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LEISTRITZ Turbinentechnik GmbH	Accounting /	Annual financial statements for the business year from	01/23/2020
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**LEISTRITZ Turbinentechnik GmbH**

Remscheid

**Annual financial statements for the business year from 01/01/2018 to 12/31/2018****Independent auditor's report**

To LEISTRITZ Turbinentechnik GmbH

**Examination Opinions**

We have prepared the annual financial statements of LEISTRITZ Turbinentechnik GmbH, Remscheid - consisting of the balance sheet as of December 31, 2018 and the income statement for the financial year from January 1, 2018 to December 31, 2018 as well as the notes, including the presentation of the accounting and valuation methods - checked. In addition, we have audited the management report of LEISTRITZ Turbinentechnik GmbH for the financial year from January 1, 2018 to December 31, 2018.

In our opinion based on the knowledge gained during the audit

- the attached annual financial statements comply in all material respects with the German commercial law regulations applicable to corporations and give a true and fair view of the assets and financial position of the company as of December 31, 2018 as well as its earnings position for the financial year from January 1, 2018 to December 31, 2018 and
- the attached management report gives an overall accurate picture of the company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and accurately presents the opportunities and risks of future development.

In accordance with Section 322, Paragraph 3, Clause 1 of the German Commercial Code (HGB), we declare that our audit has not led to any objections to the correctness of the annual financial statements and the management report.

**Basis for the audit opinion**

We carried out our audit of the annual financial statements and the management report in accordance with Section 317 of the German Commercial Code (HGB) and in compliance with the generally accepted German auditing principles established by the Institute of Auditors (IDW). Our responsibility under these regulations and principles is further described in the section "Auditor's Responsibility for the Audit of the Annual Financial Statements and Management Report" of our auditor's report. We are independent of the company in accordance with the German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. We believe

**Responsibility of the legal representatives for the annual financial statements and the management report**

The legal representatives are responsible for the preparation of the annual financial statements, which comply in all essential respects with the German commercial law regulations applicable to corporations, and for ensuring that the annual financial statements, in compliance with the German principles of proper bookkeeping, give a true and fair view of the assets, finance - and the company's earnings position. Furthermore, the legal representatives are responsible for the internal controls that they have determined to be necessary in accordance with the German principles of proper accounting to enable the preparation of annual financial statements,

When preparing the annual financial statements, the legal representatives are responsible for assessing the company's ability to continue as a going concern. They are also responsible for disclosing issues relating to the going concern of the company, if relevant. In addition, they are responsible for accounting for the going concern basis of accounting, unless actual or legal circumstances conflict with this.

In addition, the legal representatives are responsible for the preparation of the management report, which as a whole provides an accurate picture of the company's position and is consistent with the annual financial statements in all material respects, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for the precautions and measures (systems) that they have considered necessary to enable the preparation of a management report in accordance with the applicable German legal regulations and to be able to provide sufficient suitable evidence for the statements in the management report.

**Auditor's responsibility for the audit of the annual financial statements and the management report**

Our objective is to obtain sufficient certainty as to whether the annual financial statements as a whole are free of material - intended or unintentional - misstatements and whether the management report as a whole gives an accurate picture of the company's position and, in all material matters, with the annual financial statements as well is consistent with the knowledge gained during the audit, complies with German legal regulations and correctly presents the opportunities and risks of future development, as well as issuing an auditor's report that includes our audit opinion on the annual financial statements and the management report.

Adequate security is a high level of security, but no guarantee that an audit carried out in accordance with Section 317 of the German Commercial Code (HGB) in accordance with the German principles of proper auditing established by the Institute of Auditors (IDW) will always reveal a material misrepresentation. Misrepresentations can result from violations or inaccuracies and are regarded as material if it could reasonably be expected that they individually or collectively influence the economic decisions of the addressees made on the basis of these annual financial statements and management report.

During the examination, we exercise due discretion and maintain a critical attitude. Furthermore

- We identify and assess the risks of material - intentional or unintentional - misrepresentations in the annual financial statements and the management report, plan and carry out audit procedures in response to these risks and obtain audit evidence that is sufficient and suitable to serve as a basis for our audit opinion. The risk that material misrepresentations are not detected is higher in the case of violations than inaccuracies, since violations can involve fraudulent cooperation, forgeries, intentional incompleteness, misleading representations or the overriding of internal controls;
- We gain an understanding of the internal control system relevant to the audit of the annual financial statements and the precautions and measures relevant to the audit of the management report in order to plan audit procedures that are appropriate under the given circumstances, but not with the aim of providing an audit opinion on the effectiveness of these Delivering systems to society;
- we assess the appropriateness of the accounting methods used by the legal representatives as well as the acceptability of the estimated values presented by the legal representatives and the related information;
- we draw conclusions about the appropriateness of the going concern accounting principle applied by the legal representatives and, on the basis of the audit evidence obtained, whether there is any material uncertainty in connection with events or circumstances, the significant doubts about the company's ability to continue as a going concern can raise. If we come to the conclusion that there is material uncertainty, we are obliged to draw attention to the relevant information in the annual financial statements and in the management report in the auditor's report or, if this information is inappropriate, to modify our respective audit opinion. We draw our conclusions based on the audit evidence obtained up to the date of our auditor's report. Future events or circumstances can, however, mean that the company can no longer continue its business activities;

- We assess the overall presentation, structure and content of the annual financial statements, including the information, as well as whether the annual financial statements represent the underlying business transactions and events in such a way that the annual financial statements, in compliance with German generally accepted accounting principles, provide a true and fair view of the asset, financial and the company's earnings position;
- we assess the consistency of the management report with the annual financial statements, its compliance with the law and the picture it provides of the company's position;
- we perform audit procedures on the future-oriented information presented by the legal representatives in the management report. On the basis of sufficient suitable audit evidence, we particularly review the significant assumptions on which the future-oriented information is based by the legal representatives and assess the appropriate derivation of the future-oriented information from these assumptions. We do not issue an independent audit opinion on the future-oriented information or the underlying assumptions. There is a considerable unavoidable risk that future events will differ materially from the forward-looking statements.

Among other things, we discuss with those responsible for monitoring the planned scope and timing of the audit as well as significant audit findings, including any deficiencies in the internal control system that we discover during our audit.

Nuremberg, April 16, 2019

**Ernst & Young GmbH**  
**auditing company**

*Schuberth, auditor*

*Budde, auditor*

**Balance sheet as of December 31, 2018**

**assets**

	December 31, 2018		December 31, 2017
	EUR	EUR	EUR
A. Fixed assets			
I. Intangible Assets			
1. Self-created industrial property rights and similar rights and values	476.00		21,381.00
2. Concessions acquired against payment, industrial property rights and similar rights and values as well as licenses to such rights and values	22,530.33		53,011.85
3. Advance payments made	89,704.10		0.00
		112,710.43	74,392.85
II. Tangible assets			
1. Land, land rights and buildings including buildings on third-party land	128,799.14		149,891.04
2. Technical systems and machines	4,817,505.66		5,984,859.55
3. Other equipment, factory and office equipment	839,546.73		901,669.09
4. Advance payments and assets under construction	874,767.35		381,286.09
		6,660,618.88	7,417,705.77
III. Financial assets			
1. Shares in affiliated companies	8,480,611.45		8,480,611.45
2. Loans to affiliated companies	1,069,000.00		1,069,000.00
		9,549,611.45	9,549,611.45
		16,322,940.76	17,041,710.07
B. Current Assets			
I. Inventories			
1. Raw materials and supplies	3,555,221.61		2,637,475.50
2. Work in progress, work in progress	10,029,331.80		12,419,082.38
3. Finished products and merchandise	3,672,784.81		2,974,151.39
4. Advance payments received on orders	-25,000.00		-304,952.00
		17,232,338.22	17,725,757.27
II. Receivables and other assets			
1. Trade accounts receivable	10,900,881.74		5,301,614.44
2. Receivables from affiliated companies	3,490,308.75		618,545.08
3. Claims against companies with which there is a participation relationship	0.00		20,000.00
4. Other assets	2,434,449.18		2,287,292.84
		16,825,639.67	8,227,452.36
III. Cash in hand, Bundesbank balances, bank balances and checks		3,991.30	4,099.10
		34,061,969.19	25,957,308.73
C. Prepaid expenses		150,566.05	138,583.75
		50,535,476.00	43,137,602.55

**liabilities**

	December 31, 2018		December 31, 2017
	EUR	EUR	EUR
A. Equity			
I. Drawn capital		2,556,500.00	2,556,500.00
II. Capital reserve		8,743,773.87	8,743,773.87
III. Profit carryforward / loss carryforward		0.00	-4,604,014.82
IV. Net loss for the year (previous year: net income)		-314,969.41	4,604,014.82
		10,985,304.46	11,300,273.87
B. Provisions			
1. Provisions for pensions and similar obligations	7,270,687.00		6,853,780.00
2. Tax provisions	1,323,650.65		650,774.33
3. Other provisions	9,214,756.80		5,850,355.86
		17,809,094.45	13,354,910.19
C. Liabilities			
1. Liabilities to credit institutions	12,493,459.10		7,216,337.79

	December 31, 2018	December 31, 2017
	EUR	EUR
2. Trade accounts payable	5,262,583.50	7,816,910.59
3. Liabilities to affiliated companies	3,622,877.70	2,670,465.07
of which vs. Shareholders: EUR 3,257,931.95 (previous year: EUR 2,150 thousand)		
4. Liabilities to companies with which a participation relationship exists	0.00	3,454.30
5. Other Liabilities	362,156.79	618,869.69
of which from taxes EUR 288,722.41 (previous year: EUR 299 thousand)		
of which in the context of social security EUR 39,010.90 (previous year: EUR 314 thousand)		
	21,741,077.09	18,326,037.44
D. Prepaid expenses	0.00	156,381.05
	50,535,476.00	43,137,602.55

**Income statement for 2018**

	EUR	EUR	2017 EUR
1. Sales	78,708,328.13		89,225,391.18
2. Increase or decrease in stocks of finished and unfinished products	-1,691,117.16		2,869,361.26
3. Other own work capitalized	607,845.53		0.00
4. Other operating income	12,140,204.25		2,130,370.19
of which income from currency translation EUR 947,414.41 (previous year: EUR 1,196 thousand)			
		89,765,260.75	94,225,122.63
5. Cost of materials			
a) Expenses for raw materials and supplies and for purchased goods	36,095,411.37		39,620,361.77
b) Expenses for purchased services	5,507,494.20		6,780,519.22
6. Personnel expenses			
a) Wages and salaries	22,501,152.10		20,126,661.44
b) Social security and pension and support expenses	4,788,839.18		4,230,719.16
of which for pensions EUR 448,162.83 (previous year: EUR 423 thousand)			
7. Depreciation of intangible assets and property, plant and equipment	2,124,616.40		2,538,921.59
8. Other operating expenses	17,622,488.07		16,793,845.43
of which expenses from currency conversion EUR 1,090,372.56 (previous year: EUR 1,369 thousand)			
		88,640,001.32	90,091,028.61
9. Income from other securities and loans from financial assets	1,200.00		1,200.00
of which from affiliated companies EUR 1,200.00 (previous year: EUR 1 thousand)			
10. Write-up on financial assets	0.00		2,000,000.00
11. Expenses from the assumption of losses	2,965.19		3,412.01
12. Interest and Similar Expenses	726,605.33		875,708.63
of which to affiliated companies EUR 110,965.20 (previous year: EUR 72 thousand)			
of which expenses from the compounding of provisions EUR 230,112.00 (previous year: EUR 248 thousand)			
		-728,370.52	1,122,079.36
		396,888.91	5,256,173.38
13. Income taxes		-709,859.32	-650,773.56
14. Profit after tax		-312,970.41	4,605,399.82
15. Other taxes		-1,999.00	-1,385.00
16. Net loss for the year (previous year net income)		-314,969.41	4,604,014.82

**Appendix for 2018****General information**

The present annual financial statements were prepared in accordance with §§ 242 ff. And §§ 264 ff. HGB as well as the relevant provisions of the GmbHG. The rules for large corporations apply.

The outlines are unchanged. The income statement has been prepared using the total cost method.

In order to improve the clarity of the presentation, we have summarized individual items in the balance sheet and the income statement and therefore broken down and explained them separately in these notes. For the same reason, the information on belonging to other items and comments about which were also made at this point.

**Register information**

The company is registered under the company LEISTRITZ Turbinentechnik GmbH with its registered office in Remscheid in the commercial register of the Wuppertal district court under the number HRB 12485.

**Accounting and valuation methods**

The following accounting and valuation methods were still decisive for the preparation of the annual financial statements.

Purchased and internally generated intangible fixed assets are carried at acquisition or production cost and, if they are subject to wear and tear, are reduced by scheduled depreciation over their useful life. The useful life for software is 3 years.

Tangible fixed assets are valued at acquisition or production cost and, if they are subject to wear and tear, are reduced by scheduled depreciation. In addition to the individual costs, the production costs of self-made systems also include proportionate overheads and depreciation caused by the production.

Property, plant and equipment are depreciated using the straight-line method over their expected useful life.

Low-value assets with a net value of up to EUR 800.00 have been depreciated in full in the year of acquisition since the 2018 financial year or recognized as an expense; their immediate departure was assumed. The depreciation on additions to property, plant and equipment is otherwise carried out pro rata temporis.

A fixed value was established for spare parts with acquisition or production costs of less than EUR 2,500.00.

In the year under review, the first forging dies developed in-house, which had not yet been completed by the time of completion, were reported under construction under construction.

In the case of financial assets, shares and securities are shown at cost or lower fair value and loans are generally shown at nominal value. Interest-free or low-interest loans are discounted to their present value.

The inventories are valued at acquisition and production costs or at the lower current value.

The stocks of raw materials and supplies are capitalized at average cost prices or at lower daily prices on the balance sheet date.

The unfinished and finished goods are valued at production costs on the basis of individual calculations based on the current operating accounting, whereby in addition to the directly attributable direct material costs, production wages and special direct costs, production and material overheads as well as depreciation are taken into account in accordance with the minimum scope under tax law. In the case of work in progress and finished goods, interest on borrowed capital was not included in the manufacturing costs. General administration costs were not capitalized.

In all cases, the valuation was carried out without loss, ie deductions were made from the expected sales prices for costs still to be incurred and reasonable profit.

All recognizable risks in the inventory that result from above-average storage times, reduced usability and lower replacement costs are taken into account by means of appropriate devaluations.

Appropriate provisions have been made for losses from delivery and purchase obligations.

Apart from customary retention of title and security under tenancy / company law, the inventories are free of third-party rights.

Receivables and other assets are shown at their nominal value. All risky items are taken into account through the formation of appropriate individual value adjustments; the general credit risk is taken into account by means of flat-rate discounts.

The provisions for pensions and similar obligations are calculated on the basis of actuarial calculations according to the projected unit credit method using the "2018 G mortality tables" by Prof. Dr. Klaus Heubeck investigates. For the discounting, the average market interest rate of the past ten years with a remaining term of 15 years of 3.21% was used. Expected salary increases were taken into account with 2.0% and expected pension increases with 1.0%. The fluctuation was taken into account at a rate of 4.0%.

The assets, which are used exclusively to meet the partial retirement obligations and are not accessible to all other creditors (cover assets within the meaning of Section 246, Paragraph 2, Clause 2 of the German Commercial Code), were offset against the provisions at their fair value.

The tax provisions and the other provisions take into account all uncertain liabilities and impending losses from pending transactions. They are set in the amount of the settlement amount necessary according to a reasonable commercial assessment. Provisions with a remaining term of more than one year have been discounted.

Liabilities are stated at the settlement amount.

Assets and liabilities denominated in foreign currencies were generally converted using the mean spot exchange rate on the reporting date. With a remaining term of more than one year, the reality principle (Section 252 (1) No. 4 HGB) and the acquisition cost principle (Section 253 (1) sentence 1 HGB) were observed.

A tax rate of 31.5% was used to determine deferred taxes due to temporary differences between the commercial law valuations of assets, debts and prepaid expenses and their tax values or due to tax loss carryforwards. Active and passive tax deferrals are offset. A surplus of deferred taxes is not capitalized by exercising the option to apply for this.

The of which notes for currency conversion shown in the income statement contain both realized and unrealized exchange rate differences.

## Notes on the balance sheet

### Capital assets

The development of the individual items of the fixed assets is shown in the fixed asset schedule, along with the depreciation of the financial year.

Research and development costs totaled EUR 1.6 million (previous year: EUR 1.7 million) in the financial year.

### Information on shareholdings

	currency	Participation %	Equity in TLW	Result in TLW
inland				
LEISTRITZ Turbinentechnik Nürnberg GmbH, Nuremberg	EUR	100	5,000	0 *) **)
Leistriz Entwicklungsgesellschaft mbH, Cottbus	EUR	100	25th	0 *)
foreign countries				
Leistriz Turbinske component Belisce doo, Belisce / Croatia	HRK	100	1,844	-1.093
Leistriz Thailand Ltd., Chonburi Province, Thailand	THB	100	414.102	104,771

\*) after profit

and loss transfer \*\*) there is a profit and loss transfer agreement with LEISTRITZ Aktiengesellschaft.

### Receivables and other assets

All receivables and other assets have a remaining term of up to one year.

On the balance sheet date, customer receivables were assigned / sold in the context of factoring to the following extent:

	December 31, 2018	December 31, 2017
	KEUR	KEUR
Factoring	7,753	10.162

The receivables from affiliated companies essentially result from delivery and service relationships with the subsidiaries.

### Prepaid expenses

This essentially includes IT licenses and services.

### Deferred taxes

Deferred tax assets essentially result from balance sheet differences for provisions for pensions and impending losses, while deferred tax liabilities result from balance sheet differences for intangible assets. Active and passive deferred taxes are netted, an active surplus is not recognized in exercising the option of Section 274 (1) HGB.

### Equity

#### Subscribed capital

The share capital is fully paid.

### Provisions for pensions and similar obligations

The difference according to Section 253, Paragraph 6, Clause 3 of the German Commercial Code (HGB) from the valuation of pension obligations using the average market interest rate for the past seven years is EUR 1,191 thousand.

### Provisions for partial retirement

Information on offsetting according to Section 246, Paragraph 2, Clause 2 of the German Commercial Code:

	December 31, 2018	December 31, 2017
	KEUR	KEUR
Settlement amount of the offset debts	233	216
Fair value of the assets	100	100

The fair value of the assets corresponds to their acquisition costs; no income was generated from this, so that there was no need to offset expenses and income.

### Other provisions

The other provisions were mainly formed for outstanding supplier invoices, impending losses from sales transactions and a lost engine order, warranty claims and personnel provisions.

### liabilities

The remaining terms and the collateralisation of the liabilities are shown in detail in the schedule of liabilities. No amounts are shown under liabilities that arise legally after the balance sheet date. The liabilities to affiliated companies include those to the shareholder in the amount of EUR 3,258 thousand (previous year: EUR 2,150 thousand); these result largely from a loan from the parent company of EUR 2,900 thousand (previous year: mainly from the revival of the debtor warrant (EUR 1,549 thousand)). The remaining liabilities to affiliated companies result from deliveries and services.

in EUR thousand	December 31, 2018				December 31, 2017		
	Remaining term			total	Remaining term		total
Type of liability	up to 1 year	from 1 to 5 years	over 5 years		up to 1 year	more than 1 year	
1. Liabilities to credit institutions	7,993	4,500	0	12,493	2,716	4,500	7,216
2. Trade accounts payable	5,262	0	0	5,262	7,817	0	7,817
3. Liabilities to affiliated companies	3,623	0	0	3,623	2,670	0	2,670
4. Liabilities to companies with which a participation relationship exists	0	0	0	0	3	0	3
5. Other Liabilities	362	0	0	362	619	0	619
- of which from taxes	289	0	0	289	299	0	299
- of which in the context of social security	39	0	0	39	314	0	314

As in the previous year, EUR 4,500 thousand of the liabilities to banks are secured under the joint syndicated loan agreement with LEISTRITZ Aktiengesellschaft and the other joint debtors. Of the liabilities to affiliated companies, EUR 2,900 thousand is secured through the assignment of receivables (as in the previous year).

#### Notes on the income statement

##### Breakdown of sales

	2018		2017	
	KEUR	%	KEUR	%
Sales by division				
Engine blades including discount	41,418	52.6	42,938	48.1
Engine disks	11,925	15.2	12,851	14.4
Turbine blades	12,740	16.2	12,818	14.4
Engine blades (TiAl)	5,690	7.2	12,749	14.3
Special parts	5,294	6.7	6,198	6.9
Other (scrap)	1,641	2.1	1,671	1.9
total	78,708	100.0	89,225	100.0
Sales by region				
inland	18,283	23.2	28,559	32.0
Other EU countries	22,828	29.0	28,992	32.5
Rest of Europe	250	0.3	2,425	2.7
North America	1,840	2.4	2,130	2.4
Other countries	35,507	45.1	27,191	30.4
total	78,708	100.0	89,225	100.0

##### Other company income

Other operating income includes a compensation payment from a customer for the cancellation of an order i. H. v. Included EUR 9,875 thousand (extraordinary income). In addition, there are out-of-period income from the reversal of provisions in the amount of EUR 841 thousand (previous year: EUR 382 thousand) and the omission of liabilities in the amount of EUR 279 thousand (previous year: EUR 14 thousand), atypical income - mainly from R&D funding EUR 76 thousand (previous year: EUR 250 thousand), exchange rate gains from foreign currency transactions in the amount of EUR 947 thousand (previous year: EUR 1,196 thousand) and income from the reversal of value adjustments on receivables in the amount of EUR 120 thousand (previous year: 255).

##### Cost of materials

The cost of materials includes extraordinary expenses in the amount of EUR 1,023 thousand. These relate to devaluations in connection with a canceled customer order.

##### Personnel expenses

Personnel expenses include extraordinary expenses of EUR 886 thousand. These relate to devaluations in connection with a canceled customer order.

##### Other operating expenses

Other operating expenses include expenses from exchange rate differences in the amount of EUR 1,090 thousand (previous year: EUR 1,369 thousand) and losses from the disposal of fixed assets in the amount of EUR 10 thousand (previous year: EUR 5 thousand). Option costs for currency forwards are at an expense i. H. v. Included EUR 80 thousand (previous year: EUR 63 thousand).

In 2018, extraordinary expenses in the amount of EUR 5.4 million are included. H. v. EUR 353 thousand, in the previous year (EUR 216 thousand) these were measures to improve processes; it also includes expenses in connection with the loss of a customer order in the amount of EUR 5,044 thousand.

##### Contingent Liabilities

There is joint liability for liabilities to banks of the parent company LEISTRITZ Aktiengesellschaft and other companies in the Leistriz Group. The liabilities to banks under joint liability of LEISTRITZ Turbinentechnik GmbH amount to KEUR 21,499 on the balance sheet date (KEUR 14,607 after offsetting against credit) (previous year: KEUR 16,259 after offsetting against credit). Furthermore, the company is jointly and severally liable with other companies of the Leistriz Group for liabilities of the parent company LEISTRITZ Aktiengesellschaft to CBG Commerz Beteiligungskapital GmbH & Co. KG, Frankfurt am Main, from profit participation capital in the amount of EUR 3,750 thousand (previous year: EUR 5,000 thousand).

The DEG-Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne to the Thai subsidiary Leistriz Thailand Ltd. Credit lines granted in the amount of EUR 5,500 thousand were valued at EUR 3,900 thousand on the balance sheet date (previous year: EUR 5,000 thousand). LEISTRITZ Turbinentechnik GmbH and LEISTRITZ Aktiengesellschaft are jointly and severally liable for this.

The same applies to a financing commitment from HSBC to Leistriz Thailand Ltd. (KEUR 3,001 or THB 111 million), of which KEUR 2,294 (THB 84.9 million) was drawn on the reporting date.

Furthermore, the company has committed to DEG-Deutsche Investitions- und Entwicklungsgesellschaft mbH to provide the Thai subsidiary with financing of up to EUR 2,200 thousand, which was called up until 2014 and repaid to an amount of EUR 1,069 thousand by the end of 2018.

Beyond this, there are no other significant obligations to be noted for the assessment of the financial position. The risk of a claim arising from the individual contingent liabilities is assessed as low due to the assets, financial and earnings position of the companies concerned.

##### Distribution block

The capitalization of internally generated intangible assets totaling EUR 0.5 thousand results in a distribution block as of December 31, 2018 in accordance with Section 268 (8) HGB.

The difference between the pension provisions in accordance with Section 253 (6) HGB results in an amount of EUR 1,191 thousand, which is also subject to a distribution block.

##### Off-balance sheet transactions

##### Leasing and rental agreements

These contracts exist to finance investments in machinery and the rental of production buildings. The advantages of the relevant leasing contracts / rental contracts consist in the low capital commitment with constant usage options. Another advantage of leasing contracts / rental contracts is the lack of marketing risk at the end of the term. This contrasts with the future liquidity burden over the duration of the contract.

December 31, 2018 December 31, 2017

Payment obligations	KEUR	KEUR
from current rental and leasing contracts	5,097	4,653
from future leasing contracts	1,222	1,718
	6.319	6.371

The leasing contracts have a term of up to 58 months, the rental contracts have a term of up to 54 months. The payment obligations from future leasing contracts relate to four machines that will not be delivered until 2019. The start of the leasing is the month after the technical acceptance of the respective system, the term is 60 months.

#### Factoring

Purpose:	Trade accounts receivable are sold on an ongoing basis in order to obtain liquid funds to finance operating activities; As of the reporting date, receivables with a nominal value of EUR 7,753 thousand had been sold, of which EUR 7,475 thousand was not yet due.
Risks:	no
Advantage:	Improvement of the liquidity planning

#### Other financial obligations

Other financial obligations exist to the following extent:

December 31, 2018 December 31, 2017

	KEUR	KEUR
Payment obligations from service contracts	908	965
Purchase commitments from issued investment orders	448	214
	1,356	1,179

Further financial obligations result from service contracts with the affiliated company LEISTRITZ Aktiengesellschaft in the amount of the use of services. In the year under review, LEISTRITZ Aktiengesellschaft billed a total of EUR 1,094 thousand (previous year: EUR 1,136 thousand) to the company.

On March 23, 2016, LEISTRITZ Aktiengesellschaft concluded an agreement with the company based on an oral commitment dated November 9, 2015, on a debt waiver against debtor warrant in the amount of EUR 1,896 thousand. This contract comes with a letter of promise. In addition, an agreement was concluded with LEISTRITZ Aktiengesellschaft in 2016 on a debt waiver against debtor warrant in the amount of EUR 450 thousand. For the waivers of claims described above, the better case occurs, among other things, if the waiver of claims can be fully or partially offset from a positive annual profit, but not earlier than on the balance sheet date 31. December 2017 and only insofar as the loss carryforward has been offset. The debt waiver of EUR 1,896 thousand was offset in 2017 with EUR 1,549 thousand, so that for the following years debt waivers against debtor warrant i. H. v. KEUR 797 remain.

#### Derivative financial instruments and valuation units

The company uses derivative financial instruments to limit the currency risk. Foreign currency cash flows related to the underlying transaction are hedged. The effectiveness of the hedging relationship is checked on an ongoing basis. The overriding principle of the use of derivatives is to hedge against risks from underlying transactions. The derivative financial instruments are subject to internal risk controls. The accounting of derivative financial instruments, for which no valuation unit is formed with the underlying transaction, is imparity, i.e. provisions are made for negative market values, positive market values are not recognized.

Information on financial instruments (not reported at fair value):

category	Nominal amount KEUR	The fair value KEUR	Book value (if available) KEUR	In balance sheet items (if recorded in the balance sheet) KEUR
Currency related transactions	1,390	-13	3	Prepaid expenses (active)

As of the balance sheet date, the company concluded currency hedges in the form of futures transactions in US dollars. A total of EUR 1,390 thousand was hedged in this currency as of December 31, 2018. The market value of the forward exchange transactions existing on the balance sheet date, calculated using the forward rate with the same maturity compared to the respective forward rate, was EUR -13 thousand as of December 31, 2018. The market value of the positive hedging transactions (valuation mark to market) existing on the balance sheet date was EUR 3 thousand, the market value of the negative hedging transactions was EUR -17 thousand. For the foreign exchange contracts, the market value of which is negative on the balance sheet date, other provisions in the amount of EUR -13 thousand have been taken into account in these financial statements.

#### Managing directors

Dr. Heiko Neumann, Nuremberg (until February 28, 2018)

Dipl.-Kfm. Sven Nieper, Solingen

Dr.-Ing. Olaf Römer, Wiesloch

Dr. Mathias Klein, Heuchlingen (from March 1, 2018)

#### Total remuneration of the management

The company makes use of Section 286 (4) of the German Commercial Code (HGB), as only two managing directors receive payments from the company.

#### Employee

The average number of employees during the financial year is:

	2018	2017
Wage earners	315	274
Employees	103	106
	418	380
trainee	6th	4th
	424	384

The number of employees is broken down according to functional areas as follows:

	2018	2017
production	281	241
quality assurance	33	34
logistics	26th	25th
Engineering & Technology	24	25th
technical service	25th	24
Administration and Sales	29	31
	418	380
trainee	6th	4th
	424	384

#### Corporate relationships

The company's annual financial statements are included in the consolidated financial statements of LEISTRITZ Aktiengesellschaft, Nuremberg, to be prepared in accordance with German commercial law principles. LEISTRITZ Aktiengesellschaft prepares the consolidated financial statements for the smallest group of companies; this is also the largest group of companies. This is published in the electronic Federal Gazette. By being included in the consolidated financial statements of LEISTRITZ Aktiengesellschaft, the company itself is released from the obligation to prepare consolidated financial statements and a group management report.

#### Examination and consultation fees

For the financial year, we refer to the information in the consolidated financial statements of LEISTRITZ Aktiengesellschaft for information on the auditor's fee.

#### Supplementary report

After the balance sheet date, there were no events of particular importance that would have significant financial effects.

Remscheid, March 29, 2019

*Managing directors*  
*Dipl.-Kfm. Sven Nieper*  
*Dr.-Ing. Olaf Römer*  
*Dr. Mathias Klein*

#### Development of fixed assets for 2018

	Acquisition and production costs				
	01/01/2018	Accesses	Rebookings	Departures	December 31,
	EUR	EUR	EUR	EUR	2018
I. Intangible Assets					EUR
1. Self-created industrial property rights and similar rights and values	605,487.50	0.00	0.00	0.00	605,487.50
2. Concessions acquired against payment, industrial property rights and similar rights and values as well as licenses to such rights and values	1,406,063.52	4,993.00	0.00	0.00	1,411,056.52
3. Advance payments made	0.00	89,704.10	0.00	0.00	89,704.10
	2,011,551.02	94,697.10	0.00	0.00	2,106,248.12
II. Tangible assets					
1. Land, land rights and buildings including buildings on third-party land	572,874.12	9,148.50	0.00	0.00	582,022.62
2. Technical systems and machines	52,157,212.71	321,031.59	109,648.91	84,617.27	52,503,275.94
3. Other equipment, factory and office equipment	6,745,348.43	377,622.97	10,462.36	267,937.97	6,865,495.79
4. Advance payments and assets under construction	381,286.09	613,592.53	-120,111.27	0.00	874,767.35
	59,856,721.35	1,321,395.59	0.00	352,555.24	60,825,561.70
III. Financial assets					
1. Shares in affiliated companies	8,564,791.12	0.00	0.00	0.00	8,564,791.12
2. Loans to affiliated companies	1,069,000.00	0.00	0.00	0.00	1,069,000.00
	9,633,791.12	0.00	0.00	0.00	9,633,791.12
	71,502,063.49	1,416,092.69	0.00	352,555.24	72,565,600.94
			Depreciation		
		01/01/2018	Accesses	Departures	December 31,
		EUR	EUR	EUR	EUR
I. Intangible Assets					
1. Self-created industrial property rights and similar rights and values		584,106.50	20,905.00	0.00	605,011.50
2. Concessions acquired against payment, industrial property rights and similar rights and values as well as licenses to such rights and values		1,353,051.67	35,474.52	0.00	1,388,526.19
3. Advance payments made		0.00	0.00	0.00	0.00
		1,937,158.17	56,379.52	0.00	1,993,537.69
II. Tangible assets					
1. Land, land rights and buildings including buildings on third-party land		422,983.08	30,240.40	0.00	453,223.48
2. Technical systems and machines		46,172,353.16	1,598,034.39	84,617.27	47,685,770.28
3. Other equipment, factory and office equipment		5,843,679.34	439,962.09	257,692.37	6,025,949.06
4. Advance payments and assets under construction		0.00	0.00	0.00	0.00
		52,439,015.58	2,068,236.88	342,309.64	54,164,942.82
III. Financial assets					
1. Shares in affiliated companies		84,179.67	0.00	0.00	84,179.67
2. Loans to affiliated companies		0.00	0.00	0.00	0.00
		84,179.67	0.00	0.00	84,179.67
		54,460,353.42	2,124,616.40	342,309.64	56,242,660.18
			Book value		
				December 31,	December 31,
				2018	2017
				EUR	EUR
I. Intangible Assets					
1. Self-created industrial property rights and similar rights and values				476.00	21,381.00
2. Concessions acquired against payment, industrial property rights and similar rights and values as well as licenses to such rights and values				22,530.33	53,011.85
3. Advance payments made				89,704.10	0.00
				112,710.43	74,392.85
II. Tangible assets					
1. Land, land rights and buildings including buildings on third-party land				128,799.14	149,891.04
2. Technical systems and machines				4,817,505.66	5,984,859.55
3. Other equipment, factory and office equipment				839,546.73	901,669.09
4. Advance payments and assets under construction				874,767.35	381,286.09
				6,660,618.88	7,417,705.77
III. Financial assets					
1. Shares in affiliated companies				8,480,611.45	8,480,611.45
2. Loans to affiliated companies				1,069,000.00	1,069,000.00
				9,549,611.45	9,549,611.45

Book value	
December 31, 2018	December 31, 2017
EUR	EUR
16,322,940.76	17,041,710.07

## Management report for the business year from 01.01. - 31.12.2018

### 1. Business and framework

#### Industry development

The aviation sector developed very well in 2018. The order backlog of aircraft on December 31, 2018 was 5.5% above the order backlog at the end of 2017. A record year for engine orders was also reported, with 26,040 engines ordered in 2018, the value was 12% above the previous year. Orders for the "smaller" aircraft segment (single-aisle engine, eg Leap, V2500, PW1100G engines) were increased by 17%. The "large" aircraft segment (widebody engine, eg GE90, CF6-80, Trent) recorded a slight decline in orders of 9%, but remained at a high level.

Power plant construction will also remain at a consistently low, stable volume in 2018. As in the previous year, more orders were acquired from the Asian market due to the political situation in Western Europe (energy transition).

#### Business development

The sustained good sales development in the first half of 2018 is due to the consistently good order situation for engine orders from all engine manufacturers and the associated increased call-offs from our customers. The engine disks and engine blades in particular benefited from this. The engine disks product group continued to show a downward trend compared to 2017, but sales were above budget. The engine blade product group recorded a 3.5% decline in sales compared to the previous year and is therefore slightly below the budgeted figure. The requests for the engine programs PW1100 / 1700 / 1900G and T56 remained stable, increased requests were recorded for the Trent XWB engine. As expected, the need for the "old" programs decreased. In the structural parts area, sales were reduced by almost 15% compared to the previous year due to fewer calls for the TP400 and Trent 1000 engines and were also below budget.

Sales for the special engine blades product group increased by 16% in the first half of the year compared to the previous year, in line with the forecast market development. However, in July 2018 a customer canceled the acceptance of further components with immediate effect, and the supply contract was mutually terminated by paying compensation. Due to the loss of product sales, this product group is below the target and will not apply in the following year. The turbine blade product area was at the previous year's and budget level.

In 2018, an average of 418 employees, 6 apprentices (previous year 380 employees, 4 apprentices) and an average of 47 temporary workers (previous year 72 temporary workers) were employed in the company.

### 2. Earnings, financial and asset position

For us, sales and annual results are the most important financial performance indicators. In addition, other key figures such as incoming orders and order backlog also play an important role.

Contrary to the forecast in 2017, the company did not match the sales of the previous year and sales decreased. In line with the forecast for the previous year, the company's personnel expenses increased and the result was lower (net loss for the year).

#### Earnings situation

Incoming orders, sales and orders on hand developed as follows:

	01/01/2018 - 12/31/2018 million EUR	01.01.2017 -31.12.2017 million EUR
Incoming orders	64.9	56.5
sales	78.7	89.2
Order backlog	35.4	50.3

Compared to the previous year, the notification of incoming orders and order backlog has been modified, only fixed individual orders and the components of long-term contracts that are contractually fixed in terms of quantity and delivery time are considered. For better comparability, the corresponding values from the previous year are also shown according to the new system.

The company's order intake in the area of engine components developed steadily. The unscheduled calls from customers from long-term contracts in the previous year meant that backlog orders from the previous year could be reduced and sold. The discontinuation of the business with special engine blades in the second half of the year led to a reduction in incoming orders and sales compared to budget. Business in the engine components industry is still characterized by a small number of customers with long-term purchase agreements.

For years, power plant construction has been characterized by political uncertainties in connection with the energy transition, but international projects were successfully acquired that led to a further increase in incoming orders (44.7% compared to the previous year) in the field of energy shovels.

In the area of engine blades (60% share of sales) - including special engine blades with 7 percentage points of sales - the operating result could not be maintained compared to the previous year, mainly due to the elimination of special engine blades.

The engine disks product group (15% share of sales) was again below the level of the previous year in terms of sales. Due to the expected permanent reduction in this product group as a result of the declining demand for the corresponding engine programs, no improvement in earnings (due to process optimization attempts) could be achieved compared to the previous year.

In 2018, the turbine blade product group (16% share of sales) again made a positive contribution to earnings due to the good utilization of the large forge and the improvement in order quality.

Overall, the company recorded a worsened earnings situation due to lower sales compared to the previous year. In addition to the discontinuation of the special engine blades product group, the expired supplementary collective agreement with increased personnel expenses per employee and additional expenses in production contributed to the significantly lower annual result compared to the previous year.

Based on a lower total output of EUR 14.5 million, the result is a disproportionately low reduction in material costs by EUR 5.7 million and a disproportionately high increase in personnel costs by EUR 2.0 million, with a EUR 0.4 million reduction in depreciation and Other operating expenses fell significantly by EUR 2.1 million, taking into account other operating income, an operating result of EUR -2.9 million (previous year EUR +5.4 million) or including the financial result and neutral Earnings pre-tax earnings of EUR +0.4 million (previous year: EUR +5.3 million). The neutral result includes KEUR 9.875 Income from compensation for a lost customer order (from other operating income) and expenses for this amounting to EUR 6,953 thousand (thereof EUR 1,023 thousand from material costs, EUR 886 thousand from personnel expenses, thereof EUR 5,044 thousand from other operating expenses). The financial result consists in particular of bank interest of EUR -0.4 million (previous year: EUR -0.6 million) and other interest of EUR -0.3 million (previous year: EUR -0.3 million). ). The annual result after taxes amounts to EUR -0.3 million. The financial result consists in particular of bank interest of EUR -0.4 million (previous year: EUR -0.6 million) and other interest of EUR -0.3 million (previous year: EUR -0.3 million). ). The annual result after taxes amounts to EUR -0.3 million. The financial result consists in particular of bank interest of EUR -0.4 million (previous year: EUR -0.6 million) and other interest of EUR -0.3 million (previous year: EUR -0.3 million). ). The annual result after taxes amounts to EUR -0.3 million.

#### Financial condition

As in the previous year, the company has bank loans available under the consortium agreement as well as an extended framework for factoring. To finance ongoing business, the company uses a current account line, which is made available as part of a syndicated loan agreement. The amount of the current account line was left unchanged by the parent company in 2018. Furthermore, the LEISTRITZ Group must meet clearly defined financial indicators. Furthermore, the company is jointly and severally liable under this consortium agreement. The financing, based on the requirements of the operative business,

On March 29, 2016, LEISTRITZ Aktiengesellschaft had an agreement with the company on a debt waiver against debtor warrant i. H. v. EUR 450 thousand, which is subordinate to the debt waiver concluded in 2015 against a debtor warrant in the amount of EUR 1,896 thousand. The better case occurs for both of the aforementioned debt waivers, among other things, if the debt waivers can be fully or partially offset from a positive annual surplus, but at the earliest for the first time on the balance sheet date of December 31, 2017 and only to the extent that any losses carried forward were offset. The debtor warrant due to the debt waiver of EUR 1,896 thousand is EUR 1 thousand in 2017. 549 has been revived and expensed, so that for the following years a total of debt waivers against debtor warrant i. H. v. KEUR 797 remain.

Investments of EUR 1.4 million were made for property, plant and equipment and intangible assets (previous year: EUR 1.6 million). The financial assets remained unchanged.

#### Financial position

The equity ratio as of December 31, 2018 was 21.7% (previous year: 26.2%). In the course of 2018, inventories decreased by 2.8% compared to the previous year due to the delivery of due orders. Long-term liabilities were repaid according to schedule. The utilization of the bank lines from the syndicated loan agreement averaged EUR 7.5 million (previous year: EUR 7.6 million). There was a reduction in short-term liabilities compared to the previous year's reporting date, which essentially resulted from higher cash discounts.

#### Research and Development



Research and development expenses in the financial year amounted to EUR 1.6 million (previous year EUR 1.7 million) and thus 2.0% of sales (previous year 1.9%). The newly capitalized development costs within the technical systems and machines comprised initial tools and construction services and amounted to EUR 0.94 million (previous year: EUR 1.0 million). The amortization of intangible capitalized development costs amounted to EUR 21 thousand (previous year: EUR 48 thousand).

### 3. Opportunities and risks report

The company has an internal risk management system, which forms the basis for identifying potential risks at an early stage and initiating countermeasures. Risk management is an integral part of the quality management system, which has been certified in accordance with the EN / AS 9100 standard. Significant risks are analyzed and documented and suitable measures are initiated as part of regular management and management meetings.

The company is also included in the LEISTRITZ Group's integrated controlling system. This is based on a monthly standard report by the companies on the current situation to the Management Board. Reports on the liquidity situation are created daily and communicated to the parent company. In addition, the situation of the company is analyzed in detail between the board of the parent company and the management in monthly and quarterly meetings. The subsidiaries Leistritz Turbinentechnik Nürnberg GmbH, LEISTRITZ Turbinske komponente Belisce doo and LEISTRITZ (Thailand) Ltd. are also integrated into the LEISTRITZ Group's reporting system.

A compliance management system was installed back in 2013, which contains all elements of the system introduced by LEISTRITZ worldwide. In addition to the code of conduct, the company is committed to compliance with the "Common Industry Standard" introduced by the ASD (AeroSpace and Defense Industries Association of Europe).

The company is exposed to exchange rate risks from its operating business due to purchases and sales in foreign currencies, which essentially relate to the British pound and the American dollar. The net currency positions are monitored and updated. Standard market instruments such as currency forwards or options are used in accordance with defined rules. Furthermore, the currency risk is limited by currency clauses in the most important long-term contracts. We can hardly estimate the extent to which delivery and procurement risks will arise as a result of BREXIT in addition to exchange rate risks; Customers and suppliers have not made any recommendations for action either,

By concluding procurement framework agreements, precautions are taken to counter the risks from fluctuations in the price of materials on the raw material markets. Any remaining fluctuations in the price of materials are usually borne by the customers who have contractually agreed to adjust the price of the material or, in individual cases, enable the company to purchase the material through their own framework agreements.

With regard to the technical risks in production, measures are implemented as part of a continuity strategy that are intended to secure production against failure risks. Essential elements are, for example, preventive maintenance and the expansion of spare parts management in order to optimize the availability of the plant fleet.

In the engine disks product group, the quality of the products depends largely on the quality of the input material supplied. Due to approvals, individual suppliers have unique selling points, which results in a strong market position. This makes it difficult for the company to fully enforce quality standards in the event of complaints.

The development of the location in Thailand is still dependent on the timely transfer of products, the approval of processes and units as well as the planned productivity. As a result of the extensive support measures of the location in Thailand by the parent company, the ramp-up of production has largely proceeded according to plan so that concrete risks with regard to the asset, financial or earnings situation are currently not discernible.

The management report contains statements on the future business development of the company. These statements are based on assumptions about the development of the world economy, in particular about the development of the aviation and energy market, which we have made on the basis of the information available to us and which we currently regard as realistic. The extent to which there are risks due to the indifferent global economic situation and the unclear growth dynamics in the emerging markets, geopolitical risks or natural disasters cannot currently be assessed. These assessments are naturally fraught with risks. The actual development can therefore deviate from the expected development.

With regard to the liquidity of LEISTRITZ Turbinentechnik GmbH, the allocation of a sufficient current account line by LEISTRITZ Aktiengesellschaft as part of the consortium agreement continues to be an essential basis for the company's financing.

### 4. Forecast report

Robust growth is also forecast for the aviation sector in 2019. The new engine generations (Leap, PW1100G and Trent XWB / 1000/7000) will continue to grow. The downward trend in orders for older engine generations will continue, albeit at a slower pace. China is increasingly developing into the largest aviation market in the world. The first self-developed and built large passenger aircraft C919 (Leap 1C engine) completed its maiden flight in 2017 after 8 years of development. China and Russia now want to start building the C929 passenger aircraft together. It is to be expected that engines from a Chinese manufacturer will be used for the first time in 2-3 years. The development of new manufacturing processes such as additive manufacturing (e.g. structural parts) of engine assemblies is booming. The long-term market potential of additive manufacturing in the aerospace sector is enormous and will develop rapidly over the next few years. All engine manufacturers are currently dealing with this issue and, as a result, society as well.

In the field of power plant construction, the industry expects a slight increase in installed megawatts worldwide over the next few years. For 2019, a number of large projects were once again won on the Korean market. In light of the energy transition, it is currently difficult to assess the sustainable development of global power plant construction.

Substantial investments in modernization and expansion of the existing machine park are again planned for 2019. The new acquisitions will be used in particular for the expansion and expansion of production capacities and the modernization of the IT infrastructure.

On this basis, comparable sales are expected for 2019, but a slight annual deficit due to the loss of a customer order and the associated deterioration in the contribution margin and expected higher personnel expenses.

Remscheid, March 29, 2019

**LEISTRITZ Turbinentechnik GmbH**

*Dipl.-Kfm. Sven Nieper*

*Dr.-Ing. Olaf Römer*

*Dr. Mathias Klein*

