreciation loss in the amount of the difference. Taking the amount of this adjustment which is posted as expense, the first step is to amortize the goodwill of the strategic business unit concerned. Any remaining sum is spread, proportional to the book values, across the other assets of the relevant strategic business unit. The following table shows the EDAG Group's CGUs along with their goodwill.

in € thousand	**2016**	**2015**
Vehicle Engineering	44,622	44,336
Production Solutions	521	521
Electrics/Electronics	19,378	19,378
Total	**64,521**	**64,235**

As in the comparative period, there was no need for adjustments to be made to goodwill. Even if the equity cost rate is increased by 100 basis points, there is still no need for any adjustment to be made to the other cash generating units. The same applies to a reduction of the perpetuity by 100 basis points.

Should reasons for unscheduled depreciation be discontinued, corresponding write-ups are carried out. Write-ups are only carried out if changes have been made to the estimates used to determine the recoverable amount since the last time the expense incurred for impairments was recorded. If this is the case, then the book value of the asset is increased to its recoverable amount, but not more than its carried-forward acquisition cost, without taking into account any expense for impairment. Unscheduled depreciation of goodwill is not corrected by means of write-ups.

Unscheduled depreciations and/or write-ups are recorded as operating results in the statement of comprehensive income if continued operations are involved. This does not apply, however, to newly rated assets if the profit/loss arising from the revaluation is recorded under other comprehensive income. In this case, the depreciation is recorded in other comprehensive income, up to the amount from a previous revaluation.

Property, Plant and Equipment

Property, plant and equipment are recognized in accordance with IAS 16 and capitalized accordingly if (a) it is likely that the Company will derive future economic benefit, and (b) the acquisition or production cost of the plant and equipment can be valued reliably.

Property, plant and equipment are valued at historical acquisition or production cost less scheduled, straight-line depreciation. Unscheduled depreciation is recognized if impairments exist. According to IAS 36 (Impairment of Assets), such impairments are ascertained on the basis of comparisons with the discounted future cash flows of the corresponding CGU.
The following useful lives are used as a basis for depreciation:

	Years
Buildings	10 – 50
Technical equipment	12 – 25
Machinery	8 – 25
Vehicle fleet	5
Hardware	3 – 4
Other operating and office equipment	3 – 20

Buildings and installations on external properties are depreciated over the term of the rental contracts or their useful life, if this is lower.

The acquisition costs are composed of the acquisition price, ancillary acquisition costs and subsequent acquisition costs, less acquisition price reductions received. If an obligation exists to shut down or dismantle a property, plant or equipment asset at the end of its useful life, or to restore a site to its former condition, the estimated cost of this work increases the acquisition cost of the asset, which is seen alongside a provision to be posted on the liability side. In addition to directly attributable costs, the production costs for self-built facilities also include directly attributable material and production overheads, as well as the general administration costs for the divisions dealing with building the facility. Tools that are owned by the Group are capitalized at acquisition or production cost.

Investment subsidies and allowances are offset against acquisition or production costs. Capitalization of subsequent acquisition or production costs is carried out if a future economic benefit will accrue from the costs associated with the property, plant and equipment. Maintenance and repairs are recognized as costs.

Property, plant and equipment are split into components at the lowest level, if these components have significantly differing useful lives from one another and these components will probably need to be replaced or overhauled at some point during the entire life of the facility.

Profits or losses on asset disposals are posted under other operating income or expenses. Property, plant and equipment is derecognized either on disposal, or at such time as no further economic benefit is anticipated from the continued use or disposal of the asset.

Leasing

Group as the Lessee

Leasing transactions are classified either as finance leases or operating leases. Leasing transactions in which the Group, as the lessee, bears all the significant risks and rewards associated with ownership are treated as finance leases. Accordingly, the Group capitalizes the leasing object at the time of concluding the leasing relationship at either the fair value or the net present value of the minimum leasing installments, whichever is lower, and then depreciates the leasing object over the estimated useful economic life or the shorter contractual period. At the same time, a corresponding liability is created which is repaid and carried forward during the subsequent period, according to the effective interest method. All other leasing transactions in which the Group acts as lessee are treated as operating leases. In this case, leasing payments are recognized as expenses on a straight line basis, throughout the contract period.

Group as the Lessor

Leases which do not substantially transfer all the risks and rewards associated with ownership from the Group to the lessee are classified as operating leases. Initial direct costs incurred on account of the negotiations relating to and the conclusion of an operating leasing contract are added to the book value of the leased object and recognized as expenses corresponding to the income from rents, throughout the contract period.

Public Sector Benefits

Public sector benefits are only recorded if there are reasonable grounds for certainty that the associated conditions can be fulfilled and the benefits granted.

Taxable and tax-exempt state benefits for the acquisition of non-current assets are posted as a reduction of the acquisition and manufacturing costs for the acquired and self-produced assets. Profit-related benefits are always posted to the income statement using the entity method in the periods during which the costs to be compensated are incurred. In contrast, subsidies for short-time working benefit are presented using the equity method.

Inventories

Assets which are held for sale in the ordinary course of business (finished goods, finished services and merchandise), which are being produced for sale (unfinished goods and services), or which are utilized within the context of manufacturing products or supplying services (raw materials and supplies) are reported as inventories in accordance with IAS 2.

Inventories are valued either at acquisition or manufacturing cost or at their net sales value, whichever of the two is the lower, i.e. the recoverable sales proceeds during the ordinary course of business, less the estimated production and sales costs. The acquisition or manufacturing costs of inventories include all costs of acquisition and manufacturing which have been incurred in order to place the inventories at the current location and in their current condition. Acquisition or manufacturing costs are determined on the basis of the average method. The manufacturing costs include all directly attributable costs and production-related material and production overheads, including depreciation on production-related assets. Inventory risks that result from limited viability or a substantial storage period are taken into account by making corresponding adjustments. Administration costs are taken into account if they are attributable to production.

Financial Instruments

General Information

A financial instrument is a contract that simultaneously results in the creation of a financial asset for one Company and a financial liability or equity capital instrument for another Company.

Financial instruments in the sense of IAS 39 include financial assets which are valued at fair value through profit and loss, loans and receivables, financial investments held until maturity or financial assets available for disposal. In particular, these include cash and cash equivalents, accounts receivable, other granted loans and receivables and original and derivative financial assets held for trading purposes.

Financial liabilities regularly constitute claims for repayment in cash or another financial asset. In the sense of IAS 39, these include financial liabilities valued at fair value through profit or loss, and financial liabilities that are valued at carried-forward acquisition cost. In particular, these include accounts payable, liabilities due to credit institutions, liabilities from finance leases, bonded loans and derivative financial liabilities, as well as bonds and other secured liabilities.

With first-time recognition of financial liabilities, these are valued at their fair value. In the process, the transaction costs that are directly attributable to the acquisition must be taken into account for all financial assets which are not subsequently valued at fair value through profit or loss.

As a rule, financial instruments are valued as soon as EDAG becomes a contractual partner under the regulations of the financial instrument (trading date). In general, financial assets and financial liabilities are not offset; they are only netted if a right to offsetting exists and the intent is to settle on a net basis. The Company defines the categorization of its financial assets and/or financial liabilities upon their initial recognition and reviews this classification at the end of each financial year, to the extent that this is admissible and appropriate. Reclassifications are carried out at the end of the financial year if these are admissible and appear necessary.

The fair values posted in the statement of financial position generally correspond to the market prices of the financial assets. Should these not be directly available, they are calculated on the basis of recognized valuation models and the current market parameters. To this end, the cash flows that are already defined or determined on the basis of the current yield curve via forward rates are discounted on the valuation date, using the discount factors from the yield curve that applies on the reference date. The middle rates are used.

Financial Assets

Financial assets at fair value through profit or loss

The group of financial assets valued at fair value through profit or loss includes the financial assets held for trading purposes which are classified as financial assets to be valued at the fair value, upon first-time valuation. Financial assets are categorized as being held for trading purposes if they are acquired for the purpose of disposal within the foreseeable future. Profits or losses from financial assets held for trading purposes are recognized through profit or loss. When recognized for the first time, financial assets may be designated as financial assets at fair value through profit or loss if the following criteria are fulfilled: (a) the classification eliminates or reduces significant incongruities which would arise with other valuations of assets or the posting of profits and losses at different valuation methods would result; or (b) the assets are part of a group of financial assets which are controlled according to a documented risk management strategy and their performance is assessed on the basis of their attributable fair value; or (c) the financial asset includes an embedded derivative to be posted separately.

The financial assets that are valued at fair value through profit or loss mainly include derivative financial instruments, such as forward exchange contracts which are not involved in an effective collateral relationship pursuant to IAS 39 and must therefore be categorized as "held for trading purposes", other investments or specific securities. So far, EDAG has not made any use of the option to designate financial assets being recognized for the first time as financial assets at fair value through profit or loss.

Cash and Cash Equivalents

The cash in the statement of financial position includes checks, cash balances and deposits with banks, with a term of up to three months. The cash equivalents in the statement of financial position include current, extremely liquid financial investments which can be converted into payment instruments at any time, and are only subject to insignificant value fluctuation risks. Cash and cash equivalents are valued at carried-forward acquisition cost. The financial funds in the consolidated cash flow statement are delineated according to the definition above.

Receivables

Accounts receivable and other current receivables are valued at carried-forward acquisition cost, using the effective interest method (net method) if applicable. The value adjustments which are carried out in the form of allowances for doubtful accounts sufficiently satisfy the anticipated risks of default; concrete defaults result in the derecognition of the relevant receivables.

Some of the value adjustments to accounts receivable and other receivables are carried out using value adjustment accounts. The decision regarding whether a default risk should be accounted for using a value adjustment account or by directly reducing the receivable depends on the degree of reliability of the assessment of the risk situation. Due to the various business fields and differing regional conditions involved, the final assessment is the responsibility of the persons responsible for the individual divisions. EDAG does not carry out any generalized or portfolio adjustments.

Other non-current receivables are valued using the effective interest method, at carried-forward acquisition cost.

Financial Investments to be Held to Maturity

Financial investments held until maturity are are non-derivative financial assets with fixed or determinable payments and fixed terms which EDAG intends and is able to keep until their final maturity dates, but not any which are carried at fair value, classified as available for disposal, or meet the criteria for the category "receivables" at the time of their first inclusion in the statement of financial position. These financial assets are valued using the effective interest method, at carried-forward acquisition cost. Certain securities, for instance, (e.g. government bonds) come under this category.

Financial Investments Available for Sale

The other original financial assets are categorized as "available for disposal" and are always valued at either book value or fair value. Financial assets available for disposal are non-derivative financial assets which are classified as being available for disposal and do not come under one of the above-mentioned categories. The profits and losses resulting from the valuation at fair value are included directly in equity. This does not apply if permanent and/or significant impairments and currency-related changes in value of debt capital instruments which are posted through profit or loss are involved. The accumulated profits and losses from the valuation of the fair value included in equity are not posted to the statement of comprehensive income until the financial assets have been disposed of. Non-listed equity capital instruments are valued at their acquisition costs (less impairments, if applicable). Under certain circumstances, other investments (e.g. non-operational companies) and certain securities, the acquisition cost of any one of which must not exceed € 30 thousand, also come under this category.

Interest received from or paid on financial investments is posted as interest income or interest expense. The effective interest method is used. Dividends from financial investments are posted as "dividends received" in the profit and loss accounts when the legal claim to payment arises.

Impairment

On each reporting date, the book values of the financial assets which cannot be valued at the fair value affecting net income are checked to see whether there are substantial, objective indications of impairment (such as the debtor being in serious financial difficulties, the high probability of insolvency proceedings being instituted against the debtor, the loss of an active market for the financial asset, significant changes to the technological, economical, legal or market environment of the issuer, a continuing fall in the fair value of the financial asset to below the carried-forward acquisition costs). Any impairment on account of a lower fair value, compared to the book value, is posted to profit or loss. Should any impairments of the fair value of financial assets available for disposal have been included in equity without affecting income, then the value of the impairment calculated for these is to be eliminated from equity and posted to the statement of comprehensive income. If, during valuations carried out at a later date, it should transpire that the fair value has objectively increased as a result of circumstances occurring after the impairment was determined, then the impairment is withdrawn from equity instruments accordingly, without affecting net income; impairments of debt instruments, on the other hand, are withdrawn through profit and loss. Impairments pertaining to non-listed equity capital instruments which are available for disposal and posted with the acquisition costs must not be withdrawn. The fair value of securities to be held until maturity and the fair value of loans and receivables valued with the carried-forward acquisition costs, both to be defined during the impairment test, are equivalent to the cash value of the estimated future cash flows discounted at the value of the original effective annual interest rate. The fair value of non-listed equity capital instruments valued with the carried-forward acquisition costs is the cash value of the expected future cash flows discounted at the value of the current interest rate, equivalent to the investment's specific risk situation.

Derecognition

A financial asset (or part of a financial asset, or part of a group of similar financial assets) is derecognized when one of the following three conditions has been fulfilled:

- The contractual rights to draw on the cash flows from a financial asset have expired.
- Although the Group retains the rights to draw on the cash flows from financial assets, it has, however, accepted a contractual obligation requiring the immediate payment of the cash flows to a third party, within the context of an agreement which meets the requirements of IAS 39.19 ("pass-through arrangement"), and in doing so has essentially neither transferred nor retained all risks and rewards appertaining to the ownership of the financial asset, but has nevertheless transferred the authority to dispose of the asset.
- The Group has transferred its contractual rights to draw on cash flows from a financial asset, and in doing so has either (a) essentially transferred all rewards and risks appertaining to the ownership of the financial asset, or (b) essentially neither transferred nor retained all risks and rewards appertaining to the ownership of the financial asset, but has nevertheless transferred the authority to dispose of the asset.

If the Group transfers its contractual rights to cash flows from an asset, without in essence transferring all risks and rewards appertaining to the ownership of this asset, and also retains the authority to dispose of the transferred asset, the Group continues to include the transferred asset in the volume of its ongoing commitments. If the form of the ongoing commitments guarantees the transferred asset, then the volume of the ongoing commitments is equivalent to the lower amount from the original book value of the asset and the maximum amount of the consideration received, which the Group might have to pay back.

Financial Liabilities

Financial Liabilities Measured at Amortized Costs

Accounts payable and other financial liabilities are always valued using the effective interest method, at carried-forward acquisition cost.

Derecognition

A financial liability is derecognized when the obligation on which it is based has been fulfilled, canceled, or has expired.

If an existing financial liability is exchanged for another financial liability of the same loan creditor with substantial differences in contractual conditions, or if the conditions appertaining to an existing liability are considerably altered, then any such exchange or alteration is treated as the derecognition of the original liability and the recognition of a new liability. The difference between the book values is posted to profit or loss.

Derivative Financial Instruments

EDAG uses derivative financial instruments, such as forward exchange contracts and interest rate swaps, to secure interest rate and currency risks resulting from operating activities, financial transactions and financing. Derivative financial instruments are neither held nor issued for speculative purposes.

The derivative financial instruments are valued at fair value when posted for the first time. The fair values are also relevant for subsequent valuations. The fair value of traded derivative financial instruments corresponds to the market value. This value can be positive or negative. If no market values are available, the fair values must be calculated using recognized actuarial models.

For derivative financial instruments, the fair value corresponds to the amount which EDAG either received or paid on maturity of the financial instrument, as of the reporting date. This is calculated using the relevant exchange rates and interest rates on the reporting date. Middle rates are used for the calculations.

The fair value of forward exchange contracts is determined using the current forward exchange rates for contracts with similar maturity structures. The fair value of interest rate swap contracts is determined using valuation models. Market parameters of similar instruments that can be observed are also included in these.

EDAG therefore carries out hedging measures which, while not fulfilling the strict requirements of IAS 39, still contribute towards effectively hedging the financial risk, as per the principles of risk management. Nor does EDAG apply hedge accounting in accordance with IAS 39 to hedge foreign currency risks for monetary assets and liabilities in the statement of financial position, as the profits and losses affecting income in accordance with IAS 21 are shown in profit or loss along with the profits and losses from the derivatives used as hedging instruments.

Provisions

A provision (debt the maturity and/or amount of which is uncertain) is formed according to IAS 37, if a current legal or factual obligation resulting from past events exists toward third parties, and, moreover, it is likely that the settlement of the obligation will result in the outflow of resources, and the amount of the provision can be reliably determined.

The provisions are valued at their anticipated repayment amount, and not offset against refund claims. Provisions that are based on a large number of similar types of events are accounted for at their expected value. All non-current provisions (with a term of more than one year) are posted with the anticipated discounted amount to be paid on the balance sheet date. The amount to be paid also includes the cost increases to be taken into account on the balance sheet date.

If many similar types of obligations exist – as in the case of the statutory warranty – the probability of an outflow of resources is determined on the basis of the group of these obligations. A provision is also posted as a liability if the probability of an outflow of resources is negligible in relation to an individual obligation included in this group.

Pensions and Other Post-Employment Benefits

The Group has both defined benefit and defined contribution-based pension plans. A contribution-based pension plan is one which involves the Group paying fixed contributions into a non-Group Company (fund). The Group is under no legal or actual obligation to pay additional contributions if the fund should fail to have sufficient assets to meet the pension entitlements of all employees from the current and previous financial years. By contrast, defined benefit-based plans typically define a pension benefit volume that the employee will receive on reaching retirement age, and as a rule depends on one or more factors such as age, length of service and salary.

The provision for defined benefit-based plans recognized in the statement of financial position corresponds to the net present value of defined benefit obligations (DBO) on the balance sheet date, less the fair value of the plan assets. The DBO is calculated annually by an independent actuarial expert, using the project unit credit method. The accounting valuation of the obligations is based on various estimates. Assumptions need to be made in particular with regard to long-term trends in the development of salaries and pensions, and to average life expectancy. Assumptions relating to salary and pension trends are based on developments observed in the past, and also take the country-specific interest and inflation rates and relevant labor market developments into account. Acknowledged biometric bases for calculation form the basis for estimating average life expectancy. The interest rate used to discount the future payment obligations is derived from premium corporate bonds with corresponding currencies and maturities.

Revaluations based on experience-related adjustments and amendments to actuarial assumptions are recognized in other comprehensive income (in equity) in the period in which they occur. Adjustments to an employment period are expensed immediately.
With the exception of the interest components, which are recognized in the financial result, pension costs are posted under personnel costs.

With defined contribution plans, the Group pays premiums to public or private pension insurers on the basis of a legal or contractual obligation, or on a voluntary basis. The Group has no further payment obligations over and above payment of the premiums. The premiums are recognized in personnel expenses on maturity. Prepaid contributions are recognized as assets to the extent that there is a right to repayment or a reduction in future payments.

Payments Resulting from the Termination of Employment Relationships
Payments resulting from the termination of employment relationships are made in the event of an employee being dismissed by a Group Company before reaching regular pension age, or of an employee accepting the voluntary termination of the employment relationship in return for severance pay. The Group recognizes severance pay if it is demonstrably obliged to terminate the employment of present employees in compliance with a detailed and irrevocable formal plan, or if it is demonstrably required to pay such benefits following the voluntary termination of employment by the employee. Payments which become due after more than 12 months after the effective date are discounted to their present value.

Income Taxes
Income taxes include both current and deferred taxes. The current taxes relate to all taxes which are charged on the taxable profit of the Group companies.

Deferred tax assets and deferred tax liabilities are formed pursuant to IAS 12 "Income taxes" for temporary valuation differences between IFRS and tax statements of financial position of the individual companies, as well as for consolidation processes affecting income. The deferred tax claims also include tax reduction claims which result from the anticipated future use of existing tax losses carried forward, if the realization of these is likely. Deferred tax claims are only to be reported if it is likely that future taxable income can be offset against tax credits and losses carried forward. A planning period of 3 years is always used as a basis here. This is in line with Company planning, which is also used for the impairment tests, adjusted for tax effects.

To calculate deferred taxes, the tax rates applicable on the balance sheet date or applicable in future are used as a basis, provided these have already been legally defined, or the legislative process is essentially complete. Changes to deferred taxes in the statement of financial position always result in deferred tax expenses or income. If circumstances that result in a change in deferred taxes are booked directly against the other comprehensive income, the change to the deferred taxes is also directly accounted for in other comprehensive income.

Non-current Assets Held for Sale (Disposal Groups)

Assets reported as being "held for disposal" are those which can be disposed of in their current condition and the disposal of which is very likely. This can involve individual, non-current assets or groups of assets (disposal groups). Non-current assets held for sale are no longer subject to scheduled depreciation, but valued at their fair value less disposal costs, provided this is lower than the book value. In the event of an increase in the fair value less disposal costs, the previously reported impairment is reversed. The write-up is limited to the impairments previously recorded for the respective assets. Results from the valuation of certain individual assets held for sale and from disposal groups are reported in the result from continuing operations until final disposal.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualified asset are to be capitalized as a part of the acquisition or production costs of this asset. As in the previous year, no interest on borrowed capital was capitalized. Other borrowing costs are to be recognized as expenses in the period in which they occur.

Discretionary Decisions

With the application of the accounting and valuation methods, the Company management has made the following discretionary decisions, which significantly influence the figures in the financial statement. Decisions containing estimates are not taken into account here.

Non-current intangible assets, property, plant and equipment and investment property are valued at acquisition costs carried forward in the statement of financial position. No use has been made of the – also permissible – option of valuing these at fair value.

Estimates (Assumptions)

Presentation of the consolidated financial statements in accordance with IFRS requires competent estimates for several statement of financial position items which have an effect on the basis and valuation in the statement of financial position and statement of comprehensive income. The amounts that are actually realized can deviate from these estimates. Such estimates relate to ascertaining the useful life of the property, plant and equipment or intangible assets that are subject to wear and tear, the measurement of provisions, the valuation of investments and other assets or liabilities. Although adequate account is taken of existing uncertainties during valuation, actual results can still deviate from the estimates.

In the following situations, the assumptions made on the balance sheet date are of particular significance:

The estimate of *order costs and income* is an important criterion for realizing profit according to performance progress, pursuant to IAS 11. The result of a production order can only be reliably estimated if the economic advantages arising from the contract are likely to go to the Company. Assumptions are also to be used as the basis on which to assess probability. The management continually reviews all estimates required for production orders, adjusting them wherever necessary.

Deferred tax assets are also recorded for tax losses carried forward. Their viability depends on future taxable results of the respective Group Company. If there is any doubt regarding the realization of losses carried forward, then no deferred taxes are posted.

Pension provisions are influenced by assumptions regarding the future development of wages and salaries or pensions, as well as by the interest, portfolio structure and anticipated performance of the plan assets of pension funds. Should the assumptions made fail to materialize, this will result in an actuarial surplus or shortfall, which is offset with the retained earnings, not affecting income.

Other provisions also cover risks from legal disputes and legal action. In addition to an assessment of the situation and claims awarded in similar cases, the results of comparable legal actions and independent legal opinions are also taken into consideration, as are assumptions regarding the probability of occurrence and the scope of possible claims, in order to determine the amount of a provision. The actual costs can deviate from these estimates. When discounting non-current provisions, assumptions are made regarding the interest rate to be used.

Unscheduled amortization (impairments) on assets is carried out in the case of impairment. An impairment test is carried out for the goodwill and intangible assets with an indefinite useful life if specific events indicate a possible impairment, but at all events at least once a year. In the impairment test, the carried-forward book values of the assets are compared with the recoverable amount of the assets. The recoverable amount is either the net disposal price or value in use of the asset, whichever value is higher. In order to determine the utilization value, it is necessary to estimate and discount cash flows. The estimated cash flows and the assumptions made are based on whatever information is available on the balance sheet date, and may deviate from actual developments. this method is used for both goodwill and for investment accounted for using the equity method.

Assets, liabilities and provisions held for sale are subject to two fundamental uncertainty factors: firstly, the way in which negotiations develop, with possible loss of control; and secondly changes in value from ongoing activities, with possible loss of control.
When accounting for *leases,* an assessment must be made of whether or not the main risks and rewards associated with the ownership have been transferred. On the basis of this assessment, the leasing object is then allocated to either the lessee or the lessor. If they are being recognized for the first time, assets and liabilities from finance leases are recorded at fair value or, if this is lower, at the present value of the minimum leasing payments. The determination of fair value is regularly associated with estimates regarding the cash flows resulting from utilization of the leasing object and the discount rate used.

Definition of the *useful lives* of depreciable assets is on the basis of the anticipated usability of the assets, and is based on estimates. Empirical values with comparable assets were used as a basis for orientation. The estimated useful lives of intangible assets and property, plant and equipment are examined at the end of the financial year and adjusted as necessary.

5.3 Notes on the Statement of Comprehensive Income

[1] Sales Revenues

Sales revenues are realized with the provision of the service and/or the transfer of the risk to the customer. This disclosure occurs net of sales tax and all discounts and bonuses. In addition to this, services assessed according to the Percentage of Completion ("POC") method are also disclosed as sales revenues. Due to the fact that services not constituting construction contracts as defined in IAS 11.3 are immaterial within the EDAG Group, they are not recognized separately from the construction contracts; particularly as the recognition methods described in IAS 18.20 and IAS 11.25 are identical. Therefore, the sales revenues are essentially equivalent to the contract revenues, and amounted to € 714,955 thousand (2015: € 722,137 thousand) in the financial year.

The group sales revenues are broken down in terms of sales into the individual markets as follows. This breakdown reflects the regional classification of the EDAG locations.

in € thousand	2016		2015	
Sales revenue by markets (sales related)				
Germany	557,719	78%	555,775	77%
Switzerland	1,966	0%	2,536	0%
Rest of Europe	82,969	12%	90,183	12%
North America	30,344	4%	25,187	4%
South America	9,212	1%	14,689	2%
Asia	32,247	5%	33,767	5%
Australia	493	0%	-	0%
Africa	5	0%	-	0%
Total	**714,955**	**100%**	**722,137**	**100%**

The following table reflects the concentration risk of the EDAG Group, divided according to the customer sales divisions, which are spread across all of the segments:

in € thousand	2016		2015	
Customer sales division A	131,658	18%	144,500	20%
Customer sales division B	118,000	16%	122,421	17%
Customer sales division C	25,611	3%	18,576	3%
Customer sales division D	108,073	15%	110,695	15%
Customer sales division E	66,580	9%	38,115	5%
Customer sales division F	11,296	2%	25,594	4%
Customer sales division G	18,561	3%	17,441	2%
Customer sales division H	33,846	5%	44,505	6%
Customer sales division I	32,705	5%	36,290	5%
Miscellaneous (OEMs and system suppliers)	168,625	24%	164,000	23%
Total	**714,955**	**100%**	**722,137**	**100%**

The EDAG Group generates over 50 percent of its sales revenues with two corporate groups.

[2] Changes in Inventories

Shown here is the increase/decrease in inventory of unfinished and finished goods and services which have been determined on the basis of the acquisition cost method. Inventory of unfinished and finished goods and services in the reporting year 2016 decreased by € 104 thousand (2015: decreased by € 170 thousand).

[3] Other Income

Other income is classified as follows:

in € thousand	2016	2015
Operating income		
Non-cash benefit from car leasing	3,935	3,523
Income from currency gains	2,518	2,585
Land and rental income	2,447	1,706
Cost transfer income	1,503	2,936
Catering/cafeteria income	1,129	745
Income from compensation payments	92	79
Income from recycling/scrap	21	18
Income from currency hedging transactions	-	128
Miscellaneous operating income	667	507
Total operating income	**12,312**	**12,227**
Non-operating income		
Income from the reversal of provisions	1,658	4,436
Income from the disposal/subsequent capitalization of fixed assets	433	306
Public sector benefits	1,168	1,302
Income from impaired receivables	44	298
Miscellaneous non-operating income	1,224	1,540
Total non-operating income	**4,527**	**7,882**
Total other income	**16,839**	**20,109**

During the reporting year, public sector benefits of € 1,168 thousand (2015: € 1,302 thousand) were recognized through profit or loss in the statement of comprehensive income. These benefits consist of public sector subsidies for training, research and development.
There are no unfulfilled conditions or miscellaneous contingencies in relation to these benefits.

Income from the reversal of provisions in the amount of € 1,658 thousand (2015: € 4,436 thousand) are made up of the unwinding of other provisions for personnel, taxes and miscellaneous provisions (see chapter "[26] Other Provisions”). Other items cover income from the reversal of provisions for pensions in the amount of € 0 thousand (2015: € 207 thousand) and onerous contracts in the amount of € 28 thousand (2015: € 382 thousand).

Earnings in the amount of € 1,229 thousand (2015: € 2,324 thousand) are included in the earnings from the reversal of provisions, and also in the amount of € 138 thousand (2015: € 300 thousand) in the earnings from the disposal/subsequent capitalization of fixed assets; these are included in the adjusted EBIT reconciliation.

[4] Material Expenses

in € thousand	2016	2015
Expenses for materials and supplies and for purchased goods	34,675	26,814
Expenses for purchased goods and services	64,412	73,220
Total	**99,087**	**100,034**

Expenses for materials and supplies and for purchased goods are mainly made up of expenses for models and small parts which have been purchased. Expenses for purchased goods and services are mainly made up of the costs for subcontractors and miscellaneous services received.

[5] Personnel Expenses

in € thousand	2016	2015
Wages and salaries	378,586	373,035
Social security contributions	71,261	69,161
Expenses on retirement pension plans and support	4,432	4,232
Wage-related and salary-related taxes	580	583
Total	**454,859**	**447,011**

Expenses for retirement pension plans and support include, but are not restricted to, expenses for defined benefit commitments. The interest portion of the valuation of retirement obligations is posted as a financing cost, as per the financing character. Anticipated income from the associated fund assets is stated as financing income. The presentation of pension obligations is explained in detail in "Pensions and Other Post-Employment Benefits [25]" on page 218.

Personnel expenses include public sector subsidies for short-time working benefit, which are shown in their balanced state, as per IAS 20.29-31. Subsidies in the amount of € 1,173 thousand (2015: € 75 thousand) are reported under wages and salaries, and subsidies in the amount of € 1,473 thousand (2015: € 106 thousand) under social security contributions.

To qualify for these subsidies, effective working hours in the divisions affected must be reduced, and all residual leave from the previous year and overtime accumulated in time accounts taken.

Wages and salaries include expenses in conjunction with the termination of employment contracts in the amount of € 3,512 thousand (2015: € 1,081 thousand). Expenses in conjunction with the termination of employment contracts to the amount of € 90 thousand (2015: € 654 thousand) are also included in the miscellaneous non-operating expenses which are shown in the adjusted EBIT.

In the 2016 financial year ended December 31, 2016, an average of 8,260 employees were employed in the EDAG Group (2015: 7,820 employees). The following table provides a detailed overview:

	2016	2015
Breakdown according to contractual relationship		
Salaried employees	7,754	7,313
Apprentices	506	507
Total	**8,260**	**7,820**
Breakdown into divisions		
Vehicle Engineering	5,074	4,830
Production solutions	1,365	1,300
Electrics/electronics	1,821	1,690
Total	**8,260**	**7,820**
Geographical breakdown		
Germany	6,339	6,032
Rest of Europe	1,065	967
North America	217	169
South America	198	254
Asia	441	398
Total	**8,260**	**7,820**

[6] Depreciation, Amortization and Impairment

The scheduled depreciation and amortization of fixed assets in the amount of € 27,692 thousand (2015: € 25,564 thousand) include both amortization of intangible assets and depreciation of property, plant and equipment.

The depreciation and amortization includes depreciation and amortization from the purchase price allocation in total of € 6,596 thousand (2015: € 7,235 thousand) which were also included in the adjusted EBIT reconciliation.

The depreciation and amortization is based on the standard Group economic useful lives as shown in the notes on the accounting and valuation methods.

[7] Other expenses

The breakdown of the other expenses for the 2016 financial year results in:

in € thousand	2016	2015
Operating expenses		
Rents and leases	38,971	32,760
Maintenance	17,187	16,045
Travel expenses	13,679	13,935
Miscellaneous ancillary personnel expenses	7,476	7,100
General administration expenses	6,413	5,846
Consulting, contributions and fees	5,042	4,288
Sales and marketing expenses	3,462	4,408
Expenses from currency losses	3,047	2,678
Personnel training and development expenses	2,755	2,512
Vehicle fuel expenses/miscellaneous vehicle expenses	1,737	1,934
Insurance	1,600	973
Surveillance and security expenses	1,178	1,167
Miscellaneous taxes and duties	1,102	1,312
Expenses from currency hedging transactions	358	-
Guarantees	-	156
Miscellaneous operating expenses	5,268	5,595
Total operating expenses	**109,275**	**100,709**
Non-operating expenses		
Expenses from impaired receivables	1,179	**437**
Expenses from the disposal of assets/scrapping	675	**168**
Expenses from bad debt loss	80	**120**
Miscellaneous non-operating expenses	1,007	**7,821**
Total non-operating expenses	**2,941**	**8,546**
Total other expenses	**112,216**	**109,255**

Expenses in the amount of € 688 thousand (2015: € 7,657 thousand) were included in the miscellaneous non-operating expenses, which are included in the adjusted EBIT reconciliation.

[8] Reconciliation of the Adjusted Operating Profit (Adjusted EBIT)

In addition to the data required according to the IFRS, the segment reporting also includes a reconciliation to the adjusted earnings before interest and taxes (adjusted EBIT). Among the adjustments, initial and deconsolidation income, restructuring in the scope of the Company merger and all effects from the purchase price allocations on the EBIT are shown.

in € thousand	Note	2016	2015
Earnings before interest and taxes (EBIT)		**37,836**	**60,212**
Adjustments:			
Expenses (+) from purchase price allocation	(6)	6,596	7,235
Income (-) from reversal of provisions	(3)	- 1,229	- 2,324
Expenses (+) from additional costs from M&A transactions	(7)	70	71
Expenses (+) from restructuring	(7)	144	7,162
Income (-) from the sale of real estate	(3)	- 138	- 300
Expenses (+) from the sale of real estate	(7)	474	424
Expenses (+) from impairment of real estate	(6)	-	115
Total adjustments		**5,917**	**12,383**
Adjusted earnings before interest and taxes (adjusted EBIT)		**43,753**	**72,595**

The "expenses (+) from the purchase price allocation" and the "expenses (+) from impairment of real estate" are stated under the amortization. The "income (-) from the reversal of provisions" and the "income (-) from the sale of real estate" is shown under the non-operating income. The "expenses (+) of additional selling costs from M&A transactions", the "expenses (+) from restructuring" and the "expenses (+) from the sale of real estate" are reported under the non-operating expenses in the positions of "miscellaneous non-operating expenses".

[9] Result from Investments Accounted for Using the Equity Method

The result from investments accounted for using the equity method in the amount of € -984 thousand in the 2016 financial year (2015: € 1,213 thousand) contains the proportionate result, each with 49 percent from EDAG Werkzeug + Karosserie GmbH, Fulda.

The Group share in the individual items of the statement of recognized income and expense can be seen in the section "Shares in Investments Accounted for Using the Equity Method [19]", on page 209.

[10] Financial Income

in € thousand	2016	2015
Income from participations and profit transfer agreement	-	41
Interest income earned from discounting	55	85
Interest and similar income	433	2,230
Total	**488**	**2,356**

[11] Financing Expenses

in € thousand	2016	2015
Depreciation of financial assets and securities of the current assets	-	17
Interest and similar expenses	8,545	10,349
Miscellaneous financial expenses	22	21
Total	**8,567**	**10,387**

Of the interest and similar expenses, € 430 thousand (2015: € 472 thousand) is related to the interest percentage for pension provisions.

[12] Income taxes

Taxes paid or owed on income and earnings in the individual countries, and also the deferred taxes, are reported as income taxes.

The main components of income tax expense for the financial years 2015 – 2016 are composed as follows:

in € thousand	2016	2015
Actual income tax expense/income	12,544	18,404
Adjustment for actual income taxes attributable to prior periods	- 65	497
Deferred tax expense/income		
from the emergence and/or reversal of temporary differences	- 1.929	- 1,678
from losses carried forward	127	- 177
Income taxes	**10.677**	**17,046**

Actual income tax for the current financial year includes corporate tax incurred in Germany, the solidarity contribution, trade tax and other income tax incurred abroad.

Due to changes to the tax law implemented at the end of 2006, existing rights from the tax credit method in Germany will be paid out over a period of ten years, in equal annual amounts, from 2008 onwards. The annual accrued interest on the present value of these entitlements has a positive effect on the financial result.

Income taxes in the reporting year amounting to € 10,677 thousand (2015: € 17,046 thousand) are derived as follows from "expected" income tax expenses which would have resulted from applying the average rate of income tax of the EDAG Group to the earnings before income taxes. To determine the expected tax expense, the pre-tax earnings are multiplied by a weighted average combined tax rate of 31 percent (2015: 31 percent).

	2016		2015	
	in € thousand	in %	in € thousand	in %
Earnings before tax	**28,773**		**53,394**	
Expected tax rate	-	31.00%	-	31.00%
Expected tax expense	**8,920**		**16,552**	
Tax-free earnings and non-deductible expenses, and effects of § 8a and § 8b of the German Corporate Tax Law	1,655	5.75%	674	1.26%
Tax effects from equity investments (+)	305	1.06%	- 376	-0.70%
Tax rate deviations	- 1,146	-3.98%	4	0.01%
Tax effects from losses carried forward	942	3.27%	- 359	-0.67%
Taxes for previous year	- 65	-0.23%	497	0.93%
Miscellaneous tax effects	66	0.23%	54	0.10%
Income taxes as disclosed in the statement of comprehensive income	**10,677**		**17,046**	
Effective tax rate		37.11%		31.93%

Deferred taxes developed as follows in the consolidated statement of financial position:

in € thousand	2016	2015
Deferred tax assets	1,109	780
Deferred tax liabilities	- 6,691	- 9,208
Net	**- 5,582**	**- 8,428**
Difference to previous year	2,846	1,046
Through profit or loss	1,803	1,854
Recognized directly in equity	947	- 766
Acquisitions	- 43	-
Currency differences	139	- 42

Deferred taxes are allotted to the following statement of financial position positions, losses carried forward, and tax credits.

in € thousand	12/31/2016 Deferred tax assets	12/31/2016 Deferred tax liabilities	12/31/2015 Deferred tax assets	12/31/2015 Deferred tax liabilities
Assets				
Other intangible assets	-	- 7,527	2	- 8,706
Property, plant and equipment	-	- 3,058	-	- 3,124
Financial assets	11	- 7	11	- 22
Inventories, receivables, other financial assets	13,352	- 23,242	13,963	- 23,323
Liabilities and provisions				
Provisions	6,669	- 9,412	5,108	- 9,949
Liabilities	16,642	- 204	17,282	- 270
Tax losses carried forward	1,194	-	600	-
Gross amount	**37,868**	**- 43,450**	**36,966**	**- 45,394**
Offsetting	- 36,759	36,759	- 36,186	36,186
Statement of financial position valuation	**1,109**	**- 6,691**	**780**	**- 9,208**

Apportioning the net tax items to individual statement of financial position items can lead to correspondingly deferred tax liabilities.

The deferred taxes are regularly assessed. The ability to realize tax income from deferred taxes depends on the ability to achieve taxable income in the future and to use tax losses carried forward before they expire. Deferred tax assets are only recognized to the extent that it is likely that a taxable income will be available, can be used against the deductible temporary differences, and it can be assumed that they will be reversed in the forseeable future. An offsetting of deferred tax assets and liabilities occurs if an offsetting of actual tax assets is enforceable against actual tax liabilities. In addition to this, the tax assets and liabilities must also refer to income taxes on the same tax subject which are levied by the same tax authority.

For deductible temporary differences totaling € 251 thousand (12/31/2015: € 64 thousand) no deferred tax asset was recorded in the statement of financial position, since no tax relief is to be expected.

As at December 31, 2016, the corporate income tax losses carried forward amount to € 20,068 thousand (12/31/2015: € 14,668 thousand). In addition to this, there were also trade tax losses carried forward totaling € 11 thousand (12/31/2015: € 171 thousand), which can be carried forward for an indefinite period.

The full amount of the losses carried forward has not been recorded, as, with a number of companies, it is unlikely that taxable income will be realizable in the foreseeable future. The unrecognized deferred taxes which result from losses carried forward can be seen in the following table:

in € thousand	12/31/2016	12/31/2015
Losses carried forward from corporate business tax (not usable)	15,750	12,704
Expiry within		
1 year	173	207
2 – 3 years	99	631
4 – 5 years	163	301
6 – 10 years	742	947
more than 10 years	11,502	9,094
able to be carried forward for an unlimited period	3,071	1,524

In the EDAG Group, apart from the losses carried forward shown in the table, further losses carried forward were also generated in the two Swiss holding companies EDAG Engineering Group AG, Arbon and EDAG Engineering Schweiz Sub-Holding AG, Arbon. Due to their holding privilege and its attendant tax status, neither of the companies is subject to cantonal and municipal taxes. Accordingly, it will not be possible to realize the accrued losses carried forward in the amount of € 181,012 thousand on December 31, 2016 (12/31/2015: € 200,049 thousand) in subsequent years.

Further, no deferred taxes have been recorded for trade tax losses carried forward, in the amount of € 11 thousand (12/31/2015: € 60 thousand).

[13] Assets Held for Sale and Discontinued Operations

As in the previous year, there were no business transactions from discontinued operations in 2016. The net cash flows from the discontinued operations in 2015 result from an indemnity payment.

The net cash flows from the discontinued operations are as follows:

in € thousand	2016	2015
Cash inflow/outflow from operating activities/ operating cash flow	-	- 450
Cash inflow/outflow from investing activities/ investing cash flow	-	-
Cash inflow/outflow from financing activities/ financing cash flow	-	-
Net cash changes in financial funds	**-**	**- 450**

in € thousand	12/31/2016			12/31/2015		
	Book value	Impairment	Fair value	Book value	Impairment	Fair value
Assets						
Property, plant and equipment	4,056	-	5,600	750	115	635
Assets classified as held for disposal	**4,056**	**-**	**5,600**	**750**	**115**	**635**
Liabilities and provisions						
Liabilities and provisions classified as held for sale	**-**	**-**	**-**	**-**	**-**	**-**
Net assets directly related to disposal	**4,056**	**-**	**5,600**	**750**	**115**	**635**

In 2016, one property was qualified as a non-current asset held for sale according to IFRS 5.6 and valued at its book value according to IFRS 5.15. The company management assumes that the sale will be effected during the first half of the subsequent year at the latest. In 2014, one further property was valued at fair value according to IFRS 5.15. Unfavorable market conditions in 2015 meant that the property was not sold until 2016. All expenses and revenues from non-current assets held for sale are shown in the segment "Others".

[14] Non-controlling interests

The non-controlling interest includes shares held by third parties in initial and generated equity of the fully consolidated subsidiaries.

The total comprehensive income to be attributed to non-controlling interests for the 2016 financial year is € 52 thousand (2015: € 47 thousand).

The dividends to be allocated to the controlling shares for 2016 are € 179 thousand (2015: € 179 thousand).

The following table shows the fundamental financial information of VR-Leasing Malakon GmbH & Co Immo. KG, Eschborn, which is not controlled in full.

in € thousand	12/31/2016	12/31/2015
Current assets	241	49
of which cash	241	49
Non-current assets	5,721	6,098
Total assets	**5,962**	**6,147**
Current liabilities and provisions	4,080	3,676
of which financial liabilities	877	673
Non-current liabilities and provisions	1,198	1,919
of which financial liabilities	740	1,446
Total liabilities and provisions	**5,278**	**5,595**
Net assets	**684**	**552**

[15] Results per Share

With the undiluted basic earnings per share, or EPS (quotient for the earnings after taxes allocated to the EDAG Group AG shareholders and the weighted average number of common shares outstanding, undiluted) we use a performance indicator derived directly from earnings after taxes. The undiluted basic earnings per share denotes the corresponding share-based period result attributable to the shareholders of EDAG Group AG, and is therefore an indicator of EDAG's earning power, particularly from the point of view of our shareholders.

There was no dilution of the basic earnings per share in either the reporting year or the year before. The same average number of shares outstanding were used as the basis for the comparison with the previous year.

in TEUR	2016	2015
Basic Earnings per Share (EPS)		
Earnings after tax	18,096	36,348
less non-controlling interest (monority shares)	- 52	- 47
Earnings after tax, attributable to shareholders of EDAG Group AG	18,045	36,301
less earnings after tax from discontinuing operations	-	-
Earnings after tax from continuing operations, attributable to shareholders of EDAG Group AG	18,045	36,301
Weighted average number of shares (basic; in thousand)	25,000	25,000
Effect from diluted equity instruments (in thousand)	-	-
Weighted average number of shares (diluted; in thousand)	25,000	25,000
Basic earnings per share from continuing operations	0.72	1.45
Basic earnings per share	0.72	1.45
Diluted earnings per share from continuing operations	0.72	1.45
Diluted earnings per share	0.72	1.45

5.4 Notes on the Statement of Financial Position

[16] Intangible Assets

Intangible assets have developed as follows:

in € thousand	Concessions, industrial property rights and similar rights	IT software	Goodwill	Capitalized development costs	Customer list from purchase price allocation	Total
(Historical) Costs						
As per 12/31/2014/1/1/2015	**142**	**33,478**	**63,903**	**1,397**	**40,899**	**139,819**
Currency conversion difference	-	- 181	- 4	-	301	116
Additions	-	5,197	-	865	-	6,062
Disposals	- 112	- 164	-	-	-	- 276
Changes in the scope of consolidation	-	1,055	336	-	-	1,391
As per 12/31/2015/1/1/2016	**30**	**39,385**	**64,235**	**2,262**	**41,200**	**147,112**
Currency conversion difference	-	230	- 79	-	- 2	149
Additions	-	3,207	-	1,493	-	4,700
Disposals	-	- 29	-	-	-	- 29
Transfers	-	18	-	-	-	18
Changes in the scope of consolidation	-	187	365	-	80	632
As per 12/31/2016	**30**	**42,998**	**64,521**	**3,755**	**41,278**	**152,582**

in € thousand	Concessions, industrial property rights and similar rights	IT software	Goodwill	Capitalized development costs	Customer list from purchase price allocation	Total
Accumulated amortization and impairments						
As per 12/31/2014/1/1/2015	**- 125**	**- 19,070**	**-**	**- 835**	**- 9,925**	**- 29,955**
Currency conversion difference	-	166	-	-	- 70	96
Additions (scheduled amortization)	- 3	- 7,038	-	- 102	- 4,602	- 11,745
Disposals	112	-	-	-	-	112
Changes in the scope of consolidation	-	14	-	-	-	14
As per 12/31/2015/1/1/2016	**- 16**	**- 25,928**	**-**	**- 937**	**- 14,597**	**- 41,478**
Currency conversion difference	-	- 210	-	-	- 2	- 212
Additions (scheduled amortization)	- 2	- 6,470	-	- 230	- 4,605	- 11,307
Tranfers	-	- 11	-	-	-	- 11
As per 12/31/2016	**- 18**	**- 32,619**	**-**	**- 1,167**	**- 19,204**	**- 53,008**
Book value 12/31/2015	**14**	**13,457**	**64,235**	**1,325**	**26,603**	**105,634**
Book value 12/31/2016	**12**	**10,379**	**64,521**	**2,588**	**22,074**	**99,574**

No ownership restrictions exist on intangible assets. No assets acquired within the context of leasing arrangements and lease-to-buy contracts are included in intangible assets.

During the 2016 financial year, no public sector benefits were offset from the acquisition costs for intangible assets.

The customer lists from the purchase price allocations are primarily the result of the purchase of the Rücker Group in 2012 and the BFFT Group in 2013.

As at December 31, 2016, the remaining amortization period for customer lists amounts to 6 years.

in € thousand	Customer list
Book value 12/31/2016	**22,074**
Remaining amortization period	
2016	4,610
2017	4,610
2018	4,610
2019	4,565
2020	2,896
2021	783

[17] Property, Plant and Equipment

Ownership restrictions in the amount of € 510 thousand (2015: € 0 thousand) exist on property, plant and equipment.

Property, plant and equipment includes all leased assets, where the Group companies are the economic owners of the assets. The book values of technical equipment and operating and office equipment held within the context of financing leases and lease-to-buy contracts amounted to € 2,362 thousand as at December 31, 2016 (12/31/2015: € 2,227 thousand). During the financial year, additions in the amount of € 2,487 thousand (2015: € 2,979 thousand) were recorded. These result from hardware leasing.

In the 2016 financial year, no impairments incurred (2015: € 374 thousand).

As in the previous year, no public sector benefits were offset from acquisition costs for property, plant and equipment, nor were repayments made on public sector benefits in the reporting year.

As at December 31, 2016 - as at December 31, 2015, no investment property was held.

Property, plant and equipment have developed as follows:

in € thousand	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and construction in progress	Total property plant and equipment
(Historical) Cost					
As per 12/31/2014/1/1/2015	**27,834**	**39,570**	**56,797**	**511**	**124,712**
Currency conversion difference	- 372	- 339	- 124	-	- 835
Additions	3,801	5,273	14,323	3,566	26,963
Disposals	- 480	- 6	- 5,997	- 173	- 6,656
Transfers	1,712	192	- 2,208	303	- 1
Changes in the scope of consolidation	-	-	3	-	3
As per 12/31/2015/1/1/2016	**32,495**	**44,690**	**62,794**	**4,207**	**144,186**
Currency conversion difference	323	283	261	- 376	491
Additions	4,212	5,510	14,620	1,502	25,844
Disposals	- 353	- 564	- 6,614	- 12	- 7,543
Tranfers	730	2,289	891	- 3,928	- 18
Changes in the scope of consolidation	-	-	10	-	10
Assets held for sale	- 5,243	-	- 157	-	- 5,400
As per 12/31/2016	**32,164**	**52,208**	**71,805**	**1,393**	**157,570**

in € thousand	Land and buildings	Technical equipment and machinery	Other equipment, plant and office equipment	Advance payments and construction in progress	Total property plant and equipment
Accumulated depreciation					
As per 12/31/2014/1/1/2015	**- 9,200**	**- 22,192**	**- 37,712**	**-**	**- 69,104**
Currency conversion difference	161	311	84	-	556
Additions (scheduled depreciation)	- 1,710	- 3,770	- 7,854	-	- 13,334
Additions (non-scheduled depreciation)	- 374	-	-	-	- 374
Disposals	409	-	5,548	-	5,957
Transfers	- 738	- 3	741	-	-
Changes in the scope of consolidation	-	-	21	-	21
As per 12/31/2015/1/1/2016	**- 11,452**	**- 25,654**	**- 39,172**	**-**	**- 76,278**
Currency conversion difference	- 145	- 258	- 244	-	- 647
Additions (scheduled depreciation)	- 1,999	- 4,200	- 10,186	-	- 16,385
Disposals	13	-	6,021	-	6,034
Transfers	- 151	135	27	-	11
Assets held for sale	1,269	-	74	-	1,343
As per 12/31/2016	**- 12,465**	**- 29,977**	**- 43,480**	**-**	**- 85,922**
Book value 12/31/2015	**21,043**	**19,036**	**23,622**	**4,207**	**67,908**
Book value 12/31/2016	**19,699**	**22,231**	**28,325**	**1,393**	**71,648**

[18] Non-current financial assets and current other financial assets

in € thousand	12/31/2016			12/31/2015		
	Short-term	Long-term	Total	Short-term	Long-term	Total
Shares in affiliated companies	-	52	52	-	77	77
Loans	-	106	106	-	105	105
Securities - available for sale	61	-	61	68	-	68
Total	**61**	**158**	**219**	**68**	**182**	**250**

The non-consolidated shares in subsidiaries are recognized at acquisition cost because future cash flows cannot be estimated reliably, which means that the fair value cannot be reliably determined either. There are no plans for the near future to sell significant shares of the available for sale financial assets valued at acquisition cost.

As at December 31, 2016, net lending amounted to € 106 thousand (December 31, 2015: € 105 thousand) and was primarily the result of loans extended to employees. The loans were not past due on the balance sheet date and are being repaid as scheduled.

Where securities positions are concerned, securities of € 61 thousand (December 31, 2015: € 68 thousand) are available for sale. These are marketable debt and equity securities.

[19] Investments Accounted for Using the Equity Method

As at December 31, 2016, the EDAG Group holds 49 percent of EDAG Werkzeug + Karosserie GmbH. The addition to investments was made in 2014.

The share of assets, liabilities and provisions, income and expenses attributable to the Group for the investment accounted for using the equity method is shown in the following tables.

in € thousand	2016	2015
Book value 1/1	**16,733**	**15,519**
Dividends	- 259	-
Disposals	-	- 13
Subsequent valuation	- 1,040	1,227
Book value 12/31/	**15,434**	**16,733**

In the following table, the summarized financial information on the investment accounted for using the equity method is shown on a 100 percent basis:

in € thousand	12/31/2016	12/31/2015
Current assets	23,856	28,505
of which cash	20	20
Non-current assets	12,106	10,786
Total assets	**35,962**	**39,291**
Current liabilities and provisions	14,631	15,572
of which financial liabilities	2,523	4,442
Non-current liabilities and provisions	4,862	4,600
of which financial liabilities	4,041	4,029
Total liabilities and provisions	**19,493**	**20,172**
Net assets	**16,469**	**19,119**
Sales revenues	76,083	49,826
Scheduled depreciation and amortization	1,776	1,507
Interest income	3	-
Interest expenses	286	334
Income tax expenses/income [+/-]	- 891	1,193
Profit or loss	**- 2,009**	**2,476**
Other comprehensive income	- 112	28
Totel comprehensive income	**- 2,121**	**2,504**

In the case of accounting using the equity method, intercompany profits must be eliminated in consolidation on a pro rata basis. For material reasons, this did not result in any adjustments.

The following table shows the reconciliation of the net assets of the investment accounted for using the equity method:

in € thousand	2016	2015
Opening net assets 01/01	19,119	16,641
Profit/Loss for the period	- 2,009	2,476
Other comprehensive income	- 112	28
Dividends paid	- 529	-
Disposal	-	- 26
Closing net assets 12/31/	**16,469**	**19,119**

[20] Accounts Receivable and Other Receivables

in € thousand	12/31/2016			12/31/2015		
	short-term	long-term	Total	short-term	long-term	Total
Accounts receivable						
due from third parties	112,319	-	112,319	98,990	-	98,990
due from affiliated companies	-	-	-	2	-	2
due from other related parties	3,266	-	3,266	3,340	-	3,340
Total	**115,585**	**-**	**115,585**	**102,332**	**-**	**102,332**
Future receivables from construction contracts						
with positive balance due from customers	121,973	-	121,973	139,234	-	139,234
advance payments received on construction contracts with positive balance due from customers	- 35,092	-	- 35,092	- 45,977	-	- 45,977
Total	**86,881**	**-**	**86,881**	**93,257**	**-**	**93,257**
Other receivables						
due from other related parties	73	-	73	-	-	-
due from employees	1,171	1	1,172	1,023	1	1,024
due from plan assets	-	570	570	-	1,011	1,011
other remaining receivables	4,659	331	4,990	4,467	311	4,778
Accrued items	5,821	-	5,821	3,970	-	3,970
Total	**11,724**	**902**	**12,626**	**9,460**	**1,323**	**10,783**
Total receivables	**214,190**	**902**	**215,092**	**205,049**	**1,323**	**206,372**

In the reporting year, non-financial assets in the amount of € 9,842 thousand (12/31/2015: € 8,457 thousand) are included in the total receivables. In addition to the asset-side accruals and deferrals, these also include plan assets and receivables from employees and other taxes that are included in the other remaining receivables.
Due to the fact that the general terms and conditions of the OEMs come to bear, there is no collateral pledged for receivables. The OEMs do not provide for any prolonged or extended retention of title for suppliers.

The gross amount due from construction contracts is composed of the following net amounts:

in € thousand	12/31/2016	12/31/2015
Accrued costs including partial profits and losses	905,547	765,511
Partial invoices	- 783,574	- 626,277
Total amount due from customers for construction contracts	**121,973**	**139,234**
Advance payments received from construction contracts with positive balance	35,092	45,977
Future receivables from construction contracts	**86,881**	**93,257**

While taking the future liabilities from construction contracts into account, the accrued costs including partial profits and losses on December 31, 2016 amount to € 1,007,342 thousand (12/31/2015: € 938,831 thousand).

As at December 31, 2016, accounts receivable with a nominal value of € 1,868 thousand (12/31/2015: € 1,132 thousand) and other receivables with a nominal value of € 1,050 thousand (12/31/2015: € 1,042 thousand) were impaired.

The development of the valuation allowances is shown in the following table:

in € thousand	2016	2015
As per 01/01	2,174	2,073
Currency conversion difference	5	4
Additions	1,179	437
Utilization	- 396	- 188
Reversals	- 43	- 152
As per 12/31/	**2,919**	**2,174**

The total amount of the additions, € 1,179 thousand (2015: € 437 thousand), consists in its entirety of additions from specific valuation allowances. Should there be clear evidence of customers failing to fulfill their payment obligations, this is taken into due account.

As at December 31, 2016, the analysis of overdue, non-impaired accounts receivable and other receivables was as follows:

	12/31/2016		12/31/2015	
	Terms to maturity		Terms to maturity	
in € thousand	**up to 1 year**	**more than 1 year**	**up to 1 year**	**more than 1 year**
Book value, net	118,036	332	104,347	311
of which at reporting date				
neither impaired nor overdue	96,935	332	82,327	311
not impaired but overdue				
≤ 1 month	18,117	-	15,745	-
1 – 2 months	1,107	-	2,789	-
2 – 3 months	1,160	-	837	-
3 – 6 months	301	-	1,317	-
6 – 9 months	158	-	380	-
9 – 12 months	157	-	654	-
1 – 2 years	101	-	263	-
2 – 4 years	-	-	28	-
> 4 years	-	-	7	-

With regard to the balance of accounts receivable and other receivables which are neither overdue nor impaired, there is no indication on the reporting date that the debtors will not be fulfilling their payment obligations. Delays in payment are the result of security deposits, amongst other things. We still expect to receive payment as the customers have good credit ratings.

The Group has established an internal risk monitoring system geared to individual customer risks. All receivables which are neither overdue nor impaired are assigned to the risk category of contractual partners with good credit ratings.

[21] Income and Deferred Tax Assets

in € thousand	12/31/2016	12/31/2015
Deferred tax assets	1,109	780
Income tax assets	2,298	4,979
Total	**3,407**	**5,759**

The assets from future income tax relief include deferred tax assets from temporary differences between the book values reported in the Group statement of financial position and the tax bases, as well as tax savings from losses carried forward assessed as being realizable in the future: Details of deferred tax assets are given in "Income Taxes [12]", on page 196. Of the deferred tax assets, € 6,738 thousand will be realizable after more than twelve months (12/31/2015: € 4,409 thousand). Provided that the conditions for offsetting are met, deferred tax assets are shown on the statement of financial position set off against deferred tax liabilities.

[22] Inventories

The book value of the inventories in the amount of € 1,919 thousand (12/31/2015 € 1,599 thousand) is broken down as follows:

in € thousand	12/31/2016	12/31/2015
Raw materials and supplies	1,457	1,081
Unfinished goods and services	102	257
Finished goods	25	30
Merchandise	-	1
Advance payments made	335	230
Total	**1,919**	**1,599**

The difference to the changes in inventories of unfinished and finished goods and services shown in the statement of comprehensive income results from changes in the scope of consolidation and currency conversion differences. The raw materials and supplies as well as merchandise are capitalized at acquisition cost; the unfinished goods and services and finished goods at the lower of production cost or net disposal value. During the reporting year, impairments in the amount of € 223 thousand (2015: € 64 thousand) were carried out on inventories with a book value before impairment of € 59 thousand (2015: € 29 thousand),

and accordingly posted as material expense. As in previous years, no impairments on inventories were posted as depreciation on current assets.

Likewise, no reversals of impairment losses which reduce the material expense were carried out. As in previous years, the inventories were not pledged as securities for third party liabilities.

[23] Cash and Cash equivalents

The cash and cash equivalents are composed as follows:

in € thousand	12/31/2016	12/31/2015
Deposits with banks and cash in hand	19,064	70,453
Cash equivalents	3	11
Money transfer	-	190
Statement of financial position valuation/ financial funds	**19,067**	**70,654**

As in the previous year, the Group held cash or cash equivalents in the amount of € 93 thousand (CHF 100 thousand) which are not at its unrestricted disposal. Deposits with credit institutions are held at banks with first class credit ratings.

[24] Equity

Subscribed Capital

The fully paid-in subscribed capital of EDAG Group AG in the amount of € 920 thousand as at December 31, 2016 is backed by 25 million bearer shares with a nominal value of CHF 0.04.

Further Information on the shares is given in the chapter "General Information".

Consolidated Equity Development

Details of the development of the equity capital in 2015 and 2016 is shown in the Group's statement of changes in equity.
The positioning of EDAG Group AG as the new parent Company of the EDAG Group by ATON GmbH, the sole shareholder, which was carried out in 2015, represents a common control transaction. The incorporation of EDAG Engineering GmbH first in EDAG Engineering Holding GmbH, afterwards in EDAG Engineering Schweiz Sub-Holding AG (previously EDAG Engineering Group AG), and the subsequent incorporation of EDAG Engineering Schweiz Sub-Holding AG in EDAG Group AG are transactions that are to be represented as a reorganization of the complex Company structure.

Following the representation of the legal reorganization, the Group equity level corresponds to that of EDAG Group AG in the subscribed capital and to that of EDAG Engineering GmbH in the capital reserves and further equity items. The differences arising from the representation of the legal reorganization were recognized in retained earnings.

Retained earnings comprise the other retained earnings, the reserve for conversion effects as per IFRS 1, and reserves from transactions under joint control, as well as the annual results of the previous years after dividend distributions and the profit of the current year.

Reserves from Profits and Losses Recognized Directly in Equity (OCI)

As per IAS 39, unrealized profits and losses from changes to market values of securities available for disposal are posted to a separate item in equity capital, provided no impairments exist. Furthermore, this includes direct changes to equity capital resulting from the valuation of pension obligations.

Currency Conversion Difference

Differences from currency conversion include differences from the currency conversion of financial statements of non-domestic subsidiaries.

Paid and Proposed Dividends

At the annual general meeting of EDAG Group AG held on May 31, 2016 it was decided that, for the 2015 financial year, a dividend in the amount of € 0.75 per share should be paid from the capital reserves. Payment of the dividend was made on June 1, 2016.

Subject to approval of the general meeting, the Board of Directors of EDAG Group AG recommends paying a dividend of € 0.75 (CHF 0.81) per share for the 2016 financial year, which will result in an overall payout of € 18,750 thousand (CHF 20,136 thousand). The Board of Directors recommends that the entire dividend payout in the amount of € 0.75 (CHF 0.81) per share proposed for 2016 should be withdrawn from the capital reserves of EDAG Group AG. Subject to this proposal being passed at the general meeting, any such payout will not be subject to Swiss withholding tax.

Non-controlling Interests

The non-controlling interest includes shares held by third-parties in initial and generated equity of the fully consolidated subsidiaries.

[25] Pensions and other Post-Employment Benefits

EDAG has a Company pension scheme for its employees, which takes the form of defined benefit and/or defined contribution plans. In this way, care is taken of virtually all employees for the period after their retirement.

Defined Contribution Plans

The defined contribution benefits are benefits from state and private retirement insurers, to whom payments are made on the basis of statutory regulations, or on a voluntary basis. The employer contributions paid to the statutory pension scheme on a domestic level may be viewed as defined contribution plans of this nature. Payments to defined contribution pension plans in the Group predominantly refer to contributions to statutory pension schemes in Germany. The Group has no further payment obligations besides the payment of the contributions. In the reporting year, contributions amounting to € 36,911 thousand were paid (2015: € 30,743 thousand).

Defined Benefit Plans

The defined benefit plans involve both direct benefits (direct pension commitments) and indirect benefits made through VKE Versorgungskasse EDAG Firmengruppe e.V. (VKE).

The direct benefits are guaranteed life-long pension payments. In some cases, this means benefits at a fixed amount; in others, benefits that vary according to the length of service to the Company and the employee's salary. Old-age, disability and surviving dependents' pensions are assured.

The purpose of VKE - a group support fund - is to serve as a social institution of EDAG and related companies wishing to have their Company retirement pension schemes managed by VKE. The sponsors (members using VKE to handle their Company retirement pension schemes) are the following companies:

- EDAG Engineering GmbH, Wiesbaden
- EDAG Production Solutions GmbH & Co. KG, Fulda
- EDAG Werkzeug + Karosserie GmbH, Fulda[6]
- FFT GmbH & Co. KG, Fulda[7]

The exclusive and unchangeable purpose of VKE is to manage the support fund which grants to beneficiaries voluntary, one-off, recurring or ongoing benefits pursuant to the VKE benefit plan in the event of assistance being required, occupational incapacity or occupational

[6] *Associated Company*
[7] *Related Company*

disability, and during old age. Beneficiaries can be employees and/or former employees of the sponsor companies and their families (spouses, children) and/or surviving dependants. Members of the sponsor companies are also persons with whom the sponsor companies are, or have been, in an employment-type relationship. EDAG will no longer be entering into pension commitments for employees recruited on or after June 1, 2006. In accordance with the provisions of the pension scheme, employees who are entitled to benefits receive old-age and surviving dependents' benefits in the form of a lump-sum payment. The benefits are financed through an external fund, with the fund assets being re-invested in the form of loans in the sponsor companies.

In accordance with the provisions of this pension scheme, the employee receives old-age and surviving dependents' benefits. Each of the benefits due is paid as a lump sum.

Pension obligations in **Germany** are subject to the provisions of the German Company Pensions Act. Due to the pension adjustment obligation required by law, pension commitments are subject to inflation risk. Furthermore, there is the risk that, due to changes in life expectancy, the likelihood of becoming disabled and the likelihood of dying, the actual payment obligations are different from what was expected at the time when the commitment was made.

In **Switzerland,** the Group's Company pension scheme is handled by AXA Stiftung Berufliche Vorsorge. Assets are invested jointly for all accounts in a collective fund. This collective fund may change its financing system at any time. For the duration of a coverage deficit, and provided other measures do not lead to the desired result, the collective fund can levy restructuring contributions from the employer and the employees

In **Italy**, benefits are paid upon termination of the employment (Trattamento di Fine Rapporto [TFR]). Every employee is entitled to benefits in such cases. For each year of service, severance provisions must be created on the basis of total annual remuneration divided by 13.5. When setting aside these provisions, the employer must pay a proportion (0.5 percent of the salary) of this to the Italian National Social Security Institute or to an external pension fund over the course of the year. This amount is deducted from the severance provisions. On December 31 of each year, the severance pay accrued in the previous year is revalued using an index prescribed by law (1.5 percent plus 75 percent of the increase in the consumer price index for families of workers and employees based on the last 12 months).

In **India**, the 1972 Gratuity Act requires post-employment benefits to be paid to employees, provided they have rendered continuous service for at least 4.5 years. Payment is based on the basic monthly salary divided by 26 days and multiplied by 15 days for each complete year; although if six months have been completed, this is regarded as a year.

In **South Korea**, employees who have been working for a Company for at least a year are entitled to compensation. For every subsequent service year, thirty days' average salary is paid on termination of the employment contract.
Old-age pension obligations are determined on the basis of the actuarial expert report that is produced each year. The benefit amount is determined using the duration of employment as well as the estimated future salary and pension trends.

The pension provision recorded on the statement of financial position is shown as follows:

in € thousand	**12/31/2016**	**12/31/2015**
Present value of obligations financed through a fund	39,161	35,117
Fair value of plan assets	25,451	24,783
Financing deficit/surplus	**13,710**	**10,334**
Present value of obligations not financed through a fund	13,328	11,657
Total deficit of the defined benefit obligations [Recognized pension provision]	**27,038**	**21,991**

The pension provision developed as follows:

in € thousand	**12/31/2016**	**12/31/2015**
Pension provision at the beginning of the financial year	21,991	22,358
Ongoing service cost	1,760	1,726
Past service cost	-	- 104
Net interes expenses (+)/income (-)	509	456
Revaluations	3,112	- 2,614
Effects of currency conversion	17	131
Benefits payments from Company assets	- 420	- 281
Employer contributions to the fund	- 100	- 145
Employer contributions from the fund	118	320
Administration costs	2	2
Other Changes	49	142
Recognized pension provision	**27,038**	**21,991**

The past service period cost in the previous year is based on a change of scheme for the supplementary conversion rates in Switzerland.

The vested net present value of the pension obligation and the fair value of the plan assets developed as follows:

in € thousand	2016			2015		
	Total	VKE	Direct benefits	Total	VKE	Direct Benefits
Changes to vested net present value						
Vested net present value as at January 1,	**46,773**	**30,698**	**16,075**	**46,806**	**30,532**	**16,274**
Ongoing service period cost	1,759	1,092	667	1,725	1,119	606
Past service cost	-	-	-	- 104	-	- 104
Interest expense	1,039	702	337	937	611	326
Revaluations of defined benefit plans						
from changes to the financial assumptions	3,839	2,424	1,415	- 2,098	- 1,310	- 788
from adjustments made on the basis of experience	- 295	6	- 301	- 55	287	- 342
Effects of currency conversion	43	-	43	349	-	349
Contributions from plan participants	96	-	96	141	-	141
Benefit payments from Company assets	- 420	-	- 420	- 281	-	- 281
Benefit payments from the fund	- 397	- 248	- 149	- 791	- 541	- 250
Administration costs	2	-	2	2	-	2
Other Changes	49	-	49	142	-	142
Vested net present value as at December 31,	**52,488**	**34,674**	**17,814**	**46,773**	**30,698**	**16,075**
Change in plan assets						
Fair value as at January 1,	**24,783**	**20,364**	**4,419**	**24,448**	**20,105**	**4,343**
Changes in the scope of consolidation	-	-	-	-	-	-
Interest income	529	464	65	481	402	79
Profit (+)/loss (-) from plan assets excluding the amount included in the interest income	432	384	48	461	398	63
Effects of currency conversion	26	-	26	218	-	218
Employer contributions to the fund	188	-	188	145	-	145
Repayment from the funds	- 118	-	- 118	- 320	-	- 320
Contributions from plan participants	96	-	96	141	-	141
Benefit payments from the fund	- 486	- 248	- 238	- 791	- 541	- 250
Fair value as at December 31,	**25,450**	**20,964**	**4,486**	**24,783**	**20,364**	**4,419**

The fair value of the plan assets is distributed as follows across the individual asset categories:

in € thousand	12/31/2016		12/31/2015	
	Values	%	Values	%
Debt securities (Germany)	20,964	82%	20,364	82%
of which investments in the employer or related parties (without quoted market price)	20,964	-	20,364	-
Reinsurance cover asset values (Germany)	1,569	6%	1,590	6%
of which without quoted market price in an active market	1,569	-	1,590	-
Collective fund (Switzerland)	2,917	11%	2,829	11%
of which without quoted market price in an active market	2,917	-	2,829	-
Total plan assets	**25,450**	**100%**	**24,783**	**100%**

The following sensitivity analysis shows the effects of an increase or decrease in the actuarial assumptions on the vested net present value:

in € thousand	2016	2015
Ø Actuarial interest rate		
+0,50%	48,670	43,499
- 0,50%	56,239	50,277
Ø Life expectancy		
+ 1 year	52,799	46,963
- 1 year	51,668	45,934

The sensitivities were determined in the same way as the scope of obligations. In the process, one assumption was changed while the remaining assumptions and the evaluation methodology remained unchanged. If multiple assumptions change at the same time, the effect does not necessarily agree to the sum of the individual effects. Additionally, the effects of the individual assumption changes are not linear.

As the benefits from VKE take neither a vesting trend nor a pension trend into account, a change to this assumption has no significant effects on the total obligation.

The average weighted duration of the vested net present value of the defined benefit pension plans of EDAG as at December 31, 2016 was 14.7 years (2015: 14.8 years).
For the 2017 financial year, the Group is expecting disbursements from Company assets for pension commitments in the amount of € 527 thousand (2016: € 332 thousand).

For the 2017 financial year, the Group is expecting disbursements from the pension fund in the amount of € 688 thousand (2016: € 465 thousand).

The following key actuarial assumptions are the basis of the calculation of the vested net present value:

	12/31/2016	**12/31/2015**
Ø Discount rate		
Germany	1.72%	2.36%
Switzerland	0.80%	1.00%
Italy	1.31%	1.95%
India	7.11%	8.00%
South Korea	2.48%	0.00%
Vested trend		
Switzerland	1.00%	1.00%
Italy	2.50%	2.50%
Pension trend		
Germany	1.75%	1.75%
Italy	2.50%	2.63%
Inflation rate		
Germany	1.50%	1.50%
Switzerland	0.50%	0.50%
Italy	1.50%	1.50%
Biometric basis for calculation		
Germany	Heubeck tables 2005 G	Heubeck tables 2005 G
Switzerland	BVG 2010 GT	BVG 2010 GT
Italy	RG48	RG48
India	100% of IALM (2006-08)	100% of IALM (2006-08)

The valuation of retirement obligations was carried out on the basis on a discounting interest rate, which was determined in accordance with the Mercer Yield Curve Approach (MYC).

[26] Other Provisions

The development of other provisions is shown in the following provision schedule:

in € thousand	As at 1/1/2016	Changes in the scope of con-solidation	Currency conversion differences	Discounting	Addition	Utilization	Reversal	Transfer	As at 12/31/2016
Non-current provisions									
Personnel	856	-	49	9	120	- 121	-	-	913
Disinvestments	343	-	-	-	-	-	- 343	-	-
Other provisions	2,045	-	41	1	38	- 1	- 7	-	2,117
Total non-current provisions	**3,244**	**-**	**90**	**10**	**158**	**- 122**	**- 350**	**-**	**3,030**
Current provisions									
Taxes	6,981	-	-	-	46	- 3,771	- 959	-	2,297
Personnel	2,259	-	149	-	2,184	- 1,359	- 93	-	3,140
Warranty obligations	356	-	-	-	-	-	- 156	-	200
Onerous contracts	158	-	34	-	971	-	- 28	-	1,135
Legal disputes	535	-	138	-	3	-	-	-	676
Disinvestments	100	-	-	-	-	-	-	-	100
Other current provisions	2,073	-	- 8	-	108	- 135	- 101	-	1,937
Total current provisions	**12,462**	**-**	**313**	**-**	**3,312**	**- 5,265**	**- 1,337**	**-**	**9,485**

in € thousand	As at 1/1/2015	Changes in the scope of con-solidation	Currency conversion differences	Discounting	Addition	Utilization	Reversal	Transfer	As at 12/31/2016
Non-current provisions									
Personnel	745	-	- 40	11	76	- 54	- 112	230	856
Disinvestments	2,267	-	-	-	-	-	- 1,924	-	343
Other provisions	1,992	-	37	1	34	- 19	-	-	2,045
Total non-current provisions	**5,004**	**-**	**- 3**	**12**	**110**	**- 73**	**- 2,036**	**230**	**3,244**
Short-term provisions									
Taxes	1,761	-	- 16	-	5,588	- 352	-	-	6,981
Personnel	4,222	-	- 230	-	1,423	- 1,934	- 1,222	-	2,259
Warranty obligations	280	-	-	-	156	-	- 80	-	356
Onerous contracts	1,834	-	-	-	30	- 1,324	- 382	-	158
Restructuring	324	-	- 41	-	-	- 53	-	- 230	-
Legal disputes	342	-	- 134	-	113	-	-	214	535
Disinvestments	200	-	-	-	-	-	- 100	-	100
Other current provisions	3,804	26	- 11	-	473	- 1,006	- 999	- 214	2,073
Total current provisions	**12,767**	**26**	**- 432**	**-**	**7,783**	**- 4,669**	**- 2,783**	**- 230**	**12,462**

The **other tax provisions** include possible obligations from other taxes (including but not limited to land transfer tax and tax on wages).

The **personnel provision** includes other long-term benefits to employees, within the meaning of IAS 19.153. At the time of reporting, personnel provisions in the amount of € 4,053 thousand (12/31/2015: € 3,115 thousand) exist. Severance pay is also taken into account in this provision position.

The provision for **warranties** exists for statutory and contractual guarantee obligations, as well as for goodwill towards customers.
Provisions for warranty obligations for specific customer projects were established according to the expected value calculated for potential goodwill gestures.

Provisions for **onerous contracts** are formed when excess costs are incurred for pending sales transactions. As a general rule, losses from construction contracts are calculated on the basis of the production costs. A liability is only recognized if the costs are higher than the receivable on the reporting date.

Provisions for **disinvestments** have been created for potential obligations arising from various Company sales.

As an internationally active Company, the EDAG Group is exposed to numerous **legal risks.** In particular, these can include risks from the areas of competition and anti-trust law, patent law, etc. As the results of currently pending and/or future legal action cannot be forecast with any certainty, it is possible that legal or official decisions or settlement agreements might lead to costs being incurred which are either not, or not fully, covered by insurance benefits.

In the case of current provisions, we work on the basis that the cash outflow is to be expected in the following year.

Non-current personnel provisions are primarily anniversary provisions that will be paid out within the next 2 – 25 years. Where the remaining non-current provisions are concerned, we work on the basis that these will be paid out within the next 2 – 4 years.

[27] Financial Liabilities

in € thousand	12/31/2016	12/31/2015
Liabilities due to credit institutions	6,048	7,665
Liabilities from loans	108,456	154,189
due to third parties	4	10
due to related parties	108,452	154,179
Liabilities from financing leases	2,401	2,247
Liabilities from derivative financial instruments	365	8
Total	**117,270**	**164,109**

The liabilities due to credit institutions (current and non-current) include a property loan in the amount of € 1,446 thousand (12/31/2015: € 2,118 thousand). This property loan is interest-bearing at an unchanged average interest rate of 4.82 percent p.a. and has been repaid with an unchanged monthly annuity installment of € 64 thousand. As at December 31, 2016, there are liabilities in the amount of € 118 thousand (21/31/2015: € 0 thousand) from current account agreements. Bank liabilities exist with credit institutions with first class credit ratings.

The Group has provided the following securities as collateral for the bank liabilities:

in € thousand	12/31/2016	12/31/2015
Registered land charges		
Nominal	1,350	1,350
Credit exposure	-	90
Cash deposit	93	92

In 2016, the liabilities due to related companies were reduced due to the early repayment of the non-current loan in the amount of € 46 million to ATON Group Finance GmbH, Going am Wilden Kaiser, Austria. As at December 31, 2016, the loan shows a net book value of € 87,488 thousand (12/31/2015: € 133,814 thousand). Of this amount, € 86,800 thousand (12/31/2015: € 132,800 thousand) is to be classified as non-current financing.

As of December 31, 2016, there are also current loans, including interest, in the amount of € 20,964 thousand from VKE Versorgungskasse EDAG-Firmengruppe e.V. (12/31/2015: € 20,364 thousand). The average applicable interest rate is 4.2 percent.

The liabilities from leases exist primarily due to hardware financing. The average interest rate is 5.5 percent. See chapter "Leases", on page 239, for additional information on leases. Derivatives include the cash outflow of derivative financial instruments with a negative fair value as well as the cash outflow of derivatives with a positive fair value, for which gross settlement has been arranged.

in € thousand	Liabilities due to credit institutions	Liabilities from loans to		Liabilities from Financing lease	Liabilities from derivative financial instrumente	Total
		third parties	related parties			
Term to maturity as at 12/31/2016						
≤ 1 year	5,307	4	21,652	1,862	365	29,190
> 1year bis ≤ 5 years	741	-	86,800	539	-	88,080
> 5 years	-	-	-	-	-	-
Total	**6,048**	**4**	**108,452**	**2,401**	**365**	**117,270**
Term to maturity as at 12/31/2015						
≤ 1 year	6,031	6	21,379	1,518	8	28,942
> 1year bis ≤ 5 years	1,634	4	132,800	729	-	135,167
> 5 years	-	-	-	-	-	-
Total	**7,665**	**10**	**154,179**	**2,247**	**8**	**164,109**

It is the aim of the EDAG Group to preserve the equilibrium between the ongoing coverage of funding requirements and ensuring flexibility through the use of current account overdraft, loans, financing leases and lease-to-buy contracts.

The following table shows the liquidity risk of EDAG. With this, the contractually agreed (non-discounted) interest and principal payments of the original financial liabilities and the derivative financial instruments are shown with their positive and negative attributable fair value. All instruments which were held on December 31, 2016, and for which payments were already contractually agreed, have been included. Plan figures for future new liabilities are not included. Foreign currency amounts have been converted at the exchange rate valid on the reporting date. Financial liabilities repayable at any time are always allocated to the earliest time scale.

There were no defaults on the recognized loans during the reporting year.

in € thousand	Book value 12/31/2016	Cash Flows 2017			Cash Flows 2018			Cash Flows 2019 - 2021			Cash Flows 2022 onwards			without fixed principal repay-ments
		Interest		Principal repay-ment	Interest		Principal repay-ment	Interest		Principal repay-ment	Interest		Principal repay-ment	
		fixed	var		fixed	var		fixed	var		fixed	var		
Liabilities due to credit institutions	6,048	282	-	5,307	22	-	741	-	-	-	-	-	-	-
Liabilities from loans	108,456	3,712	-	692	4,400	-	86,800	-	-	-	-	-	-	20,964
due to third parties	4	-	-	4	-	-	-	-	-	-	-	-	-	-
due to associated parties	108,452	3,712	-	688	4,400	-	86,800	-	-	-	-	-	-	20,964
Liabilities from financing leases	2,401	86	-	1,862	20	-	450	5	-	89	-	-	-	-
Liabilities from derivative financial instruments	365	-	-	365	-	-	-	-	-	-	-	-	-	-
Total	**117,270**	**4,080**	**-**	**8,226**	**4,442**	**-**	**87,991**	**5**	**-**	**89**	**-**	**-**	**-**	**20,964**

in € thousand	Book value 12/31/2015	Cash Flows 2016			Cash Flows 2017			Cash Flows 2018 - 2020			Cash Flows 2021 onwards			without fixed principal repay-ments
		Interest		Principal repay-ment	Interest		Principal repay-ment	Interest		Principal repay-ment	Interest		Principal repay-ment	
		fixed	var		fixed	var		fixed	var		fixed	var		
Liabilities due to credit institutions	7,665	98	-	6,031	59	-	894	22	-	740	-	-	-	-
Liabilities from loans	154,190	7,534	-	1,021	6,679	-	3	6,678	-	132,800	-	-	-	20,365
due to third parties	11	1	-	7	1	-	3	-	-	-	-	-	-	-
due to associated parties	154,179	7,533	-	1,014	6,678	-	-	6,678	-	132,800	-	-	-	20,365
Liabilities from financing leases	2,247	90	-	1,518	31	-	612	2	-	36	-	-	81	-
Liabilities from derivative financial instruments	8	-	-	8	-	-	-	-	-	-	-	-	-	-
Total	**164,110**	**7,722**	**-**	**8,578**	**6,769**	**-**	**1,509**	**6,702**	**-**	**133,576**	**-**	**-**	**81**	**20,365**

In contrast to cash outflow due to derivatives for which gross settlement has been arranged, there are also cash inflows; these are not, however, shown in this settlement analysis. If the cash inflows were also to be taken into account, the cash outflows presented would be reduced considerably.

[28] Accounts Payable and Other Liabilities

in € thousand	12/31/2016			12/31/2015		
		Term to maturity			Term to maturity	
	Total	≤ 1 Year	> 1 Year ≤ 5 Years	Total	≤ 1 Year	> 1 Year ≤ 5 Years
Accounts payable						
due to third parties	21,553	21,553	-	19,524	19,524	-
due to related parties	1,774	1,774	-	324	324	-
from construction contracts with a negative balance	5,405	5,405	-	3,874	3,874	-
advance payments received oncontruction contracts with a negative balance	24,284	24,284	-	20,410	20,410	-
Total	**53,016**	**53,016**	-	**44,132**	**44,132**	**-**
Other liabilities						
advance payments received on orders	-	-	-	282	282	-
due to related companies	476	476	-	238	238	-
due to employees	20,719	20,719	-	29,356	29,353	3
within the context of social security	1,287	1,287	-	1,318	1,318	-
deferred income	235	235	-	304	304	-
from value-added tax	18,734	18,734	-	16,111	16,111	-
from other taxes	6,070	6,070	-	6,530	6,530	-
other liabilities	5,169	5,169	-	4,808	4,808	-
Total	**52,690**	**52,690**	**-**	**58,947**	**58,944**	**3**
Overall	**105,706**	**105,706**	**-**	**103,079**	**103,076**	**3**

The gross amount due to customers for construction contracts is composed of the following net amounts:

in € thousand	12/31/2016	12/31/2015
Accrued costs including partial profits and losses	101,795	173,320
Partial settlements and advance payments received from construction contracts with a negative balance	- 131,484	- 197,604
Future liabilities from construction contracts	**- 29,689**	**- 24,284**

The liabilities due to employees are primarily composed of special salary payments (€ 6 thousand; 12/31/2015: € 5,526 thousand), obligations from overtime and flexi-time credits (€ 9,730 thousand; 12/31/2015: € 11,007 thousand), obligations from outstanding vacation allowances (€ 5,637 thousand; 12/31/2015: € 6,841 thousand), profit share obligations (€ 3,988 thousand; 12/31/2015: € 3,811 thousand) and obligations from vacation pay and christmas bonuses (€ 482 thousand; 12/31/2015: € 1,137 thousand).

Deferred income is mainly comprised of large advance payments from business partners which were received prior to the balance sheet date and not converted to revenue until the new year.
The other liabilities include accounts payable to employers' insurance associations, the integration agencies and overpayments.

[29] Income and Deferred Tax Liabilities

in € thousand	12/31/2016	12/31/2015
Deferred tax liabilities	6,691	9,208
Non-current income tax liabilities	1,460	1,460
Current income tax liabilities	6,972	4,748
Total	**15,123**	**15,416**

In addition to the deferred taxes explained under section 12 "Income Taxes", the income tax liabilities include income taxes from the current year and the previous years. Of the deferred tax liabilities, € 5,867 thousand will be realizable after more than twelve months (12/31/2015: € 8,926 thousand). Provided that the conditions for offsetting are met, deferred tax assets are shown on the statement of financial position set off against deferred tax liabilities.

5.5 Notes regarding Segment Reporting

The segment reporting was prepared in accordance with IFRS 8 "Operating Segments". Individual consolidated results are reported by Company divisions in conformity with the internal reporting and organizational structure of the group. The key performance indicator for the executive management at segment level is the EBIT, as the adjusted effects are presented under "Others". Therefore at segment level, the EBIT shown is basically equal to the adjusted EBIT. The only exception to this rule are the effects of the purchase price allocation shown in the segment EBIT. The segment presentation is designed to show the profitability as well as the assets and financial situation of the individual business activities. Intercompany sales are accounted for at customary market prices and are equivalent to sales towards third parties (arm's length principle).

In the reporting year, the non-current assets amounted to € 188.8 million (12/31/2015: € 192.6 million). Of these, € 1.9 million are domestic, € 170.9 million are German, and € 16.0 million are non-domestic (12/31/2015: domestic: € 2.2 million; Germany:€ 174.2 million; other non-domestic: € 16.2 million).
The assets, liabilities and provisions are not reported by segments, as this information is not part of the internal reporting.

The **"Vehicle Engineering"** segment (in short: VE) consists of services along the vehicle development process as well as responsibility for derivative and complete vehicles. For descriptions of the individual departments in this segment, please see the chapter "Business Model", on page 84, in the Management Report.

As an all-round engineering partner, the **"Production Solutions"** segment (in short: PS) is responsible for the development and implementation of production processes. In addition to handling the individual stages in the product creation process and all factory and production systems-related services, Production Solutions are also able to optimally plan complete factories over all fields, including cross processes, and to provide the realization from a single source. For more detailed descriptions of the individual departments in this segment, please see the chapter "Business Model", on page 84, in the Management Report.

The range of services offered by the **"Electrics/Electronics"** segment (in short: E/E) includes the development of electrical and electronic systems for the comfort, driver assistance and safety functions of a vehicle, and the development of cable harnesses. These services are

performed in four departments; these are described in greater detail in the chapter "Business Model", on page 84, in the Management Report.
The three operative segments Vehicle Engineering, Production Solutions and Electrics/Electronics together represent the core business of the EDAG Group.

Under **"Others"**, it is primarily the subsidiary Haus Kurfürst GmbH, which was sold with effect from January 1, 2017, that is presented. All the adjustments referred to in the chapter "[8] Reconciliation of the Adjusted Operating Profit (Adjusted EBIT)", on page 194, are also given here.

in € thousand	01/01/2016 – 12/31/2016						
	Vehicle Engineering	Production Solutions	Electrics/ Electronics	Others	Total Segments	Con- solidation	Total Group
Sales revenue	448,494	114,027	152,118	316	714,955	-	714,955
Sales revenue with other segments	5,945	4,396	194	174	10,709	- 10,709	-
Changes in inventories	- 92	-	- 12	-	- 104	-	- 104
Total sales revenues and changes in inventories	**454,347**	**118,423**	**152,300**	**490**	**725,560**	**- 10,709**	**714,851**
EBIT	**23,435**	**11,575**	**2,589**	**237**	**37,836**	**-**	**37,836**
EBIT margin [%]	5.2%	9.8%	1.7%	n/a	5.2%	-	5.3%
Purchase price allocation (PPA)	4,689	291	1,616	-	6,596	-	6,596
Other adjustments	-	-	-	- 679	- 679	-	- 679
Adjusted EBIT	**28,124**	**11,866**	**4,205**	**- 442**	**43,753**	**-**	**43,753**
Adjusted EBIT margin [%]	6.2%	10.0%	2.8%	n/a	6.0%	-	6.1%
Depreciation, amortization and impairment	- 20,484	- 2,895	- 4,311	- 2	- 27,692	-	- 27,692

in € thousand	01/01/2015 – 12/31/2015						
	Vehicle Engineering	Production Solutions	Electrics/ Electronics	Others	Total Segments	Con- solidation	Total Group
Sales revenue	449,884	113,342	158,784	127	722,137	-	722,137
Sales revenue with other segments	5,279	6,408	129	190	12,006	- 12,006	-
Changes in inventories	- 205	-	35	-	- 170	-	- 170
Total sales revenues and changes in inventories	**454,958**	**119,750**	**158,948**	**317**	**733,973**	**- 12,006**	**721,967**
EBIT	**40,292**	**15,538**	**9,926**	**- 5,544**	**60,212**	**-**	**60,212**
EBIT margin [%]	8.9%	13.0%	6.2%	n/a	8.2%	-	8.3%
Purchase price allocation (PPA)	5,425	194	1,616	-	7,235	-	7,235
Other adjustments	-	-	-	5,148	5,148	-	5,148
Adjusted EBIT	**45,717**	**15,732**	**11,542**	**- 396**	**72,595**	**-**	**72,595**
Adjusted EBIT margin [%]	10.0%	13.1%	7.3%	n/a	9.9%	-	10.1%
Depreciation, amortization and impairment	- 18,830	- 2,479	- 4,047	- 208	- 25,564	-	- 25,564

Income and expenses as well as results between the segments are eliminated in the consolidation.

5.6 Notes on the Cash Flow Statement

A positive operating cash flow of € 51.8 million was achieved in the reporting year (2015: € 27.6 million). The reason for the positive development is that there was a substantial build-up of working capital in the previous year, which was marked by strong corporate growth. There was no such change in working capital during the reporting year.

At € 27.9 million, gross investments in the reporting year were some € 7.9 percent below the previous year's level (2015: € 30.3 million). Deposits from disposals of tangible fixed assets totaling € 1.2 million resulted from the receipt of payments for a building sold in the reporting year.

In the financing cash flow, we had a cash outflow total of € 76.4 million (2015: cash inflow of € 9.7 million). Besides the dividend payout to the shareholders in the amount of € 18.8 million, loan repayments (excluding interest) in the amount of € 46.0 million were principally made to ATON Group Finance GmbH. In the reporting year, free cash flow [operating cash flow less investing cash flow] was increased by € 24.4 million (2015: € 41.2 million).

The changes to the statement of financial position items which are shown in the cash flow statement are not directly derivable from the statement of financial position, as, among other things, effects from the currency conversion and from changes in the scope of consolidation are non-cash and disclosed separately.

5.7 Other Notes

Contingent Liabilities/Receivables and Other Financial Obligations

Contingent Liabilities

As in the previous year, there were no material contingent liabilities on the reporting date.

Other Financial Obligations

In addition to the provisions, liabilities and contingent liabilities, there are also other financial liabilities, and these are composed as follows:

in € thousand	12/31/2016	12/31/2015
Obligation from the renting of property	160,370	173,635
Obligations from miscellaneous renting and leasing contracts	8,855	8,922
Open purchase orders	4,893	2,387
Other miscellaneous financial obligations	167	1,085
Total	**174,285**	**186,029**

The increase in obligations from miscellaneous renting and leasing contracts is due to an increased volume in the field of car and IT leasing.
The increase in open purchase orders results from the sale of real estate in Wolfsburg.

Contingent Receivables

As in the previous year, there were no material contingent receivables on the reporting date.

Leases

EDAG as the lessee

Financing Leases

If the lessee bears the main rewards and risks associated with the leasing object, then the economic ownership of the leased objects is attributed to the lessee. The Group has concluded financing leases and lease-to-buy contracts for various items of technical equipment and operating and office equipment. The net book values of the leasing objects capitalized within the context of financing leasing activity on the reporting date are shown in the following schedule:

in € thousand	12/31/2016	12/31/2015
Other equipment, operating and office equipment	2,362	2,227
Total	**2,362**	**2,227**

The payment obligation resulting from finance leasing as of the reporting date is posted as a liability in the amount of the net present value of the future minimum leasing payments. In subsequent years, this liability will be reduced by the repayment portion as part of the leasing installments. The interest share of the payments is posted to the statement of comprehensive income. In individual detail, the following future obligations result for the balance sheet date:

in € thousand		12/31/2016			12/31/2015	
	Minimum leasing payments	Interest portion	Present values	Minimum leasing payments	Interest portion	Present values
Due date						
up to 1 year	1,947	86	1,861	1,608	90	1,518
1 to 5 years	564	25	539	762	33	729
over 5 years	-	-	-	-	-	-
Total	**2,511**	**111**	**2,400**	**2,370**	**123**	**2,247**

As at the balance sheet date, there are no obligations from sale and leaseback contracts.

Operating Leases

The economic ownership of leasing transactions is attributed to the lessor if the lessor bears the main rewards and risks associated with the leasing object. The obligations of EDAG from non-cancelable operating leases mainly exist for commercial property rental agreements, motor vehicles and technical equipment. At the year-end, the expenses of operating leases posted to profit or loss amounted to € 38,971 thousand (2015: € 32,760 thousand).

The future minimum leasing payments from operating-leasing business areas are as follows:

in € thousand	2016	2015
future expenses from reporting year + 1	28,450	29,023
future expenses from reporting year + 2 to 4	55,005	58,279
future expenses from reporting year + 5 et seqq.	85,824	95,400
Total	**169,279**	**182,702**

Of these, as at the balance sheet date the following future minimum leasing payments exist which result from sale and leaseback transactions:

in € thousand	2016	2015
future expenses from reporting year + 1	3,159	3,159
future expenses from reporting year + 2 to 4	9,477	9,477
future expenses from reporting year + 5 et seqq.	30,670	33,961
Total	**43,306**	**46,597**

The obligations from non-cancelable operating leases mainly exist for commercial property rental agreements, IT leasing, motor vehicles and technical equipment.

As at the balance sheet date, the anticipated future minimum payments from non-cancelable sub-leases amount to € 1,352 thousand (12/31/2015: € 1,371 thousand).
As in the previous year, neither contingent lease payments nor expenses from non-cancelable sub-leases were posted as costs.

EDAG as the Lessor

Financing Leases
EDAG does not act as a lessor with regard to financing leases.

Operating Leases
EDAG acts as a lessor with regard to operating leases, and continues to include the assets let in this respect in its statement of financial position. The leasing installments received are posted through profit or loss By and large, this involves the rental of buildings. As a general rule, leasing contracts tend to be short-term. At the year-end, the income from operating leasing amounted to € 2,447 thousand (2015: € 1,706 thousand). The future minimum leasing payments from non-cancelable operating leases are as follows:

in € thousand	2016	2015
future income from reporting year + 1	1,743	2,766
future income from reporting year + 2 to 4	368	440
future income from reporting year + 5 et seqq.	-	-
Total	**2,111**	**3,206**

As in the previous year, no contingent rental income was recorded through profit or loss in the 2016 financial year.

Financial Instruments

Capital Risk Management

The Group manages its capital with the aim of maximizing the earnings of those involved in the Company by optimizing the ratio of equity to borrowed capital. In the process, care is taken to ensure that the group companies can all operate on the assumption that the Company is a going concern.

The Group capital structure is composed of debts, financing receivables, securities/derivative financial instruments, cash and cash equivalents, and also the equity due to the parent Company's shareholders. This consists of the subscribed capital, the capital reserves and the retained earnings.

The capital structure of the Group is reviewed by the Executive Management on a quarterly basis. During this review, the committee considers the cost of capital and the risks connected with each capital category. The Executive Management's aim is to keep the net financial debt as low as possible in relation to the equity ratio (net gearing).

in TEUR	31.12.2016	31.12.2015
Non-current financial liabilities	- 88,080	- 135,167
Current financial liabilities	- 29,190	- 28,942
Securities/derivative financial instruments	61	68
Cash and cash equivalents	19,067	70,654
Net financial debt/-credit [-/+]	**-98,142**	**- 93,387**
Equity	152,764	155,243
Net Gearing [%]	**64.2%**	**60.2%**
Liabilities due to credit institutions	-6,048	- 7,665
Cash and cash equivalents	19,067	70,654
Net financial balance with banks	**13,019**	**62,989**

At € 98,142 thousand, the net financial debt on December 31, 2016 is € 4,755 thousand above the previous year's value (€ 93.387 thousand). In the reporting period, it proved possible to reduce the financial liabilities on account of miscellaneous loan repayments. In turn, the cash also sank compared to the previous year. As in the previous year, the EDAG Group reported a net financial balance with credit institutions on the reporting date. This means that the liquidity situation of the EDAG Group continues to be rated as very positive.

One of the major factors influencing the net financial debt is the working capital, which developed as follows:

	in € thousand	12/31/2016	12/31/2015
	Inventories	1,919	1,599
+	Future receivables from construction contracts	86,881	93,257
+	Current accounts receivable	115,585	102,332
-	Future liabilities from construction contracts	- 29,689	- 24,284
-	Current accounts payable	- 23,327	- 19,848
=	**Trade Working Capital (TWC)**	**151,369**	**153,056**
+	Non-current accounts receivable and other receivables	902	1,323
+	Deferred tax assets	1,109	780
+	Current other receivables excl. Interest-bearing receivables	11,724	9,460
+	Income tax assets	2,298	4,979
-	Non-current accounts payable and other liabilities	-	- 3
-	Non-current income tax liabilities	- 1,460	- 1,460
-	Deferred tax liabilities	- 6,691	- 9,208
-	Current other liabilities	- 52,690	- 58,944
-	Income tax liabilities	- 6,972	- 4,748
=	**Other working capital (OWC)**	**- 51,780**	**- 57,821**
	Net working capital (NWC)	**99,589**	**95,235**

The trade working capital decreased slightly from € 153,056 thousand to € 151,369 thousand, compared to December 31, 2015.

Compared to December 31, 2015, there was a change in the other working capital from € -57,821 thousand to € -51,780 thousand. This was largely due to a reduction of current other liabilities.

Book Values, Valuation Rates and Fair Values of the Financial Instruments as per Valuation Category

The book values and fair values of all financial instruments recorded in the consolidated financial statements are shown in the following table.

For the most part, cash and cash equivalents, accounts receivable and other receivables have only a short time to maturity. For this reason, their book values on the reporting date are close approximations of the fair values.

With the exception of accounts receivable and other receivables, none of the other financial instruments are either overdue or impaired on the reporting date. For the analysis of overdue, non-impaired accounts receivable and other receivables, see chapter "[20] Accounts Receivable and Other Receivables", on page 211.

The fair values of other receivables and financial assets held to maturity with a remaining term of more than a year correspond to the net present values of the payments associated with the assets, taking into account the relevant interest parameters, which reflect the market and counterparty-related changes in conditions and expectations.

Accounts payable and other financial liabilities regularly have short remaining terms to run, and the values posted are close approximations of the fair values.

A distinction is made between the following financial assets and financial liabilities, aggregated as per valuation category:

- [LaR] Loans and Receivables
- [HtM] Held-to-Maturity Investments
- [FAHfT] Financial Assets Held for Trading
- [AfS] Available-for-Sale financial assets
- [FLAC] Financial Liabilities measured at Amortized Cost
- [FLHfT] Financial Liabilities Held for Trading

in € thousand	Valuation category as per IAS 39	Book value 12/31/2016	Valuation category of balance sheet as per IAS 39				Valuationstatement of financial positionas per IAS 17 balance sheet as per IAS 17
			Amortized costs	Acquisition costs	Fair value recognized directly in equity	Fair value through profit or loss	
Financial assets							
Cash and cash equivalents	[LaR]	19,067	19,067	-	-	-	-
Accounts receivable and other receivables in terms of IAS 32.11	[LaR]	118,369	118,369	-	-	-	-
Future receivables from construction contracts	[LaR]	86,881	86,881	-	-	-	-
Loans	[LaR]	106	106	-	-	-	-
Assets available for sale	[AfS]	113	52	-	61	-	-
Financial liabilities (liabilities)							
Financial liabilities							
Credit institutions	[FLAC]	6,048	6,048	-	-	-	-
Other interest-bearing liabilities	[FLAC]	108,456	108,456	-	-	-	-
Liabilities from financing leases	[n.a.]	2,400	-	-	-	-	2,400
Derivative financial liabilities	[FLHfT]	365	-	-	-	365	-
Accounts payable and other liabilities in terms of IAS 32.11	[FLAC]	26,744	26,646	-	-	98	-
Financial assets and financial liabilities, aggregated according to valuation category in accordance with IAS 39							
Loans and Receivables	[LaR]	224,423	224,423	-	-	-	-
Financial Assets Held for Trading	[FAHfT]	-	-	-	-	-	-
Available-for-Sale Financial Assets	[AfS]	113	52	-	61	-	-
Financial Liabilities measured at Amortized Cost	[FLAC]	141,248	141,150	-	-	98	-
Financial Liabilities Held for Trading	[FLHfT]	365	-	-	-	365	-

in € thousand	Valuation category as per IAS 39	Book value 12/31/2015	Valuation category of balance sheet as per IAS 39				Valuations-tatement of financial positionas per IAS 17 balance sheet as per IAS 17
			Amortized costs	Acquisition costs	Fair value recognized directly in equity	Fair value through profit or loss	
Financial assets							
Cash and cash equivalents	[LaR]	70,654	70,654	-	-	-	-
Accounts receivable and other receivables in terms of IAS 32.11	[LaR]	104,658	104,658	-	-	-	-
Future receivables from construction contracts	[LaR]	93,257	93,257	-	-	-	-
Loans	[LaR]	105	105	-	-	-	-
Assets available for sale	[AfS]	145	77	-	68	-	-
Financial liabilities (liabilities)							
Financial liabilities							
Credit institutions	[FLAC]	7,665	7,665	-	-	-	-
Other interest-bearing liabilities	[FLAC]	154,189	154,189	-	-	-	-
Liabilities from financing leases	[n.a.]	2,247	-	-	-	-	2,247
Derivative financial liabilities	[FLHfT]	8	-	-	-	8	-
Accounts payable and other liabilities in terms of IAS 32.11		22,709	22,514	-	-	195	-
Financial assets and financial liabilities, aggregated according to valuation category in accordance with IAS 39							
Loans and Receivables	[LaR]	268,674	268,674	-	-	-	-
Financial Assets Held for Trading	[FAHfT]	-	-	-	-	-	-
Available-for-Sale Financial Assets	[AfS]	145	77	-	68	-	-
Financial Liabilities measured at Amortized Cost	[FLAC]	184,563	184,368	-	-	195	-
Financial Liabilities Held for Trading	[FLHfT]	8	-	-	-	8	-

The fair values of securities correspond to the nominal value multiplied by the exchange quotation on the reporting date.

The attributable fair values of liabilities due to credit institutions, loans and other financial liabilities are calculated as present values of the debt-related payments, based on the EDAG current yield curve valid at the time. By and large, the fair value of the financial liabilities corresponds to the book value. As at December 31, 2016 however, the fair value of the other interest-bearing liabilities [FLAC] amounted to € 110,287 thousand (12/31/2015: € 158,524 thousand), with a book value of € 108,456 thousand (12/31/2015: € 154,189 thousand). The valuation of the fair value took place according to the "Level 2" valuation category on the basis of a discounted cash flow model. In this context, the current market rates of interest and the contractually agreed parameters were taken as the basis.

The information for the determination of attributable fair value is given in tabular form, based on a three-level fair value hierarchy for each class of financial instrument. There are three evaluation categories:

Level 1: At level 1 of the fair value hierarchy, the attributable fair values are measured using listed market prices, as the best possible fair values for financial assets or liabilities can be observed in active markets.

Level 2: If there is no active market for a financial instrument, a Company uses valuation models to determine the attributable fair value. Valuation models include the use of current business transactions between competent, independent business partners willing to enter into a contract; comparison with the current attributable fair value of another, essentially identical financial instrument; use of the discounted cash flow method; or of option pricing models. The attributable fair value is estimated on the basis of the results achieved using one of the valuation methods, making the greatest possible use of market data and relying as little as possible on Company-specific data.

Level 3: The valuation models used at this level are not based on observable market data.

in € thousand	Assessed at fair value 12/31/2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Assets available for sale	61	-	-	61
Financial liabilities				
Derivative financial liabilities	-	365	-	365
Other liabilities	-	-	98	98

in € thousand	Assessed at fair value 12/31/2015			
	Level 1	Level 2	Level 3	Total
Financial assets				
Assets available for sale	68	-	-	68
Financial liabilities				
Derivative financial liabilities	-	8	-	8
Other liabilities	-	-	195	195

Offsetting of financial assets and liabilities

The financial assets and liabilities are generally shown with the gross value. A netting is only possible if, and only if, the netting of the recognized amounts can be legally realized at the present point in time and it is intended to carry out the settlement on a net basis, or to realize the asset and extinguish the liability at the same time.

As at December 31, 2015 and 2016, there were no offsetting effects on the consolidated statement of financial position.

Net Results as per Valuation Category

With the exception of the adjustments attributable to the valuation category "Accounts Receivable and Other Receivables", which are posted under non-operating expenses (see chapter 5.4 "[7] Other Expenses", on page 193) or non-operating revenues (see "[3] Other Income", on page 189), EDAG records interest from financial instruments and the other components of the net result in the financial results.

The net profit or loss from assets and liabilities which are valued at the attributable fair value through profit or loss includes not only the results from changes in market value, but also interest paid or received on these financial instruments.

The net profit or loss from financial assets held for sale includes, but is not limited to, earnings from investments and profits from the disposal of such shares.

The net interest profit/loss from financial liabilities valued at amortized acquisition cost mainly includes interest expenses from financial liabilities. Interest earned from the addition and deduction of accrued interest on accounts payable is also included here.

The net results, according to valuation category, are as follows:

in € thousand	From interest, dividends	From subsequent evaluation			From disposal	Net results 2016
		Atfair value	Currency conversion	Value adjustment		
Loans and Receivables (LaR)	466	-	- 529	- 1,136	- 79	- 1,278
Financial Insruments Held for Trading (FAHfT und FLHfT)	-	- 358	-	-	-	- 358
Available-for-Sale Financial Assets (AfS)	-	-	-	-	-	-
Financial Liabilities measured at Amortised Cost (FLAC)	- 7,961	-	-	-	-	- 7,961
Total	**- 7,495**	**- 358**	**- 529**	**- 1,136**	**- 79**	**- 9,597**

in € thousand	From interest, dividends	From subsequent evaluation			From disposal	Net results 2015
		Atfair value	Currency conversion	Value adjustment		
Loans and Receivables (LaR)	2,259	-	- 94	- 285	26	1,906
Financial Insruments Held for Trading (FAHfT und FLHfT)	-	128	-	-	-	128
Available-for-Sale Financial Assets (AfS)	-	-	-	- 17	-	- 17
Financial Liabilities measured at Amortised Cost (FLAC)	- 9,798	-	-	-	-	- 9,798
Total	**- 7,539**	**128**	**- 94**	**- 302**	**26**	**- 7,781**

Financial Risk Management Objectives and Methods

Risk Management Principles

The primary financial instruments used by the Group are – with the exception of derivative financial instruments – bank loans and current account overdraft, financing leases, accounts payable, and loans which have been granted. The main purpose of these financial instruments is to finance the business activities of the Group. Further, the Group has at its disposal various financial assets such as securities, accounts receivable, cash and short-term deposits resulting directly from its business activities.

With regard to financial instruments, EDAG is particularly subject to risks resulting from changes in exchange rates and interest rates, as well as to liquidity and credit risks. The aim of financial risk management is to limit these risks by means of on-going operating and finance-oriented activities. Selected derivative hedging instruments are employed to this effect. As a general rule, collateral is provided only against risks that will affect the cash flow of the Group. Foreign exchange futures and interest rate caps are two of the main derivative financial instruments. The purpose of the derivative financial instruments is to provide security against interest and currency risks resulting from the business activities of the Group and its funding sources. Derivative financial instruments are used solely as hedging instruments, i.e. they are not implemented for trading or other speculative purposes.
Every year, the basic intentions underlying Company financial policy are defined by the Executive Management and monitored by the Supervisory Board. Group Treasury is responsible for the implementation of the financial policy and for on-going risk management.

Credit Risk

As a result of its operating business and certain financial activities, EDAG is at risk of default. In the funding area, business is done only with contracting parties whose creditworthiness is impeccable. In the operating area, the Group does business with creditworthy third parties only. A credit assessment is carried out on almost all customers wishing to do business on a credit basis.

For the most part, EDAG does business with large customers, particularly with international OEMs (Original Equipment Manufacturers) from the automotive industry. The resulting risk is generally assessed as low, and as such is not subject to any separate monitoring of creditworthiness.

As a general rule, the creditworthiness of any other customers is automatically monitored. Any risk of default is addressed by specific valuation adjustments
In addition, accounts receivable are continually monitored by the divisions, not centrally, which means that the Group is not at any great risk of default.

The maximum risk in the event of non-payment by a contracting party is reflected in the book values of the financial assets recorded in the statement of financial position (including derivative financial instruments with positive market values). On the reporting date, there are no significant agreements in existence that would reduce the maximum default risk (such as offsetting agreements).

Assessments indicate that there is little probability of any default risk occurring. For further details, see chapter "Contingent Liabilities/Receivables and Other Financial Obligations", on page 238.

Liquidity Risk

The liquidity risk is shown separately in chapter 5.4 "[27] Financial Liabilities", on page 228. As a general rule, it is the responsibility of the management of each individual Company to keep a constant check on solvency.

The centrally specified objective of the EDAG Group is to guarantee that funding requirements are continually met by making use of current account overdraft, inter-company loans and leases. Reports are sent to the parent Company on a weekly basis, to enable the liquidity of the individual Group companies to be monitored centrally. Each week, the information gained from these is submitted to Group management for risk control purposes. Although the liquidity risk is currently classified as slight, liquidity nevertheless continues to be secured by appropriate lines of credit from external sources.

The Company objective is to ensure that sufficient open lines of credit are available at any time. To this end, appropriate measures, such as intensive working capital management, are constantly implemented. Suitable measures are applied in good time, to guarantee the financing of any pending investments.

Market Risks

Interest Risks

Due to the fact that the Group is primarily financed through fixed interest loans from related companies such as ATON Group Finance GmbH and the VKE Versorgungskasse EDAG-Firmengruppe e.V., we are of the opinion that any risk posed by fluctuations of market interest rates is not significant.

Changes to market interest rates of original, fixed-interest financial instruments do not affect the results unless they are valued at their attributable fair values. Accordingly, no financial instruments with a fixed interest rate valued at amortized acquisition costs are subject to risk due to changes in interest, in terms of IFRS 7.

The table below chapter 5.4 "[27] Financial Liabilities", on page 228, shows the book values of the Group's financial instruments that are subject to risk from changes in interest, organized according to their contractually defined maturity dates.

There are no variable interest-bearing financial instruments. The interest rate for current account overdraft is derived from a standard, fluctuating reference rate and a Company-specific credit margin. The interest rate for fixed-interest financial instruments is defined up to the maturity date of the particular financial instrument. The Group's other financial instruments, which are not included in the table under chapter 5.4 "[27] Financial Liabilities" are not interest-bearing, and therefore not subject to risk from changes in interest.

Currency Risks

Currency-related risks to EDAG result from financing measures and operating activities. Insofar as they have a significant effect on the Group cash flow, foreign currency risks are always hedged. On the other hand, foreign currency risks not affecting the Group cash flow (i.e. risks resulting from the conversion of assets and liabilities of group companies located abroad into the reporting currency of the Group), are not generally hedged.

Foreign currency risks from financing activities result from financial liabilities in foreign currencies and foreign currency loans.
These risks are covered by the Treasury Department. Currency derivatives are used to convert financial obligations and intra-group loans denominated in foreign currencies into the Group entities' functional currencies.

On the balance sheet date, the receivables and liabilities denominated in foreign currencies, and for which the currency risks have been hedged, exist in USD, PLN, SEK, GBP, MXN and RUB. Due to these hedging activities, EDAG was not exposed to any significant currency risks from financing activities as per the reporting date.

In the operating area, the individual group companies do most of their business in their own functional currencies. This means that any currency risk to EDAG from current operating activities is assessed as being moderate. Some group companies are, however, exposed to foreign currency risks in connection with planned payments not in their own functional currencies.

For the presentation of market risks, IFRS 7 requires sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on profit or loss and equity. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments on the reporting date. It is assumed that the balance on the reporting date is representative of the entire year.

Currency risks as defined by IFRS 7 arise as a result of financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature; differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration. Relevant risk variables are generally all non-functional currencies in which EDAG has financial instruments.

The currency sensitivity analysis is based on the following assumptions:
Major non-derivative monetary financial instruments (liquid assets, receivables, interest-bearing liabilities, finance lease liabilities, non-interest-bearing liabilities) are either directly denominated in the functional currency, or transferred to the functional currency through the use of derivatives. Changes in exchange rates therefore have no effect on profit or loss or equity.
EDAG is subject only to currency risks from certain currency derivatives. These are currency derivatives which are part of neither a hedging relationship as defined by IAS 39, nor a hedging relationship with on-balance-sheet underlying transactions (natural hedge). These derivatives serve as hedges for planned items. Exchange rate fluctuations in the currencies on which such financial instruments are based affect other operating expenses/income, as any currency losses/gains from the underlying transactions are also shown here (net gain/loss from the adjustment of financial assets to fair value).

Sensitivity Analysis

If each of the functional currencies had increased or decreased in value by 10 percent compared with the other currencies, the following effects on the profit or loss for the period after income tax and on equity would have resulted in relation to the currency relations outlined below. For the effects of the sensitivities on the profit or loss for the period, a group tax rate of 31 percent was anticipated (previous year 31 percent). It would not be useful to add together the individual values, as, depending on the functional currency in question, the results are based on different scenarios.

in € thousand	12/31/2016	12/31/2015
Currency sensitivities		
10% appreciation		
EUR/HUF	- 8	- 7
EUR/JPY	- 2	32
EUR/PLN	- 35	88
EUR/RUB	-	3
EUR/SEK	-	- 2
EUR/USD	- 22	- 145
EUR/CHF	- 146	- 169
EUR/CNY	101	- 34
EUR/BRL	- 106	1
EUR/CZK	- 332	- 307
EUR/GBP	18	18
EUR/INR	- 27	- 12
EUR/RON	96	88
MXN/USD	125	147
Total revaluation	**- 338**	**- 299**
10% devaluation		
EUR/HUF	10	9
EUR/JPY	2	- 59
EUR/PLN	42	- 108
EUR/RUB	-	7
EUR/SEK	-	1
EUR/USD	27	177
EUR/CHF	179	206
EUR/CNY	- 123	42
EUR/BRL	124	- 7
EUR/CZK	406	346
EUR/GBP	- 21	- 22
EUR/INR	59	25
EUR/RON	- 117	- 107
MXN/USD	- 153	- 180
Total devaluation	**435**	**330**

Other price risks

In the presentation of market risks, IFRS 7 also requires details of the effects hypothetical changes of risk variables would have on the prices of financial instruments. Important risk variables are stock exchange prices or indices. There are no substantial risks in this area in the EDAG Group.

Related Parties

In the course of its regular business activities, EDAG correlates either directly or indirectly not only with the subsidiaries included in the consolidated financial statements, but also with subsidiaries which are affiliated but not consolidated, and with other related companies and persons. The disclosure requirements set out in IAS 24 apply with regard to these relations. Related companies which are controlled by the EDAG Group, or upon which the EDAG Group can exercise significant influence, are listed in section 5.2 "Scope of Consolidation", on page 161.

EDAG Group AG is the ultimate group Company and therefore the parent Company of the EDAG Group. With a 62.89 percent share, the major shareholder in the EDAG Group is ATON Austria Holding GmbH, Going am Wilden Kaiser. The second-largest shareholder is HORUS Vermögensverwaltungs-GbR, Munich, with a 4.98 percent share. Both companies are wholly owned by the family of Dr. Helmig, and have entered into a voting agreement effective until mid-2017, by which their voting rights are restricted under certain circumstances.

The volumes of the services rendered by the EDAG Group to, and the services it received from related companies and individuals, are as follows:

in € thousand	2016	2015
EDAG Group with boards of directors (EDAG Group AG & EDAG Schweiz Sub-Holding AG)		
Work-related expenses	818	238
Travel and other expenses	16	2
Rental expenses	303	69
Consulting expenses	27	85
Liabilities from remuneration	476	238
EDAG Group with supervisory boards (EDAG GmbH & EDAG Holding GmbH)		
Work-related expenses	177	475
Travel and other expenses	7	6
Compensation costs	821	640
Liabilities	2	-
EDAG Group with group executive management		
Liabilities from remuneration	265	-
Goods and services received	13	13

in € thousand	2016	2015
EDAG Group with ATON GmbH		
Goods and services rendered	28,824	41,226
Goods and services received	928	1,048
Interest income	-	75
Interest expenses	6,206	7,868
Other operating income	785	945
Other operating expenses	516	779
Receivables	2,709	2,841
Advance payments made (posted as liabilities)	6,086	6,086
Advance payments received	940	-
Liabilities	16	290
Current loan obligations	687	1,014
Non-current loan obligations	86,800	132,800
EDAG Group with unconsolidated subsidiaries		
Other operating income	1	2
Other operating expenses	3	2
Income from investments	-	41
Receivables	-	3
EDAG Group with associated companies		
Goods and services rendered	2,065	2,187
Goods and services received	2,036	210
Interest income	-	1,203
Other operating income	741	2,088
Other operating expenses	62	2,156
Income from investments	- 984	1,213
Receivables	608	499
Allowance for bad debts	- 69	-
Liabilities	1,755	34
EDAG Group with other related companies and persons		
Goods and services rendered	240	27
Goods and services received	17	31
Interest income	-	386
Interest expense	849	820
Other operating income	16	15
Other operating expenses	4,141	1,226
Other nonoperating income	13	-
Receivables	91	-
Advance payments received	171	-
Current loan obligations	20,964	20,364

Standard market conditions apply to the sale or delivery of products and services to, and the purchase of products or services from related companies and persons.

On September 9, 2015, five properties belonging to EDAG were transferred to five subsidiaries of KINREFD GmbH, Munich, as part of a sale and leaseback agreement effective until September 15, 2030. On February 23, 2016 a further long-term real estate lease with a fixed term until March 31, 2026 was also entered into with a subsidiary of KINREFD GmbH. A Company and a person closely associated with EDAG have shares in KINREFD GmbH and its wholly-owned subsidiaries, with which EDAG has entered into long-term rental contracts: Horus Vermögensverwaltungs GmbH & Co. KG has a 49.9 percent share, and the Chairman of the Board of Directors of EDAG Group AG, has a 7.6 percent share. On the reporting date, other financial obligations totaling € 43.3 million (including incidental expenses) arise from the leases for EDAG.

Further long-term real estate leases exist with MD 7 Immobilien GmbH, Munich, and MD 7 BV GmbH, Munich, with fixed terms until October 31, 2031. A Company and a person closely associated with EDAG have shares in both MD 7 Immobilien GmbH and MD 7 BV GmbH: HORUS Vermögensverwaltungs GmbH & Co. KG has a 49.9 percent share, and the Chairman of the Board of Directors of EDAG Engineering Group AG, has a 10.1 percent share. On the reporting date, other financial obligations totaling € 16.2 million arise from the two leases for EDAG.

There are two long-term, unsecured fixed interest loans with the ATON Group Finance GmbH which are due on November 6, 2018. These loans carry an interest rate of 5 percent, and can be redeemed in part prior to maturity. On the reporting date, the book value including interest amounts to € 87.5 million.

Group liquidity was maintained with a current, unsecured loan from VKE Versorgungskasse EDAG-Firmengruppe e.V. This loan will run until further notice, and carries an interest rate of 4.2 percent per annum. On the reporting date, the book value including interest amounts to € 21.0 million.

The other items which were open at the end of the financial year are not collateralized, nor are they interest-bearing, and they are paid in cash.
As far as the receivables refer to down payments that have been made, these are balanced through services rendered. Receivables due from related companies and persons in the

amount of € 69 thousand (2015: € 0 thousand) were impaired in the 2016 financial year. An impairment test is carried out annually. This includes an assessment of the financial position of the related Company or person, and the development of the market in which they are active.

Compensation of the Members of the Board of Directors and the Group Executive Management

Details of the compensation of the members of the Group Executive Management and Board of Directors in accordance with the requirements of the Swiss Code of Obligations and the Swiss regulation to counter excessive compensation in listed companies are disclosed in the compensation report.

The following persons are members of the **Board of Directors** of EDAG Group AG:

- Thomas Eichelmann
  chairman of the Board of Directors, chairman of the nomination and compensation committee
  managing director of ATON GmbH, Munich
  Mandates in other in management committees:
  - EDAG Engineering Schweiz Sub-Holding AG, Arbon
    (Chairman of the Board of Directors)
  - EDAG Engineering Holding GmbH, Munich (chairman of the supervisory board)
  - EDAG Engineering GmbH, Wiesbaden (chairman of the supervisory board)
  - HAEMA AG (Leipzig, Germany), member of the supervisory board
  - J.S. Redpath Holdings, Inc. (North Bay, Canada),member of the Board of Directors)
  - V-Bank AG (Munich, Germany), deputy chairman of the supervisory board
  - ATON US Inc. (Wilmington, Delaware, USA), member of the Board of Directors
  - FFT GmbH & Co. KGaA (Fulda, Germany), member of the supervisory board
  - Bankhaus Ellwanger & Geiger KG (Stuttgart, Germany),
    chairman of the Board of Directors
  - OrthoScan, Inc. (Scottsdale, Arizona, USA), member of the Board of Directors

- Sylvia Schorr
  member of the audit committee
  Treasury ATON GmbH, Munich
  Mandates in other in management committees:
  • EDAG Engineering Schweiz Sub-Holding AG, Arbon (member of the Board of Directors)
  • EDAG Engineering Holding GmbH, Munich (member of the supervisory board)
  • EDAG Engineering GmbH, Wiesbaden (member of the supervisory board)

- Dr. Michael Hammes
  chairman of the audit committee
  management consultant Frankfurt/Main
  Mandates in other in management committees:
  • EDAG Engineering Schweiz Sub-Holding AG, Arbon (member of the Board of Directors)
  • EDAG Engineering Holding GmbH, Munich (member of the supervisory board)
  • EDAG Engineering GmbH, Wiesbaden (member of the supervisory board)
  • Bankhaus Ellwanger & Geiger KG, Stuttgart (member of the Board of Directors)
  • V-Bank AG, Munich (member of the supervisory board)
  • Spiekermann & Co. AG, Osnabrück (chairman of the supervisory board)

- Dr. Philippe Weber
  member of the nomination and compensation committee
  managing partner and chairman of the executive management of Niederer Kraft & Frey AG, Zurich
  Mandates in other in management committees:
  • EDAG Engineering Schweiz Sub-Holding AG, Arbon (member of the Board of Directors)
  • Newron Suisse SA (Basel, Switzerland), member of the Board of Directors
  • Robert Aebi AG (Regensdorf, Switzerland), member of the Board of Directors
  • Banca del Ceresio SA (Lugano, Switzerland), member of the Board of Directors

The compensation of members of the Board of Directors is regulated in § 25 of the Articles of Association of EDAG Group AG. The level of compensation is set at the general meeting in accordance with art. 12 of the Articles of Association.

For taking over the function of the ultimate control and management organ of EDAG Group AG and EDAG Engineering Schweiz Sub-Holding AG, and for committee activities in the supervisory boards of EDAG Engineering Holding GmbH and EDAG Engineering GmbH, the members of the Board of Directors only receive short-term benefits. In the 2016 financial year, these amounted to € 866 thousand (2015: € 396 thousand). Employer's social security contributions amounted to € 18 thousand (2015: € 3 thousand). For the personal performance of services above and beyond board activities, particularly consulting and rental services, the members of the Board of Directors are remunerated at the usual market rates. In the reporting year, costs of € 330 thousand (2015: € 154 thousand) were incurred. No advances or loans were granted to members of the Board of Directors of EDAG Group AG. No share-based payments were received by members of the Board of Directors.

The members of the Board of Directors are insured for legal expenses and D&O liability through the Company insurance policies.

The **Group Executive Management** consists of the following persons:

- Jörg Ohlsen, Diplom-Ingenieur
  Chairman of the Executive Management, CEO
  Mandates in other in management committees:
  - Member of the advisory board of the Werner Group, Fulda

- Jürgen Vogt, Diplom-Kaufmann
  Member of the Executive Management, CFO
  Mandates in other in management committees:
  - None

In the reporting year, the short-term compensation of the Executive Management (payments due at short notice) amounted to € 1,262 thousand (2015: € 1,604 thousand).

The compensation of the Executive Management does, however, include non-cash benefits (including non-cash benefits for Company cars). It does not include the aggregated expenses for accident, legal protection and D&O insurance in the amount of € 151 thousand (2015: € 77 thousand). Furthermore, EDAG Group AG does not grant the members of the Executive Management credits or loans. As at December 31, 2016, the present value of current pension obligations for active members of the Executive Management totaled € 3,046 thousand (2015: € 2,497 thousand). In 2016, the ongoing service cost for the pension obligations according to IFRS amounted to € 0 thousand (2015: € 151 thousand). There were no expenses resulting from the termination of employment relationships during the reporting year.

At the end of the financial year, the individual members of the Board of Directors and Executive Management hold the following number of shares in EDAG Engineering Group AG:

Number of shares	12/31/2016	12/31/2015
Board of Directors		
Thomas Eichelmann	87,500	87,500
Sylvia Schorr	-	-
Dr. Michael Hammes	-	-
Dr. Philippe Weber	-	-
Total Board of Directors	**87,500**	**87,500**
Group Executive Management		
Jörg Ohlsen	13,157	13,157
Jürgen Vogt	3,631	2,631
Total Group Executive Management	**16,788**	**15,788**

Auditor's Fees and Services

The following table provides a breakdown of the auditor's fees for the consolidated financial statement for the financial year as per § 314, section 1, No. 9 HGB (German Commercial Code):

in € thousand	2016			2015		
	Total	there of		Total	there of	
		Switzerland	Germany		Switzerland	Germany
Auditing services	437	(81)	(321)	657	(90)	(477)
Miscellaneous auditing services	-	-	-	93	-	(93)
Tax consulting services	11	-	(11)	58	-	(3)
Miscellaneous services	13	-	(13)	4	-	(4)
Total	**461**	**(81)**	**(345)**	**812**	**(90)**	**(577)**

In particular, the fees for the auditing services include fees for the statutory auditing of annual and consolidated financial statements.
The miscellaneous auditing services include auditing and review fees for interim financial statements according to the HGB (German Commercial Code) and IFRS.
Tax consulting fees primarily include fees for tax consulting services also performed in connection with training courses as well as current or planned transactions and/or restructuring activities.

The remaining fees predominantly encompass project-related consulting services as well as the payroll accounting of federal guarantees.

Subsequent Events

No important events took place after the reporting period.

Utilization of the Annual Result

According to art. 698 section 2 No. 4 of OR (Swiss Code of Obligations), the decision concerning the payment of a dividend is made at the general meeting. According to art. 675 section 2 of OR (Swiss Code of Obligations), dividends may only be paid from the retained earnings and reserves established by EDAG Group AG for this purpose.

Subject to approval of the general meeting, the Board of Directors recommends that the net loss of € 4,379 thousand (CHF 4,756 thousand) of EDAG Group AG should be carried forward to the new statement as a negative retained profit, and is in favor of a dividend payout of € 0.75 (CHF 0.81) per share, which will result in an overall payout of € 18,750 thousand (CHF 20,136 thousand). The Board of Directors recommends that the entire dividend payout in the amount of € 0.75 (CHF 0.81) per share proposed for 2016 should be withdrawn from the capital reserves. Subject to this proposal being passed at the general meeting, any such payout will not be subject to Swiss withholding tax.

Arbon, April 4, 2017

EDAG Engineering Group AG

Thomas Eichelmann, Chairman of the Board of Directors

Dr. Michael Hammes, Member of the Board of Directors and
Chairman of the Audit Committee

Jürgen Vogt, CFO

6 Shareholdings

	Registered in Switzerland and Germany	Domicile	Capital share in %		Voting right	Currency	Equity[1] 12/31/2016	Result[1] 2016
			Direct	Indirect				
1.	EDAG Engineering Group AG[2]	Switzerland	-	-	-	EUR	452,370,851	- 1,908,859
2.	EDAG Engineering Schweiz Sub-Holding AG	Switzerland	100	-	100	EUR	476,131,471	24,273,624
3.	EDAG Engineering Holding GmbH	Germany	-	100	100	EUR	76,805,498	13,406,226
4.	EDAG Engineering GmbH	Germany	-	100	100	EUR	248,759,316	-
5.	EDAG-Beteiligung GmbH	Germany	-	100	100	EUR	38,817	- 4,570
6.	EDAG Production Solutions GmbH & Co.KG	Germany	-	100	100	EUR	1,121,845	8,429,153
7.	EDAG Production Solutions Verwaltungs GmbH	Germany	-	100	100	EUR	18,611	- 4,584
8.	Haus Kurfürst GmbH	Germany	-	100	100	EUR	21,698	-
9.	EDAG Werkzeug + Karosserie GmbH	Germany	-	49	49	EUR	15,100,661	- 2,634,079
10.	BFFT Gesellschaft für Fahrzeugtechnik mbH	Germany	-	100	100	EUR	21,048,864	-
11.	BFFT aeromotive GmbH	Germany	-	100	100	EUR	83,586	211,638
12.	BFFT Holding GmbH	Germany	-	100	100	EUR	3,471,065	- 187,893
13.	Rücker Akademie GmbH	Germany	-	100	100	EUR	212,432	-
14.	EDAG Engineering Schweiz GmbH	Switzerland	-	100	100	CHR	2,222,843	304,401
15.	VR-Leasing Malakon GmbH & Co Immo. KG[3]	Germany	-	100	25	EUR	34,539	212,630

	Registered in other countries	Domicile	Capital share in %		Voting right	Currency	Equity[1] 12/31/2016	Result[1] 2016
			Direct	Indirect				
16.	EDAG Engineering Limited	Great Britain	-	100	100	GBP	- 632,018	- 661,639
17.	EDAG do Brasil Ltda.	Brazil	-	100	100	BRL	16,795,160	2,256,722
18.	EDAG, Inc.	USA	-	100	100	USD	- 1,559,910	- 1,843,707
19.	EDAG HOLDING SDN. BHD.	Malaysia	-	100	100	MYR	2,557,879	544,425
20.	EDAG Hungary Atófejlesztö Méröki Kft.	Hungary	-	100	100	EUR	2,353,870	634,765
21.	EDAG Production Solutions India Pvt. Ltd.	India	-	100	100	INR	211,150,445	38,516,990
22.	EDAG Slovakia spol. s.r.o.	Republic of Slovakia	-	100	100	EUR	53,528	-
23.	EDAG Technologies India Priv. Ltd.	India	-	100	100	INR	37,090,003	10,619,252
24.	EDAG Production Solutions CZ s.r.o.	Czech Republic	-	100	100	CZK	38,963,305	30,230,746
25.	EDAG Japan Co., Ltd.	Japan	-	100	100	JPY	71,645,898	- 13,102,829
26.	EDAG Production Solutions Korea Ltd.	South Korea	-	100	100	KRW	- 192,211,418	- 111,415,993
27.	EDAG Engineering and Design (Shanghai) Co., Ltd.	China	-	100	100	CNY	23,330,266	4,303,715
28.	EDAG México S.A. de C.V.	Mexico	-	100	100	MXN	36,448,672	19,846,424
29.	EDAG Servicios México S.A. de C.V.	Mexico	-	100	100	MXN	140,407	-
30.	BFFT Italia Srl	Italy	-	100	100	EUR	295,458	- 3,914
31.	BFFT of America	USA	-	100	100	USD	277,682	93,448
32.	EDAG Engineering SRL.	Romania	-	100	100	RON	- 4,089,750	- 453,978
33.	Rücker Vehicle Design (Shanghai) Co.,Ltd.	China	-	100	100	CNY	2,567,596	- 297,338
34.	EDAG Italia S.R.L.	Italy	-	100	100	EUR	739,811	95,279
35.	EDAG Engineering CZ spol. s r.o.	Czech Republic	-	100	100	CZK	32,291,290	1,173,059
36.	EDAG Engineering Polska Sp.z.o.o.	Poland	-	100	100	PLN	6,348,458	1,768,794
37.	Rücker Lypsa S.L.	Spain	-	100	100	EUR	12,987,226	2,792,261
38.	EDAG Engineering AB	Sweden	-	100	100	SEK	16,283,231	- 4,657,430
39.	OOO EDAG Production Solutions RU	Russia	-	100	100	RUB	-9.940.801	-5.247.937
40.	Duvedec Europe B.V.	Netherlands	-	100	100	EUR	119,966	111,191

[1] National trade law

[2] The Company EDAG Engineering GmbH, Wiesbaden is part of the EDAG Group.
However, the Company is not a component of the Shareholdings as defined in art. 959c Abs. 2 Ziff. 3 OR.

[3] VR-Leasing Malakon GmbH & Co Immo. KG is included as a fully consolidated Company, although only 25 percent of voting rights are held.
For a more detailed explanation, see chapter "Scope of Consolidation", on page 161.

REPORT OF THE STATUTORY AUDITOR (CONSOLIDATED FINANCIAL STATEMENTS)

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF THE EDAG ENGINEERING GROUP AG, ARBON

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of EDAG Engineering Group AG, Arbon/Switzerland, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as these are applied in the EU and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Report on key audit matters based on the Circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of goodwill (including investment in an associated company)

Key audit matter

The consolidated financial statements of EDAG Engineering Group AG disclose goodwill in the amount of EUR 64.5 million (15,0% of the Group's total assets). This goodwill is tested for impairment in accordance with IAS 36. In this process, the company considers each of its three segments as a cash-generating unit (CGU). Centralised impairment tests are performed at the CGU level on an annual basis or when necessary. Additionally, the Group has a 49% interest in a company, which is presented as an investment in an associated company, in the amount of EUR 15.4 million (3.6% of the Group's total assets). The goodwill included in this item is tested for impairment in accordance with IAS 28.42, which is consistent with the requirements of IAS 36 regarding impairment testing. For this purpose, this company is considered a cash-generating unit.
The basis for the valuation of goodwill is generally the net present value of the future cash flows of the cash-generating unit to which the assets concerned are to be allocated. This is because a market price for the individual units is usually not observable. The net present value is calculated using the discounted cash flow method, based in principle on a three-year planning horizon. The approved three-year plan is the starting point for the impairment tests and is updated with assumptions relating to, among others, the future order intake, costs, industry growth, long-term market growth rates and the business cycle. The discounting is based on the weighted average cost of capital of the cash-generating units concerned. The outcome of this valuation depends heavily on the estimates by the Board of Directors of future cash inflows and on the discount rate used; hence, it is subject to a high degree of uncertainty. In light of this and given the complexity of the valuation method's requirements, we deemed this to be a key audit matter in our audit.
The Group disclosures concerning goodwill and the associated company are set out in the section

How our audit addressed the key audit matter

During our audit, we examined the method used to test the investment for impairment and assessed the calculation of the weighted average cost of capital. We were able to confirm the appropriateness of the future cash inflows used for the valuation, in particular by comparing these with the latest budget figures taken from the three-year plan and reconciling them to general and industry-specific market expectations. Relatively small changes in the discount rate used can have a significant impact on the company valuation as determined by this method. Hence, we focussed on the parameters, including the average weighted cost of capital, used in the determination of the discount rate and verified the calculation method. The valuation parameters and assumptions used by the Board of Directors are in line with our ex-pectations, based on the available information.

'Accounting and valuation principles' under 'Impairment' and in the section 'Result from investments accounted for using the equity method' [19]' of the notes to the consolidated financial statements.

Recognition of sales revenue from construction contracts

Key audit matter

The consolidated financial statements of EDAG Engineering Group AG disclose sales revenue from construction contracts in the amount of EUR 715 million. The Group's income is influenced significantly by the recognition and measurement of construction contracts. After concluding a contract, the Board of Directors decides on what basis the revenue should be recognised. Provided the requirements of IAS 11 are met, the Group applies the percentage-of-completion (POC) method. The income from the construction contract is estimated by the Board of Directors as part of the valuation process. The stage of completion is determined using the cost-to-cost method. We considered revenue recognition to be a key audit matter because the valuation of these contracts is subject to uncertainty regarding future income from the project and its stage of completion.
The Group disclosures regarding construction contracts are set out in the section 'Accounting and valuation principles', under 'Realisation of income and expenses' and in the section 'Accounts receivable and other receivables [20]' and 'Accounts payable and other liabilities [28]' of the notes to the consolidated financial statements.

How our audit addressed the key audit matter

In the context of our audit, we first appraised the internal control system implemented by EDAG Engineering Group AG relating to revenue recognition from construction contracts. To this end, we assessed, in particular, the appropriateness and effectiveness of the implemented internal control system, including the relevant IT systems, relating to the recording and recognition of project income. Building on this, on the basis of the related contractual agreements, we challenged the determination of the stage of completion based on the costs incurred to date and on the estimate of the expected total costs made by the Board of Directors, and compared this with the underlying evidence. Further, we assessed the revenues expected by the Board of Directors from ongoing construction contracts and the estimates relating to contracts that had already been completed. In the event of negative impacts on the construction contracts, we assessed the modifications made to the initial project assumptions (in particular, project costs until completion) and the resulting accounting treatment. Further, we verified the continuity and the consistency of the method used to calculate the sales revenue. On the basis of our audit procedures, we were able to confirm the appropriateness of the approach and the valuation relating to these material items and that the disclosures in the notes fully comply with the requirements of IAS 11. At the same time, we were able to confirm that the estimates and assumptions made by EDAG Engineering Group AG are adequately documented and substantiated so as to justify the accounting treatment of the sales revenues from construction contracts.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the compensation report of EDAG Engineering Group AG and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements 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. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS as these are applied in the European Union (EU) and the provisions of Swiss law, and for such internal control as the Board of Directors determines is 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 Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors intends either to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

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 to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, 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 opinion. 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Obtain an understanding of internal control relevant to the audit 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 the Group's internal control.
- Conclude on the appropriateness of the Board of 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 our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. 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 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 represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate to the Board of Directors or its relevant committee 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 the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Board of Directors or its relevant committee, 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 or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

PATRICK BALKANYI	ICARE REGNIER
Audit expert	Audit expert
Auditor in charge	

Zurich, 4 April 2017

STATUTORY FINANCIAL STATEMENT

EDAG Engineering Group AG

From January to December 2016

ANNUAL FINANCIAL STATEMENT

1 Statement of Financial Position

in €/CHF thousand	Note	12/31/2016 € thousand	12/31/2016 CHF thousand	12/31/2015 € thousand	12/31/2015 CHF thousand
Assets					
Current assets					
Cash and cash equivalents		355	381	704	763
Current accounts receivables	(1)	4	4	1	1
Other current receivables	(1)	837	899	12	13
Accrued items	(2)	22	24	37	40
TOTAL current assets		**1,218**	**1,308**	**754**	**817**
Non-current assets	(3)				
Investment		452,060	485,467	474,660	514,294
Property, plant and equipment		63	68	58	63
Intangible assets		1	1	1	1
TOTAL non-current assets		**452,124**	**485,536**	**474,719**	**514,358**
TOTAL assets		**453,342**	**486,844**	**475,473**	**515,175**

in €/CHF thousand	Note	12/31/2016 € thousand	12/31/2016 CHF thousand	12/31/2015 € thousand	12/31/2015 CHF thousand
Liabilities, Provisions and Equity					
Current liabilities and provisions					
Current accounts payable	(4)	109	117	1,618	1,753
Other current liabilities	(4)	481	517	117	127
Current tax provisions	(5)	275	295	500	542
Other current provisions	(5)	106	114	106	115
Accrued items	(6)	-	-	102	111
TOTAL current liabilities and provisions		**971**	**1,043**	**2,443**	**2,647**
Equity					
Share capital	(7)	920	1,000	920	1,000
Capital reserves	(8)	455,830	493,570	474,580	514,207
thereof capital insertion reserves		(455,910)	(493,657)	(474,660)	(514,294)
thereof other reserves		(- 80)	(- 87)	(- 80)	(- 87)
Retained earnings		- 4,379	- 4,756	- 2,470	- 2,675
Currency conversion difference		-	- 4,013	-	- 4
TOTAL equity		**452,371**	**485,801**	**473,030**	**512,528**
TOTAL liabilities, provisions and equity		**453,342**	**486,844**	**475,473**	**515,175**

2 Income Statement

in €/CHF thousand	Note	2016 € thousand	2016 CHF thousand	2015 € thousand	2015 CHF thousand
Other operating income	(9)	215	234	2	2
Personnel expenses	(10)	- 1,275	- 1,390	- 1,622	- 1,757
Other expenses	(11)	- 604	- 658	- 348	- 377
Depreciation and impairment	(12)	- 9	- 10	- 1	- 1
Financial income and financial expenses		- 221	- 241	-	-
Direct taxes	(13)	- 15	- 16	- 501	- 543
Profit or loss		**- 1,909**	**- 2,081**	**- 2,470**	**- 2,675**

3 Cash Flow Analysis

	in €/CHF thousand	2016 € thousand	2016 CHF thousand	2015 € thousand	2015 CHF thousand
	Profit or Loss	**- 1,909**	**- 2,081**	**- 2,470**	**- 2,675**
+/-	Depreciation and amortization/write-ups on tangible and intangible assets	9	10	1	1
+/-	Other non-cash expenses/income	-	-	- 80	- 87
-/+	Increase/decrease in future receivables from construction contracts, receivables and other assets that are not attributable to investing or financing activities	- 13	- 14	- 49	- 53
+/-	Increase/decrease in current provisions	- 225	- 245	606	656
+/-	Increase/decrease in accounts payables and other liabilities and provisions that are not attributable to investing or financing activities	- 1,247	- 1,359	1,837	1,989
=	**Cash inflow/outflow from operating activities/ operating cash flow**	**- 3,385**	**- 3,690**	**- 155**	**- 168**
-	Payments for investments in tangible fixed assets	- 14	- 15	- 59	- 64
-	Payments for investments in intangible fixed assets	-	-	- 2	- 2
+	Received dividends	22,600	24,465	-	-
=	**Cash inflow/outflow from investing activities/ investing cash flow**	**22,586**	**24,450**	**- 61**	**- 66**
+	Deposits from capital increases and grants from the shareholders	-	-	920	1,000
-	Payments to shareholders/partners (prior year dividend, capital repayments, other distributions)	- 18,750	- 20,723	-	-
-	Payments from financing activities to affiliated companies	- 800	- 859	-	-
=	**Cash inflow/outflow from financing activities/ financing cash flow (direct determination)/financing cash flow**	**- 19,550**	**- 21,582**	**920**	**1,000**
	Net cash changes in financial funds	**- 349**	**- 823**	**704**	**766**
-/+	Effect of changes in currency exchange rate and other effects from changes of financial funds	-	441	-	- 3
+	Financial funds at the start of the period	704	763	-	-
=	**Financial funds at the end of the period [cash & cash equivalents]**	**355**	**381**	**704**	**763**
=	**Free cash flow (FCF) - equity approach**	**19,201**	**20,759**	**- 216**	**- 234**

4 Notes

4.1 General Information

EDAG Engineering Group AG, Arbon (EDAG Group AG) was founded on November 2, 2015, and entered in the commercial register of the Swiss canton Thurgau on November 3, 2015. The registered office of the Company is: Schlossgasse 2, 9320 Arbon, Switzerland.

At the time when the Company was founded, according to the contract of November 2, 2015, the former shareholder, ATON GmbH, Munich, purchased 100 percent of the shares by cash capital contribution. ATON GmbH provided the entire share capital, split into 25,000,000 bearer shares each with a nominal value of CHF 0.04, as a contribution (CHF 1,000,000).

Since December 2, 2015, the Company has been listed for trading on the regulated market of the Frankfurt Stock Exchange with concurrent admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard):
ISIN[1]: CH0303692047
WKN[2]: A143NB
Trading symbol: ED4

The shares are denominated in Swiss francs. The operating currency is the euro, and shares are traded in euros. The Company's shares are briefed in a global certificate and deposited with Clearstream. Each Company share entitles its holder to a vote at the Company's general meeting. Restrictions on voting rights exist to the extent that the majority shareholders ATON GmbH ("ATON") and HORUS Vermögensverwaltungs-GbR ("HORUS") have entered into an agreement with the Company in which they have undertaken for a period starting on the first day of trading of the shares of the Company on the Frankfurt Stock Exchange (December 2, 2015) and ending on the second ordinary shareholders' meeting of the Company after the first day of trading, however, at least for a period of 19 months after the first day of trading and with respect to such number of shares of the Company directly or indirectly held by ATON or HORUS respectively upon settlement of the offering to exercise its voting rights in ordinary shareholders' meetings of the Company only with regard to half of the persons that are eligible as members for the Board of Directors. With the voting rights notification of May 30, 2016, the announcement was made that 59.75 percent of the EDAG shares had been

[1] International Securities Identification Number
[2] Securities Identification Number

transferred from ATON GmbH, Munich to ATON Austria Holding GmbH, Going am Wilden Kaiser. In this context, the existing voting restriction with an identical period of validity was likewise transferred.

For the financial year ending December 31, 2016, all the Company shares fully qualify for dividends.
According to the Company's statutes, the Company's objective is the holding and administration of domestic and foreign investments. The Company performs no operative business activities.

The only direct subsidiary is EDAG Engineering Schweiz Sub-Holding AG, a Swiss intermediate holding Company with its head office in Arbon, which indirectly holds all the shares in EDAG Engineering GmbH, Wiesbaden, through EDAG Engineering Holding GmbH, a German intermediate holding Company based in Munich.

In principle, this Company, with its subsidiaries, manages the entire operative business of the corporate group. Its main activities are the development of vehicles, derivatives, modules and production facilities. The EDAG Group is divided into the following three segments:

- Vehicle Engineering
- Production Solutions
- Electrics/Electronics

This annual financial statement was prepared in compliance with the regulations governing commercial accounting set out in the Swiss Code of Obligations (art. 957 – 963b of the Swiss Code of Obligations (OR), valid from January 1, 2013).

The financial year is the same as the calendar year. The reporting period is from January 1, 2016 to December 31, 2016. The functional currency of the Company is the euro.
Unless otherwise stated, all amounts are given in thousands of euros and in thousands of francs. Where percentage values and figures are given, differences of +/- € 1 thousand (CHF 1 thousand) may occur due to rounding.

In the interests of clarity and transparency, any comments legally required to be added when posting items in the statement of financial position and income statement, along with any comments that may optionally be included in the statement of financial position and income statement, will, for the most part, be included in the Notes.

4.2 Information on Accounting, Valuation and Disclosure Methods

General Information

The income statement has been prepared in accordance with the nature of expense method (production income statement) in accordance with art. 959b No. 2 of the Swiss Code of Obligations (OR). The annual financial statements were prepared on the assumption that the Company is a going concern, according to art. 958a No. 1 of the Swiss Code of Obligations (OR).

Foreign Currency Translation

Foreign currency transactions are always recognized at the historical exchange rate on the date of initial booking. Balance sheet items are valued as follows on the reporting date:
Current foreign currency liabilities and receivables and liquid funds or other current assets in foreign currencies are converted using the spot exchange rate on the balance sheet date. According to art. 958d No. 3 of the Swiss Code of Obligations (OR), if the house currency is not the Swiss franc, values in the statement of financial position and income statement must also be given in the national currency. In this case, the following conversion rates are used:

- Statement of financial position EUR into CHF 1.0739 (spot exchange rate on accounting date)
- Income statement EUR into CHF 1.0902 (average exchange rate for the 2016 financial year)

Accounting for and Valuation of Assets

Liquid funds are shown at nominal value on the balance sheet key date.

Receivables and other assets are recognized at their nominal values, or at their attributable values on the accounting date, if these are lower. Should the recoverability of receivables be at risk, the value of such receivables is reduced proportionately; non-recoverable receivables are written off. No flat-rate value adjustment is formed to cover the general credit risk. Expenses before the accounting date are recognized as **accrued income**, provided they do not represent expenditure for a certain period after this date.

For **investments** purchased by way of the non-cash contribution when the Company was founded, the transfer value of the items contributed always counts as the acquisition value according to the audited formation report (according to art. 634 No. 3 of the Swiss Code of

Obligations [OR]). Due to the fact that investments are not typically subject to a decrease in value due to either use or age, there no scheduled depreciation of the acquisition costs in the subsequent valuation; instead, adjustments, or impairments, are made for any decrease in value (cf. art. 960 section 3 and 960a section 3 of the Swiss Code of Obligations [OR]). Should the book value of the investment be lower than the recoverable amount[3] of the investment, then no impairment is required. Investments are subject to the principle of separate valuation (in accordance with art. 960 section 1 of the Swiss Code of Obligations [OR]).

[3] *Recoverable amount = the lower of the two value: value in use (overall Company value) and net market value (market value less selling costs)*

Property, plant and equipment are valued at acquisition or production cost less scheduled, straight-line depreciation. Depreciation, amortization and impairments of additions to property, plant and equipment are always reported on a pro rata temporis basis.
The depreciation schedule is based predominantly on the following estimated useful lives:

	Years
Other equipment, operating and office equipment	3 – 13

Accounting for and Valuation of Liabilities

Liabilities are recognized at their nominal values.

For past events which are expected to result in a cash outflow in future years, **provisions** amounting to the sum which, based on sound commercial judgement, the Company can expect to have to pay (expected value) are formed.

Expenses relating to the reporting year for which the corresponding invoice has not yet been received from the supplier are recognized as **deferred income**. The expenditure is concretized in terms of reason and amount.

Share capital is recognized at nominal value.

4.3 Notes on the Balance Sheet Items

(1) Receivables and Other Assets

All **receivables and other assets** have a term to maturity of less than a year.

in €/CHF thousand	12/31/2016	12/31/2016	12/31/2015	12/31/2015
	€ thousand	CHF thousand	€ thousand	CHF thousand
Current accounts receivable	**4**	**4**	**1**	**1**
affiliated companies and related parties	4	4	1	1
Other current receivable	**837**	**899**	**12**	**13**
third parties	37	40	12	13
affiliated companies and related parties	800	859	-	-
Total	**841**	**903**	**13**	**14**

(2) Accrued Income

Essentially, the **accrued income** includes advance payments for insurance services and to other suppliers.

(3) Fixed Assets

Under **investments**, only EDAG Engineering Schweiz Sub-Holding AG, Arbon is listed. All shares – specifically 25,000,000 bearer shares, each with a nominal value of CHF 1.00 – were acquired by ATON GmbH, Munich for a transfer value of € 474,660 thousand (CHF 514,294 thousand), by means of a non-cash contribution and without any consideration in return on December 1, 2015. The contribution value was the product of the initial listing price multiplied by the number of shares, minus the net assets of EDAG Engineering Group AG. The initial listing price of the EDAG Engineering Group AG shares (€ 19) x number of shares (25,000,000) – total net assets of EDAG Engineering Group AG (€ -340 thousand) = recoverable amount (€ 474,660 thousand).

EDAG Engineering Schweiz Sub-Holding AG, Arbon is a Swiss intermediate holding Company. It holds 100 percent of the shares in EDAG Engineering Holding GmbH, Munich, which in turn holds 100 percent of the shares in EDAG Engineering GmbH, Wiesbaden, which, along with its subsidiaries, in turn embodies the entire operative business of the EDAG Group.

By resolution of the extraordinary general meeting of EDAG Engineering Schweiz Sub-Holding AG of October 24, 2016, it was decided that a dividend payout in the amount of € 22,600 thousand (CHF 24,465 thousand) should be made from the reserves from capital contributions. This dividend payout was made directly through the balance sheet account (investments) without influencing the income statement.

The shares **in affiliated companies and holdings** (shareholdings) reported under financial assets – i.e. the companies for which the Company either directly or indirectly holds at least 20 percent of the shares – are included in the Notes.

The **intangible assets** include software.

(4) Liabilities

in €/CHF thousand	12/31/2016 € thousand	12/31/2016 CHF thousand	12/31/2015 € thousand	12/31/2015 CHF thousand
Liabilities	**109**	**117**	**1,618**	**1,753**
third parties	49	52	118	128
affiliated companies and related parties	60	65	1,500	1,625
Other current liabilities	**481**	**517**	**117**	**127**
third parties	5	5	81	88
affiliated companies and related parties	-	-	36	39
Board of Directors	476	511	-	-
Total	**590**	**634**	**1,735**	**1,880**

All **liabilities** have a term to maturity of less than a year.

(5) Provisions

in €/CHF thousand	12/31/2016 € thousand	12/31/2016 CHF thousand	12/31/2015 € thousand	12/31/2015 CHF thousand
Provisions for taxes	275	295	500	542
Other provisions	106	114	106	115
Total	**381**	**409**	**606**	**657**

The tax provisions in the amount of € 275 thousand (CHF 295 thousand) [previous year: € 500 thousand (CHF 542 thousand)] consist of a real estate transfer tax obligation resulting from the non-cash contribution of the holding EDAG Engineering Schweiz Sub-Holding AG. The **other provisions** include acquisition and testing costs in the amount of € 67 thousand (CHF 72 thousand) [previous year: € 106 thousand (CHF 115 thousand).

(6) Deferred Income

Expenses relating to the reporting year for which the corresponding invoice has not yet been received from the supplier are recognized as **deferred income**, and amount to € 0 thousand (CHF 0 thousand) [previous year: € 102 thousand (CHF 111 thousand)]. The expenditure is concretized in terms of reason and amount. Essentially, consulting services are included here.

(7) Share Capital

On the reporting date, the Company's **share capital**, which was paid in full on November 2, 2015, amounted to € 920 thousand (CHF 1,000 thousand), and is covered by 25 million bearer shares. This is equivalent to a nominal value of € 0.04 (CHF 0.04) per share. Each share entitles its holder to a right to vote and to receive dividends.

(8) Capital Reserves

On the reporting date, the **capital reserves** amounted to € 455,830 thousand (CHF 493,570 thousand) [previous year: € 474,580 thousand (CHF 514,207 thousand)], and are composed of the **capital contribution reserves** in the amount of € 455,910 thousand (CHF 493,657 thousand) [previous year: € 474,660 thousand (CHF 514,294 thousand)] and **other capital reserves** in the amount of € -80 thousand (CHF -87 thousand), have not changed compared to the previous year.

4.4 Notes on Income Statement

(9) Other Operating Income

The **other operating income** in the amount of € 215 thousand (CHF 234 thousand) [previous year: € 2 thousand (CHF 2 thousand)] is composed of administrative service contracts with affiliated companies, income from the reversal of provisions, foreign currency earnings and income from rents.

(10) Personnel Expenses

Personnel expenses can be broken down as follows:

in €/CHF thousand	2016 € thousand	2016 CHF thousand	2015 € thousand	2015 CHF thousand
Salaries	1,209	1,318	1,615	1,749
Social security contributions	66	72	7	8
Total	**1,275**	**1,390**	**1,622**	**1,757**

The salaries of the Executive Management, Board of Directors and administrative employees are listed under Salaries. Also included in the salaries are bonuses in the amount of € 52 thousand (CHF 56 thousand) [previous year: IPO[4]-special bonus payments in the amount of € 1,500 thousand (CHF 1,625 thousand)].

[4] *Initial public offering*

(11) Other Operating Expenses

Other operating expenses are mainly made up of:

in €/CHF thousand	2016 € thousand	2016 CHF thousand	2015 € thousand	2015 CHF thousand
Consulting, contributions and fees	277	302	287	311
General administration expenses	83	90	5	5
Insurance	68	74	14	15
Travel expenses	47	51	16	17
Sales and marketing expenses	40	44	10	11
Rents and leases	32	35	6	6
Expenses from group services affiliated companies	21	23	1	1
Maintenance	20	22	8	9
Miscellaneous ancillary personnel expenses	-	-	1	1
Expenses from currency losses	16	17	-	-
Total	**604**	**658**	**348**	**377**

No expenses for other accounting periods were incurred.

(12) Depreciation, Amortization and Impairment

Depreciation was carried out on intangible assets and on property, plant and equipment.

(13) Financial Expense and Financial Income

in €/CHF thousand	2016 € thousand	2016 CHF thousand	2015 € thousand	2015 CHF thousand
Interest and similar income	2	2	-	-
(thereof from affiliated companies)	(2)	(2)	-	-
Interest and similar expenses	223	243	-	-
(thereof to affiliated companies)	(223)	(243)	-	-
Total	**- 221**	**- 241**	**-**	**-**

No interest income or interest expense for other accounting periods is included.

(14) Direct taxes

The **direct taxes** in the amount of € 15 thousand (CHF 16 thousand) [previous year: € 501 thousand (CHF 543 thousand)] include real estate transfer tax and the proportionate capital tax for the 2016 financial year.

4.5 Other Information

Employees

The Company employed no more than an annual average of 10 employees during the financial year.

Contingent Liabilities

No **contingent liabilities** exist, according to art. 959c Section 2 No. 10 of the Swiss Code of Obligations (OR).

Other Financial Obligations

Other financial obligations due to affiliates exist; these amount to € 136 thousand [previous year: (CHF 148 thousand) € 89 thousand (CHF 96 thousand)].

Auditor’s Fees and Services

Details of the auditor's fees according to art. 961a No. 2 of the Swiss Code of Obligations (OR) are not included, as these are given in the consolidated financial statements of EDAG Group AG.

Information on the Company's Organs

Executive Management

The members of the Executive Management represent the Company jointly, in twos. The Executive Management consisted of the following persons:

- Jörg Ohlsen, Fulda, Chairman of the Executive Management, CEO
- Jürgen Vogt, Wiesbaden, Member of the Executive Management, CFO

The remuneration of the Executive Management amounts to € 128 thousand (CHF 139 thousand) [previous year: € 12 thousand (CHF 13 thousand)] plus bonus payments in the amount of € 52 thousand (CHF 56 thousand) [previous year: bonus paid for the IPO (initial public offering) in the amount of € 1,000 thousand (CHF 1,083 thousand)].

Board of Directors

The Board of Directors consisted of the following persons:

- Thomas Eichelmann, Munich, Chairman of the Board of Directors (single signatory) [Chairman of the Nomination and Compensation Committee]
- Dr. Michael Hammes, Frankfurt am Main, Member of the Board of Directors (joint signatory, two signatures required), [Chairman of the Audit Committee]
- Dr. Philippe Weber, Pura, Member of the Board of Directors (single signatory) [Member of the Nomination and Compensation Committee]
- Sylvia Schorr, Munich, Member of the Board of Directors (joint signatory, two signatures required), [Member of the Audit Committee]

The proportional remuneration of the Executive Management amounts to € 800 thousand (CHF 872 thousand) [previous year: € 67 thousand (CHF 73 thousand)].
Further information on the compensation of the Executive Management and the Board of Directors can be found in the compensation report in accordance with art. 14-16 of the Swiss regulation to counter excessive compensation in listed companies (VegüV).

Group Relations

The annual financial statements will be included in the consolidated financial statements. These are based on the International Financial Reporting Standards, as applicable in the European Union. The consolidated financial statements and management report of the parent Company can be obtained from the address of EDAG Group AG. It is also available on the Internet on the following link: http://ir.edag.com, and will be submitted to the Electronic Federal Gazette in Germany.

Appropriation of Net Income

in €/CHF thousand	2016 € thousand	2016 CHF thousand	2015 € thousand	2015 CHF thousand
Balance brought forward	**- 2,470**	**- 2,675**	**-**	**-**
Appropriation of earnings in accordance with resolution of the Annual General Meeting	-	-	-	-
Removal from legal capital reserve	18,750	20,723	-	-
Dividend payout to shareholders	- 18,750	- 20,723	-	-
Net income of the year	**- 1,909**	**- 2,081**	**- 2,470**	**- 2,675**
Total available earnings at the disposal of the Annual General Meeting	**- 4,379**	**- 4,756**	**- 2,470**	**- 2,675**

Appropriation of reserves proposed by the Board of Directors

in €/CHF thousand	2016 Proposal of Board of Directors € thousand	2016 Proposal of Board of Directors CHF thousand	2015 Resolution of Annual general Meeting € thousand	2015 Resolution of Annual general Meeting CHF thousand
Total available earnings	**- 4,379**	**- 4,756**	**- 2,470**	**- 2,675**
Allocation to legal retained earnings	-	-	-	-
Removal from legal retained earnings	-	-	-	-
Allocation to legal capital reserve	-	-	-	-
Removal from legal capital reserve	18,750	20,136	18,750	20,316
Dividend payout to shareholders	- 18,750	- 20,136	- 18,750	- 20,316
Balance to be carried forward	**- 4,379**	**- 4,756**	**- 2,470**	**- 2,675**

Subject to approval of the general meeting, the Board of Directors recommends that the net loss of € 4,379 thousand (CHF 4,756 thousand) should be carried forward to the new statement as a negative retained profit, and is in favor of a dividend payout of € 0.75 (CHF 0.81) per share, which will result in an overall payout of € 18,750 thousand (CHF 20,136 thousand). The Board of Directors recommends that the entire dividend payout in the amount of € 0.75 (CHF 0.81) per share proposed for 2016 should be withdrawn from the capital reserves. Subject to this proposal being passed at the general meeting, any such payout will not be subject to Swiss withholding tax.

Arbon, April 4, 2017

EDAG Engineering Group AG

Thomas Eichelmann, Chairman of the Board of Directors

Dr. Michael Hammes, Member of the Board of Directors and
Chairman of the Audit Committee

Jürgen Vogt, CFO

4.6 Appendices

Development of assets

in € thousand	(Historical) Cost				
	1/1/2016	Additions	Disposals	Currency trans-lation	12/31/2016
Intangible assets					
Software	1	-	-	-	1
Total intangible assets	**1**	**-**	**-**	**-**	**1**
Property, plant and equipment					
Other equipment, operating and office equipment	59	14	-	-	73
Total property, plant and equipment	**59**	**14**	**-**	**-**	**73**
Financial assets					
Shares in affiliated companies	474,660	-	22,600	-	452,060
Total financial assets	**474,660**	**-**	**22,600**	**-**	**452,060**
TOTAL	**474,720**	**14**	**22,600**	**-**	**452,134**

in CHF thousand	(Historical) Cost				
	1/1/2016	Additions	Disposals	Currency translation	12/31/2016
Intangible assets					
Software	1	-	-	1	2
Total intangible assets	**1**	**-**	**-**	**1**	**2**
Property, plant and equipment					
Other equipment, operating and office equipment	64	15	-	- 1	78
Total property, plant and equipment	**64**	**15**	**-**	**- 1**	**78**
Financial assets					
Shares in affiliated companies	514,294	-	24,465	- 4,362	485,467
Total financial assets	**514,294**	**-**	**24,465**	**- 4,362**	**485,467**
TOTAL	**514,359**	**15**	**24,465**	**- 4,362**	**485,547**

in € thousand	Accumulated depreciation				Carrying amount	
	1/1/2016	Additions	Currency translation	12/31/2016	1/1/2016	12/31/2016
Intangible assets						
Software	-	-	-	-	1	1
Total intangible assets	**-**	**-**	**-**	**-**	**1**	**1**
Property, plant and equipment						
Other equipment, operating and office equipment	1	9	-	10	58	63
Total property, plant and equipment	**1**	**9**	**-**	**10**	**58**	**63**
Financial assets						
Shares in affiliated companies	-	-	-	-	474,660	452,060
Total financial assets	**-**	**-**	**-**	**-**	**474,660**	**452,060**
TOTAL	**1**	**9**	**-**	**10**	**474,719**	**452,124**

	Accumulated depreciation				Carrying amount	
	1/1/2016	Additions	Currency translation	12/31/2016	1/1/2016	12/31/2016
Intangible assets						
Software	-	1	-	1	1	1
Total intangible assets	**-**	**1**	**-**	**1**	**1**	**1**
Property, plant and equipment						
Other equipment, operating and office equipment	1	10	-	11	63	68
Total property, plant and equipment	**1**	**10**	**-**	**11**	**63**	**68**
Financial assets						
Shares in affiliated companies	-	-	-	-	514,294	485,467
Total financial assets	-	-	-	-	**514,294**	**485,467**
TOTAL	**1**	**11**	**-**	**11**	**514,358**	**485,536**

Changes in Equity

in € thousand	Subscribed capital	Capital reserve	Other capital reserve	Total capital reserve	Profit or loss	Others	Total equity
As per 11/2/2016	**920**	**474,660**	**- 80**	**474,580**	**- 2,470**	**-**	473,030
Profit or loss	-	-	-	-	- 1,909	-	- 1,909
Removal	-	- 18,750	-	- 18,750	-	-	- 18,750
As per 12/31/2016	**920**	**455,910**	**- 80**	**455,830**	**- 4,379**	**-**	**452,371**

in CHF thousand	Subscribed capital	Capital reserve	Other capital reserve	Total capital reserve	Profit or loss	Others	Total equity
As per 11/2/2016	**1,000**	**514,294**	**- 87**	**514,207**	**- 2,675**	**- 4**	**512,528**
Profit or loss	-	-	-	-	- 2,081	-	- 2,081
Currency conversion difference	-	-	-	-	-	- 3,922	- 3,922
Reclassification		87		87		- 87	-
Removal	-	- 20,723	-	- 20,723	-	-	- 20,723
As per 12/31/2016	**1,000**	**493,657**	**- 87**	**493,570**	**- 4,756**	**- 4,013**	**485,801**

Share ownership list in accordance with art. 959c p. 2 No. 3 of the Swiss Code of Obligations (OR)

	Registered in Switzerland and Germany	Domicile	Capital share in %		Voting right
			Direct	Indirect	
1.	EDAG Engineering Schweiz Sub-Holding AG	Switzerland	100	-	100
2.	EDAG Engineering Holding GmbH	Germany	-	100	100
3.	EDAG Engineering GmbH	Germany	-	100	100
4.	EDAG-Beteiligung GmbH	Germany	-	100	100
5.	EDAG Production Solutions GmbH & Co.KG	Germany	-	100	100
6.	EDAG Production Solutions Verwaltungs GmbH	Germany	-	100	100
7.	Haus Kurfürst GmbH	Germany	-	100	100
8.	EDAG Werkzeug + Karosserie GmbH	Germany	-	49	49
9.	BFFT Gesellschaft für Fahrzeugtechnik mbH	Germany	-	100	100
10.	BFFT aeromotive GmbH	Germany	-	100	100
11.	BFFT Holding GmbH	Germany	-	100	100
12.	Rücker Akademie GmbH	Germany	-	100	100
13.	EDAG Engineering Schweiz GmbH	Switzerland	-	100	100
14.	VR-Leasing Malakon GmbH & Co Immo. KG	Germany	-	100	25

	Registered in other countries	Domicile	Capital share in %		Voting right
			Direct	Indirect	
15.	EDAG Engineering Limited	Great Britain	-	100	100
16.	EDAG do Brasil Ltda.	Brazil	-	100	100
17.	EDAG, Inc.	USA	-	100	100
18.	EDAG HOLDING SDN. BHD.	Malaysia	-	100	100
19.	EDAG Hungary Atófejlesztö Méröki Kft.	Hungary	-	100	100
20.	EDAG Production Solutions India Pvt. Ltd.	India	-	100	100
21.	EDAG Slovakia spol. s.r.o.	Republic of Slovakia	-	100	100
22.	EDAG Technologies India Priv. Ltd.	India	-	100	100
23.	EDAG Production Solutions CZ s.r.o.	Czech Republic	-	100	100
24.	EDAG Japan Co., Ltd.	Japan	-	100	100
25.	EDAG Production Solutions Korea Ltd.	South Korea	-	100	100
26.	EDAG Engineering and Design (Shanghai) Co., Ltd.	China	-	100	100
27.	EDAG México S.A. de C.V.	Mexico	-	100	100
28.	EDAG Servicios México S.A. de C.V.	Mexico	-	100	100
29.	BFFT Italia Srl	Italia	-	100	100
30.	BFFT of America	USA	-	100	100
31.	EDAG Engineering SRL.	Romania	-	100	100
32.	Rücker Vehicle Design (Shanghai) Co., Ltd.	China	-	100	100
33.	EDAG Italia S.R.L.	Italy	-	100	100
34.	EDAG Engineering CZ spol. s r.o.	Czech Republic	-	100	100
35.	EDAG Engineering Polska Sp.z.o.o.	Poland	-	100	100
36.	Rücker Lypsa S.L.	Spain	-	100	100
37.	EDAG Engineering AB	Sweden	-	100	100
38.	OOO EDAG Production Solutions RU	Russia	-	100	100
39.	Duvedec Europe B.V.	Netherlands	-	100	100

REPORT OF THE STATUTORY AUDITOR (FINANCIAL STATEMENTS)

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF THE EDAG ENGINEERING GROUP AG, ARBON

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the EDAG Engineering Group AG, which comprise the balance sheet as at 31 December 2016 and income statement for the year then ended and notes, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements as at 31 December 2016 comply with Swiss law and the articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Report on key audit matters based on the Circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of the investment in the subsidiary

Key audit matter	How our audit addressed the key audit matter
We consider the impairment testing of the investment in the subsidiary to be a key audit matter for the following two reasons: The investment in EDAG Engineering Schweiz Sub-Holding AG in the amount of EUR 452 million represents the largest asset on the balance sheet (99% of total assets). If this investment had to be written down, it would have a significant impact on the net assets/equity of the Company. Testing the investment for impairment depends on the future results of the company concerned. In addition, there is significant scope for judgement in determining the assumptions relating to future results. Please refer to the notes and, in particular, 'Information on accounting, valuation and disclosure' ('Accounting for and valuation of assets') and the 'Notes on the balance sheet items' ('Fixed assets').	We performed audit procedures on the valuation of the investment as at 31 December 2016. Management carried out an impairment test on the investment in EDAG Engineering Schweiz Sub-Holding AG. We performed the following: • We verified the method used to test the investment for impairment and assessed the calculation of the weighted average cost of capital. • We checked the appropriateness of the future cash inflows used for the valuation by comparing these with the latest budget figures taken from the three-year plan prepared by the Board of Directors and by reconciling them to general and industry-specific market expectations and the share price of the company. • We checked the parameters, including the weighted average cost of capital, used in calculating the discount rate and examined the calculation model. On the basis of the audit procedures described above, we have addressed the risk of the impairment of the investment in the subsidiary. We have no findings to report.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors intends either to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of retained earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

PATRICK BALKANYI	ICARE REGNIER
Audit expert	Audit expert
Auditor in charge	

Zurich, 4 April 2017

RESPONSIBILITY STATEMENT

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RESPONSIBILITY **STATEMENT**

We hereby certify, to the best of our knowledge, that in accordance with the applicable accounting principles, the consolidated financial statement conveys a proper picture of the assets, financial position and financial performance of the Group, and that the management report represents the company's business trends, including the financial results and the position of the Group, such that the actual conditions and the essential opportunities and risks pertaining to the anticipated development of the Group are accurately delineated.

Arbon, April 4, 2017

EDAG Engineering Group AG

Jörg Ohlsen, Chief Executive Officer (CEO)

Jürgen Vogt, Chief Financial Officer (CFO)

Thomas Eichelmann, Chairman of the Board of Directors

Dr. Michael Hammes, Member of the Board of Directors

Sylvia Schorr, Member of the Board of Directors

Dr. Philippe Weber, Member of the Board of Directors

LEGAL **NOTICE**

This report includes predictive statements about future developments that are based on the current views of the management team. Statements of this kind are associated with certain risks and uncertainties. Should one of these uncertainty factors or other uncertainties materialize, or the assumptions on which the statements are based prove to be inaccurate, the actual results may differ substantially from the results which are either expressed or implied in these statements. We neither have the intention nor undertake any obligation to continuously update forward-looking statements, as they exclusively relate to the circumstances that existed on the date of their publication.

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Legal notice & contact

Do you have any questions or suggestions regarding our annual report?
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