ANNUAL REPORT 2018

MBB SE, Berlin

MBB in figures

Financial year	2018 adjusted IFRS	2017 adjusted IFRS	Δ 2018 / 2017
Earnings figures	**€k**	**€k**	**%**
Revenue	**506,590**	**403,077**	25.7
Operating performance	506,823	404,203	25.4
Total performance	522,226	415,683	25.6
Cost of materials	-322,535	-262,415	22.9
Staff costs	-117,062	-89,453	30.9
EBITDA	54,529	38,862	40.3
EBITDA margin	*10.8%*	*9.6%*	
EBIT	41,307	28,957	42.6
EBIT margin	*8.2%*	*7.2%*	
EBT	39,579	27,110	46.0
EBT margin	*7.8%*	*6.7%*	
Consolidated net profit after non-controlling interests	**16,142**	**13,560**	19.0
Number of shares	6,600	6,600	
eps in €*	2.45	2.06	18.9
Dividend paid in €k	8,695	8,036	8.2
Dividend per share in €	1.32	1.22	8.2
Figures from the statement of financial position	**31 Dec €k**	**31 Dec €k**	**%**
Non-current assets	217,487	190,229	14.3
Current assets	508,170	421,000	20.7
there of cash and equivalents**	376,204	279,213	34.7
Issued capital (share capital)	6,587	6,587	0.0
Other equity	492,705	378,470	30.2
Total equity	499,292	385,057	29.7
Equity ratio	*68.8%*	*63.0%*	0.0
Non-current liabilities	78,132	86,589	-9.8
Current liabilities	148,233	139,583	6.2
Total assets	725,657	611,229	18.7
Net debt (-) or net cash (+)**	312,325	222,026	40.7
Employees	**2,184**	**2,006**	**8.9**

* Based on the average number of shares outstanding for the respective year.
** This figures include physical gold stocks.

Content

Welcome Note from the Executive Management

DEAR SHAREHOLDERS,

MBB broke through the revenue threshold of half a billion euros for the first time in 2018 and increased its equity to a similar level. Combined with a double-digit EBITDA margin and earnings at the upper end of the ambitious forecast range, it is clear that the past financial year was another record-breaking one.

MBB's success is driven by the outstanding development of its subsidiaries. Four of the six MBB companies recorded comfortably double-digit revenue growth in 2018. Aumann enjoyed particularly strong growth of 38%, reflecting the unbroken trend towards e-mobility. The considerably smaller CT Formpolster increased its revenue by 21%, while DTS and Delignit each recorded growth of 14%. All in all, MBB's revenue therefore rose by 26% to €507 million.

The development in terms of profitability is even more encouraging. The MBB Group's adjusted EBITDA rose by 40% to €55 million in 2018. This is again thanks to the excellent business performance of several MBB companies. Aumann stood out with superb EBITDA growth of 46%. We were also particularly pleased with the development of DTS, which increased its revenue by 34% and generated a double-digit EBITDA margin for the first time. We believe this is the best expression of the leading position the company has now established in the area of IT security. Delignit also achieved impressive EBITDA growth of 15%.

The companies in the Industrial Production segment faced a challenging market situation in the first half of 2018. For Hanke, a regulatory change in China significantly increased the price of cellulose, the most important raw material for paper production. For CT Formpolster and OBO, commodity prices for polyurethane production rose sharply. The commodity situation began to improve slightly around the middle of the year, and profitability has since gradually improved thanks to price rises for end products. In the fourth quarter, the segment returned to an EBITDA margin in excess of 8%.

In order to press ahead with the diversification of the Group, MBB re-placed shares of Aumann AG in February 2018 while reiterating its desire to remain the largest shareholder in Aumann in the long term. Combined with a strong operating cash flow, this meant that Group liquidity increased to €376 million as at 31 December 2018, while net cash rose to €312 million. €257 million of this net cash was attributable to the holding company MBB SE; this can undoubtedly be described as an extremely comfortable capital situation.

On 13 March 2019, the Board of MBB SE resolved to make a public buyback offer to shareholders for up to 646,775 shares at a purchase price of €89 with the aim of increasing the company's capital efficiency. This offer was raised to €96 per share on 21 March and was successfully completed with the redemption of treasury shares on 9 April. At the same time, the management confirmed its intention to continue MBB's steep growth path through further acquisitions. Following the completion of the share buyback programme, around €300 million in cash will be available for the acquisition of new companies.

The acquisition of ISL Internet Sicherheitslösungen GmbH by DTS in February 2019 shows that MBB is capable of persuading extraordinary companies of the benefits of belonging to the MBB Group even in a competitive market environment. As a leading German software developer in the area of IT security, ISL is an ideal fit for DTS. For this reason, the existing shareholders of ISL have decided to remain invested in the company in order to participate in its growth as part of DTS.

We are confident that MBB will continue its business success in 2019 and hope that you will accompany us on this journey as shareholders.

Yours,

The Executive Management of MBB

Report of the Board

In the year under review, the Board ensured that it was continuously informed about the business and strategic development of the company and advised and monitored the Executive Management in accordance with the tasks and responsibilities required of it by law, the Articles of Association and the provisions of the German Corporate Governance Code. This meant that the Board was informed about the strategy, business policy and planning, the risk situation and the net assets, financial position and results of operations of the MBB Group at all times.

This took place in personal discussions between the Chairman of the Board and the members of the Executive Management, through attending the meetings of the Executive Management, the regular information provided by the Executive Management on the course of business, and at the meetings of the Board held on 11 April, 28 June, 27 September and 3 December 2018, which were attended by all members of the Board and the Executive Management of the company.

At the individual meetings, the Board analysed the company's current business development together with the Executive Management and discussed its strategic focus. The topics discussed included the economic situation of the company and the individual subsidiaries. To the extent that individual transactions required the approval of the Board in accordance with the Articles of Association or the law, the Board examined these transactions and resolved whether to grant its approval.

In the 2018 financial year, one of the main activities of the Board was the appointment of a new management team with effect from 1 July 2018 following the scheduled expiry of the Executive Management contracts on 30 June 2018: Dr Christof Nesemeier, Board member of MBB and delegated member of the Board as a member of the Executive Management, is the CEO (Chief Executive Officer) with responsibility for Strategy, Capital Allocation and Finance. Klaus Seidel, previously Chief Technical Officer and part of MBB's management since 1999, was appointed as COO (Chief Operating Officer) and also assumed responsibility for the development of the investment portfolio in addition to Technology Development and Legal. Dr Constantin Mang, who has worked for the MBB Group since 2014, was appointed CIO (Chief Investment Officer) in charge of Mergers & Acquisitions and Investor Relations. The Board concluded the Executive Management contracts for the period from 1 July 2018 to 30 June 2021. At their own request, the previous CFO, Anton Breitkopf, and the previous CIO, Dr Gerrit Karalus, did not renew their Executive Management contracts after they expired on 30 June 2018.

The Board proposed electing Anton Breitkopf as the fourth member of the Board at the Annual General Meeting on 28 June 2018 to continue the decades of successful cooperation in a new role. The Annual General Meeting approved this proposal. We are delighted to welcome Anton Breitkopf as a member of the Board.

The Board also discussed corporate governance and the German Corporate Governance Code. The Board continuously observed the development of the corporate governance standards. MBB broadly complies with the recommendations of the German Corporate Governance Code. The small number of exceptions are presented and explained in the declaration of conformity in accordance with section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) submitted in conjunction with the Executive Management. This declaration has been published in the annual report and on the company's website at www.mbb.com.

The Board duly engaged the auditor elected by the Annual General Meeting, RSM GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Düsseldorf, to audit the annual and consolidated financial statements for the 2018 financial year. The auditor submitted a declaration of independence to the Board in accordance with item 7.2.1 of the German Corporate Governance Code. This declaration confirms that there are no business, financial or other relationships between the auditor, its executive bodies and head auditors on the one hand, and the company and the members of its executive bodies on the other, that could give rise to doubt as to its independence.

The annual financial statements of MBB SE as at 31 December 2018 and the joint management report for MBB SE and the MBB Group prepared in accordance with the Handelsgesetzbuch (HGB – German Commercial Code) and the consolidated financial statements as at 31 December 2018 prepared in accordance with the International Financial Reporting Standards (IFRS) were audited by the auditor elected by the Annual General Meeting and engaged by the Chairman of the Board, RSM GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Düsseldorf, and issued with an unqualified audit opinion on 1 April 2019.

In the past financial year, the Board also addressed the equal participation of women and men in management positions. Currently, both the members of the Board of MBB SE (four members) and its Executive Management (three members including the delegated member of the Board) consist exclusively of male persons and correspond to the defined target for the gender ratio in the Board and the Executive Management. The Board and Executive Management expressly aim to increase the representation of women in management positions. However, professional and personal aptitude remains the key criterion in the selection of managers. Given the terms of the respective employment contracts, the Board does not anticipate any opportunity to change the composition of the executive bodies between now and 30 June 2021. As such, the target for female members of the Board and the Executive Management remains 0%.

The Board examined the annual financial statements prepared by the Executive Management, the joint management report for MBB SE and the MBB Group, the proposal on the appropriation of net profit and the consolidated financial statements and discussed them with the auditor at the Board meeting on 1 April 2019. The auditor comprehensively answered all the Board's questions. The Board received the audit report in good time before the meeting. Following the completion of its examination, the Board did not raise any objections to the annual financial statements, the management report or the consolidated financial statements. The annual and consolidated financial statements were approved by the Board on 1 April 2019, and the annual financial statements of MBB SE have therefore been adopted.

The Board shares the opinion of the Executive Management as expressed in the joint management and Group management report and approves the proposal by the Executive Management on the appropriation of net profit.

The Board would like to thank the Executive Management, the management teams of the subsidiaries and all employees of the MBB Group for their high level of commitment and the good results achieved in the past financial year.

Berlin, 1 April 2019

The Board

Gert-Maria Freimuth

Chairman

Combined Management Report and Group Management Report

MBB SE is a medium-sized, family-owned company that forms the MBB Group together with its subsidiaries.

The separate financial statements of MBB SE were prepared in accordance with the provisions of the Handelsgesetzbuch (HGB – German Commercial Code) and the Aktiengesetz (AktG – German Stock Corporation Act), while the consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), including the interpretations of the IFRS Interpretations Committee (IFRS IC) on the IFRS, as adopted in the EU and the supplementary provisions of German commercial law in accordance with section 315e HGB.

The combined management report encompasses the MBB Group (hereinafter also referred to as “the Group” or “MBB”) and the parent company, MBB SE, domiciled in Berlin, Germany. It was prepared in accordance with the provisions of the HGB and German Accounting Standard (GAS) No. 20. The reporting on the situation of the Group is consistent with the reporting of MBB SE. Additional information on the annual financial statements of MBB SE is included in the section on the results of operations, financial position and net assets.

In terms of absolute figures, 2018 was again the most successful year in the history of the company. Strong organic growth across all companies and the re-placement of shares of Aumann AG resulted in consolidated revenue, EBITDA, (net) cash, equity and the dividend reaching new all-time highs in 2018.

The MBB Group reported consolidated revenue of €506.6 million in 2018 after €403.1 million in 2017. Earnings before adjustments amounted to €15.4 million or €2.34 per share, while adjusted earnings amounted to €16.1 million or €2.45 per share. The adjustments related to the amortisation of the acquired order backlog of Aumann Limbach-Oberfrohna GmbH (formerly USK Karl Utz Sondermaschinen GmbH) as a result of purchase price allocation, as well as extraordinary expenses in connection with the departure of a member of the Managing Board of Aumann AG.

Net cash (cash, current and non-current securities and physical gold less liabilities to banks and lease liabilities) amounted to €312.3 million as at 31 December 2018 (31 December 2017: €222.0 million). The 2018 financial year saw the payment of a regular dividend of €0.66 per share and a special dividend in the same amount (corresponding to €1.32 per share or €8.7 million in total) and further investment in the organic growth of all subsidiaries.

The MBB Group’s equity increased from €385.1 million as at 31 December 2017 to €499.3 million – with the equity ratio rising accordingly from 63.0% to 68.8%. This was primarily due to the net increase in value for MBB shareholders due to the re-placement of shares of Aumann AG, which was recognised in consolidated equity in accordance with IFRS.

The Board and the Executive Management will propose to the Annual General Meeting on 28 May 2019 the payment of a further increased dividend of €0.69 per share or €4.5 million for the 2018 financial year. Unlike in the two previous years, a special dividend will not be proposed.

Order intake and capacity utilisation at the start of the new financial year suggest further organic growth at all MBB subsidiaries. Accordingly, management is forecasting revenue growth to more than €550 million and EBITDA of at least €58 million in the 2019 financial year.

Unless stated otherwise, all information in this report refers to 31 December 2018 or the financial year from 1 January to 31 December 2018. Percentages and figures in this report may be subject to rounding differences.

Purely to improve readability, this report refrains from the simultaneous use of male, female or other linguistic forms. All references to persons apply to all genders unless stated otherwise.

Business and economic conditions

Strategic orientation

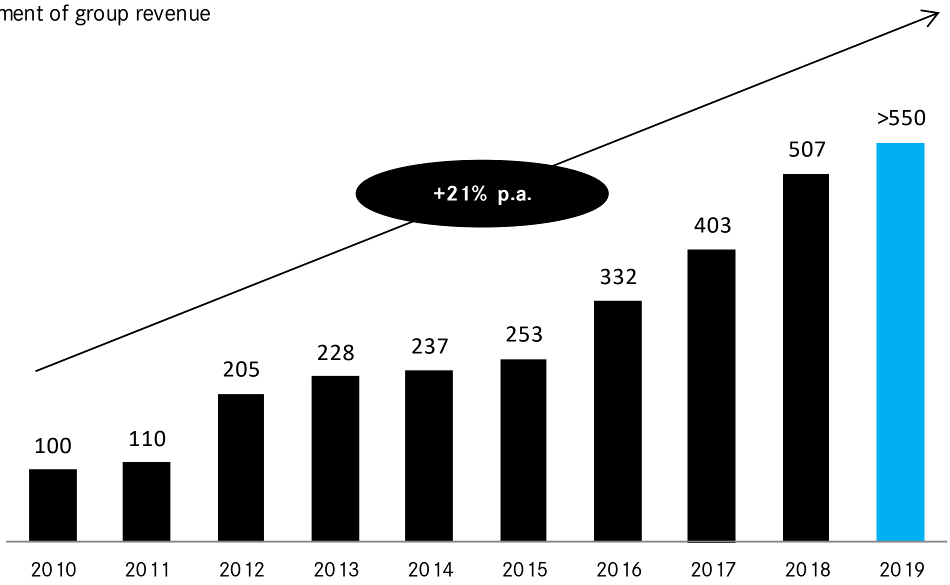
MBB SE is a medium-sized, family-owned company specialising in the acquisition and management of medium-sized industrial companies with considerable technology and engineering expertise. MBB’s outstanding revenue and value growth is based on five factors for success:

Growth

MBB has enjoyed strong growth in revenue and profitability since its formation, with annual growth of more than 20% since its IPO in 2006. Revenue amounted to €37 million in 2005; a figure of more than €550 million is forecast for the 2019 financial year. We intend to continue to achieve strong growth also in the future, both organically and by acquiring companies.

Development of group revenue

€ million



Technology expertise

MBB stands for Messerschmitt-Bölkow-Blohm and is the only remaining independent company with this name to have emerged directly from the original MBB Group. In post-war Germany, MBB was synonymous with engineering. Bound by this tradition, our companies can boast expertise in their respective markets dating back several centuries in some cases. Today, too, we actively pursue superior technology expertise and believe that Germany offers conditions for achieving success on the global markets that cannot be found in any other location in the world.

Mittelstand

Our companies are organised in independent units of between 80 and 1,100 employees and belong to the category of small and medium-sized enterprises (SME) in Germany known as the Mittelstand. Tradition, regional identity and a commitment to training, employees and the common good are key pillars of our actions. More than 20 years of first-class references for SME acquisitions are our calling card when searching for new subsidiaries.

Capital markets

MBB SE is listed in the Prime Standard of the Frankfurt Stock Exchange, meaning it meets the highest standards in terms of transparency and compliance. Thanks to thirteen years of outstanding share price and dividend performance, MBB has not only reached a large group of international shareholders, but its attractiveness as an employer and business partner has also increased as a result. This means that our stock exchange listing provides the ideal conditions for our extraordinary growth plans.

Family-owned company

Gert-Maria Freimuth (Chairman of the Board) and Dr Christof Nesemeier (CEO) formed the company in 1995 and hold the majority of the share capital for the long-term. We are confident that the personal commitment and continuity of its management team are key factors in its success, giving the company a clear sense of reliability and identity.

Market development

MBB's regional focus is on the German-speaking area. At the same time, MBB is increasingly enjoying an international presence thanks to its global markets and customers as well as foreign subsidiaries.

Growth in the global economy amounted to a healthy 3.7%, a similar figure to the previous year. Compared with the synchronised upturn in the previous year, however, regional development was more varied. The growth in world trade slowed tangibly at the start of the year, curbing development in export-dependent economies in particular.

The industrialised nations maintained their dynamic growth trend on the whole. This was driven in particular by the US economy, which improved on the previous year with macroeconomic growth of 3%, not least thanks to fiscal policy impetus. The European Union was unable to repeat its prior-year economic performance, recording growth of just below 2%. According to initial calculations, the German economy grew by just 1.5%. This was particularly attributable to weaker export performance as well as a phase of weakness in the manufacturing industry.

The Chinese economy saw slower growth on the back of a less pronounced expansion in lending and the negative consequences of the trade conflict with the USA. At 6.6%, however, it still met its growth target.

The sustained low interest rate environment in the European Union persisted during the year under review. The effects of this policy on MBB SE are reflected in continued high purchase prices for companies, as the willingness of banks to provide debt finance for such acquisitions has risen further.

The sub-markets relevant to MBB developed positively for the most part. According to figures from the European Automobile Manufacturers' Association (ACEA), the number of vehicle registrations in the European Union amounted to 15.2 million in 2018, meaning 0.1% more vehicles were registered than in the previous year. There was extremely varied development in the individual sub-markets. The growth drivers were Spain (+7.0%) and France (+3.0%), while the number of new registrations declined in the United Kingdom (-6.8%) and Italy (-3.1%). Vehicle registrations in Germany stagnated at the prior-year level. This slowdown in momentum was due in part to the high level achieved by the market, while supply-side bottlenecks due to the changeover to the new test procedure for vehicle registration (Worldwide Harmonized Light Vehicles Test Procedure, WLTP) also adversely affected sales figures in the last four months of the year. Growth in registrations of electric and hybrid vehicles was again comfortably above-average at 38.2% and 35.6% respectively.

Light commercial vehicle registrations in Europe climbed by 3.1% year-on-year after growth of 3.9% in 2017. 2018 saw a slowdown in momentum in the bigger markets for light commercial vehicles in particular. Growth in the number of new registrations in Spain declined from 15.5% in the previous year to 7.8%, while France saw a reduction from 7.1% to 4.6%. New registrations in Italy fell by 6.0%.

According to figures from the German Association for Information Technology, Telecommunications and New Media (bitkom), the German IT market grew by 3.1% in the year under review. IT security remains a relevant topic not least due to the EU General Data Protection Regulation (GDPR), which came into force on 25 May 2018. According to initial calculations, the German IT security sector saw revenue in excess of €4 billion for the first time in 2018.

Exchange rates remained volatile in this heterogeneous growth environment. The USD-EUR exchange rate varied from 1.25 to 1.12 over the course of the year. The euro closed the year around 5% weaker than at the prior-year reporting date. Exchange rate fluctuations between the euro and the currencies relevant to the MBB Group, namely the US dollar, the Polish zloty and the Chinese renminbi, will remain significant and therefore continue to present considerable challenges for the MBB Group's financial management in 2019. The MBB Group continues to be conservatively financed. Its high liquidity and net cash position means that companies can be acquired independently of banks and irrespective of wider developments on the financial markets. Excess liquidity is predominantly invested in demand deposits, virtually without negative interest, and to a lesser extent also in bonds with good credit ratings, physical gold and in equities – but only when the latter meet the same criteria that MBB SE applies to the acquisition of German SMEs.

Market position

Thanks to its more than two decades of experience, MBB can offer references for a wide range of different scenarios for SME acquisitions, ranging from former owners and group shareholders, managers, employee representatives, trade unions and banks through to core customers and suppliers. Thanks to its experience, its network, its portfolio of companies enjoying profitable growth and its stock exchange listing, MBB SE is one of the leading industrial holding companies for German SMEs.

The MBB Group's net cash again increased significantly in the past financial year. Combined with the references described above, this is an ideal starting point for further growth through acquisitions.

The MBB Group is still well protected against significant turbulence on individual markets thanks to the diversification of its subsidiaries. Past experience has shown that phases of weakness in certain sales markets are often accompanied by growth in others. The individual MBB companies are established Mittelstand companies, most of them are leaders in their respective markets, and they are characterised by a solid asset position and sustainable growth.

Stock exchange listing

One element of MBB SE's strategic development was its IPO in 2006 and its admission to the Prime Standard in 2008. The company has been trading as MBB SE since March 2015. As before, the interest of approximately 65% in MBB SE held by the company's founders as at 31 December 2018 serves to ensure MBB's sustainable development with a medium-sized, entrepreneurial focus.

Research and development

Innovation, together with the continuous evolution of our products, production technologies and solutions, is a central component of the corporate philosophy of all our subsidiaries. In the Aumann Group, for example, we are working very closely with our customers in order to further develop and improve our systems and the products ultimately manufactured with them. This applies in particular to the area of e-mobility, where we intend to defend and further expand the leading market position of the Aumann Group. For this purpose, among other things we have participated in public cooperation projects with universities and research institutes. At our other subsidiaries, too, we are pursuing an approach of continuous development for our products, production technologies and solutions.

Subsidiaries

MBB SE had six direct subsidiaries at the end of the 2018 financial year. As these direct subsidiaries of MBB SE themselves each have subsidiaries and sub-subsidiaries, the consolidated group as at 31 December 2018 consisted of MBB SE and a total of 24 companies. The following section lists these companies according to their ownership structure and the respective equity interest in them:

Companies included in the consolidated financial statements Name and registered office of the company	Ownership interest in %
Subsidiaries (fully consolidated)	
Aumann AG, Beelen, Germany	**38.00**
Aumann Beelen GmbH, Beelen, Germany	38.00
Aumann Berlin GmbH, Berlin, Germany	38.00
Aumann Winding and Automation Inc., Clayton, USA	38.00
Aumann Espelkamp GmbH, Espelkamp, Germany	38.00
Aumann North America Inc., Fort Wayne, USA	38.00
Aumann Immobilien GmbH, Espelkamp, Germany	38.00
Aumann Technologies (China) Ltd., Changzhou, China	38.00
Aumann Limbach-Oberfrohna GmbH, Limbach-Oberfrohna, Germany	38.00
CT Formpolster GmbH, Löhne, Germany	**100.00**
Delignit AG, Blomberg, Germany	**76.08**
Blomberger Holzindustrie GmbH , Blomberg, Germany	76.08
Hausmann Verwaltungsgesellschaft mbH, Blomberg, Germany	76.08
Delignit Immobiliengesellschaft mbH, Blomberg, Germany	76.08
Delignit North America Inc., Atlanta, USA	76.08
DHK automotive GmbH, Oberlungwitz, Germany	76.08
DTS IT AG, Herford, Germany	**80.00**
ACoN-IT GmbH, Vienna, Austria	80.00
DTS Systeme GmbH, Herford, Germany	80.00
eld datentechnik GmbH, Herford, Germany	80.00
ICSmedia GmbH, Münster, Germany	80.00
DTS CLOUD SECURITY MonEPE, Athens, Greece*	80.00
Hanke Tissue Sp. z o.o., Kostrzyn, Poland	**95.84**
OBO-Werke GmbH, Stadthagen, Germany	**100.00**

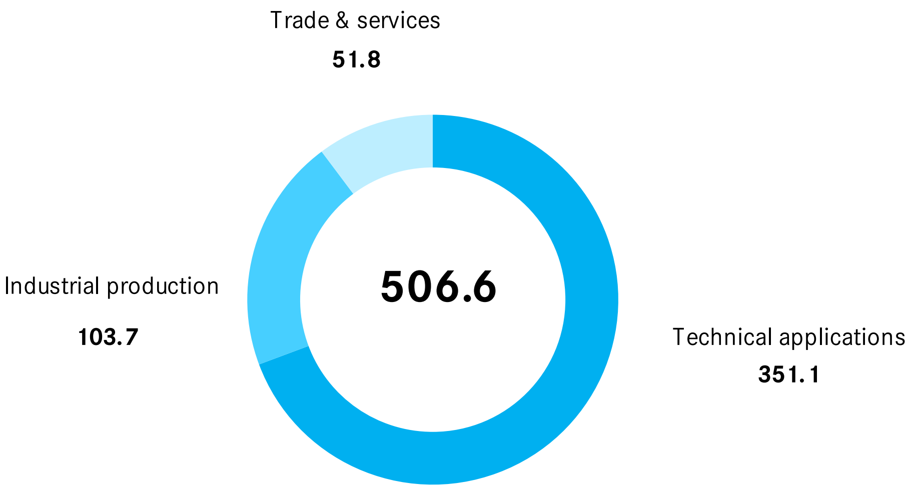
*The company is active since 2018.

Segments

The individual segments in which MBB Group companies operate have different focal points in terms of their business activities. These are described in brief in the following section. Detailed information on the individual companies is not published in order to prevent the possibility of adverse effects on their business activities, though our listed subsidiaries naturally fulfil their disclosure requirements.

The following segments are reported:

Group-revenue by segment
€ million



Technical Applications

This segment contains those subsidiaries whose business model reflects customer-specific requirements to a large extent and where the expertise and consulting sold along with the product constitute a significant portion of the work performed. The segment consists of the companies of the Delignit Group and the Aumann Group.

The Aumann Group is a world-leading manufacturer of innovative speciality machinery and automated production lines with a focus on e-mobility. The company combines unique winding technology for the highly efficient production of electric motors with decades of automation experience, particularly in the automotive industry. Leading companies around the world rely on Aumann solutions for the series production of purely electric and hybrid vehicle drives, and for solutions for production automation. In Germany, the Aumann Group has locations in Beelen, Espelkamp, Limbach-Oberfrohna and Berlin. It has also a location in Changzhou (China) since June 2013. The main aim of the location in China is to offer the local manufacturing and servicing of systems for Chinese production sites to customers of the German Aumann companies. In addition, the company serves Asian customers that are not part of the German Aumann companies' customer base but that require technologically advanced system solutions for manufacturing high-quality products. There is also a sales and service site in Clayrton (USA).

The energy transition towards more e-mobility is a central issue in the public debate. The market has been experiencing massive growth momentum since almost all vehicle manufacturers have decided to focus their development on electric vehicles and announced billion-euro investment programmes. The combination of superior winding technology and decades of automation expertise gives Aumann a significant opportunity to benefit from this momentum. To assist in this development, Aumann AG went public in March 2017 and has since been listed in the Prime Standard of Deutsche Börse. Aumann AG has also been included in Deutsche Börse's SDAX selection index since June 2018.

The Aumann Group is one of the few market participants capable of offering highly automated production lines for the full assembly and production of all key traction engine components from a single source: battery module, battery tray, fuel cell, rotor and stator with various winding technologies or alternative manufacturing methods. Aumann naturally also offers special-purpose machinery and automated lines for the production of drive components for combustion engines and light-weight components that allow the OEMs that use these components to reduce the CO_2 emissions of their fleet. The Aumann Group's range also includes assembly and logistics solutions for electrical engineering, consumer electronics and specific solutions for other sectors.

In 2018, the Aumann Group increased its external revenue by 38.2% to €290.8 million (previous year: €210.4 million), thereby accounting for 57.4% (previous year: 52.2%) of MBB SE's consolidated revenue. Order intake for the year as a whole was up slightly year-on-year at €290.9 million (previous year: €282.3 million), while the order backlog at year-end amounted to €204.2 million (previous year: €204.2 million). The management of Aumann AG expects to see a slight increase in revenue and EBIT in 2019 and comfortably double-digit average growth rates over the next five years.

The Delignit Group, which was formed more than 200 years ago, develops and manufactures ecological materials and system solutions primarily based on hardwood. Delignit is a recognised development and project partner and series supplier for technology industries such as the automotive, aviation and rail sectors. The products have special technical properties and are used in built-in systems for commercial vehicles, fire-safe building facilities and innovative materials handling technology, among other things. The Delignit material is generally based on beech wood and is lifecycle carbon-neutral, making it ecologically superior to non-regenerative materials such as plastic or steel. Since 2013, Delignit has been strengthened by the addition of DHK automotive GmbH and HTZ Holztrocknung GmbH, both of which are domiciled in Oberlungwitz. HTZ Holztrocknung GmbH was merged into DHK automotive GmbH in the year under review. Furthermore, Delignit North America Inc. was founded in 2017 to leverage growth opportunities in the NAFTA region.

The Delignit Group increased its external revenue by 14.4%, from €52.7 million in the previous year to €60.3 million in the year under review, thereby accounting for 11.9% (previous year: 13.1%) of MBB SE's consolidated revenue. The renewed growth was driven by OEM business, in which high growth rates were generated from the ramp-up of the new series production contracts. Delignit also received its first series order in the caravan segment from a major German automotive group in the 2018 financial year.

Industrial Production

The Industrial Production segment contains all subsidiaries whose strengths are concentrated on the industrial manufacture of their products and whose products are relatively standardised. Accordingly, this segment contains the subsidiaries Hanke, CT Formpolster and OBO.

Hanke produces tissue mother rolls, napkins, handkerchiefs, toilet paper and kitchen rolls. Operating under the brand name of "aha", the company has a strong competitive position in the Eastern Europe consumer product market. Hanke also produces white and coloured tissue paper for various private labels in Europe. The centrepiece of these activities is the company Hanke Tissue Sp. z o.o., Kostrzyn, Poland, which was acquired by MBB SE in 2006.

Since being acquired by MBB SE, Hanke has invested significantly in its machinery and buildings, allowing it to achieve considerable growth and expand its leading market position. Continuous investment is intended to increase conversion capacity in particular over the coming years, which will have a positive impact on the company's margin.

In 2018, Hanke contributed €47.5 million (previous year: €44.5 million) or around 9.4% (previous year: 11.0%) to consolidated revenue. This corresponds to a year-on-year increase of 6.9%. The sharp rise in the price of cellulose, the most important raw material for Hanke's products, meant that profitability fell below expectations in 2018. However, the commodity situation improved slightly in the fourth quarter. Combined with price rises for end products, this is likely to lead to a tangible upturn in profitability in 2019.

CT Formpolster GmbH manufactures flexible polyether foams and is growing by expanding the degree of its vertical integration. As mattresses are increasingly finding their way to the end customer via online retailers, CT Formpolster has recently developed from a foam producer into a one-stop shop for mattresses. As part of this digital upheaval in the mattress industry, many providers are looking for innovative offers to meet changing customer expectations. CT Formpolster has long been producing high quality foams for this. However, what is increasingly setting the company apart from its competitors is the expertise needed to design and produce complete customer products, including mattress covers, in series. Having established this, the logistics capability to deliver mattresses directly to consumers within a few hours or days in compact boxes is at least just as important.

CT Formpolster can look back on an excellent year in terms of revenue development. External revenue increased by 21.4%, from €29.8 million in the previous year to €36.2 million in the year under review. CT Formpolster accounted for 7.1% of MBB's consolidated revenue (previous year: 7.4%). However, margins in the year under review were impacted by extremely high prices for polyurethane raw materials and some non-recurring effects.

OBO Werke GmbH is a global provider of polyurethane and epoxy resin-based materials for tooling applications. With a market share of around 8%, it is one of the leading providers in the industry. OBO has been part of the MBB Group since 2003. It primarily supplies intermediaries, as well as model builders, auto manufacturers, foundries and other processing companies directly. OBO has developed positively in recent years. Its growth is due to the acquisition of the European tooling, block and paste area of its long-term partner Huntsman Advanced Materials in 2014 on the one hand and, on the other, the expansion of its PU board business.

OBO Werke GmbH contributed 3.9% to the MBB Group's total revenue in the 2018 financial year (previous year: 5.0%). External revenue in 2018 was essentially unchanged year-on-year at €20.0 million (previous year: €20.2 million). Increased commodity prices in the year under review also meant below-average profitability at OBO.

Trade & Services

The Trade & Services segment comprises the DTS Group, whose companies specialise in IT security and cloud services. In IT security, DTS customers benefit from products and services that increase security in corporate networks. Since 2018, this has included the Security Operations Center (SOC), where DTS security specialists monitor customer systems for anomalies and attacks around the clock. This is particularly important because many network attacks take place overnight, whereas most companies cannot ensure 24/7 monitoring.

The original company, DTS Systeme GmbH, was formed in 1983 and is headquartered in Herford, where it operates the Group's main data centre. With sales and service offices in Bensheim, Berlin, Bochum, Bremen, Cologne, Hamburg, Hanover, Munich and Nuremberg, the German sales network has been extended throughout most of the country since the majority acquisition by MBB in 2008. ICSmedia GmbH, Münster, was acquired in August 2010. ICSmedia GmbH has its own data centre and works in close cooperation with DTS Systeme GmbH to offer state-of-the-art, high-quality cloud computing solutions and high-end consulting services. In 2015, DTS made its first steps outside Germany with the formation of ACoN-IT GmbH, Vienna, in order to enable the DTS Group to also offer security and cloud services in particular in Austria. In the year under review, this European presence was expanded further with the formation of DTS CLOUD SECURITY MonEPE, Athens. Highly specialised experts based in Greece work with their German colleagues in international and interdisciplinary teams to protect the IT landscapes of their local customers against attacks, analyse network activities and immediately initiate countermeasures when attacks are discovered.

The close integration between DTS and leading developers of security products is illustrated by the fact that it was again named Partner of the Year in Central Europe by Palo Alto Networks. It has received further awards in the field of IT security as well, such as Partner of the Year in the DACH region of the also internationally renowned company Proofpoint.

Even following strong growth in recent years, the DTS Group improved its revenue performance once again in 2018. Revenue amounted to €51.8 million in the year under review compared with €45.5 million in the previous year. This corresponds to an increase of 13.8%.

This is all the more remarkable since the DTS Group generated the majority of the additional revenue in the strategic business areas of cybersecurity, cloud services and managed services. As well as offering attractive market growth, these business areas are characterised by their above-average profitability and recurring nature. The DTS Group therefore contributed 10.2% to the MBB Group's revenue (previous year: 11.3%). This was accompanied by above-average growth in profitability: EBITDA rose from €4.1 million in the previous year to €5.4 million in the year under review.

Employees

MBB SE had a total of ten employees at the end of 2018; this figure includes the Executive Management. In addition to the Executive Management, the company had two office management employees and five managers for the areas of finance, M&A and IT in 2018.

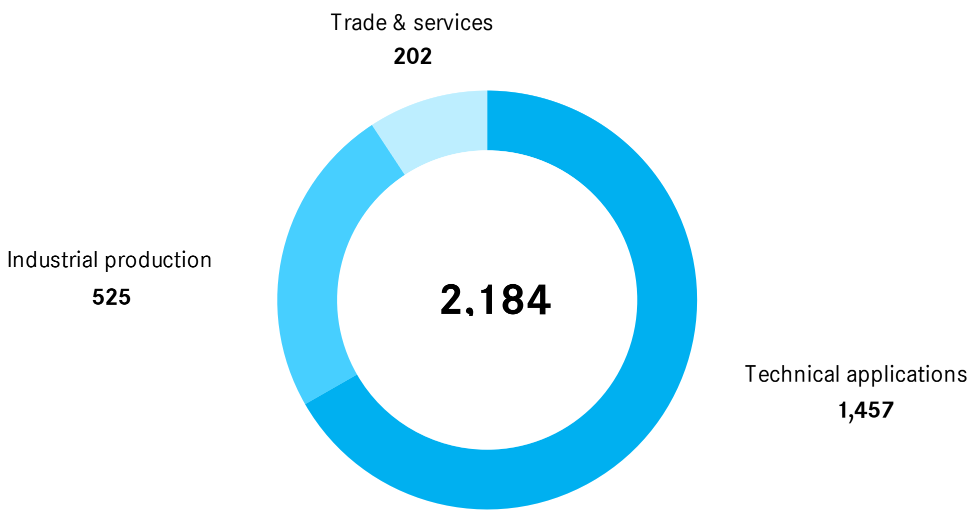
The aim of the management of MBB SE is to ensure the sustainable performance of the MBB Group. The founders Dr Christof Nesemeier and Gert-Maria Freimuth together held around 65% of the share capital of MBB SE as at 31 December 2018. Appropriate fixed remuneration is supplemented by performance-based variable components. There are no severance or pension agreements.

The MBB Group had an average of 2,137 employees (not including trainees) in the 2018 financial year, compared to an average of 1,703 in the previous year.

As at 31 December 2018 (and 31 December 2017), the MBB Group had 2,184 employees (previous year: 2,006) in the following segments:

Technical Applications:	1,457 employees (previous year: 1,303)
Industrial Production:	525 employees (previous year: 539)
Trade & Services:	202 employees (previous year: 164)

Headcount by segment as at 31 Dec 2018



The number of employees by country as at 31 December 2018 (31 December 2017) was as follows:

- 1,826 employees in Germany (previous year: 1,622)
- 298 employees in Poland (previous year: 341)
- 50 employees in China (previous year: 41)
- 8 employees in Greece (previous year: 0)
- 2 employees in Austria (previous year: 0)

The increase in the number of employees is due to MBB's strong organic growth.

MBB considers supporting and challenging its employees to be a key factor in its success. The management and senior employees of the subsidiaries, who have a major influence on the success of their business activities, receive variable remuneration components that are also dependent on the results achieved and the value growth of the companies.

The number of employees at the Group companies in 2018 is expected to increase in the 2019 financial year due to the growth in the business volume, though developments may vary across the individual subsidiaries for capacity reasons.

MBB SE's subsidiaries have a history of providing training. In total, there were 143 people either in training or on a dual study programme as at 31 December 2018 (previous year: 140). This will ensure a steady supply of junior talent even in times of a growing shortage of qualified employees. Including with a view to its existing employees, the MBB Group is constantly striving to improve the quality of its workforce through training and continuing professional development.

Results of operations, financial position and net assets

MBB SE and the MBB Group have enjoyed a successful and profitable 2018 financial year.

The high level of cash and cash equivalents is supporting MBB's business model and will allow future company acquisitions to be conducted independently and without the need for external finance. Continuous value appreciation – for example, in terms of the growth in equity from €15.5 million in 2005 to €499.2 million in 2018 or the turnaround from net debt of €13.8 million in 2005 to net cash of €312.3 million at the end of 2018 – serves to highlight the sustainable success of our business model and the high quality of our investments. This means that the MBB Group can be expected to continue to make new acquisitions with a view to achieving value growth.

The following section discusses MBB SE and the MBB Group in greater detail.

Notes to the separate financial statements of MBB SE (HGB)

The annual financial statements of MBB SE for the 2018 financial year were prepared in accordance with the provisions of the Handelsgesetzbuch (HGB – German Commercial Code) and the supplementary provisions of the Aktiengesetz (AktG – German Stock Corporation Act).

Results of operations

MBB SE generated revenue of €1.2 million in the year under review (previous year: €1.8 million). Revenue primarily resulted from the performance of management services for the subsidiaries.

Other operating income amounted to €104.2 million (previous year: €161.9 million). Of this figure, €100.8 million (previous year: €161.8 million) related to the sale of shares in Aumann AG. MBB SE also generated other operating income from the reversal of provisions, the sale of bonds and the oncharging of expenses to its subsidiaries.

This was offset by expenses for purchased services in the amount of €0.5 million (previous year: €21.8 million), which related to the remuneration paid to the management of MBB SE. Staff costs declined from €2.5 million in the previous year to €1.4 million in the year under review.

Other operating expenses were unchanged year-on-year at €1.9 million (previous year: €1.9 million). They primarily comprised expenses in connection with the disposal of financial assets (€0.5 million; previous year: €0.3 million), legal and consulting costs (€0.2 million; previous year: €0.1 million), rental and lease expenses (€0.2 million; previous year: €0.2 million) and management costs for cash and cash equivalents (€0.2 million; previous year: €0.3 million).

This resulted in earnings before interest, taxes, depreciation and amortisation, income from affiliated companies and income from securities in the amount of €101.6 million (previous year: €137.4 million).

Depreciation and amortisation amounted to €3.0 million in the year under review (previous year: €0.1 million) and primarily related to impairment of financial assets.

MBB SE also generated income from affiliated companies of €2.6 million (previous year: €5.3 million), income from securities of €3.8 million (previous year: €3.2 million) and interest and similar income of €0.3 million (previous year: €0.1 million). After interest expenses of €0.1 million (previous year: €0.2 million) and tax expenses of €0.2 million (previous year: €0.0 million), this resulted in a net profit for the year of €105.1 million (previous year: €145.7 million).

Net assets and financial position

Equity increased from €174.6 million in the previous year to €271.0 million as at 31 December 2018, largely as a result of the net profit for the year. This was partially offset by the dividend payment to the shareholders of MBB SE. The equity ratio amounted to 97.2% at the reporting date (previous year: 94.3%).

Total assets increased from €185.1 million to €278.6 million in the 2018 financial year. On the asset side, this was primarily due to the higher level of cash and cash equivalents as a result of the re-placement of the shares in Aumann AG. On the equity and liabilities side, the main factor was the increase in equity.

Including long-term investments, investments classified as current assets and physical gold holdings, MBB SE had cash and cash equivalents of €253.2 million at the end of the financial year (previous year:

€159.2 million). Net cash and cash equivalents also increased to €253.2 million (previous year: €159.2 million). Unrealised gains on physical gold holdings and securities are not included in this presentation of the financial position and results of operations.

In addition to the regular dividend of €0.66 per share (previous year: €0.61 per share) or €4.3 million, a special dividend of the same amount was distributed in the 2018 financial year.

MBB Group

Results of operations

The MBB Group generated revenue of €506.6 million in the 2018 financial year (previous year: €403.1 million). This 25.7% increase was due to organic growth at the individual subsidiaries as well as the acquisition of Aumann Limbach-Oberfrohna GmbH, which is included in the Group's results in full for the first time in the 2018 financial year. The forecast of consolidated revenue of at least €500 million in the 2018 financial year was exceeded.

Development of group revenue

At the same time, total operating revenue increased from €415.7 million in 2017 to €522.2 million in 2018. Other operating income of €15.4 million includes income from securities (€4.9 million), income from the reversal of provisions (€4.8 million), own work capitalised (€3.0 million), insurance and other compensation (€0.4 million), income from grants and subsidies (€0.4 million), prior-period income (€0.2 million), income from the disposal of non-current assets (€0.1 million), exchange rate gains (€0.1 million) and other income (€1.5 million).

The cost of materials amounted to €322.6 million in the year under review (previous year: €262.4 million). This was due to the growth in the business areas. The ratio of cost of materials to total operating performance improved from 66.9% in the previous year to 63.6%.

Adjusted staff costs increased from €89.5 million in the 2017 financial year to €117.1 million in the year under review. This corresponds to a moderate rise in the adjusted staff cost ratio from 22.1% to 23.1%. The increase in staff costs was attributable to a significant extent to the acquisition of Aumann Limbach-Oberfrohna GmbH in October 2017.

Other operating expenses amounted to €28.1 million in the year under review (previous year: €25.0 million). This primarily includes maintenance expenses, rental and lease expenses, travel costs, legal and consulting costs, advertising costs, insurance premiums and telecommunication expenses.

This meant that the MBB Group generated adjusted earnings before interest, taxes, depreciation and amortisation (EBITDA) of €54.5 million in the 2018 financial year (previous year: €38.9 million). This corresponds to a year-on-year increase of 40.3%. The adjusted EBITDA margin amounted to 10.8% (previous year: 9.6%). EBITDA before adjustments amounted to €54.0 million and was adjusted solely for extraordinary expenses in connection with the departure of a member of the Managing Board of a subsidiary.

Development of adjusted group EBITDA

Adjusted depreciation and amortisation in the amount of €13.2 million (previous year: €9.9 million) primarily relates to scheduled depreciation of property, plant and equipment and scheduled amortisation of intangible assets.

After further adjustment for amortisation from remeasurement in connection with the first-time consolidation of Aumann Limbach-Oberfrohna GmbH (€2.2 million), the MBB Group's earnings before interest and taxes (EBIT) amounted to €41.3 million in the past financial year and was therefore also significantly higher than the prior-year figure of €29.0 million. This corresponds to an adjusted EBIT margin of 8.2% (previous year: 7.2%). EBIT before adjustments amounted to €38.6 million (previous year: €19.7 million).

Development of adjusted group EBIT

Adjusted for net financial income of €-1.7 million (previous year: €-1.8 million), adjusted earnings before taxes (EBT) amounted to €39.6 million (previous year: €27.1 million) or 7.8% (previous year: 6.7%) of total operating performance.

Adjusted tax expense totalled €10.5 million in the 2018 financial year (previous year: €7.8 million) and primarily related to deferred and current taxes. This item also contains other taxes in the amount of €0.4 million (previous year: €0.4 million). The adjustment to tax expense corresponds to the adjustments to staff costs and depreciation and amortisation described above.

All in all, adjusted consolidated net profit amounted to €29.1 million (previous year: €19.3 million).

Adjusted consolidated net profit comprises net profit attributable to shareholders of the parent in the amount of €16.1 million (previous year: €13.6 million) and net profit attributable to non-controlling shareholders in the amount of €13.0 million (previous year: €5.8 million). The average number of shares outstanding in the period under review was 6,586,775 (previous year: 6,586,775). Adjusted earnings per share amounted to €2.45 (previous year: €2.06). This means adjusted earnings per share reached the upper end of the forecast range of €2.30 to €2.45 for the 2018 financial year. Unadjusted earnings per share amounted to €2.34 (previous year: €0.71).

Net assets

Equity amounted to €499.3 million as at 31 December 2018 (31 December 2017: €385.1 million). The increase of €114.2 million or 29.7% is attributable not only to the net profit for the period, but also to the re-placement of shares of Aumann AG to a significant extent. Based on total consolidated assets of €725.7 million, the equity ratio at the reporting date was 68.8% (previous year: 63.0%). Accordingly, the Executive Management is of the opinion that the MBB Group has an excellent equity base.

Development of group Equity

Intangible assets amounted to €51.4 million at the reporting date, thereby remaining essentially unchanged as against the previous year (€50.6 million). This item primarily consists of goodwill in the amount of €40.3 million (previous year: €40.3 million) and concessions, property rights and development costs in the amount of €10.5 million (previous year: €10.1 million). MBB conducted the annual impairment test for goodwill at the reporting date. This confirmed the recoverability of all capitalised goodwill.

The increase in property, plant and equipment to €98.5 million (31 December 2017: €91.4 million) was primarily due to the investments made in the 2018 financial year.

Financial assets increased from €38.5 million in the previous year to €60.7 million as at 31 December 2018. This item primarily consists of securities.

Inventories amounted to €36.5 million at the reporting date (31 December 2017: €35.5 million).

The moderate increase in trade receivables and other current assets, from €144.0 million as at 31 December 2017 to €154.9 million, is due to the business growth.

Cash and cash equivalents increased to €307.5 million in the year under review (31 December 2017: €233.8 million) largely as a result of the re-placement of shares of Aumann AG.

The Group's liabilities to banks and lease liabilities amounted to €63.9 million as at 31 December 2018 (31 December 2017: €57.2 million).

Pension provisions in the amount of €23.5 million (31 December 2017: €24.0 million) and provisions with the nature of a liability in the amount of €19.0 million (31 December 2017: €20.1 million) were essentially unchanged year-on-year.

In line with the business growth, trade payables increased from €43.4 million as at 31 December 2017 to €52.6 million at the reporting date. Advances received declined from €28.7 million as at 31 December 2017 to €21.2 million as at 31 December 2018.

Net cash (cash, current and non-current securities and physical gold less liabilities to banks and lease liabilities) amounted to €312.3 million at the reporting date, up significantly on the prior-year figure of €222.0 million. In the opinion of the Executive Management, this means that the MBB Group is currently excellently positioned for further organic growth and growth through acquisitions.

Development of group Net Cash

Financial position

The change in cash and cash equivalents amounted to €73.7 million in the year under review (previous year: €188.6 million) and was composed as follows:

Net cash from operating activities increased from €3.8 million in the previous year to €24.0 million in the year under review. This item primarily comprises the operating business of the subsidiaries and the related cash receipts. It also includes changes in assets and liabilities not attributable to investing or financing activities.

Net cash used in investing activities amounted to €-46.2 million (previous year: €-72.7 million) and is primarily attributable to investments in property, plant and equipment and securities. The prior-year figure also contained the payment for the acquisition of Aumann Limbach-Oberfrohna GmbH.

Net cash from financing activities amounted to €95.9 million (previous year: €257.5 million). This item primarily includes the cash receipt from the re-placement of shares of Aumann AG, the dividend payment to the shareholders of MBB SE and cash receipts and payments for the assumption and repayment of financial loans and lease liabilities. The cash flow from financing activities in the previous year was characterised in particular by the IPO and capital increase at Aumann AG.

Summary assessment

The Executive Management rates the development of the MBB Group in the 2018 financial year as extremely positive. Consolidated revenue, adjusted EBITDA, (net) cash, equity and the dividend again reached new all-time highs in 2018. In addition, important investments were made at all subsidiaries, while the cash generated from the re-placement of shares of Aumann AG has laid the foundations for continued profitable growth.

Principles and objectives of financial management

The foundations of the Group's financial policy are determined by Executive Management. The primary objectives of our financial management are to safeguard liquidity and limit financial risks. Furthermore, our goal is to generate a return from the free liquidity of the Group despite the current low interest rates. Thus, to a smaller extent these funds are invested in short-term, highly diversified securities until they are needed to finance new acquisitions.

Intragroup transactions are usually conducted in euro. As the subsidiaries are independently responsible for hedging any extraordinary foreign currency items, there have been no significant unhedged items at Group level to date. As such, the MBB Group has not yet been required to perform significant active exchange rate hedging at Group level. Similarly, the management of the credit risks of our contract partners is the responsibility of the individual subsidiaries. However, monitoring at Group level serves to ensure timely intervention as necessary.

A key source of corporate finance is our operational business and the cash inflows it generates. However, long-term investments are financed with long-term loans.

Remuneration report

Executive Management

The remuneration of the Executive Management consists of a fixed component, a short-term variable component and a long-term variable component. Remuneration in kind and fringe benefits primarily include insurance contributions, travel costs and other fringe benefits. A D&O insurance policy with a deductible and accident insurance have also been taken out. The CEO is also entitled to an extended package of benefits in kind, including the provision of company cars and the payment of any taxes and duties on benefits in kind. Comprehensive information on the remuneration of the Executive Management can be found in the notes to these consolidated financial statements.

Board

The Annual General Meeting on 28 June 2018 resolved to revise the remuneration of the Board in accordance with the recommendations of item 5.4.6 of the German Corporate Governance Code. Accordingly, the Chairman of the Board receives remuneration of €15,000.00, the Deputy Chairman receives remuneration of €7,500.00 and the other members receive remuneration of €5,000.00 per meeting. Until 28 June 2018, the meeting attendance fee was €1,500 per Board member per meeting. In exchange, the variable remuneration of the Board was eliminated. D&O insurance with no deductible has also been concluded for the non-executive members of the Board. The remuneration paid to the Chief Executive Officer for his membership of the Board is offset in full, meaning that he does not receive any additional remuneration for this activity.

A detailed description of the remuneration system and a breakdown of the remuneration paid to the Board and the Executive Management can be found in the notes to the consolidated financial statements.

Controlling system

The MBB Group's systematic focus on increasing enterprise value is also reflected in its internal controlling system. To this end, we have implemented a mentor system in which an employee or member of Executive Management of MBB SE acts as the mentor for a subsidiary. In this role, the mentor is the first point of contact for the respective management on site and is closely involved in the strategic, operational and financial orientation of the subsidiary. Furthermore, all relevant developments at the subsidiary and at MBB SE are discussed at the monthly Executive Management meeting. The development of various key figures, in particular order intake, revenue, EBITDA and EBIT, of the individual Group companies is analysed here. Since the year under review, MBB SE has applied consolidated revenue and EBITDA as its sole financial key performance indicators relevant to forecasts. In the previous year, the MBB Group applied consolidated revenue and earnings per share its as its financial key performance indicators relevant to forecasts. The key performance indicators for controlling the Group's net assets and financial position are firstly net cash (including all cash equivalents) and net debt and secondly cash flow. Operating cash flow is calculated using the indirect method in accordance with IAS 7. Interest expenses are allocated to cash flow from financing activities, while interest and dividend income are reported in cash flow from operating activities.

Report on risks and opportunities

The business development of MBB SE is subject to the same risks and opportunities as the Group as a whole. Thus, the risks and opportunities are essentially presented from the perspective of the MBB Group below. MBB SE participates in the opportunities and risks of individual subsidiaries in line with its ownership interest.

Opportunities

In the opinion of the Executive Management, the MBB Group has the following opportunities for the future:

- As a result of the re-placement of shares of Aumann AG, MBB SE has received substantial funds which it intends to primarily invest in further acquisition-based growth
- The sustained high number of SMEs available for sale offers opportunities for acquisitions that will add value to the Group
- The strong investing activities of the Group companies offer opportunities for further profitable growth
- Investing in and increasing the value of small and medium-sized industrial companies allows above-average returns to be generated if successful
- MBB's profitable development over a number of years serves to increase its attractiveness as a shareholder, borrower or business partner and will boost MBB SE's importance as a holding company for industrial SMEs in Germany
- The experience and network of the current management offers a strong starting position for the continued growth of the MBB Group
- The diversification of the MBB Group will cushion the potential impact on the Group as a whole as a result of changes in the demand situation in individual markets
- The expansion of MBB SE's international activities will lead to greater proximity to the customer, and hence stronger opportunities for growth
- The outstanding positioning of Aumann AG on the e-mobility growth market means it has the opportunity to benefit substantially from the development in this field
- With three listed Group companies and Aumann's inclusion in the SDAX selection index, the appeal of our shares to major global investment companies – and thus the prospects for more attractive valuations – is on the rise

In summary, MBB has considerable opportunities arising from the operating activities of its individual subsidiaries and from the potential expansion of its portfolio of companies, particularly in light of the funds received by the Group.

Risks

The large number of opportunities described above and the current situation suggest that the MBB Group will enjoy successful development in the medium term. However, the MBB Group is also exposed to the following risks:

Exogenous risks

- Individual subsidiaries could be hit particularly hard by a potential economic crisis
- The refinancing of individual subsidiaries or new acquisitions could be unsuccessful
- A sustained economic downturn could lead to falling revenue or earnings at MBB SE's existing subsidiaries

Financial risks

- Outstanding receivables could be paid late or not at all
- Cash and cash equivalents could be insufficient to meet financial obligations in a certain amount and at a certain date
- The Group's variable-interest financial liabilities are subject to interest rate risk
- As an international Group, MBB is subject to exchange rate fluctuations on the currency markets

Liability risks

- Despite comprehensive risk management, the Group companies are exposed to the general risks associated with their business activities. For example, the manufacturing companies within the Group in particular could be liable for warranty cases, environmental pollution, or production downtime
- MBB SE could be exposed to risks arising from sale and purchase agreement warranties, while its subsidiaries could be exposed to product liability or other statutory liability risks
- MBB SE is liable in the long term in accordance with the Wertpapierprospektgesetz (WpPG – German Securities Prospectus Act) in the context of the IPO of Aumann AG
- Three of the companies within the Group are currently listed – MBB SE, Aumann AG and Delignit AG – which means additional expenses and liability risks specific to the capital market

Other risks

- The international focus of MBB SE's activities could lead to subsidiaries in territories that are exposed to country-specific risks
- The Group's continued growth depends on attracting high-performing, qualified employees at the level of both MBB SE and the subsidiaries
- Aumann AG is a leading international supplier of systems for the automotive industry and other industries with a focus on e-mobility, which can lead to specific project risks on account of the size of individual projects
- The high purchase price expectations of potential sellers could limit the number of attractive investment opportunities, and hence the Group's growth

The forthcoming Brexit and its potential impact on economic development in Europe are not a significant risk for MBB. UK revenue is of minor significance to the Group. In the opinion of the Executive Management, there are currently no risks to the continued existence of the Group. However, there are exogenous risks, liability risks and other risks to the MBB Group and individual subsidiaries. We currently consider the significance (probability of occurrence) of the risks to our business activities as low. These risks are countered by a broad diversification of the investment portfolio on the one hand and, on the other, by the Group's sound financial position.

The overall assessment of the current opportunity and risk situation at the reporting date shows that there are no risks to the continued existence of the Group, either now or in the future.

Principles of the risk management system and the accounting-related internal control system

The MBB Group has established a risk management system to address the above risks. Measures are initiated at an early stage in order to prevent any disadvantage to the company. This system includes:

- Integrated subsidiary controlling that uses monthly business controlling to continuously compare target, actual and forecast data at the level of the portfolio companies and MBB SE
- Project controlling, which defines, develops and tracks the implementation of optimisation measures within the Group and at each individual company
- Regular management meetings within MBB SE and with the management of the respective subsidiaries
- Regular external or internal auditing to examine the focal areas determined in advance
- Structured M&A tools that are used to organise the proposal and acquisition process and test it for success, and the maintenance and continuous expansion of the network of M&A brokers and potential sellers;
- Central Group monitoring of material contractual risks and legal disputes by the management and qualified law firms as necessary

The internal control system is an integral component of MBB's risk management. Its primary objectives are to ensure that all transactions are accurately reflected in reporting and to prevent deviations from internal or external provisions. In terms of external accounting, this means that the conformity of the financial statements with the applicable regulations must be guaranteed. Accordingly, the structure of the internal control system and the risk management system reflects that of the reporting entities. MBB Group subsidiaries are subject to uniform accounting policies, compliance with which is monitored on an ongoing basis. At Group level, the specific control activities for ensuring the propriety and reliability of Group accounting include the analysis and, where necessary, correction of the separate financial statements presented by the Group companies. To this end, automatic control mechanisms and plausibility checks are already stored in the reporting tools and the consolidation system. External specialists are commissioned on a case-by-case basis to control individual accounting risks, e.g. in connection with actuarial valuations.

Declaration on corporate governance

The Board reports on corporate governance in accordance with item 3.10 of the German Corporate Governance Code and section 315d HGB in conjunction with section 289f HGB.

Declaration in accordance with section 161 AktG

The Board issued the most recent declaration of conformity in accordance with section 161 AktG on 17 March 2019. It reads as follows:

The Executive Management and Board of MBB SE submitted the last declaration of conformity in accordance with section 161 AktG on 17 March 2018 and complied with this declaration of conformity with the exceptions stated therein. The following declaration updates this declaration of conformity and relates to the German Corporate Governance Code (hereinafter also the "Code") of 7 February 2017.

The Board of MBB SE declares that it has complied and will continue to comply with the recommendations of the Government Commission on the German Corporate Governance Code with the features described below due to the one-tier system used by MBB SE with following exceptions:

<u>*Features of the one-tier system*</u>

As a European stock corporation (Societas Europaea – SE), the company has a one-tier management and control structure.

The Board manages the company, determines the basic principles governing its activities, monitors their implementation and has the additional responsibilities and authorities set out in section 22 of the German SE Implementation Act (SEAG). The Executive Management manages the company's business by implementing the basic principles and standards set out by the Board.

MBB SE interprets the regulations of the Code intended for supervisory boards as applying to its Board, and those intended for management boards as applying to its Executive Management. The following exceptions apply with respect to the legal design of the one-tier system:

- *By way of derogation from item 2.2.1 sentence 1 of the Code, the Board must present the annual financial statements and the consolidated financial statements to the Annual General Meeting, section 48(2) sentence 2 SEAG.*
- *By way of derogation from items 2.3.1 sentence 1 and 3.7(3) of the Code, the Board is responsible for convening the Annual General Meeting, sections 48 and 22(2) SEAG.*
- *The duties of the management board described in items 4.1.1 (management of the company), 4.1.2 in conjunction with 3.2 first half of the sentence (development of the strategic orientation of the company) of the Code are the responsibility of the Board, section 22(1) SEAG.*
- *The responsibilities of the management board described in items 2.3.2 sentence 2 (representative to exercise shareholders' voting rights in accordance with instructions), 3.7(1) (statements in the event of a takeover offer) and (2) (action in the event of a takeover offer), 3.10 (corporate governance report), 4.1.3 (compliance) and 4.1.4 (risk management and controlling) of the Code are the responsibility of the Board, section 22(6) SEAG.*
- *By way of derogation from items 5.4.2 and 5.4.4 of the Code, members of the Board can be appointed to the Executive Management if the majority of the Board still does not consist of members of the Executive Management, section 40(1) sentence 2 SEAG.*

<u>*Departures*</u>

- *Item 3.8: D&O insurance: The D&O insurance policy for the non-executive members of the Board does not provide for a deductible. We are confident that our executive bodies and employees exercise their duties with the greatest care and diligence. In light of the relatively low level of fixed remuneration paid to the members of the Board, we do not consider a deductible for the non-executive members of the Board to be appropriate. The D&O insurance for the Executive Management provides for a deductible of 10% up to a maximum of 1.5 times their fixed annual remuneration.*
- *Item 4.1.3: Whistleblower system: Given the small number of employees and the company's one-tier hierarchical structure, we do not consider it appropriate to set up a whistleblower system. In the event of indications of legal violations within the company, employees can directly contact the Compliance Officer in the Executive Management or the Board in confidence.*
- *Item 4.2.5: Use of model tables: The company does not use the model tables appended to the Code to disclose the total remuneration of the Executive Management. The Board considers it possible to present the total remuneration of the Executive Management in a different form that is fully and generally understandable.*
- *Item 5.1.2: Composition of management: When filling positions in the management of MBB SE, the Board complies with the requirements of German stock corporation law by ensuring that candidates have the requisite skills, knowledge and experience for the work of management. By contrast, while the Board expressly welcomes diversity, it considers criteria such as a candidate's gender to be secondary.*
- *Item 5.3: Board committees: The Board has four members, meaning that the formation of committees would not increase efficiency. We consider the number of Board members to be adequate in light of the size of the company.*
- *Item 5.4.1: Age limit: An age limit is not specified for the members of the Board. In light of the age of the Board members and their remaining term of office, we do not believe there to be any reason to introduce such a limit. A regular limit of length of membership of the Board is not specified, and we do not believe such a limit to be reasonable on account of the shareholder structure.*
- *Item 7.1.2: Publications: The consolidated financial statements and interim financial reports are published in accordance with the statutory periods and those imposed by Deutsche Börse for the Prime*

> *Standard. As an industrial holding company with a focus on majority interests in small and medium-sized industrial companies, MBB SE is required to consolidate a number of individual companies as well as regularly performing first-time consolidation and deconsolidation. As such, compliance with the periods proposed by the German Corporate Governance Code would lead to disproportionate expense for the company.*

The above declaration of conformity is published on our website and available to download at http://www.mbb.com/investor-relations/corporate-governance.html.

Corporate governance report

Directors' shareholdings

The shareholdings of the members of executive bodies are shown under note 10.1 in II. Notes to the consolidated statement of financial position.

Composition of the Board

The members of the Board must, as a whole, have practical experience in the area of management, industry expertise and business and legal knowledge. The current members of the Board fulfil this objective.

Preventing conflicts of interest

In the year under review, there were no conflicts of interest among the members of the Executive Management or the Board. It should be noted that the Board has concluded consulting contracts with Gert-Maria Freimuth and Anton Breitkopf. The agreed activities go beyond the extent of their responsibility as members of the executive bodies. Further information can be found in the remuneration report and the invitation to the 2018 Annual General Meeting.

Share buy-back programme

On 10 March 2015 MBB resolved to utilise the authorisation granted by the Annual General Meeting on 17 June 2013 to purchase treasury shares in accordance with section 71(1) no. 8 AktG and to implement a share buy-back programme in the period from 18 March to 7 May 2015. 13,225 treasury shares in total, corresponding to 0.2% of the share capital, were purchased on the stock exchange via a bank at an average price of €23.54, resulting in a total purchase price of €311,330.86. In accordance with section 71b AktG, these shares do not carry voting or dividend rights and serve to reduce the number of shares that do carry voting and dividend rights.

Accounting and auditing

MBB SE prepares its annual financial statements in accordance with the provisions of the HGB and the AktG. The consolidated financial statements are prepared in accordance with the principles of the International Financial Reporting Standards as adopted by the EU and the supplementary provisions of section 315e (1) HGB.

The management report of MBB SE and the Group management report are combined in accordance with sections 315 (5) and 298 (2) HGB.

The Annual General Meeting of MBB SE elected RSM GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Düsseldorf, as the auditor of the financial statements of MBB SE. At no point were there any business, financial, personal or other relationships between the auditor, its executive bodies and head auditors on the one hand, and MBB SE and the members of its executive bodies on the other, that could give rise to doubts as to the independence of the auditor. The Board of MBB SE issues the audit engagement to, and agrees the corresponding fees with, the auditor elected by the Annual General Meeting. When issuing the audit engagement, the Board and the auditor also agree on the reporting obligations set out in the German Corporate Governance Code.

The auditor participates in the discussions of the Board on the single-entity and consolidated financial statements and reports on the key findings of its audit.

Long-term bonus programme/security-based incentive systems

Details of the long-term bonus programme can be found in the remuneration report.

Information on corporate governance practices

The members of the Board and Executive Management manage the company's business with the due care and diligence of a prudent and conscientious company director in accordance with the law, the Articles of Association of MBB SE, the relevant rules of procedure, the provisions of the applicable employment contracts and the resolutions adopted. There are no codified and publicly accessible corporate governance practices above and beyond these requirements to date.

Procedures of the Executive Management and the Board

The Board manages the company, determines the basic principles governing its activities, monitors their implementation and has the additional responsibilities and authorities set out in section 22 of the German SE Implementation Act (SEAG). The Executive Management manages the company's business by implementing the basic principles and standards set out by the Board. On 9 March 2018, the Board of MBB SE appointed a new management team effective 1 July 2018 in light of the upcoming expiry of the Executive Management's contracts as at 30 June 2018. Dr Christof Nesemeier, CEO (Chief Executive Officer) and Board member of MBB, remains responsible for Strategy, Capital Allocation and Finance. Klaus Seidel, CTO (Chief Technical Officer) until 30 June 2018 and a member of MBB's management since 1999, assumed responsibility for the development of the investment portfolio as COO (Chief Operating Officer) alongside his responsibility for Technology Development and Legal. Dr Constantin Mang, who has worked for the MBB Group since 2014, was appointed to the Executive Management for the first time as CIO (Chief Investment Officer) in charge of Mergers & Acquisitions and Investor Relations. The Board concluded the Executive Management contracts for the period from 1 July 2018 to 30 June 2021. Mr Anton Breitkopf stepped down from his Executive Management position (CFO, Chief Financial Officer), which was due to expire on 30 June 2018, at his own request on 28 June 2018 and was elected to the Board by the Annual General Meeting on 28 June 2018. He was appointed until the end of the Annual General Meeting resolving on the approval of the actions of the members of the Board for the 2020 financial year, and in any case until 8 March 2021 at the latest. At his own request, Dr Gerrit Karalus did not renew his contract following its expiry on 30 June 2018. Since Anton Breitkopf was entered in the commercial register, the Board of MBB SE consists of Gert-Maria Freimuth (Chairman), Dr Peter Niggemann (Deputy Chairman), Dr Christof Nesemeier and Anton Breitkopf. The MBB Group does not have a right of co-determination, meaning that all of the members of the Board are shareholder representatives.

The individual subsidiaries each have independent operational management teams, some of which hold shares. The management teams of MBB SE and the subsidiaries cooperate closely on the development of the respective companies.

Targets for the share of women

The target for the share of women remains 0%. When filling positions in the management of MBB SE and the two management levels below the Executive Management, the Board complies with the requirements of the German Stock Corporation Act by ensuring that candidates have the skills, knowledge and experience that are required for the work of the management. By contrast, while the Board expressly welcomes diversity, it considers criteria such as a candidate's gender to be secondary.

Diversity concept

The composition of the Board and Executive Management is exclusively based on the knowledge, skills and professional experience of the respective candidates. An age limit and a time limit have not been set for members of the Executive Management or the Board. Given the age of executive body members and their remaining term of office, we also do not believe there to be any reason to introduce such a limit. A regular limit on the length of membership has not been specified, and we do not believe such a limit to be reasonable given the shareholder structure. While we expressly welcome diversity, we consider criteria such as a candidate's gender to be secondary. It is intended to maintain this practice in future to ensure experience and competence. We are of the opinion that decisions on proposals for the composition of the Board and Executive Management should be made individually in line with the specific respective situation and without creating or publishing a concept.

Disclosures in accordance with section 289a and section 315a HGB

In accordance with sections 289a and 315a HGB, the management report must contain the following disclosures:

Composition of issued capital

The share capital reported in the balance sheet as at 31 December 2018 in the amount of €6,600,000.00 consists of 6,600,000 no-par value bearer shares and is fully paid in. Each share grants the bearer one vote at the Annual General Meeting. At the reporting date, the company held 13,225 treasury shares or 0.2% of the share capital. In accordance with section 71b AktG, these shares do not carry voting or dividend rights and serve to reduce the number of shares that do carry voting and dividend rights.

Restrictions on voting rights or the transfer of shares

There are no restrictions on voting rights or the transfer of shares.

Direct or indirect equity interests exceeding 10% of the voting rights

Direct or indirect equity interests exceeding 10% of voting rights are presented in the notes to the consolidated financial statements under note 10.1 in II. Notes to the consolidated statement of financial position.

Bearers of shares conferring special rights

No shares conferring special rights have been issued.

Nature of control of voting rights in the event of employee participation

There are no corresponding employee participation schemes.

Statutory provisions and Articles of Association on the appointment and dismissal of members of the Executive Management and on amendments to the Articles of Association

Members of the Executive Management are appointed and dismissed in accordance with sections 84 et seq. AktG. Article 6 of the Articles of Association governs the appointment and dismissal of members of the Executive Management as follows: “The company has one or more members of the Executive Management. Individual members of the Board can be appointed as members of the Executive Management provided that the majority of the Board still consists of non-executive members. The Board is responsible for determining the number of members of the Executive Management and for their appointment, the conclusion of their employment contracts and the revocation of their appointment. Members of the Executive Management are elected for a maximum term of six years and can be dismissed by the Board at any time prior to the end of their term. If more than one member of the Executive Management is appointed, the Board can nominate one of the members of the Executive Management as the Chairman or Chief Executive Officer (CEO). The Board can also nominate deputy members of the Executive Management. The members of the Executive Management conduct the company’s business jointly in accordance with the law, the Articles of Association, the Rules of Procedure and the instructions issued by the Board. They implement the basic principles and standards set out by the Board. If only one member of the Executive Management is appointed, the company’s business is conducted solely by this member as described above. The members of the Executive Management receive remuneration as determined by the Board in accordance with section 87 AktG.”

In accordance with section 179(1) AktG, all amendments to the Articles of Association require a corresponding resolution by the Annual General Meeting. In accordance with Article 24 of the Articles of Association, amendments to the Articles of Association require a simple majority of the votes cast at the Annual General Meeting, to the extent that this is permitted by law; abstentions do not count as votes cast.

Article 11(2) of the Articles of Association also states: “The Board is authorised to make amendments to the Articles of Association that relate solely to their wording. In particular, the Board is authorised to amend the wording of the Articles of Association in the event of the full or partial implementation of an increase in the share capital.”

Powers of the Board with particular reference to the ability to issue or buy back shares

The Annual General Meeting on 30 June 2016 resolved Contingent Capital 2016/I, which was entered in the commercial register on 19 August 2016. The Board was thus authorised to issue bearer or registered convertible bonds or bonds with warrants with a total volume of up to €66,000,000.00 and a maximum term of 10 years in the period until 29 June 2021, and to grant the holders of these bonds conversion rights for new no-par value bearer shares of MBB SE with a proportionate interest in the share capital of up to a total of €3,300,000.00.

The Annual General Meeting on 28 June 2018 resolved to authorise the Board of MBB SE to increase the company's share capital on one or more occasions by a total of up to €3,300,000.00 in the period until 27 June 2023 by issuing new no-par value bearer shares in exchange for cash and/or non-cash contributions (Authorised Capital 2018).

The Annual General Meeting on 28 June 2018 resolved to authorise the Board to purchase and sell treasury shares corresponding to up to 10% of the share capital at the authorisation date on the stock exchange in the period from 29 June 2018 to 27 June 2023. The authorisation may be exercised on one or more occasions, in part or in full.

Material agreements subject to the condition of a change of control as a result of a takeover bid

There are no such agreements.

Compensation agreements with members of the Managing Board or employees for the event of a takeover bid

There are no such compensation agreements.

The disclosures required in accordance with section 160 AktG (1) no. 2 can be found in section II.10.1 Equity in the notes to the consolidated financial statements.

Non-financial statement in accordance with section 289b HGB and section 315b HGB

MBB sees sustainability as a central business task. Accordingly, various sustainability aspects are integrated into its corporate strategy, Group-wide controlling and the regular meetings of the Executive Management. MBB's philosophy is characterised by a business orientation accompanied by responsibility for the environment, employees and society. In our daily efforts to excel, we seek to combine sustainability targets with economic aspects.

In accordance with the German Act to Strengthen Non-Financial Reporting (CSR Directive Implementation Act) of 11 April 2017, MBB hereby publishes the non-financial statement for the company and the Group in accordance with section 289b HGB and section 315b HGB. The reporting period for the non-financial statement is the 2018 financial year. The quantitative information includes all fully consolidated subsidiaries of the MBB Group.

In line with section 289d HGB, we examined which national, European or international frameworks could be applied in preparing the non-financial statement. No framework is comprehensively applied at present, however, as the cost of doing so would be disproportionate to the benefit in light of MBB's corporate structure and we do not consider any of the existing frameworks to be suited to us.

Business model

MBB is a medium-sized, family-owned company specialising in the acquisition and management of medium-sized industrial companies with considerable technology and engineering expertise. Further information on the business model and the individual segments and subsidiaries can be found in the "Segments" section in MBB's combined management report for 2018.

Stakeholders

Family owners: The family shareholders Gert-Maria Freimuth and Dr Christof Nesemeier are MBB SE's main equity providers. Their focus is on responsible action and sustainable value creation.

Investors: The other investors also expect MBB to take sustainable and responsible action, with a clear strategic focus and transparent reporting.

Customers of the subsidiaries: The customers of our subsidiaries want reliable partners to reliably provide innovative solutions while exercising ecological and social responsibility.

Employees: Our employees value an attractive and secure workplace where they can apply their skills as trained. Continuing professional development forms part of MBB's sustainable human resources policy.

MBB is in regular contact with all stakeholder groups. While family shareholders play a key role in the co-determination of MBB's sustainability strategy in their roles as members of the Board and Executive Management, other stakeholders are included through various channels, including direct dialogue, regular financial reporting, conferences and roadshows.

Materiality analysis

The materiality analysis, which was performed for the first time in 2017 and is regularly updated, identified "employee matters" and "environmental matters" as core aspects of MBB's sustainability strategy. These aspects are explained in more detail below. The issues of "social matters", "respecting human rights" and "combating corruption and bribery" are also described. As we consider these topics to be important but, in our opinion, secondary as regards MBB's sustainability strategy, they will be discussed only briefly. Please see the table at the end of this section for an overview of key non-financial indicators.

Employees

Protecting and respecting each and every person enjoys the highest priority in the MBB Group. It goes without saying that we comply with international human rights and labour standards. We condemn any and all forms of discrimination, including for reasons of ethnic background, religion, political views, gender, physical capacity, appearance, age or sexual orientation.

Our employees are our Group's most important resource. It is therefore a central component of our sustainability strategy to attract new, motivated employees while attaining a high level of satisfaction and motivation with a low turnover within the staff body. We want to be an attractive employer for employees and junior executives.

MBB sees attracting qualified employees as its biggest challenge and one that we actively address. We have succeeded in increasing the number of employees for nine years in a row. In addition to conventional job adverts and recruitment consultants, we are increasingly also achieving this by using social media and positioning MBB and its individual subsidiaries as attractive employers. We intend to continue this approach moving ahead. Our Group currently has 2,184 employees and 143 trainees (including trainees on dual study programmes). Furthermore, as at 31 December 2018 we have 270 temporary employees who – assuming general suitability – have been taken on as regular employees in the past.

MBB considers supporting and challenging its employees to be a key factor in its success. Our employees take part in training and continuing professional development in all areas of the Group, with high standards of occupational health and safety and the selective promotion of junior executives. MBB currently has 123 trainees (previous year: 119) and 20 trainees on dual study programmes (previous year: 21). Our fundamental aim is to offer permanent employment to all trainees (including those on dual study programmes) who complete their training with us. This approach yields impressive results: For example, the DTS Group recruits around 35% of its employees from former trainees and trainees who have completed dual study programmes. The ratio of trainees to full-time employees at the DTS Group is around 15%.

To remain an attractive employer, all our subsidiaries invest in their employees, either directly, by offering home office or, for example, at the state-of-the-art training centre at Aumann AG. In addition, some subsidiaries provide their employees with fruit free of charge or offer them health workshops in cooperation with health insurance funds.

We are particularly committed to gender equality. Women, men and trans people have the same opportunities at our company. We seek to ensure a balance between the genders at all hierarchical levels. The focus on technical professions that is inherent to our business model means that women are still underrepresented among students and job applicants, with the latter posing a challenge when it comes to filling vacant positions.

At present, 19.1% of the MBB Group's employees are women. The Group's first management level currently consists entirely of men, while the second management level currently has 16 women managers.

When selecting managers, the Executive Management always seeks to ensure diversity and takes female and trans candidates into account. Ultimately, however, appointments are always based primarily on the professional and personal qualifications of the respective candidate.

As most of its subsidiaries are active in the manufacturing industry, MBB is particularly committed to ensuring a safe working environment. As a matter of principle, manufacturing employees are subject to an increased health risk. This is why we apply high standards when it comes to security, particularly with regard to handling hazardous materials and other potential hazards. By regularly providing training and further education, we foster the knowledge and expertise required by our employees to work safely. Reportable work accidents are recorded and evaluated at regular intervals. The number of reportable work accidents increased slightly, from 76 in the previous year to 82 in the year under review. As in the previous year, the number of fatal work accidents was zero. Our aim is to continue to reduce the number of work accidents.

Environment

The responsible handling of natural resources is a key issue at all levels of the MBB Group, as operational decisions at our subsidiaries always have ecological consequences. This applies to the use of raw materials in addition to the energy efficiency of the individual subsidiaries. However, it also applies in particular to the impact of our products and services on our customers' environmental protection goals. By using natural resources responsibly and ensuring high energy efficiency, many MBB companies make an important contribution to environmental protection, and hence already have a strong interest in this topic for strategic reasons.

As a production material and energy resource, wood is ecologically unique and is Delignit AG's main source of raw materials. Accordingly, Delignit supports, for example, the Association of the German Wood-Based Panel Industry's responsible wood use initiative and was awarded the "Blue Angel" for sustainable forestry and low-emission wood-based panels. Thanks to this, and also to the renewable nature of this material in particular, Delignit AG exemplifies the definition of ecological sustainability. In addition, the use of wood as a substitute for products made from non-renewable raw materials is a further example of active climate protection. For example, a beech panel weighs only a tenth of a piece of structural steel of the same dimensions but has a third of its strength. The use of Delignit beech in the automotive industry, for example, thus reduces fossil CO_2 emissions. Carbon footprint is a major concern for many of our customers. If different application solutions based on different materials and materials are available, the sustainability of Delignit products can be the deciding factor.

The Aumann Group also makes a significant contribution to reducing emissions and protecting the environment. Aumann is a provider of special-purpose machinery and automated manufacturing solutions that enable car manufacturers to mass-produce highly efficient and technologically advanced e-motors with superior power-to-weight by using direct winding technologies. In addition to solutions for e-motor components, Aumann also supplies special-purpose machinery and production lines for the manufacture of automotive energy storage systems and hybrid modules in addition to full electric powertrains. Almost on a daily basis, headlines confirm that the global investment budgets for e-mobility are being increased. Accordingly, the share of Aumann's total revenue accounted for by its e-mobility segment increased from 28.9% in the previous year to 39.0% in the year under review, and we expect this development to accelerate further. However, Aumann's traditional business also contributes significantly to reducing emissions. For example, Aumann's systems for the production of drive components for combustion engines, such as transmissions, assembled camshafts, cylinder activation and deactivation modules or lightweight structural components make a key contribution to reducing our customers' fleet fuel consumption and CO_2 emissions.

Not least on account of rising customer demand for responsible action and sustainable products, our companies in the Industrial Production segment also do their share for our environment. For example, all CT Formpolster foams and, of course, all applications based on them, such as mattresses, are certified according to ÖkoTex 100, Class 1 for Babies. Since 2018, all foams have also held the "LGA tested" quality mark. Like at CT Formpolster, the formulas used by OBO are continuously improved to reduce the use of hazardous materials. Our subsidiaries also lead by example in waste utilisation and disposal. For example, the majority of the waste produced by CT Formpolster is used as carpet underlay material. Waste prevention is a key issue at OBO as well. While up to 20% of waste was incurred as a result of production in the past, a new extraction and briquetting system was commissioned in the year under review. This system compresses significant waste components in order to reduce logistics costs and so that the compressed material can be use as insulation. In addition, more investments in innovative production technology are planned for the 2019 financial year in order to further reduce the waste rate.

At Hanke, too, measures to reduce energy and water consumption are being continuously devised and implemented. For example, the energy efficiency of our paper machinery was significantly increased by the new energy centre that was constructed in 2016, while water consumption per tonne of output has also been reduced substantially.

The DTS Group, which operates ISO 27001-certified high-performance data centres, is particularly committed to efficient energy usage. In the year under review, for example, a refrigeration system was replaced by highly efficient, state-of-the-art turbo compressors that are expected to reduce energy consumption considerably. Energy efficiency is also given particular priority in the regular renovation of climate chambers.

In terms of direct energy consumption, MBB SE assists its subsidiaries in implementing energy efficiency measures and the introduction of corresponding management systems. The energy management systems of almost all operating companies are now ISO 50001 certified. Ten of our companies also have a certified quality management system in accordance with ISO 9001.

Key environmental risks associated with the products and services of the subsidiaries result from accidents that are unlikely but that cannot be ruled out completely. We counter the theoretical risk of an accident with an environmental impact with established procedures at the individual subsidiaries. Risks also result from the raw materials used, some of which can be harmful to health in an unprocessed state. We manage this risk with high quality requirements for our suppliers and high quality standards at our companies.

Social matters, respecting human rights and combating corruption and bribery

Social matters: Dealing with our customer and supplier stakeholders respectfully and in a socially responsible manner is one of our guiding principles. We firmly believe that continuous product innovation, acting fairly with respect to suppliers and entering into a permanent dialogue with our customers are important elements of our business success. The MBB Group companies are involved in voluntary social projects at municipal level. In addition to their role as an employer, they also contribute to the good of these communities through partnerships with schools or sports clubs, for example. These social activities are not managed centrally, but rather are organised by the responsible officers at the respective subsidiaries.

Respecting human rights: MBB's subsidiaries have deep roots in Germany and Europe, and respect the human rights of employees, suppliers and business partners in their day-to-day operations. We have not identified any risks of non-standard remuneration, inappropriate working hours, restrictions on the freedom of assembly or equal rights at either our subsidiaries or their suppliers. MBB is committed to upholding internationally recognised human rights standards and does not tolerate any form of slavery, forced labour, child labour, human trafficking or exploitation in its own business activities or its supply chain.

Combating corruption and bribery: We have always considered compliance with legal provisions and guidelines, in addition to correct conduct in business transactions, to be a core component of sustainable corporate governance. In order to uphold this long-established maxim, the adoption of the Code of Conduct of the Aumann Group and the accompanying intensification of Aumann AG's compliance management system established the foundations for binding values, principles and procedures for the way in which its companies (Aumann Group) do business. In particular, the Code of Conduct and the anti-corruption guideline that was adopted in June serve as a framework for activities both within the company and in respect of third parties. The Code of Conduct is specified and defined in greater detail through guidelines and instructions. All employees are obliged to familiarise themselves with the Code of Conduct. In addition to their immediate managers, who are the first point of contact when it comes to understanding rules and regulations, employees can also contact the compliance officers at the individual companies. Additional compliance officers are also appointed at management level at each location. These are the points of contact for reporting suspicions and cases of doubt. Furthermore, we expect our business partners to act in compliance with the law at all times. The introduction of effective and transparent compliance management systems at all other MBB SE subsidiaries – including above and beyond the current minimum statutory requirements – is one of the objectives of MBB's management for the coming years. These systems will incorporate cyclical reporting structures that allow MBB's management to efficiently fulfil its control obligations. At the level of MBB SE itself, the data protection regulations have been adjusted to reflect the new provisions of the GDPR as part of the ongoing enhancement of the compliance management system. An external data protection officer has also been mandated and the process manual has been fundamentally revised. With regard to our M&A activities, too, the integrity of the persons involved is one of our basic requirements when addressing potential new subsidiaries.

Negative consequences and risks in connection with business activity

In our view, there are no material risks in connection with our business activities, our products or our services that could have serious negative consequences in terms of employee, environmental or social aspects or that could lead to a violation of human rights and to corruption.

Overview of key non-financial indicators

	2018	2017
Employees		
Number of female executives (first and second level)	16	17
Share of female employees in relation to total employees	19.1%	18.6%
Share of temporary workers in relation to total employees	12.4%	17.2%
Number of apprentices	123	119
Number of employees in cooperative study programs	20	21
Reportable work accidents	82	76
Deadly work accidents	0	0
Environment		
Energy intensity in MWh / €m revenue	152	160
Water intensity in m3 / €m revenue	423	726
Waste intensity in t / €m revenue	3.6	3.9
Social		
Charitable donations and sponsoring in €k	32	54

Events after the end of the reporting period

In February 2019, DTS IT AG acquired 66% of the shares of ISL Internet Sicherheitslösungen GmbH (ISL). ISL is a leading German software developer in the area of IT security with a focus on Network Access Control (NAC). Well-known companies from industry and retail as well as banks, authorities and research institutions rely on ISL's ARP-GUARD software to protect their IT infrastructure against the unnoticed intrusion of unauthorised devices and against internal attacks.

On 13 March 2019, the Board of MBB SE resolved to exercise the authorisation granted by the Annual General Meeting on 28 June 2018 to purchase treasury shares and to purchase up to 646,775 treasury shares over-the-counter in the period from 18 March 2019 up to and including 2 April 2019 by way of a voluntary public buyback offer to all shareholders. It was resolved that the buyback would take place at a purchase price (excluding transaction costs) of €89.00 per no-par value bearer share of MBB SE with a notional interest in the share capital of €1.00. On 21 March 2019, the Board of MBB SE resolved to increase the offer price (excluding transaction costs) to €96.00 per share.

There were no other significant events after the end of the reporting period.

Outlook

The Executive Management is forecasting further organic growth accompanied by high profitability in the 2019 financial year. Accordingly, the Executive Management expects revenue to increase to over €550 million. EBITDA is expected to rise to over €58 million.

Berlin, 1 April 2019

The Executive Management of MBB SE

MBB SE Condensed Annual Financial Statements for 2018

Income statement (HGB)	2018 €k	2017 €k
Revenue	1,233	1,778
Other operating income	104,202	161,861
Cost of purchased services	465	21,794
Staff costs	1,430	2,533
Depreciation and amortisation of intangible assets and property, plant and equipment	40	33
Other operating expenses	1,892	1,911
Income from equity investments	2,528	5,283
Income from other securities and loans of financial assets	3,832	3,229
Other interest and similar income	287	91
Write-downs on financial assets	2,940	26
Interest and similar expenses	67	205
Income tax expense	183	2
Net profit for the year	**105,065**	**145,738**
Profit carried forward from the previous year	140,731	3,687
Unappropriated surplus	**245,796**	**149,425**

Statement of financial position (HGB) Assets	31 Dec 2018 audited €k	31 Dec 2017 audited €k
Intangible assets	98	66
Property, plant and equipment	155	59
Financial assets	71,490	57,004
Noncurrent assets	**71,743**	**57,129**
Receivables and other assets	5,243	3,707
Securities	3,487	1,897
Cash in hand and bank balances	198,121	122,293
Current assets	**206,851**	**127,897**
Deferred items	**44**	**41**
Total assets	**278,638**	**185,067**
Equity and liabilities	€k	T€
Equity	**270,968**	**174,598**
Provisions	**6,759**	**9,272**
Liabilities	**911**	**1,197**
Total Equity and liabilities	**278,638**	**185,067**

Appropriation of earnings

The net profit of €105,064,511.91 is reported with the profit carried forward of €140,731,169.05 as net retained profits. As in previous years, the Executive Management and the Board will propose to the Annual General Meeting the payment of a dividend. This is to amount to €4,544,874.75 or €0.69 per share.

Adjusted Consolidated Income Statement

Adjusted IFRS consolidated statement of profit or loss	1 Jan - 31 Dec 2018 €k adjusted	1 Jan - 31 Dec 2017 €k adjusted
Revenue	**506,590**	**403,077**
Increase (+)/decrease (-) in finished goods and work in progress	233	1,126
Operating performance	**506,823**	**404,203**
Other operating income	15,403	**11,480**
Total performance	**522,226**	**415,683**
Cost of raw materials and supplies	-258,586	-198,687
Cost of purchased services	-63,949	-63,728
Cost of materials	**-322,535**	**-262,415**
Wages and salaries	-93,468	-69,796
Social security and pension costs	-23,594	-19,657
Staff costs	**-117,062**	**-89,453**
Other operating expenses	-28,100	-24,953
Earnings before interest, taxes, depreciation, and amortisation (EBITDA)	**54,529**	**38,862**
Amortisation and depreciation expense	-13,222	-9,905
Earnings before interest and taxes (EBIT)	**41,307**	**28,957**
Write-downs on securities	0	-26
Finance revenue	511	374
Finance costs	-2,239	-2,195
Net finance costs	**-1,728**	**-1,847**
Earnings before taxes (EBT)	**39,579**	**-7,364**
Income tax expense	-10,077	-7,364
Other taxes	-375	-415
Profit or loss for the period	**29,127**	**19,331**
Non-controlling interests	-12,985	-5,771
Consolidated net profit	**16,142**	**13,560**
Earnings per share (in €)	2.45	2.06

In the financial year adjustments refer to expenses related to the departure of a member of the Management Board of a subsidiary and amortisation of assets capitalized in the purchase price allocation in previous year and related deferred taxes.

IFRS Consolidated Financial Statements for 2018

IFRS consolidated statement of profit or loss	Notes	1 Jan - 31 Dec 2018 €k	1 Jan - 31 Dec 2017 €k
Revenue	III.1.	**506,590**	**403,077**
Increase (+)/decrease (-) in finished goods and work in progress		233	1,126
Operating performance		**506,823**	**404,203**
Other operating income	III.2.	15,403	11,480
Total performance		**522,226**	**415,683**
Cost of raw materials and supplies		-258,586	-206,723
Cost of purchased services		-63,949	-63,728
Cost of materials		**-322,535**	**-270,451**
Wages and salaries		-93,468	-70,484
Social security and pension costs		-24,129	-19,657
Staff costs		**-117,597**	**-90,141**
Other operating expenses	III.3.	-28,100	-24,953
Earnings before interest, taxes, depreciation, and amortisation (EBITDA)		**53,994**	**30,138**
Amortisation and depreciation expense	II.1.	-15,374	-10,428
Earnings before interest and taxes (EBIT)		**38,620**	**19,710**
Write-downs on securities	II.8.	0	-26
Finance revenue	III.4.	511	374
Finance costs	III.5.	-2,239	-2,195
Net finance costs		**-1,728**	**-1,847**
Earnings before taxes (EBT)		**36,892**	**17,863**
Income tax expense	III.6.	-9,271	-7,207
Other taxes	III.6.	-375	-415
Profit or loss for the period		**27,246**	**10,241**
Non-controlling interests		-11,854	-5,585
Consolidated net profit		**15,392**	**4,656**
Earnings per share (in €)	III.8.	2.34	0.71

IFRS consolidated statement of other comprehensive income	Notes	1 Jan - 31 Dec 2018 €k	1 Jan - 31 Dec 2017 €k
Consolidated net profit		**15,392**	**4,656**
Non-controlling interests		11,854	5,585
Profit or loss for the period		**27,246**	**10,241**
Items that may be subsequently reclassified to profit and loss			
Fair value changes bonds and gold		-1	1,010
Currency translation differences	II.10.4	-657	1,139
Items that not be subsequently reclassified to profit and loss			
Fair value changes shares and gold		-2,304	-50
Pension reserves	II.10.4	497	-985
thereof deferred taxes		-149	691
Other comprehensive income after taxes		**-2,614**	**1,805**
Comprehensive income for the reporting period		**24,632**	**12,046**
there of attributable to:			
- Shareholders of the parent company		13,076	8,412
- Non-controlling interests		11,556	3,634

Statement of financial position Assets (IFRS)	Notes	31 Dec 2018 audited €k	31 Dec 2017 audited €k
Non-current assets			
Concessions, industrial property rights and similar rights	II.3.	10,526	10,137
Goodwill	II.2.	40,300	40,300
Advance payments		549	122
Intangible assets		**51,375**	**50,559**
Land and buildings including buildings on third-party land	II.4.	55,508	49,080
Technical equipment and machinery	II.4.	26,307	23,920
Other equipment, operating and office equipment	II.4.	11,317	8,575
Advance payments and assets under development	II.4.	5,351	9,795
Property, plant and equipment		**98,483**	**91,370**
Investment securities	II.8.	59,459	37,621
Other loans		1,198	907
Financial assets		**60,657**	**38,528**
Deferred tax assets	II.9.	**6,972**	**9,772**
		217,487	**190,229**
Current assets			
Raw materials and supplies	II.5.	12,404	13,194
Work in progress	II.5.	6,269	6,721
Finished goods and commodities	II.5.	13,154	12,328
Advance payments		4,715	3,241
Inventories		**36,542**	**35,484**
Trade receivables	II.6.	39,551	44,937
Contract assets	II.6.	99,622	83,091
Other current assets	II.7.	15,710	15,896
Trade receivables and other current assets		**154,883**	**143,924**
Gold	II.8.	2,879	1,931
Securities	II.8.	6,350	5,845
Financial assets		**9,229**	**7,776**
Cash in hand	V.	16	19
Bank balances	V.	307,500	233,797
Cash in hand, bank balances		**307,516**	**233,816**
		508,170	**421,000**
Total assets		**725,657**	**611,229**

Statement of financial position Equity and liabilities (IFRS)	Notes	31 Dec 2018 audited €k	31 Dec 2017 audited €k
Equity			
Issued capital	II.10.1	6,587	6,587
Capital reserve	II.10.2	294,722	214,333
Legal reserve	II.10.3	61	61
Retained earnings	II.10.4	72,400	68,058
Non-controlling interests	II.10.5	125,522	96,018
		499,292	**385,057**
Non-current liabilities			
Liabilities to banks	II.12.	36,554	39,814
Trade payables	II.12.	0	51
Other liabilities	II.13.	1,456	5,735
Lease Liabilities	II.13.	2,431	1,671
Pension provisions	II.11.	23,511	23,975
Other provisions	II.14.1	6,400	8,959
Deferred tax liabilities	II.9.	7,780	6,384
		78,132	**86,589**
Current liabilities			
Liabilities to banks	II.12.	22,197	13,511
Contract liabilities	II.12.	21,186	28,741
Trade payables	II.12.	52,565	43,333
Other liabilities	II.13.	13,405	11,101
Lease Liabilities	II.13.	2,697	2,191
Provisions with the nature of a liability	II.14.1	18,987	20,091
Tax provisions	II.14.2	2,755	3,031
Other provisions	II.14.1	14,441	17,584
		148,233	**139,583**
Total equity and liabilities		**725,657**	**611,229**

Consolidated statement of cash flows	1 Jan - 31 Dec 2018 €k	1 Jan - 31 Dec 2017 €k
1. Cash flow from operating activities		
Earnings before interest and taxes (EBIT)	**38,620**	**19,710**
Adjustments for non-cash transactions		
Write-downs on non-current assets	15,374	10,428
Increase (+) /decrease (-) in provisions	-6,764	-80
Gains (-) / Losses (+) from disposal of PPE	-3,564	-234
Other non-cash expenses/income	-8	369
	5,038	**10,483**
Change in working capital:		
Increase (-) / decrease (+) in inventories, trade receivables and other assets	-11,908	-15,358
Decrease (-) / increase (+) in trade payables and other liabilities	-532	-7,227
	-12,440	**-22,585**
Income taxes paid	-7,686	-4,135
Interest received	511	374
	-7,175	**-3,761**
Cash flow from operating activities	**24,043**	**3,847**
2. Cash flow from investing activities		
Investments (-) / divestments (+) intangible assets	-5,410	-4,496
Investments (-) / divestments (+) property, plant and equipment	-17,671	-19,444
Investments (-) / divestments (+) financial assets	-400	-5
Investments (-) / divestments (+) of available-for-sale financial assets and securities	-22,696	-11,913
Acquisition (-) of consolidated companies	0	-36,508
Cash flow from investing activities	**-46,177**	**-72,366**
3. Cash flow from financing activities		
Aumann IPO and Capital increase (less cost)	0	276,611
Proceeds from disposal of share without change of control	102,117	0
Profit distribution to shareholders	-8,695	-8,036
Payments to non-controlling interests	-2,234	-394
Proceeds from borrowing financial loans	18,866	1,517
Repayments of financial loans	-10,703	-10,161
Payments for finance lease	-1,238	-211
Interest payments	-2,239	-1,807
Cash flow from financing activities	**95,874**	**257,519**
Cash and cash equivalents at end of period		
Change in cash and cash equivalents (Subtotal 1-3)	73,740	189,000
Effects of changes in foreign exchange rates (non-cash)	-40	-83
Cash and cash equivalents at start of reporting period	233,816	44,899
Cash and cash equivalents at end of period	**307,516**	**233,816**
Composition of cash and cash equivalents		
Cash in hand	16	19
Bank balances	307,500	233,797

Reconciliation to liquidity reserve on 31 Dec	2018	2017
Cash and cash equivalents at end of period	307,516	233,816
Gold	2,879	1,946
Securities	65,809	43,451
Liquidity reserve on 31 Dec	**376,204**	**279,213**

	Issued capital	Capital reserve	Legal reserve	Retained earnings: Currency translation difference	Retained earnings: Fair value Re-serves	Retained earnings: Pension reserve	Retained earnings: Generated consolidated equity	Share of shareholders of MBB SE	Non-controlling interests	Consolidated equity
	€k	€k	€k	€k	€k	€k	€k	€k	€k	€k
1 Jan 2017	**6,587**	**17,480**	**61**	**-1,178**	**1,663**	**-3,919**	**71,413**	**92,107**	**6,292**	**98,399**
Dividends paid	0	0	0	0	0	0	-8,036	-8,036	-394	-8,430
Subtotal	**6,587**	**17,480**	**61**	**-1,178**	**1,663**	**-3,919**	**63,377**	**84,071**	**5,898**	**89,969**
Amounts recognised in other comprehensive income	0	0	0	0	977	1,648	0	2,625	-1,959	666
Currency translation difference	0	0	0	1,131	0	0	0	1,131	8	1,139
Consolidated net profit	0	0	0	0	0	0	4,656	4,656	5,585	10,241
Total comprehensive income	**0**	**0**	**0**	**1,131**	**977**	**1,648**	**4,656**	**8,412**	**3,634**	**12,046**
IPO and Equity increase Aumann	0	196,853	0	0	0	0	0	196,853	86,189	283,042
Changes in Non controling interests Hanke	0	0	0	0	0	0	-297	-297	297	0
31 Dec 2017	**6,587**	**214,333**	**61**	**-47**	**2,640**	**-2,271**	**67,736**	**289,039**	**96,018**	**385,057**
Effect in initial application of IFRS 9	0	0	0	0	-353	0	314	-39	0	-39
1 Jan. 2018	**6,587**	**214,333**	**61**	**-47**	**2,287**	**-2,271**	**68,050**	**289,000**	**96,018**	**385,018**
Amounts recognised in other comprehensive income	0	0	0	0	-2,157	497	0	-1,660	-297	-1,957
Currency translation difference	0	0	0	-656	0	0	0	-656	-1	-657
Consolidated net profit	0	0	0	0	0	0	15,392	15,392	11,854	27,246
Total comprehensive income	**0**	**0**	**0**	**-656**	**-2,157**	**497**	**15,392**	**13,076**	**11,556**	**24,632**
Dividends paid	0	0	0	0	0	0	-8,695	-8,695	-2,234	-10,929
Placement Aumann shares	0	80,389	0	0	0	0	0	80,389	20,182	100,571
31 Dec 2018	**6,587**	**294,722**	**61**	**-703**	**130**	**-1,774**	**74,747**	**373,770**	**125,522**	**499,292**

Notes to the Consolidated Financial Statements for 2018

I. Methods and principles

1. Basic accounting information

1.1 Information on the company

MBB SE is headquartered at Joachimsthaler Str. 34, 10719 Berlin, Germany. It is entered in the commercial register of the Berlin-Charlottenburg District Court under HRB 165458. MBB SE has been listed since 9 May 2006 and included in the Prime Standard of the Frankfurt Stock Exchange under the securities identification number A0ETBQ since 20 June 2008. It is the parent company of the MBB Group.

MBB SE is a family-owned, medium-sized group that has expanded continuously since its formation through organic growth and company acquisitions. The business model focuses on the sustainable value growth of the individual companies and the Group as a whole.

The consolidated financial statements of MBB SE for the 2018 financial year were approved by the Board of MBB SE on 1 April 2019 and published on 10 April 2019.

1.2 Accounting policies

Due to its admission to the regulated market, MBB SE prepares its consolidated financial statements in accordance with IFRS. The consolidated financial statements for the year ended 31 December 2018 are prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) as adopted by the EU and effective at the end of the reporting period. The term “IFRS” includes the International Accounting Standards (IAS) still applicable, the International Financial Reporting Standards (IFRS) and the interpretations of the Standing Interpretations Committee (SIC) and of the International Financial Reporting Interpretations Committee (IFRIC). The consolidated financial statements are supplemented by a combined management report and Group management report in accordance with section 315 HGB and additional disclosures in accordance with section 315e HGB.

Application of new and amended standards

The following new or amended standards were applied for the first time in the 2018 financial year:

Regulation	Title	Effects
IAS 40	Investment property	none
IFRS 2	Share based payments	none
IFRS 4	Insurance contracts	none
IFRS 9	Financial Instruments	yes
IFRS 15	Revenue from contracts with customers	yes
IFRIC 22	Foreign Currency Transactions	minor
	Annual Improvements to IFRSs 2014 - 2016	none

The impact of IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments” is described below.

IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 “Revenue from Contracts with Customers”, published by the IASB in May 2014, was applied for the first time in the 2018 financial year. Under the new standard, revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised when the customer acquires control of the goods or services. IFRS 15 also contains requirements for the reporting of excess performance or performance obligations at contract level. This refers to assets and liabilities arising from customer contracts dependent on the ratio of the service provided by the company to payment by the customer. In addition, the new standard requires the disclosure of quantitative and qualitative information to enable users of the consolidated financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. IFRS 15 replaces IAS 11 “Construction Contracts” and IAS 18 “Revenue” in addition to the associated interpretations. The standard is effective for accounting periods beginning on or after 1 January 2018. Initial application used the full retrospective method, i.e. any transition effects would have been recognised directly in retained earnings cumulatively at the beginning of the comparative period on 1 January 2017. MBB SE thus made use of the practical expedients permitted by IFRS 15. The adoption of IFRS 15 had no significant effect on the consolidated financial statements of MBB SE. There were no changes in the total amount of revenue recognised for a customer contract in the 2017 financial year (the comparative prior-year period). Construction contracts that were previously accounted for using the percentage-of-completion method satisfied the requirements for revenue recognition over time.

IFRS 9 “Financial Instruments”

The effects of the adoption of IFRS 9 “Financial Instruments” on MBB’s consolidated financial statements are explained below. The differences from the previous accounting treatment as a result of the new IFRS are also presented in detail.

The new standard replaces the previous regulations of IAS 39 “Financial Instruments: Recognition and Measurement” and contains new regulations on hedge accounting. The previous regulations for calculating impairment have been replaced by the expected credit loss (ECL) model.

MBB is applying IFRS 9 for the first time for the financial year beginning 1 January 2018. It has been adopted retrospectively. In accordance with the transitional provisions, MBB has elected to continue presenting the comparative information in accordance with IAS 39.

Specifically, the adoption of IFRS 9 at MBB results in the following changes. Overall, the Group considers the effects of the newly adopted standard on its financial position and financial performance to be immaterial. The effects are reported in a separate line in the statement of changes in equity. MBB has not implemented the amendments to IAS 1 (reporting of impairment losses as a separate item in the statement of comprehensive income) resulting from IFRS 9 on account of the small amounts involved. As in the past, these are reported as a net amount under other operating expenses/other operating income.

Financial liabilities

The Group’s financial liabilities include trade payables, financial liabilities, contract liabilities and other financial liabilities. These are still carried at amortised cost. Finance lease liabilities are not assigned to any IFRS 9 category.

Financial assets

IFRS 9 introduces a uniform model for classifying financial assets by assigning them to the following three categories:

- financial assets measured at amortised cost
- financial assets at fair value through profit or loss
- financial assets at fair value through other comprehensive income

Financial assets whose cash flows consist solely of payments of principal and interest are classified according to MBB’s business model. Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows are measured at amortised cost. These business models are largely managed on the basis of the term structure and credit risk. If the objective of the business model is to hold assets, but sales are also made if this is necessary to cover a specific liquidity requirements, for example, these assets are measured at fair value through other comprehensive income. Financial assets that consist solely of payments of principal and interest but that are not held within one of the two above business models are measured at fair value through profit or loss. MBB holds financial assets in the form of debt instruments, which are reported under securities. These were classified as available for sale in accordance with IAS 39 and measured at fair value through other comprehensive income. These securities are held within a business model with the objective of collecting contractual cash flows from these financial assets and selling financial assets. This classification results in measurement at fair value through other comprehensive income. MBB does not exercise the option to measure these financial assets at fair value. This does not give rise to any changes in measurement.

Investments in listed equity instruments reported under financial assets were classified as available for sale in accordance with IAS 39 and measured at fair value through other comprehensive income. These instruments do not satisfy the criteria for amortised cost measurement in accordance with IFRS 9 as the cash flow criterion is not satisfied. This results in classification as at fair value through profit or loss. For certain equity instruments, MBB exercises the option to recognise the change in fair value through other comprehensive income. The fair value reserve for equity instruments classified as at fair value through profit or loss was transferred to retained earnings as at 1 January 2018. The changes in the fair value of these instruments are recognised through profit or loss.

Trade receivables and loans, contract assets, other current receivables and cash funds were classified as loans and receivables (L&R) in accordance with IAS 39 and measured at amortised cost. Under IFRS 9, all these instruments are measured at amortised cost and are subject to the effective interest method.

Expected credit loss impairment model

IFRS 9 introduces an impairment model based on expected credit losses that applies to all financial assets (debt instruments) measured either at amortised cost or at fair value through other comprehensive income. While only incurred losses were recognised as impairment on financial assets under IAS 39, the new approach also includes expectations for the future. The expected credit loss model uses a three-stage procedure for allocating impairment losses:

Stage 1: Expected credit losses within the next twelve months

This includes all contracts without a significant increase in credit risk since initial recognition and typically includes new contracts and contracts for which payments are not or not significantly past due. The share of the lifetime expected credit losses as a result of a cash shortfall within the next twelve months is recognised.

Stage 2: Lifetime expected credit losses – not credit-impaired

A financial asset that has undergone a significant increase in credit risk but that is not credit-impaired is assigned to this stage. The expected credit losses over the lifetime of the financial asset are recognised as a loss allowance.

Stage 3: Lifetime expected credit losses – credit-impaired

A financial asset that is credit-impaired or in default is assigned to this stage. The expected credit losses over the lifetime of the financial asset are recognised as a loss allowance. In MBB's opinion, objective evidence that a financial asset is credit-impaired includes, for example, being past due by more than 90 days or other information on material financial difficulty of the debtor.

The determination of whether a financial asset has experienced a significant increase in credit risk is based on a regular assessment of the probabilities of default, taking into account both external rating information and internal information on the credit quality of the financial asset. A significant increase in credit risk is largely determined on the basis of past due information.

A financial asset is transferred to stage 2 if its credit risk has increased significantly since its initial recognition. The credit risk is estimated on the basis of the probability of default. The simplified approach is applied to trade receivables, whereby the lifetime expected losses are calculated. Accordingly, it is not necessary to estimate if there has been a significant increase in credit risk. MBB applies the simplified impairment model of IFRS 9 to trade receivables and contract assets and thus recognises the lifetime expected losses. Other loans and receivables, other assets and securities are accounted for using the general approach. The Group has no financial assets allocated to stage 3.

A financial instrument is derecognised when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof, e.g. after the end of insolvency proceedings or court decisions.

Material changes (changes in the present value of contractual cash flows of 10%) in financial assets result in their derecognition. It is expected that this will not typically be relevant to MBB. If the contractual terms of a financial asset are renegotiated or otherwise modified and this does not result in its derecognition, the gross carrying amount of the contract is recalculated and any difference is recognised in profit or loss.

Despite being classified as measured at amortised cost, expected losses are not calculated for cash funds or recognised in the consolidated statement of comprehensive income on grounds of materiality.

Specifically, the following items are affected by impairment:

Trade receivables and contract assets

The Group applies the simplified impairment model to trade receivables and contract assets in accordance with IFRS 9.

As at 1 January 2018, an impairment loss of €65 thousand was recognised on trade receivables and contract assets as a result of the adoption of IFRS 9.

The opening value for the impairment on trade receivables and contract assets as at 1 January 2018 is calculated on the basis of the receivables recognised in the statement of financial position as at 31 December 2017.

Other loans, securities and other assets

The Group estimates the credit risk for the other financial assets as low in principle, hence a loss allowance in the amount of the twelve-month expected credit losses was recognised for these items. A loss allowance of €49 thousand was recognised in connection with the adoption of IFRS 9 as at 1 January 2018. Impairment losses do not reduce the carrying amount of debt instruments measured at fair value in other comprehensive income; their carrying amount is still equal to their fair value. The corresponding loss allowance was recognised in the fair value reserve in equity.

Material estimation uncertainty and judgements

Impairment losses on financial assets are based on estimates of credit losses and expected loss rates. The Group exercises discretion in making these estimates. Even minor deviations in the measurement parameters used in calculation – in particular on account of the amount of trade receivables – can lead to significant deviations in calculation.

Hedge accounting

IFRS 9 contains hedge accounting regulations that establish a stronger link between hedge accounting and risk management in practice. The changes to hedge accounting do not affect the MBB Group as it does not use hedge accounting.

Effects on the consolidated financial statements

The comparative figures for the previous year should generally be restated on account of changes in accounting policies. As explained below, IFRS 9 was adopted without restating the comparative figures for the previous year. The accounting changes resulting from the new impairment model and the adjusted measurement categories are therefore not reflected in the closing statement of financial position as at 31 December 2017, and are instead taken into account in the opening statement of financial position as at 1 January 2018 by adjusting the opening value of retained earnings.

The following tables show the adjustments made for each individual measurement category. Items not affected by the changes are not shown here. Subtotals and totals therefore cannot be recalculated using the values shown. The remeasurement effect of revenue reserves is shown after taxes. The restatement of the statement of comprehensive income for the previous year was not necessary on account of the adoption of IFRS 9.

Reconciliation of carrying amounts T€	31 Dec 2017	Reclassification effects	Measurement effects	01 Jan 18
Financial assets at amortised costs				
Other loans	907		-2	905
Trade receivables	44,937		-24	44,913
Contract assets	83,091		-42	83,049
Other assets	6,697		-6	6,691
Available for sale financial assets				
Debt investments	5,845	-5,845		0
Equity investments	37,621	-37,621		0
Financial assets at fair value through other comprehensive income				
Debt investments	0	5,845		5,845
Equity investments	0	29,114		29,114
Financial assets at fair value through profit and loss				
Equity investments	0	8,507		8,507
Generated consolidated equity	67,736	394	-80	68,050
Fair value reserve	2,640	-394	41	2,287

IFRS 9 supersedes the requirements of IAS 39 on accounting for financial assets and liabilities, the derecognition of financial instruments, impairment on financial assets and hedge accounting.

The adoption of IFRS 9 “Financial Instruments” from 1 January 2018 resulted in an adjustment of accounting policies and a change in the carrying amounts recognised in the consolidated financial statements. The new measurement methods are described below. The comparative information has not been restated in accordance with the transitional provisions of IFRS 9 (7.2.15) and (7.2.16).

The total effect on the Group’s retained earnings as at 1 January 2018 is as follows:

	€k
Generated consolidated equity as of 31/12/2017	**67,736**
Reclassification of equity instruments from afs to fvtpl	394
Increase in risk provision receivables	-24
Increase in risk provision contract assets	-42
Increase in risk provision debt investments	-41
Increase in risk provision other loans and assets	-8
Tax effect	35
Adjusted generated consolidated equity as of 01/01/2018	**68,050**

The following newly issued standards, standards endorsed in the year under review or amended standards or interpretations that were not yet effective were not applied early in these consolidated financial statements. Where amendments affect MBB, their future effect on the consolidated financial statements is still being examined or is not material.

Regulation	Title	Publication	Application	Endorsement	Effect
IAS 19	Plan amendment, curtailment or settlement	07/02/2018	01/01/2019	14/03/2019	no material effects
IAS 28	Long term interests in associates and joint ventures	12/10/2017	01/01/2019	08/02/2019	no material effects
IFRS 9	Prepayment features with negative compensation	12/10/2017	01/01/2019	14/03/2019	no material effects
IFRS 16	Leases	13/01/2016	01/01/2019	31/10/2017	yes
IFRIC 23	Uncertainty over income tax treatments	07/06/2017	01/01/2019	23/10/2018	is being reviewed
	Annual Improvements 2015 - 2017	12/12/2017	01/01/2019	14/03/2019	is being reviewed

Effects of IFRS 16

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC–15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees: leases for low-value assets and short-term leases with a term of twelve months. At the inception of the lease, a liability to make lease payments (the lease liability) and an asset representing the right to use the lease asset are recognised. The interest expense on the lease liability and the depreciation expense on the right-of-use asset must be recognised separately. Lessees must also remeasure the lease liability on the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Lessor accounting under IFRS 16 is substantially unchanged from current accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 is effective for the first time for annual periods beginning on or after 1 January 2019. The disclosures in the notes are more comprehensive with the aim of enabling users of the financial statements to assess the amount, timing and uncertainty associated with leases.

MBB SE will adopt the standard from the 2019 financial year using the modified retrospective method in accordance with the transitional provisions of IFRS 16, whereby prior-year amounts will not be restated. Existing finance leases are carried at their carrying amount at the date of transition. Contracts previously classified as operating leases relate to both movable assets (e.g. company cars, office equipment) and property (e.g. offices).

The cumulative effect of the adoption of this standard is recognised as an adjustment of the opening balance of retained earnings. As at the adoption date, the standard will be applied to contracts that were previously classified as leases in accordance with IAS 17 and IFRIC 4. The practical expedients for accounting for short-term and low-value leases will be applied. As a result of the adoption of IFRS 16, depreciation and interest expenses will be recognised in the income statement in future instead of rental and lease expenses, which amounted to €4.0 million in the year under review. An improvement in EBITDA and EBIT is therefore anticipated.

Overall, expenses will be brought forward while the total expense remains constant over the full period. In addition, the cash flow from operating activities will improve and the cash flow from financing activities will deteriorate. The Group expects an increase in lease liabilities and non-current assets as at the adoption date, which will reduce the equity ratio. Based on the analysis of the effects of the adoption of IFRS 16 on the consolidated financial statements, we are assuming an increase in non-current assets of between €2.5 million and €4.1 million as at 1 January 2019 and a comparable increase in lease liabilities. This information is provisional.

1.3 Company law changes and structural changes in 2018

MBB re-placed 1,703,700 shares of Aumann AG on 27 February 2018. This reduced MBB SE's ownership interest in Aumann AG to 38%. However, MBB SE remains the largest shareholder in Aumann AG, and Aumann AG remains fully consolidated as the criterion of control is still satisfied. The Group received funds of €102.1 million as a result of the transaction. Capital reserves increased by €80.4 million, while non-controlling interests rose by €20.2 million.

HTZ Holztrocknung GmbH, Oberlungswitz, Germany was merged into DHK automotive GmbH, Germany, on 1 July 2018.

DTS IT AG formed DTS CLOUD SECURITY MonEPE, Athens, Greece, on 8 October 2018.

2. Consolidated group

In addition to the parent company MBB SE, the companies listed below are included in the consolidated financial statements. The ownership interests are calculated by multiplying the number of shares held in the respective company. The companies listed in bold hold direct or indirect interests in the companies below them.

Companies included in the consolidated financial statements Name and registered office of the company	Ownership interest in %
Subsidiaries (fully consolidated)	
Aumann AG, Beelen, Germany	**38.00**
Aumann Beelen GmbH, Beelen, Germany	38.00
Aumann Berlin GmbH, Berlin, Germany	38.00
Aumann Winding and Automation Inc., Clayton, USA	38.00
Aumann Espelkamp GmbH, Espelkamp, Germany	38.00
Aumann North America Inc., Fort Wayne, USA	38.00
Aumann Immobilien GmbH, Espelkamp, Germany	38.00
AumannTechnologies (China) Ltd. Changzhou, China	38.00
Aumann Limbach-Oberfrohna GmbH,, Limbach-Oberfrohna, Germany	38.00
CT Formpolster GmbH, Löhne, Germany	**100.00**
Delignit AG, Blomberg, Germany	**76.08**
Blomberger Holzindustrie GmbH , Blomberg, Germany	76.08
Hausmann Verwaltungsgesellschaft mbH, Blomberg, Germany	76.08
Delignit Immobiliengesellschaft mbH, Blomberg, Germany	76.08
Delignit North America Inc., Atlanta, USA	76.08
DHK automotive GmbH, Oberlungwitz, Germany	76.08
DTS IT AG, Herford, Germany	**80.00**
ACoN-IT GmbH, Vienna, Austria	80.00
DTS Systeme GmbH, Herford, Germany	80.00
eld datentechnik GmbH, Herford, Germany	80.00
ICSmedia GmbH, Münster, Germany	80.00
DTS CLOUD SECURITY MonEPE, Athens, Greece	80.00
Hanke Tissue Sp. z o.o., Kostrzyn, Poland	**95.84**
OBO-Werke GmbH, Stadthagen, Germany	**100.00**

USK Karl Utz Sondermaschinen GmbH was renamed as Aumann Limbach-Oberfrohna GmbH at the end of 2018.

There are significant non-controlling interests in Aumann AG. MBB's ownership interest amounted to 38.00% at the reporting date (previous year: 49.17%). The summarised financial information for Aumann AG is shown below. The amounts are shown before intragroup eliminations.

Aumann AG	31 Dec 2018	31 Dec 2017
	€k	€k
Non-current assets	12,404	13,194
Current assets	6,269	6,722
Non-current liabilities	13,154	12,328
Current liabilities	4,715	3,241
Net assets	195,928	180,653

	2018	2017
	€k	€k
Revenue	290,815	210,377
Consolidated net profit	18,222	13,040
Net profit non-controlling interests	10,958	4,889
Dividend paid non-controlling interests	1,891	293
Cash flow from operating activities	18,216	-3,806
Cash flow from investing activities	-10,286	-44,945
Cash flow from financing activities	-8,284	117,411

3. Principles of consolidation

The consolidated financial statements comprise the financial statements of MBB SE and its subsidiaries as at 31 December of each financial year. The financial statements of the subsidiaries are prepared using uniform accounting policies and for the same reporting period as the financial statements of the parent company.

The reporting date for all subsidiaries included in the consolidated financial statements is 31 December of the relevant financial year.

3.1 Subsidiaries

Subsidiaries are the companies controlled by MBB SE. Control exists when an entity has the power of disposal over another entity. This is the case if there are rights embodying a present ability to control the significant activities of the other entity. Significant activities are those activities affecting the return generated by an entity. Subsidiaries are consolidated from the date on which the parent can control the subsidiary and ends when this is no longer possible.

Acquisition accounting is performed using the purchase method in accordance with IFRS 3, under which the acquisition cost of the acquired shares is offset against the proportion of the acquired subsidiary's equity attributable to the parent company at the acquisition date. All identifiable assets, liabilities and contingent liabilities are recognised at fair value and included in the consolidated statement of financial position. If the acquisition cost exceeds the fair value of the net assets attributable to the Group, the difference is capitalised as goodwill.

If the fair value of the net assets attributable to the Group is higher than the acquisition cost of the shares, this results in a bargain purchase. If this bargain purchase remains after another review of the purchase price allocation/determination of the fair value of the acquired assets, liabilities and contingent liabilities, it must be recognised in profit or loss immediately. The share of the subsidiary's assets, liabilities and contingent liabilities attributable to non-controlling interests is also recognised at fair value. Receivables and liabilities between the consolidated companies are offset against each other. This also applies to intragroup transactions and to intragroup revenue, income and expenses. Accordingly, the earnings of the subsidiaries acquired or disposed of during the financial year are included in the consolidated statement of comprehensive income from the date the acquisition becomes effective or until the disposal date respectively.

3.2 Associated companies

Companies in which MBB holds an interest in the share capital of between 20.0% and 50.0% are usually classified as an associated company if MBB has significant influence but does not control them. Companies in which MBB holds an interest in the share capital of between 20.0% and 50.0% are consolidated if MBB controls them. This control can arise, for example, from the fact that MBB accounts for the majority of the members of the supervisory board of listed companies or a majority of the attendance at the annual general meeting.

Associated companies are included in the consolidated financial statements using the equity method. Under this method, the pro rata profits and losses of the associated company are added to or deducted from the reported carrying amount of the equity investment. The amount of the loss allocation is limited to the amount of the acquisition cost of the associated company. If the equity investment reports a loss after its carrying amount has been reduced to a pro mem value of €1.00, these losses are recognised in an auxiliary account. For acquisitions of associated companies, the purchase method is applied in the same way. Associated companies that were acquired or disposed of during the financial year are included in the consolidated financial statements from the acquisition date or until the disposal date respectively.

4. Presentation of accounting policies

4.1 General information

With the exception of the remeasurement of certain financial instruments, the consolidated financial statements were prepared using the historical cost method. Historical cost is generally based on the fair value of the consideration paid in exchange for the asset.

The statement of financial position is structured according to current and non-current assets and liabilities. The statement of comprehensive income is prepared in line with the nature of expense method for calculating the consolidated net profit for the period.

4.2 Reporting currency

The consolidated financial statements are prepared in euro, as the majority of Group transactions are conducted in this currency. Unless stated otherwise, all figures are rounded up or down to thousands of euro in line with standard commercial practice. The amounts are stated in euro (€), thousands of euro (€ thousand) and millions of euro (€ million).

4.3 Currency translation

Each company within the Group determines its own functional currency. The items included in the financial statements of the respective company are measured using this functional currency. Foreign currency transactions are then translated into the functional currency at the spot exchange rate on the date of the transaction.

Foreign currency monetary assets and liabilities are translated into the functional currency at the end of each reporting period using the closing rate. All exchange differences are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The assets and liabilities of the foreign operations are translated into euro at the closing rate. Income and expenses are translated at the average exchange rate for the financial year. The resulting exchange differences are recognised as a separate component of equity.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities resulting from the acquisition of that foreign operation are translated at the closing rate.

The following exchange rates were applied (for €1.00):

	Closing rate 31 Dec 2018	Average rate 2018
Polish zloty (PLN)	4.3014	4.262
Chinese renminbi (CNY)	7.8751	7.8067
US-Dollar (USD)	1.1450	1.1816
	Closing rate 31 Dec 2017	Average rate 2017
Polish zloty (PLN)	4.1709	4.2583
Chinese renminbi (CNY)	7.8020	7.6829
US-Dollar (USD)	1.1980	1.1778

4.4 Intangible assets

Intangible assets not acquired as part of a business combination are initially carried at cost. The cost of an intangible asset acquired in a business acquisition corresponds to its fair value at the acquisition date.

Intangible assets are recognised when it is probable that the future economic benefits that are attributable to the asset will be received by the enterprise and the cost of the asset can be measured reliably.

Costs for research activities are charged as expenses in the period in which they are incurred.

Development costs are capitalised as internally generated intangible assets if all of the following criteria are met:

- Completion of the project is technically feasible.
- The company intends and is able to complete the intangible asset and to use or sell it.
- It is assumed that the intangible asset is likely to generate a future economic benefit.
- In addition, the Group has the technical, financial and other resources to complete the development work and it is possible to reliably determine the expenses directly attributable to the project.

If these criteria are not met, the development costs are expensed in the period in which they are incurred.

For the purposes of subsequent measurement, intangible assets are recognised at cost less cumulative amortisation and cumulative impairment losses (reported under amortisation). Intangible assets (not including goodwill) are amortised on a straight-line basis over their estimated useful life. The amortisation period and amortisation method are reviewed at the end of each financial year.

Apart from goodwill, the Group does not have any intangible assets with indefinite useful lives.

The cost of acquisition of new software is capitalised and treated as an intangible asset unless it forms an integral part of the associated hardware. Software is amortised on a straight-line basis over a period of up to three years.

Patents are amortised over a useful life of 10 years.

Costs incurred in order to restore or maintain the future economic benefits that the company had originally expected are recognised as an expense.

Gains and losses from the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset and recognised in profit or loss in the period in which the asset is disposed of.

4.5 Goodwill

Goodwill from business combinations is the residual amount of the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill is not amortised but instead is tested for impairment at least once a year in accordance with IAS 36. For the purposes of impairment testing, the goodwill acquired in the business combination is allocated to the cash-generating units (CGUs) of the Group that benefit from the combination starting from the acquisition date. Goodwill is then written down if the recoverable amount of a cash-generating unit is lower than its carrying amount. Once recognised, impairment losses on goodwill are not reversed in future periods.

If a subsidiary is sold, the amount of the goodwill attributable to the subsidiary is taken into account in calculating the gain on disposal.

4.6 Property, plant and equipment

Property, plant and equipment is recognised at cost less cumulative depreciation and cumulative impairment losses. The cost of an item of property, plant and equipment consists of the purchase price and other non-refundable purchase taxes incurred in connection with the purchase as well as all directly attributable costs incurred to bring the asset to its location and to bring it to working condition for its intended use. Subsequent expenditure, such as servicing and maintenance costs, that is incurred after the non-current asset is put into operation is expensed in the period in which it is incurred. If it is likely that expenditure will lead to additional future economic benefits to the company in excess of the originally assessed standard of performance of the existing asset, the expenditure is capitalised as an additional cost.

Assets newly identified in the course of acquisitions are measured at the fair value (market value) calculated at the acquisition date, which is then depreciated over the subsequent periods.

Depreciation is calculated on a straight-line basis over the expected useful economic life, assuming a residual value of €0.00. The following estimated useful lives are used for the individual asset groups:

Buildings and exterior installations:	10 to 33 years
Technical equipment and machinery:	10 to 12 years
Computer hardware:	3 years
Other office equipment:	5 to 13 years

Land is not depreciated.

The useful life, the depreciation method for property, plant and equipment and the residual values are reviewed periodically.

If items of property, plant and equipment are disposed of or scrapped, the corresponding acquisition cost and the cumulative depreciation is derecognised. Any realised gain or loss from the disposal is reported in the statement of comprehensive income. The profit or loss resulting from the sale of an item of property, plant and equipment is determined as the difference between the proceeds from the sale and the carrying amount of the asset and is recognised in profit or loss.

4.7 Leases

Determining whether an arrangement is or contains a lease is based on the economic content of the arrangement and requires an assessment of whether the fulfilment of the contractual arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset.

Assets under finance leases, most of which transfer to the Group all risks and rewards of ownership of the transferred asset, are capitalised at the beginning of the lease term at the fair value of the lease asset or, if lower, at the present value of the minimum lease payments. The assets are depreciated.

Lease payments are divided into their components of finance costs and repayment of the lease liability in that the residual carrying amount of the lease liability bears a constant rate of interest. The remaining lease payment obligations as at the end of the reporting period are reported separately in the statement of financial position according to their maturities. Lease payments for operating leases are expensed in the income statement over the term of the lease.

The Group does not act as a lessor.

4.8 Borrowing costs

Borrowing costs are expensed in the period in which they are incurred, unless they are incurred for the acquisition, construction or manufacture of qualifying assets. In this case, the borrowing costs are added to the cost of these assets. Interest expenses are capitalised for qualifying assets.

4.9 Impairment of non-financial assets

Non-financial assets are tested for impairment when facts or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For impairment testing, the recoverable amount of the asset or the cash-generating unit (CGU) must be determined. The recoverable amount is the higher of the fair value less costs to sell and the value in use. The fair value less costs to sell is defined as the price obtainable from the sale of an asset or CGU between knowledgeable, willing and independent parties less costs of disposal. The value in use of an asset or CGU is determined by the present value of an estimated anticipated cash flow on the basis of its current use. If the recoverable amount falls below the carrying amount, an impairment loss in the amount of the difference is immediately recognised in profit or loss.

An adjustment in profit or loss of impairment recognised in profit or loss in previous years is carried out for an asset (except for goodwill) if there are indications that the impairment no longer exists or could have decreased. The reversal is recognised in the income statement as income. However, the increase in value (or reduction in impairment) of an asset is only recognised to the extent that it does not exceed the carrying amount that would have resulted if no impairment loss had been recognised in the previous years (taking depreciation into account).

4.10 Financial instruments – Initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

I) Financial assets

Initial recognition and measurement

On initial recognition, financial assets are classified as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss.

The classification of financial assets on initial recognition is dependent on the characteristics of the contractual cash flows of the financial assets and the Group's business model for managing its financial assets. Except for trade receivables that do not contain a significant financing component, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price calculated in accordance with IFRS 15.

To ensure that a financial asset can be classified and measured as measured at amortised cost or fair value through other comprehensive income, cash flows must consist solely of payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at the level of the individual financial instrument.

The Group's business model for managing financial assets reflects how an entity manages its financial assets to generate cash flows. Depending on the business model, cash flows arise from collecting contractual cash flows, the sale of financial assets or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- financial assets at amortised cost (debt instruments);
- financial assets at fair value through profit or loss through other comprehensive income with the reclassification of cumulative gains and losses (debt instruments);
- financial assets at fair value through profit or loss through other comprehensive income without the reclassification of cumulative gains and losses on derecognition (equity instruments);
- financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments);

This is the category most relevant to the Group. The Group measures financial assets at amortised cost when both the following conditions are met:

- the financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows;
  and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost are subsequently measured using the effective interest rate method and are tested for impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or becomes impaired.

The Group's financial assets measured at amortised cost essentially comprise trade receivables and contract assets.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt instruments at fair value through other comprehensive income if both the following conditions are met:

- The financial asset is held within the framework of a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
  and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments measured at fair value through other comprehensive income, interest income, gains and losses on currency translation and impairment losses or reversals of impairment losses are recognised in profit or loss and calculated in the same way as for financial assets measured at amortised cost. The remaining changes in fair value are recognised in other comprehensive income. On derecognition, the cumulative gain or loss from changes in fair value recognised in other comprehensive income is reclassified to profit or loss.

The Group's debt instruments at fair value through other comprehensive income include listed bonds reported under short-term securities.

Financial assets at fair value through other comprehensive income (equity instruments)

On initial recognition, the Group can irrevocably elect to classify its equity instruments as equity instruments designated at fair value through other comprehensive income if they satisfy the definition of equity in accordance with IAS 32 and are not held for trading. This classification decision is made individually for each instrument.

Gains and losses from these financial assets are not reclassified to profit or loss. Dividends are recognised in profit or loss as other income when the right to receive payment of the dividend is established, unless the dividend represents a recovery of part of the cost of the financial asset, in which case the gains are recognised in other comprehensive income. Equity instruments at fair value through other comprehensive income are not tested for impairment. The Group has elected to assign some of its listed equity instruments to this category.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated at fair value through profit or loss on initial recognition and financial assets that must be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss regardless of the business model. Notwithstanding the above criteria for classifying debt instruments as "measured at amortised cost" or "at fair value through other comprehensive income", debt instruments can be classified as at fair value through profit or loss on initial recognition if this would eliminate or significantly reduce an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented in the statement of profit or loss.

This category includes derivative financial instruments and listed equity instruments that the Group has not elected to classify as at fair value through other comprehensive income. Dividends from listed equity instruments are also recognised as other income in the income statement when the right to receive payment is established.

As in the previous year, the carrying amounts of the financial assets and liabilities not measured at fair value are essentially equal to their fair values.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises impairment for expected credit losses on all debt instruments that are not measured at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows payable and the total cash flows the Group expects to receive. The forecast cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses are recognised in two stages. For financial instruments for which the risk of default has not increased significantly since initial recognition, a loss allowance is recognised in the amount of the expected cash shortfalls from an event of default within the next twelve months (12-month ECL). For financial assets for which the risk of default has increased significantly since initial recognition, an entity must recognise the lifetime expected credit losses regardless of when the default event occurs (lifetime ECL).

The Group uses a simplified method to calculate the expected credit losses on trade receivables and contract assets. It therefore does not track changes in credit risk, and instead recognises a loss allowance at the end of each reporting period based on the lifetime ECL. On the basis of its past experience of credit losses, the Group has prepared a provision matrix that is adjusted for future factors if specific future factors for the borrower and the economic environment can be determined at reasonable expense.

For debt instruments measured at fair value through other comprehensive income, the Group uses the simplification for financial instruments with low credit risk. To do so, it uses reasonable and supportable information that is available without undue cost or effort to assess whether the debt instrument has a low credit risk at the end of each reporting period. It also takes a significant increase in credit risk into account if contractual payments are more than 30 days past due.

The Group's debt instruments at fair value through other comprehensive income exclusively consist of listed bonds that management sees as investments with low credit risk. The Group measures the expected credit losses for these instruments on a 12-month basis. However, if the credit risk has increased significantly since initial recognition, the impairment loss is based on the lifetime ECL. The Group uses issuer credit default spreads to determine whether the credit risk on a debt instrument has increased significantly and to estimate the expected credit losses.

The Group considers a financial asset to be in default if contractual payments are 90 days past due and a subsequent detailed review of the debtor does not reveal other information. Moreover, it can assume in certain cases that a financial asset is in default if internal or external information indicates that it is unlikely that the Group will receive the outstanding contractual amounts in full before all credit enhancements held are taken into account. A financial asset is written down when there is no valid expectation that the contractual cash flows will be collected.

II) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, contract liabilities, other liabilities and loans, including overdrafts.

Subsequent measurement

The measurement of financial liabilities depends on their classification:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated on initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated on initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and liabilities

After initial recognition, these financial liabilities are measured at amortised cost using the effective interest method less impairment. Gains and losses are recognised in profit or loss when the liabilities are derecognised and through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation underlying the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

III) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

4.11 Derivative financial instruments

The Group uses derivative financial instruments to a limited extent, such as currency futures to hedge against exchange rate risk. These derivative financial instruments are carried at fair value on conclusion and remeasured at fair value in subsequent periods. Derivative financial instruments with a positive fair value are recognised as financial assets, while derivative financial instruments with a negative fair value are recognised as financial liabilities. These derivative financial instruments are not designated as hedges, but instead are classified as held for trading.

4.12 Inventories

Inventories are reported at the lower of cost or net realisable value (less costs necessary to make the sale) taking their planned use into account. Raw materials, consumables, supplies and purchased goods are measured at cost using the average price method or, if lower, at their market prices at the end of the reporting period. The cost of finished goods and work in progress, in addition to the cost of materials used in construction, labour and pro rata material and production overheads, is taken into account assuming normal capacity utilisation. Appropriate valuation allowances were recognised for inventory risks from storage periods and reduced usability.

4.13 Cash and cash equivalents

Cash and cash equivalents shown in the statement of financial position comprise cash in hand, bank balances and short-term deposits with an original term of less than three months.

Cash and cash equivalents in the consolidated statement of cash flows are defined in line with the above.

4.14 Provisions

Provisions are reported when the Group has a current (legal or constructive) obligation due to a past event, it is probable that fulfilment of the obligation will lead to an outflow of resources embodying economic benefits and the amount of the obligation can be reliably estimated. If the Group expects at least a partial refund of a provision recognised as a liability, the refund is recognised as a separate asset provided the receipt of the refund is virtually certain. The expense from recognising the provision is reported in the income statement less the refund.

Provisions are reviewed at the end of each reporting period and adjusted to the current best estimate. The amount of the provision corresponds to the present value of the expenses expected to be required to fulfil the obligation where the time effect of money is material. The increase in the provision over time is recognised as interest expense.

Provisions with the nature of a liability are recognised for obligations for which an exchange of services has taken place and the amount of the consideration is established with sufficient certainty. Provisions with the nature of a liability are reported under liabilities.

4.15 Pensions and other post-employment benefits

The pension obligations calculated at the level of the individual subsidiaries are measured in accordance with IAS 19. Payments for defined contribution pension plans are expensed. For defined benefit pension plans, the obligation is recognised in the statement of financial position as a pension provision. These pension commitments are regarded as defined benefit plan commitments and are therefore measured in line with actuarial principles using the projected unit credit method.

Actuarial gains and losses are reported in other comprehensive income. The interest expense from pension discounting is reported in net finance costs.

4.16 Revenue recognition

Revenue is recognised to show the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised when the customer acquires control of the goods or services.

a) Sale of goods and products, performance of services

The customer achieves control when the goods and products are delivered or accepted. Revenue from service transactions is only recognised when it is sufficiently probable that the economic benefits associated with the transaction will flow to the Group. It is recognised in the accounting period in which the services in question are performed, thereby giving the customer control of the service.

b) Construction contracts

In the MBB Group, the revenue of Aumann Beelen GmbH, Aumann Technologies China Ltd., Aumann Espelkamp GmbH, Aumann Berlin GmbH and Aumann Limbach-Oberfrohna GmbH from long-term construction contracts is typically recognised over time. The products are specially produced for the respective customer and there is no alternative use. Under this method, when the outcome of a construction contract can be estimated reliably, the contract revenue and contract costs associated with this construction contract are recognised by reference to the degree of completion of the contract activity at the end of the reporting period. The percentage of completion is calculated as the ratio of the contract costs incurred by the end of the reporting period to the total estimated contract costs as at the end of the reporting period (cost-to-cost method).

Construction contracts accounted for over time are recognised as contractual assets in the amount of the contract costs incurred by the end of the reporting period plus the proportionate profit resulting from the percentage of completion. Changes to contracts, additional amounts invoiced and incentive payments are recognised to the extent that a binding agreement has been concluded with the customer. If the result of a construction contract cannot be reliably estimated, the probable revenue is recognised up to a maximum of the costs incurred. Contract costs are recognised in the period in which they are incurred. If it is foreseeable that the total contract costs will exceed the contract revenue, the expected losses are expensed immediately.

c) Interest revenue

Interest revenue is recognised when the interest arises (using the effective interest rate, i.e. the computational interest rate at which estimated future cash inflows are discounted to the net carrying amount of the financial asset over the expected term of the financial instrument).

d) Dividends

Revenue is recognised when the legal right to payment arises.

4.17 Taxes

a) Current income taxes

Current tax assets and liabilities for the current period and earlier periods are measured at the amount of the refund expected to be received from the tax authority or the payment expected to be made to it. The calculation is based on tax rates and tax laws applicable at the end of the reporting period.

b) Deferred taxes

In accordance with IAS 12, deferred taxes are recognised using the liability method for temporary differences as at the end of the reporting period between the carrying amount of an asset or liability in the statement of financial position and its tax base and for tax loss carryforwards.

Deferred tax liabilities are recognised for all taxable temporary differences with the exception of deferred tax liabilities from the initial recognition of goodwill or of an asset or liability from a transaction that does not constitute a business combination and, as at the transaction date, influences neither the accounting profit before taxes nor the taxable profit.

Deferred tax assets are recognised for all deductible temporary differences and unused tax credits to the extent that it is probable that taxable income will be available against which the deductible temporary differences and unused tax loss carryforwards and tax credits can be applied. Deferred tax assets from deductible temporary differences due to the initial recognition of an asset or liability from a transaction that does not constitute a business combination and, as at the transaction date, influences neither the accounting profit before taxes nor the taxable profit, are not recognised.

Tax credits that are dependent on investments are recognised in line with IAS 12. They are not offset against the corresponding investments.

At individual companies, deferred tax assets and liabilities are offset to the extent that they can be allocated to future charges or reductions of the same taxable entity with respect to the same tax authority.

The carrying amount of deferred tax assets is tested at the end of each reporting period and reduced to the extent that it is no longer probable that a sufficient taxable result will be available against which the deferred tax asset can be at least partly utilised. Unrecognised deferred tax assets are tested at the end of each reporting period and recognised to the extent that it has become probable that taxable result in future will allow the realisation of deferred tax assets.

Deferred tax assets and liabilities are measured at the tax rates which are expected to apply in the periods in which an asset is realised or a liability is settled. This is based on the tax rates and tax laws applicable at the end of the reporting period. Future changes in the tax rates must be taken into account at the end of the reporting period if the material conditions for validity in a legislative process are fulfilled.

Deferred taxes are reported as tax income or tax expense in the statement of comprehensive income unless they relate to items reported directly in equity, in which case the deferred taxes are also reported in equity. Deferred taxes and tax liabilities are offset against each other if the Group has a legally enforceable right to set off tax assets against tax liabilities and they relate to income taxes of the same taxable entity levied by the same tax authorities.

4.18 Contingent liabilities and contingent assets

Contingent liabilities are either potential obligations that could lead to an outflow of resources but whose existence will be determined by the occurrence or non-occurrence of one or more future events, or current obligations that do not fulfil the criteria for recognition as a liability. They are disclosed separately in the notes unless the probability of an outflow of resources embodying economic benefits is low. In the year under review, there were no contingent liabilities apart from guarantees and other commitments.

In the context of business combinations, contingent liabilities are recognised in accordance with IFRS 3.23 if their fair value can be reliably determined.

Contingent assets are not reported in the financial statements, and instead are disclosed in the notes when receipt of economic benefits is probable.

4.19 Government grants

Government grants are recognised as profit or loss on a systematic basis in the periods in which the related expenses are recognised and where it is sufficiently certain that the conditions imposed in connection with the grants will be fulfilled.

The grants received are reported as deferred income in the statement of financial position under liabilities.

5. Material judgements, estimates and assumptions

For the preparation of the consolidated financial statements in accordance with IFRS, estimates and assumptions must occasionally be made. These influence the amounts of assets, liabilities and financial obligations calculated as at the end of the reporting period and the reporting of expenses and income. The actual amounts can differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period resulting in a considerable risk that a major adjustment to the carrying amounts of assets and liabilities will be required within the next financial year are explained below.

a) Impairment of non-financial assets

The Group determines whether there are indications of impairment of non-financial assets at the end of each reporting period. Goodwill with an indefinite useful life is tested for impairment at least once a year and when there are indications of impairment. Other non-financial assets are tested for impairment when there are indications that the carrying amount is higher than the recoverable amount. To estimate the value in use, the management measures the expected future cash flows of the asset or cash-generating unit and selects an appropriate discount rate to determine the present value of these cash flows.

b) Pensions and other post-employment benefits

The expense from defined benefit plans post-employment is determined using actuarial calculations. The actuarial calculation is based on assumptions regarding discount rates, future increases in wages and salaries, mortality and future pension increases. In line with the long-term orientation of these plans, such estimates are subject to significant uncertainty.

c) Provisions

Other provisions are recognised and measured on the basis of an assessment of the probability of a future outflow of benefits, using values based on experience and circumstances known at the end of the reporting period. The actual obligation can differ from the amounts recognised as provisions.

d) Deferred tax assets

Deferred tax assets are recognised for all unused tax loss carryforwards and for temporary differences to the extent that it is probable that taxable income will be available for this, meaning that the loss carryforwards can actually be used. In calculating the amount of deferred tax assets, the management must make judgements with regard to the expected timing and amount of future taxable income and the future tax planning strategies.

e) Revenue from contracts with customers

The majority of the transactions conducted by Aumann AG’s subsidiaries are construction contracts over time, for which revenue is recognised by reference to the stage of completion of the transaction. This method requires an estimate of the percentage of completion. Depending on the method applied in determining the degree of completion, the material estimates comprise the total contract costs, the costs to be incurred until completion, the total contract revenue, the contract risks and other judgements. The estimates are continuously reviewed by the company’s management and adjusted as necessary.

f) Accounting for gold reserves

MBB SE owns physical gold reserves that are held as a liquidity reserve and reported in total liquidity. Despite containing a wide range of regulations, IFRSs do not provide conclusive guidance on accounting for gold reserves. Gold reserves cannot be accounted for in accordance with IAS 2, as they are not held for use in a production process. Accounting in accordance with IFRS 9 is problematic as gold does not meet the definition of a financial asset as set out in IAS 32.11, and hence does not fall within the scope of IFRS 9. None of the other IFRSs are relevant.

As such, there is a gap in the IFRS regulation when it comes to accounting for physical gold reserves that the MBB Group seeks to close by applying the provisions of IFRS 9 analogously. Physical gold reserves are measured at fair value on initial recognition. In subsequent periods, changes in the value of gold reserves are recognised directly in equity in other comprehensive income.

g) Consolidation of Aumann AG

The re-placement of shares of Aumann AG in February 2018 reduced MBB SE's ownership interest in Aumann AG from 49.17% to 38.00%. Despite the reduced ownership interest, Aumann AG is still included as a subsidiary in the consolidated financial statements of MBB SE. In accordance with IFRS 10, this is based not only on the ownership interest, but also on actual control. As MBB SE held the absolute majority of the voting rights at the 2018 Annual General Meeting of Aumann AG and two of the three positions on the Supervisory Board of Aumann AG are held by members oft he Board of MBB SE, the criterion of control in accordance with IFRS 10 continues to be satisfied.

II. Notes to the consolidated statement of financial position

1. Non-current assets

The development of intangible assets and property, plant and equipment is shown in the following statement of changes in non-current assets.

1.1 Statement of changes in non-current assets of the MBB Group as at 31 December 2018

31 Dec 2018	Total cost €k	Additions in the financial year €k	Reclassi-fication €k	Disposals in the financial year €k	Exchange differences €k	Write downs (full amount) €k	Carrying mount at the end of financial year €k	Carrying mount at the end of previous year €k	Write downs in the financial year €k	Disposals of write downs €k	Exchange differences €k
I. Intangible assets											
1. Concessions, industrial property rights and similar rights	14,063	2,270	0	136	-5	12,026	4,166	3,712	1,816	136	-5
2. Development Costs	3,832	2,713	0	0	0	773	5,772	3,648	589	0	0
3. Customer base	882	0	0	0	0	294	588	686	98	0	0
4. Order backlog	2,614	0	0	0	0	2,614	0	2,091	2,091	0	0
5. Goodwill	40,300	0	0	0	0	0	40,300	40,300	0	0	0
6. Advance payments	122	427	0	0	0	0	549	122	0	0	0
	61,813	**5,410**	**0**	**136**	**-5**	**15,707**	**51,375**	**50,559**	**4,594**	**136**	**-5**
II. Property, plant											
1. Land and buildings including buildings on third-party land	60,116	7,554	1,277	48	-434	12,957	55,508	49,080	1,979	0	-58
2. Technical equipment and machinery	62,732	488	7,778	504	-1,031	43,156	26,307	23,920	4,975	27	-604
3. Other equipment, operating and office equipment	28,114	6,361	260	145	-43	23,230	11,317	8,575	3,826	106	-30
4. Advance payments and assets under development	9,795	5,261	-9,315	306	-84	0	5,351	9,795	0	0	0
	160,757	**19,664**	**0**	**1,003**	**-1,592**	**79,343**	**98,483**	**91,370**	**10,780**	**133**	**-692**
Total	**222,570**	**25,074**	**0**	**1,139**	**-1,597**	**95,050**	**149,858**	**141,929**	**15,374**	**269**	**-697**

1.2 Statement of changes in non-current assets of the MBB Group as at 31 December 2017

31.12.2017	Total cost T€	Additions in the financial year T€	Additions from first time con-solidation T€	Reclassi-fication T€	Disposals in the financial year T€	Exchange differences T€	Write downs (full amount) T€	Carrying mount at the end of financial year T€	Carrying mount at the end of previous year T€	Write downs in the financial year T€	Disposals of write downs T€	Exchange differences T€
I. Intangible assets												
1. Internally generated intangible assets	761	3,312	0	0	0	0	425	3,648	448	112	0	0
2. Concessions,										0	0	0
industrial property rights												
and similar rights	11,341	1,062	2,832	0	1	1	8,746	6,489	4,471	1,872	1	5
3. Goodwill	13,701	0	28,426	0	0	0	1,827	40,300	11,874	0	0	0
4. Advance payments	0	122	0	0	0	0	0	122	0	0	0	0
	25,803	**4,496**	**31,258**	**0**	**1**	**1**	**10,998**	**50,559**	**16,793**	**1,984**	**1**	**5**
II. Sachanlagen												
1. Land and buildings												
including												
buildings on												
third-party land	46,366	4,722	10,796	0	97	669	13,376	49,080	34,555	1,529	34	70
2. Technical equipment												
and machinery	50,786	5,625	2,354	13	116	1,543	36,285	23,920	19,540	4,118	19	940
3. Other equipment,												
operating and												
office equipment	19,952	4,644	920	351	326	60	17,026	8,575	5,510	2,797	256	43
4. Advance payments and												
assets under development	4,806	5,038	173	-364	0	142	0	9,795	4,806	0	0	0
	121,910	**20,029**	**14,243**	**0**	**539**	**2,414**	**66,687**	**91,370**	**64,411**	**8,444**	**309**	**1,053**
Total	**147,713**	**24,525**	**45,501**	**0**	**540**	**2,415**	**77,685**	**141,929**	**81,204**	**10,428**	**310**	**1,058**

2. Goodwill

Goodwill is subject to an annual impairment test. As part of impairment testing, goodwill acquired in business combinations was allocated to the cash-generating units Aumann Limbach-Oberfrohna (€28,426.4 thousand), Aumann EBI [comprising the companies Aumann Espelkamp GmbH, Aumann Berlin GmbH and Aumann Immobilien GmbH] (€10,057.5 thousand), DTS (€1,179.8 thousand) and Hanke Tissue (€636.7 thousand). The Aumann Limbach-Oberfrohna and Aumann EBI cash-generating units are allocated to the Technical Applications segment, the DTS cash-generating unit is allocated to the Trade & Services segment, and the Hanke Tissue cash-generating unit is allocated to the Industrial Production segment.

The impairment test as at 31 December 2018 confirmed the recoverability of all capitalised goodwill.

Aumann Limbach-Oberfrohna cash-generating unit

The recoverable amount of the Aumann Limbach-Oberfrohna CGU is determined based on a value in use calculation using cash flow projections from financial budgets approved by management covering a one-year period. The calculation of the budget figures took into account current and future probabilities, the expected economic development and other circumstances. The conservative pre-tax discount rate applied to the cash flow projections is 16.6% (previous year: n.a.). Cash flows beyond the detailed planning period are first extrapolated using a growth rate of 14.0% over three years and then a long-term growth rate of 1.0%.

Aumann EBI cash-generating unit

The recoverable amount of the cash-generating unit CGU is also determined based on a value in use calculation using cash flow projections from financial budgets approved by management covering a one-year period. The calculation of the budget figures took into account current and future probabilities, the expected economic development and other circumstances. The conservative pre-tax discount rate applied to the cash flow projections is 16.8% (previous year: 16.1%). Cash flows beyond the detailed planning period are first extrapolated using a growth rate of 14.0% over three years and then a long-term growth rate of 1.0%.

Key assumptions used in value in use calculations and sensitivity to changes in assumptions

The calculation of value in use for the two significant cash-generating units, Aumann Limbach-Oberfrohna and Aumann EBI, is most sensitive to the following assumptions:

- EBIT margins;
- discount rates;
- growth rates used to extrapolate cash flows beyond the detailed forecast period.

EBIT margins: EBIT margins are based on average values achieved in the three financial years preceding the beginning of the budget period. The values calculated thus are adjusted for the detailed planning period, if necessary, if management receives better information about their amount. The EBIT margins from the detailed planning period are extrapolated at a constant level. A reduction in the EBIT margin of 1.0 percentage points would not result in impairment for either the Aumann Limbach-Oberfrohna CGU or the Aumann EBI CGU.

Discount rates: Discount rates represent the market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments. Adjustments to the discount rate are made to factor in the specific amount and timing of tax flows in order to reflect a pre-tax discount rate. An increase in the pre-tax discount rate of 0.5 percentage points would not result in impairment for either the Aumann Limbach-Oberfrohna CGU or the Aumann EBI CGU.

Growth rates: The estimated growth rates are based on past experience and growth assumptions for the target markets of the respective CGUs. The Group recognises that possible new competitors or a changing market environment can have a significant impact on growth rate assumptions. Such a development could yield a reasonably possible alternative to the estimated long-term growth rate of 14.0% for the two cash-generating units. A reduction in the growth rate of five percentage points would not result in impairment for either the Aumann Limbach-Oberfrohna CGU or the Aumann EBI CGU.

3. Intangible assets

Please see the statement of changes in non-current assets for information on the development of intangible assets. Compared with the previous year, the customer base and the order backlog are reported separately and no longer as part of concessions, industrial property rights and similar rights.

4. Property, plant and equipment

Please see the statement of changes in non-current assets for information on the development of property, plant and equipment. Borrowing costs of €34.1 thousand were recognised for qualifying assets in the year under review (previous year: €18.7 thousand). A weighted average cost of capital of 3.1% was assumed.

5. Inventories

	31 Dec 2018	31 Dec 2017
	€k	€k
Raw materials and supplies	12,404	13,194
Work in progress	6,269	6,722
Finished goods and commodities	13,154	12,328
Advance payments	4,715	3,241
Carrying amount as at 31 Dec	**36,542**	**35,485**

Impairment losses of €774 thousand were recognised on inventories in the period under review (previous year: €653 thousand). Impairment losses on inventories were reversed in the amount of €0 thousand (previous year: € 20 thousand).

6. Trade receivables

	31 Dec 2018	31 Dec 2017
	€k	€k
Trade receivables	40,453	45,473
Less specific valuation allowances	-858	-536
Less Expected credit loss	-22	0
Carrying amount as at 31 Dec	**39,573**	**44,937**

The trade receivables shown are allocated to the loans and receivables category and measured at amortised cost.

The trade receivables are all due within one year. The trade receivables are subject to specific valuation allowances where required. Indications of impairment include unpaid cash receipts and information on changes in customers' credit rating. Given the broad customer base, there is no significant concentration of credit risk.

7. Other current assets

Other assets maturing within one year break down as follows:

	31 Dec 2018 €k	31 Dec 2017 €k
Factoring receivables	4,817	3,960
Tax receivables	3,689	7,851
Restricted Cash	2,000	0
Prepaid expenses	1,667	1,349
Other current assets	3,537	1,143
Damage compensation	0	1,593
Carrying amount as at 31 Dec	**15,710**	**15,896**

Tax receivables consist of corporate income tax and trade tax refunds in the amount of €3,222.3 thousand (previous year: €5,525.5 thousand) and input tax refunds of €467.0 thousand (previous year: €2,325.4 thousand). Restricted cash and cash equivalents include a euro account that is lodged with a bank as security for currency hedges.

8. Financial assets at fair value through other comprehensive income

The financial assets of the MBB Group recognised at fair value through other comprehensive income comprise physical gold reserves and securities. The value of the physical gold reserves was €2,879 thousand (previous year: €1,931 thousand). €902 thousand of the increase is due to the purchase of gold bars, while €46 thousand is due to fair value measurement as at 31 December 2018.

Of the securities, shares and bonds recognised at fair value through other comprehensive income in the total amount of €65,809 thousand (previous year: €43,466 thousand), €59,459 thousand (previous year: €37,621 thousand) were reported under non-current assets and €6,350 thousand (previous year: €5,845 thousand) were reported under current assets. In the year under review, write-downs were recognised on shares in the amount of €0 thousand (previous year: €91 thousand) and bonds in the amount of €0 thousand (previous year: €26 thousand). This was offset by income from securities in the amount of €4,945 thousand (previous year: €3,500 thousand), which is reported in other operating income.

9. Deferred taxes

The volume of deferred tax assets and liabilities from temporary differences as at 31 December 2018 and 31 December 2017 was as follows.

	31 Dec 2018 €k	31 Dec 2017 €k
Deferred tax assets	14,053	17,376
Deferred tax liabilities	-14,487	-13,953
Total	**-434**	**3,423**

	31 Dec 2018 €k	31 Dec 2017 €k
Temporary differences from:		
Unused tax losses	4,825	7,396
Provisions for pensions	4,075	4,102
Special economic zone tax benefits	3,930	4,053
Provisions	850	1,639
Other current assets	189	35
Property, plant and equipment	189	118
Financial Assets	119	0
Securities	38	10
Liabilities	17	23
Deferred tax assets	**14,053**	**17,376**

	31 Dec 2018 €k	31 Dec 2017 €k
Temporary differences from:		
Receivables	10,371	9,428
Intangible assets	2,405	1,786
Property, plant and equipment	1,588	1,779
Provisions	122	180
Other current assets	1	780
Deferred tax liabilities	**14,487**	**13,953**

The tax benefit from the Special Economic Zone reported in deferred tax assets relates to Hanke Tissue Sp. z o.o. in the Kostrzyn Special Economic Zone in Poland. The Special Economic Zone promotes investments and the creation of jobs by allowing up to 50% of the investment volume to be offset against the income tax due on income generated in the Special Economic Zone.

After netting deferred tax assets against deferred tax liabilities relating to the same tax authorities, there remain deferred tax assets of €6,972 thousand and deferred tax liabilities of €7,780 thousand.

10. Equity

Please see the “Statement of changes in consolidated equity for 2018” for information on the development of equity.

10.1 Share capital

MBB SE’s share capital amounts to €6,600,000.00 and is fully paid in. It is divided into 6,600,000 no-par value bearer shares.

In the 2006 financial year, the share capital was increased by €4,838,000.00 as a result of a capital increase from capital reserves and by another €1,600,000.00 through the issue of new shares, resulting in a total increase from €162,000.00 to €6,600,000.00.

The Annual General Meeting on 17 June 2013 resolved to authorise the Managing Board to purchase and sell treasury shares corresponding to up to 10% of the share capital on the stock exchange in the period from 18 June 2013 to 16 June 2018. MBB had resolved to utilise this authorisation on 10 March 2015. As part of a share buy-back programme, 13,225 treasury shares with a total value of €311,330.86 were purchased on the stock exchange via a bank in the period from 18 March to 7 May 2015. In accordance with section 71b AktG, these shares do not carry voting or dividend rights and serve to reduce the number of shares that do carry voting and dividend rights. This authorisation expired on 16 June 2018.

The Annual General Meeting on 28 June 2018 authorised the company to purchase and sell treasury shares corresponding to up to 10% of the share capital at the authorisation date while upholding the principle of equal treatment (section 53a AktG) in the period to 27 June 2023. The authorisation may be exercised on one or more occasions, in part or in full. The shares may also be purchased by dependent Group companies or by third parties on the company's account. The authorisation may not be used for the purposes of trading in treasury shares.

The Annual General Meeting on 30 June 2015 authorised the Board of MBB SE to increase the company's share capital on one or more occasions by a total of up to €3,300,000.00 in the period until 29 June 2020 by issuing new no-par value bearer shares in exchange for cash and/or non-cash contributions (Authorised Capital 2015/I). The Annual General Meeting on 28 June 2018 cancelled this resolution and created a new Authorised Capital 2018. The Board is authorised to increase the company's share capital on one or more occasions by a total of up to €3,300,000.00 in the period until 27 June 2023 by issuing new no-par value bearer shares in exchange for cash and/or non-cash contributions (Authorised Capital 2018).

The Annual General Meeting on 30 June 2016 resolved Contingent Capital 2016/I, which was entered in the commercial register on 19 August 2016. The Board was thus authorised to issue bearer or registered convertible bonds or bonds with warrants with a total volume of up to €66,000,000.00 and a maximum term of 10 years in the period until 29 June 2021, and to grant the holders of these bonds conversion rights for new no-par value bearer shares of MBB SE with a proportionate interest in the share capital of up to a total of €3,300,000.00. The company's share capital is contingently increased by up to €3,300,000.00 (Contingent Capital 2016/I). The purpose of this contingent capital increase is to issue shares to the creditors of convertible bonds or bonds with warrants. It is permitted to implement the contingent capital increase only to the extent that the creditors have exercised their conversion right or are subject to a conversion obligation.

The individual shareholdings of MBB SE are as follows:

	31 Dec 2018		31 Dec 2017	
	Number of shares	%	Number of shares	%
MBB Capital Management GmbH	2.139.500	*32,417*	2.139.500	*32,417*
MBB Capital GmbH	2.139.500	*32,417*	2.139.500	*32,417*
Allianz Global Investors Europe GmbH*	316.701	*4,799*	316.701	*4,799*
Anton Breitkopf	46.279	*0,701*	46.279	*0,701*
Dr Peter Niggemann	40.000	*0,606*	40.000	*0,606*
Treasury shares	13.225	*0,200*	13.225	*0,200*
Others	1.904.795	*28,860*	1.904.795	*28,860*
Total	**6.600.000**	**100,00**	**6.600.000**	**100,00**

* In accordance with the voting rights notification dated 4 July 2014.

The shares in MBB Capital Management GmbH are held by Dr Christof Nesemeier, while the shares in MBB Capital GmbH are held by Mr Gert-Maria Freimuth.

10.2 Capital reserves

Capital reserves amounted to €294,722 thousand (previous year: €214,333 thousand). The capital reserves originally resulted from the premium received by the company from the issue of new shares in 2006. Capital reserves increased by €3.4 million in 2014 as a result of the sale of treasury shares to an institutional investor, and in 2015 capital reserves decreased by €299 thousand as a result of the acquisition of treasury shares.

The capital reserves were increased by €196.9 million as a result of the IPO of Aumann AG on 24 March 2017 and its capital increase on 4 December 2017.

The replacement of the Aumann shares on 27 February increased capital reserves by €80,389 thousand.

10.3 Legal reserve

5% of the parent company's net profit for 2006 was transferred to the legal reserves.

10.4 Retained earnings

Difference in equity due to currency conversion

The difference in equity due to currency conversion results from conversion in line with the modified closing rate method.

The difference arises from the conversion of items of the income statements of subsidiaries that prepared their accounts in a foreign currency at the average rate and conversion of the statement of financial position items at the closing rate on the one hand, and the conversion of the equity of the respective subsidiaries at the historical rate on first-time consolidation on the other.

Fair value reserve

The fair value reserve results from the remeasurement of financial assets at fair value at the reporting date. In the statement of comprehensive income, other comprehensive income is broken down depending on whether these remeasurement gains/losses can be reclassified to profit or loss when they are realised.

Reserve for pensions

In accordance with IAS 19 (rev. 2011), actuarial gains/losses (adjusted for the associated deferred tax effect) are recognised in the reserve for pensions and reported in the statement of comprehensive income under other income.

Reserve for generated consolidated equity

This item comprises the gains generated by the Group less distributed profits. A dividend of €0.66 per share and a special dividend of the same amount, corresponding to a total of €8,694.5 thousand, was paid to the shareholders on 28 June 2018.

10.5 Non-controlling interests

Non-controlling interests in the MBB Group result from the equity interests in Aumann AG, Delignit AG, DTS IT AG and Hanke Tissue Sp. z o.o.

Non-controlling interests increased by €20.2 million in the 2018 financial year as a result of the re-placement of shares of Aumann AG.

11. Provisions for pensions and similar obligations

Given the business model of MBB SE, employees' claims to post-employment benefits are not governed at Group level. Regulations on pensions are determined at the level of the individual subsidiaries, resulting in different works agreements. What all pension obligations have in common is that the claim arises even if there is also a claim to the statutory pension. There are pension obligations for Blomberger Holzindustrie GmbH, CT Formpolster GmbH, Aumann Beelen GmbH and Aumann Limbach-Oberfrohna GmbH. The pension agreements are closed, meaning that no further occupational pension agreements are entered into for new appointments.

	31 Dec 2018 €k	31 Dec 2017 €k
Pension provisions at beginning of the financial year	**24,552**	**24,413**
Addition through company acquisition	0	853
Utilisation	-772	-733
Addition to provisions (service cost)	494	532
Addition to provisions (interest cost)	411	395
Actuarial gains (-) /losses (+)	-623	-908
Pension provisions at end of the financial year	**24,062**	**24,552**
- Plan assets	551	577
Pension provision recognised in the balance sheet	**23,511**	**23,975**

The following actuarial assumptions were applied:

	2018	2017
Actuarial interest rate	1.40 - 1.80 %	1.40 - 1.82 %
Salary trend	0.00 - 3.00 %	0.00 - 3.00 %
Pension trend	1.00 - 2.00 %	1.00 - 2.00 %

The post-employment benefit plans are unfunded. The liabilities are equal to the obligation (DBO).

The expenses and income recognised in profit and loss are as follows:

	31 Dec 2018 €k	31 Dec 2017 €k
Addition to provisions (service cost)	-494	-532
Addition to provisions (interest cost)	-411	-395
Total	**-905**	**-927**

The expected pension payments from the pension plans for 2019 amount to €0.8 million.

The maximum potential sensitivity of the total pension obligation to changes in the weighted main assumptions is as follows:

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Interest rate	0.5%	- 9.4%	+ 10.9%
Pension growth rate	0.5%	+ 6.8%	- 6.2%
Life expectancy	+ 1 year	+ 3.65%	-

The sensitivity of the defined benefit obligation to actuarial assumptions was calculated using the same method as the measurement of the pension provision on the statement of financial position. The sensitivity analysis is based on the change in an assumption while all other assumptions remain constant. It is unlikely that this would occur in reality. There could be a correlation between changes in some assumptions.

12. Liabilities

Liabilities have the following maturities:

31 Dec 2018	Up to 1 year €k	More than 1 year and up to 5 years €k	Over 5 years €k	Total €k
Liabilities to banks	22,197	31,276	5,278	58,751
Trade payables	52,565	0	0	52,565
Advance payments received	21,186	0	0	21,186
Provisions with the nature of a liability	18,987	0	0	18,987
Other liabilities	13,405	1,456	0	14,861
Leases Liabilities	2,697	2,431	0	5,128
As at 31 Dec 2018	**131,037**	**35,163**	**5,278**	**171,478**

31 Dec 2017	Up to 1 year €k	More than 1 year and up to 5 years €k	Over 5 years €k	Total €k
Liabilities to banks	13,511	26,758	13,056	53,325
Trade payables	43,333	51	0	43,384
Provisions with the nature of a liability	28,741	0	0	28,741
Other liabilities	20,091	0	0	20,091
Advance payments received	11,101	5,735	0	16,836
Leases Liabilities	2,191	1,671	0	3,862
As at 31 Dec 2017	**118,968**	**34,215**	**13,056**	**166,239**

Liabilities to banks have both fixed and floating interest rates of between 0.7% and 5.6% (previous year: 0.83% and 5.6%). The weighted average interest rate for 2018 is 2.28% (previous year: 1.87%).

Land and buildings, technical equipment, machinery, inventories and receivables were pledged as collateral. The carrying amount of the pledged assets was €41,055 thousand at the reporting date (previous year: €45,865 thousand). Of this figure, €33.0 million relates to property, plant and equipment and €8.1 million to inventories.

13. Other liabilities

Other liabilities are composed as follows:

	31 Dec 2018 €k	31 Dec 2017 €k
Current		
Purchase price USK	4,467	0
Value added tax	2,006	4,781
Debtors with credit balances	1,912	223
Wage tax	1,588	1,189
Wages and salaries	1,448	1,636
Commissions	586	596
Deferred Liability	549	397
Social security benefits	281	506
Consulting and Board	204	310
Liability from capital tax	165	791
Bonus	43	259
Investment grant received	0	3
Miscellaneous	156	410
	13,405	**11,101**
Non-current		
Investment grant received	1,180	1,066
Support funds	187	202
Bonus	89	0
Purchase price USK	0	4,467
	1,456	**5,735**
Total	**14,861**	**16,836**

14. Provisions

14.1 Other provisions

Other non-current and current provisions as well as provisions with the nature of a liability are composed as follows:

	31 Dec 2017	Utili-sation	Re-versal	Addition	31 Dec 2018
	€k	€k	€k	€k	€k
Long term Provisions					
Bonus programme	7,752	1	2,509	0	5,242
Partial retirement	919	520	12	496	883
Anniversaries	275	19	17	21	260
Death grants	13	13	0	15	15
	8,959	**553**	**2,538**	**532**	**6,400**
Accruals and short term provisions					
Project completion costs	10,193	6,464	2,996	8,019	8,752
Variable salary and commission	6,220	3,765	246	2,913	5,122
Outstanding invoices	6,137	4,726	43	3,809	5,177
Warranty costs	4,355	1,537	836	2,209	4,191
Staff costs	3,550	3,384	20	4,944	5,090
Holiday	3,107	2,232	0	2,349	3,224
Provision for onerous contracts	2,539	2,354	0	131	316
Accounting and audit costs	472	451	17	467	471
Reduction inearnings	198	197	0	210	211
Employers' liability insurance association	194	192	2	258	258
Flexitime	178	178	0	67	67
Contractural penalty	10	0	0	0	10
Miscellaneous	521	126	26	170	539
	37,674	**25,606**	**4,186**	**25,546**	**33,428**
	46,633	**26,159**	**6,724**	**26,078**	**39,828**

The provision for subsequent costs relates to various projects at the Aumann Group that are already complete and for which the final invoice has been issued, but which are still subject to costs for follow-up work and fault remediation. The bonus programme for Executive Management is described under VII.2. Executive body remuneration.

The outflow of economic resources for current provisions is expected in the following year.

14.2 Tax provisions

Tax provisions break down as follows:

	31 Dec 2018	31 Dec 2017
	€k	€k
Corporate income tax	1,405	1,178
Trade income tax	1,350	1,853
Carrying amount as at 31 Dec.	**2,755**	**3,031**

15. Lease and rental obligations

15.1 Operating leases and rent

	31 Dec 2018 €k	31 Dec 2017 €k
As at the balance sheet date, the Group has outstanding obligations from non-cancellable operating leases that are due as follows:		
Up to one year	871	992
More than one year and up to five years	664	996
Over five years	7	0
	1,542	**1,988**
As at the balance sheet date, the Group has outstanding obligations from rent due as follows:		
Up to one year	1,587	1,684
More than one year and up to five years	972	1,654
Over five years	0	142
	2,559	**3,480**
Expenses during review-period from operating leases and rent	3,962	2,930

The minimum lease payments from operating leases essentially relate to the use of cars. The leases are entered into with an average term of 36 months.

15.2 Finance leases

The MBB Group leases certain technical equipment and machinery, as well as operating and office equipment, under finance leases. Under these leases, the Group predominantly has the option to acquire the assets at the end of the lease.

The following assets are used under finance leases:

	2018 €k	2017 €k
Technical equipment and machinery		
Cost on 1 Jan	8,064	7,762
Additions	0	308
Disposals	0	-6
Cost on 31 Dec	**8,064**	**8,064**
Write-downs on 1 Jan	-4,943	-3,924
Additions	-203	-1,019
Disposals	0	0
Write-downs on 31 Dec	**-5,146**	**-4,943**
Carrying amount as at 31 Dec	**2,918**	**3,121**
Operating and office equipment		
Cost on 1 Jan	394	394
Additions	0	0
Disposals	0	0
Cost on 31 Dec	**394**	**394**
Write-downs on 1 Jan	-328	-275
Additions	-46	-53
Disposals	0	0
Write-downs on 31 Dec	**-374**	**-328**
Carrying amount as at 31 Dec	**20**	**66**

The future minimum lease payments for the finance leases described above break down as follows:

	up to 1 year €k	between 1 and 5 years €k	More than 5 years €k
Lease payments	2,743	2,472	0
Discounts	46	41	0
Present values	**2,697**	**2,431**	**0**

III. Notes to the statement of comprehensive income

1. Revenue

Revenue amounted to €506.6 million in the 2018 financial year (previous year: €403.1 million). Revenue of €285.2 million (previous year: €200.9 million) relates to contracts with Aumann Group customers that are accounted for over time.

Revenue development is discussed in the management report. Segment reporting for revenue is structured primarily by business segment and secondly by geographic segment.

2. Other operating income

	2018 €k	2017 €k
Income from		
sale of securities	4,945	3,500
the reversal of provisions	4,766	1,107
own work capitalised	2,950	3,408
government grants	446	47
insurance compensations	438	1,791
the reversal of valuation allowances on receivables	162	156
other periods	150	61
sale of fixed assets	64	277
exchange rate gains	57	442
Miscellaneous	1,425	691
Total	**15,403**	**11,480**

3. Other operating expenses

	2018 €k	2017 €k
Maintenance expenses	6,313	5,389
Rental agreements and leasing	3,962	2,973
Travel costs/vehicle costs	3,844	3,301
Other services	2,490	2,380
Legal and consulting	2,018	2,044
Advertising costs	1,300	1,105
Insurance	1,022	879
Costs for telephone, post and data communication	734	677
Contributions and fees	615	436
Incidental costs for monetary transactions	541	484
Foreign currency losses	457	415
Office supplies	407	385
Training	407	295
Expenses from securities transactions	287	1,088
Loss of receivables and bad debt allowances	267	603
Previous periods	25	15
Expenses from the disposal of non-current assets	19	80
Warranty expenses	10	111
Miscellaneous	3,382	2,293
Total	**28,100**	**24,953**

4. Finance income

	2018 €k	2017 €k
Other interest and similar income	315	95
Interest and similar income from securities transactions	196	279
Total	**511**	**374**

5. Finance costs

	2018 €k	2017 €k
Bank interest	1,278	1,299
Bank guarantees commissions	439	359
Interest expense from pension	411	410
Other interest and similar expenses	97	111
Interest expense from finance leasing	14	16
Total	**2,239**	**2,195**

6. Taxes

Details on deferred tax assets and liabilities can be found under I.4.17 b) “Deferred taxes”. In recognising deferred taxes, an income tax rate of 30% is applied as the basis for German subsidiaries, while the future local tax rate is applied for foreign subsidiaries. The income tax rate is 19% in Poland and 25% in China.

The reconciliation of income tax expense and the accounting net profit multiplied by the Group's applicable tax rate for the 2018 and 2017 financial years is as follows:

	2018 €k	2017 €k
Corporate income tax	4,290	1,321
Trade income tax	2,625	842
Deferred taxes	2,356	5,044
Total	**9,271**	**7,207**

	2018 €k	2017 €k
Consolidated income before taxes and non-controlling interests	36,516	17,448
Income taxes	9,271	7,207
Current tax rate	**25.4%**	**41.3%**

	2018 €k	2017 €k
Earnings before taxes (EBT)	36,892	17,863
Other taxes	-375	-415
Applicable (statutory) tax rate	30.0%	30.0%
Expected tax expense	**10,955**	**5,234**
Differences from foreign tax rates and special tax schemes	92	-124
Income from the sale of securities	-1,038	-748
Unused defered tax losses	-987	2,617
Other tax effects	249	228
Current tax expense	**9,271**	**7,207**

7. Earnings per share

Earnings per share are calculated by dividing the net profit attributable to the holders of shares in the parent company by the weighted average number of shares outstanding during the year.

	2018	2017
Result attributable to the holders of shares in the parent company before adjustments (in €)	15.391.568	4.656.011
Weighted average number of shares to calculate the earnings per share	6.586.775	6.586.775
Earnings per share (in €)	**2,34**	**0,71**

IV. Segment reporting

1. Information by segment

Segment reporting was prepared using IFRS 8 (Operating Segments), under which operating segments are defined as the components of an entity for which discrete financial information is available and under which the segment's operating results are reviewed regularly by the segment's chief operating decision maker to allocate resources to the segment and assess its performance. MBB's management divides the segments internally as follows:

Technical Applications

This segment contains those subsidiaries whose business model reflects customer-specific requirements to a large extent and where the expertise and consulting sold along with the product constitute a significant portion of the work performed. The segment consists of the companies of the Delignit Group and the Aumann Group.

The Aumann Group is a world-leading manufacturer of innovative speciality machinery and automated production lines with a focus on e-mobility. The company combines unique winding technology for the highly efficient production of electric motors with decades of automation experience, particularly in the automotive industry. Leading companies around the world rely on Aumann solutions for the series production of purely electric and hybrid vehicle drives, and for solutions for production automation. In Germany, the Aumann Group has locations in Beelen, Espelkamp, Limbach-Oberfrohna and Berlin. It has also a location in Changzhou (China) since June 2013. The main aim of the location in China is to offer the local manufacturing and servicing of systems for Chinese production sites to customers of the German Aumann companies. In addition, the company serves Asian customers that are not part of the German Aumann companies' customer base but that require technologically advanced system solutions for manufacturing high-quality products. There is also a sales and service site in Kansas City (USA).

The energy transition towards more e-mobility is a central issue in the public debate. The market has been experiencing massive growth momentum since almost all vehicle manufacturers have decided to focus their development on electric vehicles and announced billion-euro investment programmes. The combination of superior winding technology and decades of automation expertise gives Aumann a significant opportunity to benefit from this momentum. To assist in this development, Aumann AG went public in March 2017 and has since been listed in the Prime Standard of Deutsche Börse. Aumann AG has also been included in Deutsche Börse's SDAX selection index since June 2018.

The Aumann Group is one of the few market participants capable of offering highly automated production lines for the full assembly and production of all key traction engine components from a single source: battery module, battery tray, fuel cell, rotor and stator with various winding technologies or alternative manufacturing methods. Aumann naturally also offers special-purpose machinery and automated lines for the production of drive components for combustion engines and light-weight components that allow the OEMs that use these components to reduce the CO_2 emissions of their fleet. The Aumann Group's range also includes assembly and logistics solutions for electrical engineering, consumer electronics and specific solutions for other sectors.

In 2018, the Aumann Group increased its external revenue by 38.2% to €290.8 million (previous year: €210.4 million), thereby accounting for 57.4% (previous year: 52.2%) of MBB SE's consolidated revenue. Order intake for the year as a whole was up slightly year-on-year at €290.9 million (previous year: €282.3 million), while the order backlog at year-end amounted to €204.2 million (previous year: €204.2 million). The management of Aumann AG expects to see a slight increase in revenue and EBIT in 2019 and comfortably double-digit average growth rates over the next five years.

The Delignit Group, which was formed more than 200 years ago, develops and manufactures ecological materials and system solutions primarily based on hardwood. Delignit is a recognised development and project partner and series supplier for technology industries such as the automotive, aviation and rail sectors. The products have special technical properties and are used in built-in systems for commercial vehicles, fire-safe building facilities and innovative materials handling technology, among other things. The Delignit material is generally based on beech wood and is lifecycle carbon-neutral, making it ecologically superior to non-regenerative materials such as plastic or steel. Since 2013, Delignit has been strengthened by the addition of DHK automotive GmbH and HTZ Holztrocknung GmbH, both of which are domiciled in Oberlungwitz. HTZ Holztrocknung GmbH was merged into DHK automotive GmbH in the year under review. Furthermore, Delignit North America Inc. was founded in 2017 to leverage growth opportunities in the NAFTA region.

The Delignit Group increased its external revenue by 14.4%, from €52.7 million in the previous year to €60.3 million in the year under review, thereby accounting for 11.9% (previous year: 13.1%) of MBB SE's consolidated revenue. The renewed growth was driven by OEM business, in which high growth rates were generated from the ramp-up of the new series production contracts. Delignit also received its first series order in the caravan segment from a major German automotive group in the 2018 financial year.

Industrial Production

The Industrial Production segment contains all subsidiaries whose strengths are concentrated on the industrial manufacture of their products and whose products are relatively standardised. Accordingly, this segment contains the subsidiaries Hanke, CT Formpolster and OBO.

Hanke produces tissue mother rolls, napkins, handkerchiefs, toilet paper and kitchen rolls. Operating under the brand name of "aha", the company has a strong competitive position in the Eastern Europe consumer product market. Hanke also produces white and coloured tissue paper for various private labels in Europe. The centrepiece of these activities is the company Hanke Tissue Sp. z o.o., Kostrzyn, Poland, which was acquired by MBB SE in 2006.

Since being acquired by MBB SE, Hanke has invested significantly in its machinery and buildings, allowing it to achieve considerable growth and expand its leading market position. Continuous investment is intended to increase conversion capacity in particular over the coming years, which will have a positive impact on the company's margin.

In 2018, Hanke contributed €47.5 million (previous year: €44.5 million) or around 9.4% (previous year: 11.0%) to consolidated revenue. This corresponds to a year-on-year increase of 6.9%. The sharp rise in the price of cellulose, the most important raw material for Hanke's products, meant that profitability fell below expectations in 2018. However, the commodity situation improved slightly in the fourth quarter. Combined with price rises for end products, this is likely to lead to a tangible upturn in profitability in 2019.

CT Formpolster GmbH manufactures flexible polyether foams and is growing by expanding the degree of its vertical integration. As mattresses are increasingly finding their way to the end customer via online retailers, CT Formpolster has recently developed from a foam producer into a one-stop shop for mattresses. As part of this digital upheaval in the mattress industry, many providers are looking for innovative offers to meet changing customer expectations. CT Formpolster has long been producing high quality foams for this. However, what is increasingly setting the company apart from its competitors is the expertise needed to design and produce complete customer products, including mattress covers, in series. Having established this, the logistics capability to deliver mattresses directly to consumers within a few hours or days in compact boxes is at least just as important.

CT Formpolster can look back on an excellent year in terms of revenue development. External revenue increased by 21.4%, from €29.8 million in the previous year to €36.2 million in the year under review. CT Formpolster accounted for 7.1% of MBB's consolidated revenue (previous year: 7.4%). However, margins in the year under review were impacted by extremely high prices for polyurethane raw materials and some non-recurring effects.

OBO Werke GmbH is a global provider of polyurethane and epoxy resin-based materials for tooling applications. With a market share of around 8%, it is one of the leading providers in the industry. OBO has been part of the MBB Group since 2003. It primarily supplies intermediaries, as well as model builders, auto manufacturers, foundries and other processing companies directly. OBO has developed positively in recent years. Its growth is due to the acquisition of the European tooling, block and paste area of its long-term partner Huntsman Advanced Materials in 2014 on the one hand and, on the other, the expansion of its PU board business.

OBO Werke GmbH contributed 3.9% to the MBB Group's total revenue in the 2018 financial year (previous year: 5.0%). External revenue in 2018 was essentially unchanged year-on-year at €20.0 million (previous year: €20.2 million). Increased commodity prices in the year under review also meant below-average profitability at OBO.

Trade & Services

The Trade & Services segment comprises the DTS Group, whose companies specialise in IT security and cloud services. In IT security, DTS customers benefit from products and services that increase security in corporate networks. Since 2018, this has included the Security Operations Center (SOC), where DTS security specialists monitor customer systems for anomalies and attacks around the clock. This is particularly important because many network attacks take place overnight, whereas most companies cannot ensure 24/7 monitoring.

The original company, DTS Systeme GmbH, was formed in 1983 and is headquartered in Herford, where it operates the Group's main data centre. With sales and service offices in Bensheim, Berlin, Bochum, Bremen, Cologne, Hamburg, Hanover, Munich and Nuremberg, the German sales network has been extended throughout most of the country since the majority acquisition by MBB in 2008. ICSmedia GmbH, Münster, was acquired in August 2010. ICSmedia GmbH has its own data centre and works in close cooperation with DTS Systeme GmbH to offer state-of-the-art, high-quality cloud computing solutions and high-end consulting services. In 2015, DTS made its first steps outside Germany with the formation of ACoN-IT GmbH, Vienna, in order to enable the DTS Group to also offer security and cloud services in particular in Austria. In the year under review, this European presence was expanded further with the formation of DTS CLOUD SECURITY MonEPE, Athens. Highly specialised experts based in Greece work with their German colleagues in international and interdisciplinary teams to protect the IT landscapes of their local customers against attacks, analyse network activities and immediately initiate countermeasures when attacks are discovered.

The close integration between DTS and leading developers of security products is illustrated by the fact that it was again named Partner of the Year in Central Europe by Palo Alto Networks. It has received further awards in the field of IT security as well, such as Partner of the Year in the DACH region of the also internationally renowned company Proofpoint.

Even following strong growth in recent years, the DTS Group improved its revenue performance once again in 2018. Revenue amounted to €51.8 million in the year under review compared with €45.5 million in the previous year. This corresponds to an increase of 13.8%.

This is all the more remarkable as the DTS Group generated the vast majority of the additional revenue in the strategic business areas of cybersecurity, cloud services and managed services. As well as offering attractive market growth, these business areas are characterised by their above-average profitability and recurring nature. The DTS Group therefore contributed 10.2% to the MBB Group's revenue (previous year: 11.3%). This was accompanied by above-average growth in profitability: EBITDA rose from €4.1 million in the previous year to €5.4 million in the year under review.

Segment results

The accounting policies applied in segment reporting are as described under I. 4. Segment earnings are based on the EBIT of the individual segments, as this is the basis on which the segments are managed. Segment earnings are based on the EBIT of the individual segments, as this is the basis on which the segments are managed. Transfer pricing between the operating segments is calculated on an arm's-length basis.

1 Jan - 31 Dec 2018	Technical applications €k	Industrial production €k	Trade & services €k	Recon-ciliation €k	Group €k
Revenue from third parties	351,078	103,738	51,774	0	506,590
Other segments	11	149	506	-666	0
Total revenue	**351,089**	**103,887**	**52,280**	**-666**	**506,590**
Earnings (EBIT)	**30,603**	**548**	**2,361**	**5,108**	**38,620**
Amortisation and depreciation	7,416	4,839	3,075	44	15,374
Investments	9,799	6,340	8,935		
Segment assets	**253,789**	**64,826**	**19,785**		
Segment liabilities	**119,301**	**17,230**	**8,455**		

1 Jan - 31 Dec 2017	Technical applications €k	Industrial production €k	Trade & services €k	Recon-ciliation €k	Group €k
Revenue from third parties	263,042	94,521	45,514	0	403,077
Other segments	0	131	276	-407	0
Total revenue	**263,042**	**94,652**	**45,790**	**-407**	**403,077**
Earnings (EBIT)	**23,021**	**3,169**	**1,850**	**-8,330**	**19,710**
Amortisation and depreciation	4,425	3,790	2,176	45	8,013
Investments	12,274	9,012	3,239		
Segment assets	**239,584**	**64,669**	**13,272**		
Segment liabilities	**122,502**	**19,169**	**7,462**		

Investments include payments for property, plant and equipment and intangible assets.

Segment assets do not include any deferred tax assets, current funds or financial assets. Segment liabilities do not include any deferred tax liabilities, provisions for taxes, lease liabilities, or liabilities to banks.

The income and expenses of the holding company not derived from transactions with subsidiaries are included in the reconciliation to consolidated EBIT. In particular, this includes income and expenses from securities and Executive Management remuneration.

Reconciliation of EBIT to net profit for the year	2018 €k	2017 €k
Total EBIT of the segments	**33,512**	**28,040**
Reconciliation to Group EBIT	5,108	-8,330
Net finance costs	-1,728	-1,847
EBT	36,892	17,863
Taxes on income	-9,271	-7,207
Other taxes	-375	-415
PAT (profit after tax)	27,246	10,241
Non Controlling Interests	-11,854	-5,585
Net profit for the period	**15,392**	**4,656**

Reconciliation of segment assets to assets	2018 €k	2017 €k
Technical Applications segment	253,789	239,584
Industrial Production segment	64,826	64,669
Trade & Services segment	19,785	13,272
Total segment assets	**338,400**	**317,525**
Deferred tax assets	6,972	9,772
Current funds	316,745	241,592
Financial assets	59,459	37,621
Other assets	4,081	4,719
Total assets	**725,657**	**611,229**

Reconciliation of segment liabilities to equity and liabilities	2018 €k	2017 €k
Technical Applications segment	119,301	122,502
Industrial Production segment	17,230	19,169
Trade & Services segment	8,455	7,462
Total segment liabilities	**144,986**	**149,133**
Consolidated equity	499,292	385,057
Deferred tax liabilities	7,780	6,384
Tax provision	2,755	3,031
Liabilities to banks	58,751	53,325
Leasing liabilities	5,128	3,862
Other equity and liabilities	6,965	10,437
Total equity and liabilities	**725,657**	**611,229**

2. Information by region

2.1 Revenue from external customers

	2018 €k	2017 €k
Europe	429,643	368,803
China	31,985	16,928
NAFTA	34,806	7,074
Miscellaneous	10,156	10,272
Total	**506,590**	**403,077**

The NAFTA region comprises Canada, the US and Mexico.

2.2 Non-current assets

The MBB Group's non-current assets are predominantly located in Europe. The non-current assets of our subsidiaries in China and the US amounted to €168.6 thousand at year-end (previous year: €178.5 thousand).

3. Information on main customers

No single customer contributed more than 10% of consolidated revenue in the 2018 and 2017 financial years.

V. Notes to the consolidated statement of cash flows

The statement of cash flows is presented separately. It shows the changes in cash and cash equivalents at the MBB Group. The reported cash and cash equivalents are not subject to any third-party restrictions. The Group made no payments for extraordinary transactions. Payments for income taxes and interest are reported separately. The statement of cash flows was prepared in accordance with IAS 7 and breaks down the changes in cash and cash equivalents into cash flows from operating, investing and financing activities. Cash flow from operating activities is presented using the indirect method.

The following table shows the changes in liabilities from financing activities.

	Non-current liabilities to banks €k	Current liabilities to banks €k	Non-current lease liabilities €k	Current lease liabilities €k	Total €k
Balance sheet as of 01 01 2018	**39,814**	**13,511**	**1,671**	**2,191**	
Borrowing	3,900	12,773	831	1,362	18,866
Redemption	-6,403	-4,301	-41	-1,197	-11,942
cash effective cash flow changes	**-2,503**	**8,472**	**790**	**165**	**6,924**
Changes in exchange rates	-288	-169	-26	-63	-546
Reclassifications	-469	469	-4	4	0
Others	0	-86	0	400	314
non cash effective cash flow changes	**-757**	**214**	**-30**	**341**	**-232**
Balance sheet as of 31 12 2018	**36,554**	**22,197**	**2,431**	**2,697**	

VI. Objectives and methods of financial risk management

1. Financial assets and financial liabilities

The Group's financial liabilities mainly include current and non-current liabilities to banks, current trade payables and other current and non-current liabilities. The Group's financial assets essentially consist of cash, gold reserves, securities and trade receivables. The carrying amount of the financial assets less impairment losses reported in the consolidated financial statements represents the maximum exposure to credit risk; this totalled €455,918 thousand in the year under review (previous year: €324,150 thousand). Business relationships are only entered into with partners of good credit standing. Trade receivables relate to a number of customers across various industries and regions. Ongoing credit assessments of the financial level of the receivables are performed. Payment terms of 30 days without deduction are usually granted. Impairment was not recognised for trade receivables that were past due at the end of the reporting period if no material changes in the customer's creditworthiness were observed and it is assumed that the outstanding amount will be paid.

Please see II.12 "Liabilities" and II.13 "Other liabilities" for details of the maturities of financial liabilities.

The measurement of the financial assets and liabilities of the MBB Group is shown under I.4.10 "Financial investments and other financial assets" and I.4.13 "Financial liabilities" and in the discussion of the general accounting policies.

2. Capital risk management

The Group manages its capital (equity plus liabilities less cash) with the aim of achieving its financial goals while simultaneously optimising its finance costs by way of financial flexibility. In this respect, the overall strategy is the same as in the previous year.

The management reviews the capital structure at least once every half-year. The cost of capital, the collateral provided, open lines of credit and available credit facilities are reviewed.

The capital structure in the year under review was as follows:

	31 Dec 2018	31 Dec 2017
Equity in €k	499,292	385,057
- in % of total capital	68.8%	63.0%
Liabilities in €k	226,365	226,172
- in % of total capital	31.2%	37.0%
Current liabilities in €k	148,233	139,583
- in % of total capital	20.4%	22.8%
Non-current liabilities in €k	78,132	86,589
- in % of total capital	10.8%	14.2%
Net gearing*	-0.6	-0.6

* Calculated as the ratio of financial liabilities less cash, securities and physical gold reserves to equity.

The agreement of multiple financial covenants when borrowing loans means that the Group and individual subsidiaries are required to comply with certain equity ratios.

3. Financial risk management

Financial risk is monitored centrally by the management. The individual financial risks are reviewed at least four times per year.

The material Group risks arising from financial instruments include liquidity risks and credit risks. Business relationships are only entered into with partners of good credit standing.

Assessments from independent rating agencies, other financial information and trading records are used to assess credit, especially for major customers. In addition, receivables are monitored on an ongoing basis to ensure that the MBB Group is not exposed to major credit risks. The maximum default risk is limited to the respective carrying amounts of the assets reported in the statement of financial position.

The Group manages liquidity risks by holding appropriate reserves, monitoring and maintaining loan agreements and planning and coordinating cash inflows and outflows.

4. Market risks

Market risks can result from changes in exchange rates (exchange rate risks) or interest rates (interest rate risks). Based on the estimate of exchange rate risks, the Group uses derivative financial instruments, e.g. currency futures, to a limited extent. The Group's invoices are essentially issued in euro or the respective local currency, thereby largely avoiding exchange rate risks.

The Group is exposed to interest rate risks as a result of borrowing at floating interest rates. The MBB Group manages these risks by maintaining an appropriate ratio between fixed and floating interest rate agreements. There is no hedging involving derivatives (e.g. interest rate swaps or interest r ate futures). The Group had liabilities with floating interest rates in the amount of €22,569 thousand as at the end of the reporting period. If, all else being equal and assuming corresponding average indebtedness, interest rates had been two percentage points higher (lower), pre-tax earnings would have been €451.4 thousand lower (higher).

5. Fair value risk

The financial instruments of the MBB Group that are not carried at fair value are primarily cash, trade receivables, other current assets, liabilities to banks, trade payables and other liabilities. The carrying amount of cash is extremely close to its fair value on account of the short terms of these financial instruments. For receivables and liabilities with normal credit conditions, the carrying amount based on historical cost is also extremely close to fair value.

6. Price risk

The listed equity and debt instruments held by the Group are subject to the market price risk resulting from the uncertain future value development of these securities. The Group manages price risk through diversification and by limiting its investments in individual instruments. Group management is provided with regular reports on the portfolio. Company management examines and approves all decisions concerning investments in these instruments.

7. Liquidity risk

Liquidity risk describes the risk that the Group will be unable to meet its obligations on maturity. The high level of cash and cash equivalents means there is no liquidity risk from financial liabilities. Responsibility for liquidity risk management ultimately lies with the Executive Management and the managing boards and managing directors of the subsidiaries, each of which has established an adequate concept for managing short-term and long-term financing and liquidity requirements. The Group and its subsidiaries manage liquidity risks by maintaining adequate reserves, permanently monitoring forecast and actual cash flows and coordinating the maturity profiles of financial assets and liabilities.

VII. Other required information

1. Executive bodies

In line with the one-tier structure, MBB SE is represented by a Board and the Executive Management. In a one-tier system, management is not institutionally separate from monitoring, and instead both functions are performed by the Board.

Board:

Gert-Maria Freimuth, businessman, Chairman

Dr Peter Niggemann, lawyer, Deputy Chairman

Anton Breitkopf, businessman, member since 18 July 2018

Dr Christof Nesemeier, businessman, member of the Board and member of the Executive Management

Gert-Maria Freimuth is also the Chairman of the Supervisory Board of Aumann AG and DTS IT AG in addition to being the Deputy Chairman of the Supervisory Board of Delignit AG.

Anton Breitkopf is a member of the Supervisory Board of Delignit AG and Deputy Chairman of the Supervisory Board of DTS IT AG.

Dr Christof Nesemeier is the Chairman of the Supervisory Board of Delignit AG and, since 20 June 2018, a member of the Supervisory Board of Aumann AG.

Executive Management:

Dr Christof Nesemeier, businessman, Chief Executive Officer (CEO)

Klaus Seidel, businessman, Chief Operating Officer (COO)

Dr Constantin Mang, businessman, Chief Investment Officer (CIO) since 1 July 2018

Anton Breitkopf, businessman, Chief Financial Officer (CFO) until 28 June 2018

Dr Gerrit Karalus, businessman, Chief Investment Officer (CIO) until 30 June 2018

Klaus Seidel was a member of the Supervisory Board of Aumann AG until 20 June 2018 and is a member of the Supervisory Board of DTS IT AG.

On 9 March 2018, the Board of MBB SE appointed a new management team effective 1 July 2018 in light of the upcoming expiry of the Executive Management's contracts as at 30 June 2018.

Dr Christof Nesemeier, CEO (Chief Executive Officer) and Board member of MBB, remains responsible for management and the areas of Strategy, Capital Allocation and Finance. Klaus Seidel, CTO (Chief Technical Officer) until 30 June 2018 and a member of MBB's management since 1999, assumed responsibility for the development of the investment portfolio as COO (Chief Operating Officer) alongside his responsibility for Technology Development and Legal. Dr Constantin Mang, who has worked for the MBB Group since 2014, was appointed to the Executive Management for the first time as CIO (Chief Investment Officer) in charge of Mergers & Acquisitions and Investor Relations. The Board concluded the Executive Management contracts for the period from 1 July 2018 to 30 June 2021.

Mr Anton Breitkopf stepped down from his Executive Management position (CFO, Chief Financial Officer), which was due to expire on 30 June 2018, at his own request on 28 June 2018 and was elected to the Board by the Annual General Meeting on 28 June 2018. He was appointed until the end of the Annual General Meeting resolving on the approval of the actions of the members of the Board for the 2020 financial year, and in any case until 8 March 2021 at the latest.

At his own request, Dr Gerrit Karalus did not renew his contract following its expiry on 30 June 2018.

2. Executive body remuneration

Structure of Executive Management remuneration

The remuneration packages for the members of Executive Management are determined in line with their respective function. They are composed of the following three main components:

- fixed basic annual remuneration,
- short-term variable remuneration based on the financial year, and
- long-term variable remuneration tied to MBB SE's share price performance and the beneficiary remaining in employment with MBB SE until the allocation date.

Basic salary and fringe benefits

The basic salary takes the form of fixed remuneration paid in twelve monthly instalments. Remuneration in kind and fringe benefits primarily include insurance contributions, travel costs and other fringe benefits. A D&O insurance policy with a deductible and accident insurance have also been taken out. The CEO is also entitled to an extended package of benefits in kind, including the provision of company cars and the payment of any taxes and duties on benefits in kind.

Short-term variable remuneration (Short Term Incentive Plan)

Starting from the 2018 financial year, members of the Executive Management who are not also members of the Board receive variable remuneration in the form of a collective bonus calculated as follows:

The assessment base for the voluntary variable bonus is a percentage of the amount by which the equity of MBB SE at the end of each financial year (final value) exceeds the equity at the beginning of the financial year (starting value). In each case, equity comprises the items set out in section 266 (3a) HGB. The calculation of the final value and the starting value is based on the latest audited annual financial statements with the following modifications: Assets with a stock exchange price are recognised at this price. Sales of assets in which MBB SE holds more than 5% are not taken into account. Any form of expenses in connection with the remuneration and any form of compensation to Board members, e.g. for their activity as members of Executive Management or as consultants, that are borne by MBB SE are not taken into account. Dividend distributions during the year and repayments of equity must be added to the final value, while additions to the equity must be deducted from it.

The bonus pot is calculated as a percentage of the assessment base: 2018: 4.6%, 2019: 4.3%, 2020 onwards: 4.0%. If the assessment base is negative, the bonus pot is calculated as 2% of the dividend of MBB SE paid in the respective financial year. Voluntary annual payments by MBB SE to its employees are deducted from the bonus pot. The amount of the voluntary payments by MBB SE is proposed to the Board by the Executive Management.

Dr Christof Nesemeier, member of the Executive Management and the Board, receives a bonus of 3% of the same assessment base; his Executive Management remuneration is not counted towards the assessment base.

The finalisation of the allocation ratio, the amount of the bonus and the establishment of the bonus entitlement for the respective member of the Executive Management are determined at the reasonable discretion of the Board at the first ordinary Board meeting after the end of the financial year; this may also result in a bonus of €0, for example.

Applying the principles of section 87 AktG in its current version, the company reserves the right to modify the assessment base, including limiting the loss carryforward and/or introducing additional multi-year assessment bases. This is done at the reasonable discretion of the Board on the basis of the statutory guidelines.

Long-term bonus programme (Long Term Incentive Plan)

In December 2013 MBB SE introduced a long-term bonus programme based on the share price, against payment for management and free of charge for employees, in order to reinforce its long-term investment nature as a family-owned, medium-sized group listed in the Prime Standard of the Frankfurt Stock Exchange. The business model of MBB SE is largely based on the use of qualified, committed managers. This model is intended to incentivise them to sustainably increase the value of MBB while ensuring that they remain with the company in the long term.

The nature and extent of the plan are redefined each year. No regulation was devised for the 2016 bonus year owing to the planned IPO of Aumann AG and the associated special agreement. Similarly, the Board did not set up a new tranche in the 2018 financial year.

The value of virtual options is calculated for the share price-based bonus programme. When the virtual options mature, the beneficiary receives no physical shares and instead the value of the virtual options is settled in cash.

The method for the current bonus programme is: the 90-day average price before 15 December in the year the options are issued is set as the reference price (P1). If the average share price for the 90 days prior to the third 15 December after the issue date falls below the reference price plus dividends paid and assumed to have been reinvested (performance price P2), the option is extinguished (knock-out). If performance price P2 on this date is higher than the reference price, the intrinsic value (IV) of the option is fixed in accordance with the formula (P2-P1)/P2=IV and the option term continues until the fifth 15 December (allocation date) and the issue date. On this date the option is settled at its allocation value (AV) based on the average price for the 90 days prior to this date plus dividends paid and assumed to have been reinvested (performance price P3) in accordance with the formula AV=IV*P3. This figure is multiplied by the number of virtual options and converted into shares at the allocation value. Settlement is in cash.

The beneficiary must be in a non-terminated employment or other service relationship with MBB SE throughout the term of the virtual option, and on the allocation date in particular; if this is not the case the option expires without substitution. MBB SE can agree to postpone the delivery date by one year, on one or more occasions, providing the service relationship remains in place.

Ultimately, the beneficiaries have a strong incentive to remain with the company in the longer term in order to participate in its positive share price performance. If they leave the company prior to the allocation date or the share price develops negatively, however, they bear the risk up to and including the loss of the option premium paid.

Board

Fixed remuneration for Board members was expensed in the amount of €61,000.00 in the year under review; no variable remuneration was granted. The Annual General Meeting on 28 June 2018 resolved to revise the remuneration of the Board in accordance with the recommendations of item 5.4.6 of the German Corporate Governance Code. Accordingly, the Chairman of the Board receives remuneration of €15,000.00, the Deputy Chairman receives remuneration of €7,500.00 and the other members receive remuneration of €5,000.00 per meeting. Until 28 June 2018, the meeting attendance fee was €1,500 per Board member per meeting. In exchange, the variable remuneration of the Board was eliminated. Dr Christof Nesemeier's remuneration entitlement as a member of the Board is covered by his Executive Management remuneration.

At its meeting on 28 June 2018, the Board also concluded consulting contracts for specific individual projects with Gert-Maria Freimuth and Anton Breitkopf. These go beyond the extent of their responsibility as members of the executive bodies. Mr Gert-Maria Freimuth receives a daily rate of €2,000.00 (previously €1,250.00) within an annual budget of €140,000.00, while Mr Anton Breitkopf receives a daily rate of €1,000.00 within an annual budget of €100,000.00. An amount of €103,750.00 for Mr Gert-Maria Freimuth and €37,000.00 for Mr Anton Breitkopf was expensed in the 2018 financial year under the terms of these contracts.

Amount of remuneration for the 2018 financial year

The following tables show the individual remuneration of the members of the Executive Management for the financial year under review and the previous year.

2018 Remuneration (€k)	fixed	variable	Benefits in kind	Supervisory Board remuneration[1]	Consul-ting fees	Total
Executive Management						
Dr Christof Nesemeier	413	98	37	29	0	577
Klaus Seidel	209	53	0	9	0	271
Dr Constantin Mang[2]	90	53	0	0	0	143
Anton Breitkopf[3]	95	0	0	10	0	105
Dr Gerrit Karalus[3]	95	0	0	0	0	95
Board						
Gert-Maria Freimuth	33	0	0	38	104	175
Dr Peter Niggemann	18	0	0	0	0	18
Anton Breitkopf[2]	10	0	0	0	37	47
Dr Christof Nesemeier	0	0	0	0	0	0

[1] Remuneration relate to work in the Supervisory Board of Delignit and Aumannn

[2] since1 July 2018

[3] until 30 June 2018

	fixed	Bonus 2017	variable IPO Bonus	Long term Bonus 2013	Supervisory Board remuneration[1]	Consul-ting fees	Total	Provison for VAT
Executive Management								
Dr Christof Nesemeier	285	696	2,339	2,973	20	0	6,313	363
Anton Breitkopf	167	696	2,339	1,487	10	0	4,699	363
Dr Gerrit Karalus	190	696	2,339	496[2]	0	0	3.721[2]	363
Klaus Seidel	190	696	2,339	1,487	18	0	4,730	363
Board								
Gert-Maria Freimuth	6	60	0	0	40	69	175	0
Dr Peter Niggemann	6	30	0	0	0	0	36	0
Dr Christof Nesemeier	0	0	0	0	0	0	0	0

[1] Remuneration relate to work in the Supervisory Board of Delignit AG and Aumann AG

[2] conflicted

The provision for possible input tax reimbursement claims from the 2017 financial year in the amount of €363.0 thousand for each of Mr Breitkopf, Dr Karalus, Dr Nesemeier and Mr Seidel remains in place as at 31 December 2018.

With an Executive Director who left the company in 2018, there is a controversial dispute over individual remuneration components. In this case, the Board postponed the decision on the granting of bonuses for the 2018 financial year until clarification.

The virtual options have been broken down among the members of the Executive Management and employees of MBB as follows since 2014:

Total Options	Option programme			Total
	2017	2015	2014	
Dr Christof Nesemeier	13.000	15.000	15.000	43.000
Klaus Seidel	10.000	10.000	10.000	30.000
Dr Constantin Mang	8.000	4.000	2.000	14.000
Anton Breitkopf	10.000	10.000	10.000	30.000
Team	2.000	2.000	2.500	6.500

	2017	2015	2014
Total Options	43.000	41.000	39.500
Basic price (K 1)	98,34	22,82	23,02
90 days average price K3	84,87	84,87	84,87
Knock out price K2	86,10	88,85	89,58
Intrinsic value	0,00	0,74	0,78
Closing price 31 Dec 2017	71,20	71,20	71,20

The total obligation under the long-term bonus programme amounted to €7,752.0 thousand as at 31 December 2017. This obligation decreased by €2,508.6 thousand in the 2018 financial year. Of this figure, €1,139.9 thousand was due to the lower 90-day average price compared with 2017, €1,303.5 thousand was attributable to the obligation arising from the expiry of the contract of a member of the Executive Management in the previous year, and €65.2 thousand was due to a team member giving notice. The provision for the long-term bonus programmes amounted to €5,243.5 thousand as at 31 December 2018 (of which €4,949.1 thousand related to the active members of the Executive Management in the year under review).

The provision for the long-term bonus programme developed as follows in the year under review:

Provision Bonus (€k) €k	31/12/2017	Addition	Utilisation	Reversal	31/12/2018
Executive Management					
Dr Christof Nesemeier	2,291	0	0	336	1,955
Klaus Seidel	1,528	0	0	224	1,304
Dr. Constantin Mang	458	0	0	71	387
Anton Breitkopf	1,528	0	0	224	1,304
Dr Gerrit Karalus	1,528	0	0	1,528	0

Provision Bonus (€k) €k	31/12/2016	Addition	Utilisation	Reversal	31/12/2017
Executive Management					
Dr Christof Nesemeier	1,769	3,495	2,973	0	2,291
Klaus Seidel	956	2,059	1,487	0	1,528
Anton Breitkopf	956	2,059	1,487	0	1,528
Dr Gerrit Karalus	508	1,516	496	0	1,528

3. Related party transactions

Parties are considered to be related if they have the ability to control the MBB Group or exercise significant influence over its financial and operating decisions.

3.1 Related persons

a) Executive Management and Board

Please refer to the information on the remuneration paid to the members of the executive bodies for further details. Other than the remuneration mentioned above, the members of the executive bodies have not entered into any other transactions with the MBB Group.

b) Notification of transactions in accordance with section 15a WpHG

Persons with management duties, especially the members of the Executive Management and the Board of MBB SE, and their related parties in accordance with section 15a of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) are required to disclose their transactions involving shares of MBB SE or related financial instruments. Notifications of relevant transactions are published on our website at www.mbb.com. There were no such transactions in the 2018 financial year.

3.2 Related companies

Subsidiaries are considered to be related companies irrespective of whether they are included in the consolidated financial statements or not. Transactions between the company and its subsidiaries are eliminated in consolidation and are not shown in this note, or are of subordinate significance and typical for the industry. Related companies are also considered to be those companies described as associated with the above related persons. Group companies performed the following transactions with related parties that do not belong to the Group over the course of the year:

Until 30 June 2018, the activities of Dr Christof Nesemeier as a member of the Executive Management (CEO) of MBB SE were remunerated via MBB Capital Management GmbH, Berlin. Since 1 July 2018, Dr Christof Nesemeier has been employed via a contract of employment with MBB SE. Please refer to the above information for the amounts of the variable and fixed remuneration.

The consulting activities of Mr Gert-Maria Freimuth are remunerated by MBB SE via MBB Capital GmbH, Münster, in accordance with the master agreement dated 17 June 2013 and the addendum dated 28 June 2018. Please refer to the above information for the amounts of the variable and fixed remuneration.

4. Employees

The number of employees in the 2018 and 2017 financial years breaks down as follows:

Average number of employees	2018 Headcount	2017 Headcount
Technical Applications	1,417	1,032
Industrial Production	539	521
Trade & Services	181	161
Total	**2,137**	**1,714**

As at the reporting date	31 Dec 2018 Headcount	31 Dec 2017 Headcount
Technical Applications	1,457	1,303
Industrial Production	525	539
Trade & Services	202	164
Total	**2,184**	**2,006**

MBB Group had a total of 143 trainees as at 31 December 2018 who are not included in the above figures.

5. Auditor’s fees

The auditor’s fees recognised in the 2018 financial year break down as follows:

	2018 €k
Audit services	260
Tax consulting services	0
Consulting services	0
Total	**260**

6. Events after the end of the reporting period

In February 2019, the MBB subsidiary DTS IT AG acquired 66% of the shares of ISL Internet Sicherheitslösungen GmbH (ISL). ISL is a leading German software developer in the area of IT security with a focus on Network Access Control (NAC). Well-known companies from industry and retail as well as banks, authorities and research institutions rely on ISL’s ARP-GUARD software to protect their IT infrastructure against the unnoticed intrusion of unauthorised devices and against internal attacks.

On 13 March 2019, the Board of MBB SE resolved to exercise the authorisation granted by the Annual General Meeting on 28 June 2018 to purchase treasury shares and to purchase up to 646,775 treasury shares over-the-counter in the period from 18 March 2019 up to and including 02 April 2019 by way of a voluntary public buyback offer to all shareholders. It was resolved that the buyback would take place at a purchase price (excluding transaction costs) of €89.00 per no-par value bearer share of MBB SE with a notional interest in the share capital of €1.00. On 21 March 2019, the Board of MBB SE resolved to increase the offer price (excluding transaction costs) to €96.00 per share.

There were no other significant events after the end of the reporting period.

7. Other financial obligations

Please refer to note II.15.1 “Operating leases and rent” for information on other financial obligations.

8. Contingent liabilities

Liability obligations can arise under the German Securities Prospectus Act (WpPG) on account of the IPO of Aumann AG in 2017.

9. Declaration in accordance with section 161 AktG

As a listed stock corporation in accordance with section 161 AktG, MBB SE is required to submit a declaration on the extent to which the recommendations contained in the Corporate Governance Code of the German Government Commission have been complied with. The Board submitted the latest version of this declaration on 17 March 2019. It forms part of the management report and is published online at http://www.mbb.com/investor-relations/corporate-governance.html.

10. Responsibility statement

To the best of our knowledge, and in accordance with the generally accepted principles of proper Group financial reporting, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Berlin, 1 April 2019

The Executive Management of MBB SE

Auditor’s report

To MBB SE, Berlin

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

Audit opinions

We have audited the consolidated financial statements of MBB SE and its subsidiaries (the Group), comprising the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January to 31 December 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the consolidated management report of MBB SE, which is combined with the single-entity management report, for the financial year from 1 January to 31 December 2018. We did not audit the contents of the declaration on corporate governance and the consolidated non-financial statement in compliance with German law.

In our opinion, based on the findings of our audit:

- the attached consolidated financial statements, in all material respects, comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law in accordance with section 315e(1) HGB, and give a true and fair view of the net assets and financial position of the Group in accordance with these requirements as at 31 December 2018 and its results of operations for the financial year from 1 January 2018 to 31 December 2018 in accordance with these provisions; and

- as a whole, the attached Group management report provides a suitable view of the Group’s position. The Group management report is consistent with the consolidated financial statements, complies with German legal regulations and suitably presents the opportunities and risks of future development. Our audit opinion on the consolidated management report does not cover the contents of the above-mentioned declaration on corporate governance.

Pursuant to section 322(3) sentence 1 HGB, we state that our audit has not led to any reservations with regard to the compliance of the consolidated financial statements or the Group management report.

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and the corporate management report in accordance with Section 317 HGB, the EU Audit Regulation (No. 537/2014; hereinafter “EU-AR”), and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility according to these regulations and standards is described in further detail in the “Responsibility of the Auditor for the Audit of the consolidated financial statements and the Group management report” section of our auditor’s report. We are independent of the consolidated companies in compliance with the provisions of European law, German commercial law and professional law and have fulfilled our other German professional obligations in compliance with these requirements. In addition, we declare pursuant to Article 10 (2) lit. f) EU-AR that we have provided no prohibited non-audit services referred to in Article 5 (1) EU-AR. We believe that the audit evidence we have obtained is sufficient and appropriate to serve as a basis for our audit opinions on the consolidated financial statements and the Group management report.

Key audit matters in the audit of the consolidated financial statements

Key issues pertaining to the audit are those that, based on our professional judgement, were most significant in our audit of the consolidated financial statements for the financial year 1 January 2018 to 31 December 2018. These issues were taken into account in the context of our audit of the consolidated financial statements as a whole and in the formation of our audit opinion; we have not issued a separate opinion on these issues.

In our view, the following matters were the most significant in our audit:

- Re-placement of shares of Aumann AG and its effect on the consolidated financial statements
- Recognition of contract revenue

We have structured our presentation of these key audit matters as follows:

1. Matter and problem
2. Audit approach and findings
3. Reference to further information

We present the key audit matters below:

Re-placement of shares of Aumann AG and its effect on the consolidated financial statements

1. On 27 February 2018, MBB re-placed 1,703,700 shares of Aumann AG at a price of €61 per share. This reduced MBB's ownership interest in Aumann AG from around 49% to 38%. The MBB Group received funds totalling €103.9 million from the re-placement of shares of Aumann AG. After deduction of transaction costs and taking deferred taxes into account, a total of €100.6 million was recognised in equity. Due to the overall material quantifiable effects of these capital measures on the net assets, financial position and results of operations of the Group, this matter was particularly significant for our audit.

2. In order to address this risk, we critically scrutinised the management's assumptions and estimates, including performing the following audit procedures:

    - We examined the appropriate recognition of the funds received in the context of the re-placement.

    - We satisfied ourselves that the reductions of the ownership interests resulting from the increased minority interests were recognised appropriately within consolidated equity.

    - In addition, we satisfied ourselves that, following the reduction in the ownership interest to 38%, the Aumann Group is still to be included in the consolidated financial statements as a subsidiary pursuant to IFRS 10. In doing so, we acknowledged the management's assessment concerning the absolute majority of the voting rights at the 2018 Annual General Meeting of Aumann AG and the fact that two of the three positions on the Supervisory Board of Aumann AG are held by members of the Board of MBB SE. Among other things, our assessment was based on a report from an external expert, which we subjected to a critical review.

    Our audit procedures did not result in any reservations concerning the inclusion of the Aumann Group in the consolidated financial statements. Overall, we satisfied ourselves that the accounting of the capital measures implemented was performed appropriately.

3. The company's disclosures on the determination of entities to be concluded in the consolidation are included in Note I.3 of the notes to the consolidated financial statements.

Recognition of contract revenue

1. A large part of the Group’s business operations is processed on the basis of construction contracts. Revenue recognition in accordance with IFRS 15 is dependent on the fulfilment of the performance obligation and must be assessed on the basis of the underlying contracts. Given the complexity of revenue recognition, especially in light of the first-time application of IFRS 15, revenue recognition is an area with a significant risk of material misstatement (including the potential risk of managers bypassing controls) and is therefore a key audit matter.

2. In order to address this risk, we critically scrutinised the management’s assumptions and estimates, including performing the following audit procedures:

   - For our audit we examined the internally stipulated methods, processes of control mechanisms of project management in the offer and processing stage of construction contracts. In addition, we assessed the design and effectiveness of the accounting-related internal controls by assessing construction-order related transactions from their origin until recognition in the consolidated financial statements and by testing controls.

   - On a selected risk-oriented test basis, we assessed the estimates and assessments of the management in the context of testing details. Among others, our audit procedures included the inspection of the contract basis and contractual conditions, including agreed contractual regulations on part deliveries and services, rights of termination, defaults and contractual penalties and damages. For the selected projects, we addressed the issue of accrual principles for measuring revenue and the revenues to be recognised on the reporting date and the related revenue costs to be measured through profit and loss taking account of the percentage of completion and examined the accounting of the relevant accounting positions.

   - Furthermore, we surveyed project management (both commercial and technical project managers) on the development of projects, on the reasons for deviations between planned and actual costs, on the current assessment of the costs anticipated to be incurred until completion and on management estimates on possible contract risks.

   Our audit procedures did not result in any reservations in respect to recognition of contract revenue.

3. The accounting policies applied and the assumptions made in the company’s disclosures in the context of accounting for construction contracts are included in Note I.4.16 of the notes to the consolidated financial statements.

Other information

The legal representatives are responsible for the other information. The other information includes:

- the Group's company management declaration,
- the consolidated non-financial statement
- the other parts of the annual report, with the exception of the audited consolidated financial statements and corporate management report and our auditor's report.
- the corporate governance report in line with 3.10 of the German Corporate Governance Code and
- the responsibility statement pursuant to Section 297 (2) Sentence 4 HGB on the consolidated financial statements and the responsibility statement pursuant to Section 315 (1) Sentence 5 HGB on the Group management report.

Our audit opinions regarding the consolidated financial statements and the Group management report do not extend to the other information, and accordingly we provide neither an audit opinion nor any other form of audit conclusion in this regard.

As part of our audit, we have a responsibility to read the other information and to evaluate whether it

- exhibits material discrepancies with the consolidated financial statements, the corporate management report or the knowledge we have obtained during our audit, or
- otherwise seems significantly incorrect.

Responsibility of the legal representatives and the Board for the consolidated financial statements and the Group management report

The company's officers are responsible for the preparation of the consolidated financial statements that, in all material respects, comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law in accordance with section 315e(1) HGB, and that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group. Furthermore, the legal representatives are responsible for the internal controls that they deemed necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's status as a going concern. In addition, they have a responsibility to disclose matters related to the status as a going concern, if relevant. They are also responsible for accounting on the basis of the going concern principle, unless they intend to liquidate the Group or discontinue its business operations, or there is no realistic alternative.

Moreover, the legal representatives are responsible for preparing the Group management report, which as a whole provides an accurate view of the Group's position and is consistent with the consolidated financial statements in all material respects, complies with German legal regulations and suitably presents the opportunities and risks of future development. The legal representatives are also responsible for the arrangements and measures (systems) that they considered necessary to enable the preparation of a Group management report in compliance with applicable German legal regulations and to allow sufficient, suitable evidence to be provided for the statements in the Group management report.

The Board is responsible for monitoring the Group's accounting process for the preparation of the consolidated financial statements and the Group management report.

Responsibility of the auditor for the audit of the consolidated financial statements and the Group management report

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the Group management report as a whole provides an accurate view of the Group’s position and is in all material respects consistent with the consolidated financial statements and with the findings of the audit, complies with German legal regulations and suitably presents the opportunities and risks of future development, and to issue an auditor’s report containing our audit opinions regarding the consolidated financial statements and the Group management report.

Reasonable assurance is a high level of assurance but not a guarantee that an audit carried out in compliance with Section 317 HGB, the EU-AR and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always uncover a material misstatement. Misstatements can result from transgressions or inaccuracies and are deemed material if it could be reasonably expected that they would individually or together influence the financial decisions made by users on the basis of the consolidated financial statements and Group management report.

We exercise due discretion during the audit and maintain a critical attitude. In addition,

- we identify and evaluate the risk of material misstatements, whether due to fraud or error, in the consolidated financial statements and the Group management report, plan and implement audit procedures in response to these risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk that material misstatements are not uncovered is higher in the case of transgressions than in the case of inaccuracies, as transgressions can entail fraudulent collaboration, falsifications, deliberate omissions, misleading depictions or the suspension of internal controls.

- we gain an understanding of the internal control system relevant for the audit of the consolidated financial statements and of the arrangements and measures relevant for the audit of the Group management report in order to plan audit procedures that are appropriate given the circumstances, but not with the aim of providing an audit opinion regarding the effectiveness of these systems.

- we evaluate the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the estimated values presented by the legal representatives and the associated disclosures.

- we draw conclusions about the appropriateness of the going concern principle applied by the legal representatives and, on the basis of the audit evidence obtained, whether there is material uncertainty regarding events or circumstances that could cause significant doubt about the Group’s ability to continue as a going concern. If we come to the conclusion that there is material uncertainty, we are obliged to call attention to the associated disclosures in the consolidated financial statements and in the Group management report in the auditor’s report or, if these disclosures are inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our auditor’s report. However, future events or circumstances may mean that the Group is no longer a going concern.

- we evaluate the overall presentation, the structure and the content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events such that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the corporation in accordance with IFRSs, as adopted by the EU, and the additional requirements of German law pursuant to Section 315a (1) HGB.

- we obtain sufficient appropriate audit evidence for the company’s accounting information or business activities within the corporation in order to provide audit opinions regarding the consolidated financial statements and the corporate management report. We are responsible for directing, monitoring and implementing the audit of the consolidated financial statements. We bear sole responsibility for our audit opinions.
- we evaluate the consistency of the Group management report with the consolidated financial statements, its legality and the view it gives of the position of the Group.

- we conduct audit procedures regarding the forward-looking disclosures made by the legal representatives in the Group management report. On the basis of sufficient appropriate audit evidence, we examine the significant assumptions underlying the legal representatives’ forward-looking disclosures in particular and evaluate the appropriateness of the derivation of the forward-looking disclosures from these assumptions. We do not issue a separate audit opinion on the forward-looking statements or the underlying assumptions. There is a considerable yet unavoidable risk that future events will deviate materially from the forward-looking statements.

Among other things, we discuss with those responsible for overseeing the audit the planned scope and scheduling of the audit and significant audit findings, including any deficiencies in the internal control system that we identify during our audit.

We declare to those responsible for overseeing the audit that we complied with the relevant independence requirements and discuss with them all relationships and other issues that can reasonably be assumed to affect our independence, and the precautions taken against this.

Of the issues we discussed with those responsible for overseeing the audit, we determine which issue s were most significant in the audit of the consolidated financial statements for the current reporting period and that are therefore the key audit issues. We describe these issues in our audit opinion, unless the public disclosure of such issues is prevented by law or other legal provisions.

OTHER STATUTORY AND LEGAL REQUIREMENTS

Other disclosures pursuant to Article 10 EU-AR

We were elected as the auditor of the consolidated financial statements by the Annual General Meeting on 28 June 2018. We were engaged by the Supervisory Board on 19 December 2018. As Group auditors, we have audited the consolidated financial statements as at 31 December 2018 and the consolidated management report for the 2018 financial year which statutorily must be prepared and audited. We have served as the auditor of MBB SE’s consolidated financial statements since the 2017 financial year.

We hereby declare that the audit opinions contained in this auditor’s report are consistent with the additional report to the Board in accordance with Article 11 EU-AR (audit report).

RESPONSIBLE AUDITOR

The auditor responsible for the audit is Till Geller.

In accordance with the statutory provisions, the auditor’s report is issued and hence also signed outside this audit report in a separate copy of the IFRS consolidated financial statements including the auditor’s report (*Testatsexemplar*). The auditor’s report reproduced above may only be used outside this audit report with our prior permission. If the IFRS consolidated financial statements and the IFRS Group management report are published or distributed in a form that differs from the certified version, our opinion must be obtained again if our auditor’s report is cited or reference is made to our audit; please refer to section 328 HGB.

Düsseldorf, 1 April 2019

RSM GmbH

Wirtschaftsprüfungsgesellschaft

Steuerberatungsgesellschaft

Grote	Geller
Wirtschaftsprüfer (*German Public Auditor*)	Wirtschaftsprüfer (*German Public Auditor*)

Financial calendar

Quarterly Report Q1/2019

17 May 2019

Annual General Meeting 2019

28 May 2019, 10:00 a.m., Ludwig Erhard Haus,
Fasanenstr. 85, 10623 Berlin, Germany

Half-Year Financial Report 2019

16 August 2019

Quarterly Report Q3/2019

15 November 2019

End of financial year

31 December 2019

Contact

MBB SE
Joachimsthaler Str. 34
10719 Berlin, Germany
Phone: +49 (0) 30 844 15 330
Fax: +49 (0) 30 844 15 333
www.mbb.com
request@mbb.com

Legal notice