DÜRR GROUP.

DRIVING CHANGE

ANNUAL REPORT 2019

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KEY FIGURES[1]

		2019	2018	2017	2019/2018 Change in %
Incoming orders	€ million	4,076.5	3,930.9	3,803.0	3.7
Orders on hand (Dec. 31)	€ million	2,742.8	2,577.2	2,449.4	6.4
Sales revenues	€ million	3,921.5	3,869.8	3,713.2	1.3
of which abroad	%	82.9	84.3	86.9	–1.4 pp
EBIT	€ million	195.9	233.5	287.0	–16.1
EBIT before extraordinary effects[2]	€ million	263.1	274.9	283.7	–4.3
EBT	€ million	174.7	219.7	267.3	–20.5
Net profit	€ million	129.8	163.5	199.6	–20.6
Cash flow from operating activities	€ million	171.9	162.3	119.8	5.9
Cash flow from investing activities	€ million	–231.8	–30.1	–17.2	
Cash flow from financing activities	€ million	60.8	–134.0	–152.2	
Free cash flow	€ million	44.9	78.4	14.3	–42.8
Equity (with non-controlling interests) (Dec. 31)	€ million	1,043.4	992.2	900.5	5.2
Net financial status (Dec. 31)	€ million	–99.3	32.3	176.3	
Net working capital (Dec. 31)	€ million	502.7	441.4	373.7	13.9
Employees (Dec. 31)		16,493	16,312	14,974	1.1
of which abroad	%	50.4	50.0	47.7	0.4 pp
Gearing (Dec. 31)	%	8.7	–3.4	–24.3	12.1 pp
Equity ratio (Dec. 31)	%	26.9	27.4	25.6	–0.5 pp
EBIT margin	%	5.0	6.0	7.7	–1.0 pp
EBIT margin before extraordinary effects[2]	%	6.7	7.1	7.6	–0.4 pp
ROCE	%	16.9	24.0	38.6	–7.1 pp
EVA	€ million	39.4	76.0	142.7	–48.1
Dürr stock (ISIN: DE0005565204)					
High	€	42.26	57.18	60.28	
Low	€	20.76	27.30	37.00	
Close	€	30.38	30.53	53.28	
Number of shares		69,202,080	69,202,080	69,202,080	
Earnings per share	€	1.79	2.27	2.78	–21.1
Dividend per share	€	0.80[3]	1.00	1.10	–20.0

[1] Please note the information on page 55 concerning the figures and comparability with prior years.
[2] Extraordinary effects: € -67.2 million (2019), € -41.4 million (2018), € +3.3 million (2017).
[3] Dividend proposal for the annual general meeting.

Minor variances may occur in the computation of sums and percentages in this report due to rounding.

THE DÜRR GROUP

The Dürr Group is one of the world's leading mechanical and plant engineering firms. Business with automotive manufacturers and their suppliers accounts for 53 % of our sales of € 3.92 billion. Other customer segments include the woodworking industry and the mechanical engineering sector as well as the chemical and pharmaceutical industries.

Our five divisions

PAINT AND FINAL ASSEMBLY SYSTEMS	APPLICATION TECHNOLOGY	CLEAN TECHNOLOGY SYSTEMS	MEASURING AND PROCESS SYSTEMS	WOODWORKING MACHINERY AND SYSTEMS
• Paint shops • Final assembly systems • Filling technology automotive[1] • Assembly technology[1] • Testing technology[1]	• Paint application technology • Glueing technology • Sealing technology	• Air pollution control • Noise abatement systems • Coating systems for battery electrodes	• Balancing technology • Filling technology industrial • Filling technology automotive[1] • Assembly technology[1] • Testing technology[1]	• Machinery and equipment for the woodworking industry
€ 1,243.8 M SALES	**€ 592.8 M** SALES	**€ 395.3 M** SALES	**€ 410.4 M** SALES	**€ 1,279.1 M** SALES
€ 64.5 M OPERATING EBIT	**€ 63.3 M** OPERATING EBIT	**€ 23.3 M** OPERATING EBIT	**€ 40.2 M** OPERATING EBIT	**€ 82.7 M** OPERATING EBIT
3,634 EMPLOYEES	**2,306** EMPLOYEES	**1,418** EMPLOYEES	**2,293** EMPLOYEES	**6,569** EMPLOYEES
DÜRR	DÜRR	DÜRR	SCHENCK	HOMAG

[1] Filling technology automotive, assembly technology and testing technology formed part of the Measuring and Process Systems division until December 31, 2019. They were transferred to Paint and Final Assembly Systems as of January 1, 2020.

We are facing a challenging environment, which is constantly evolving: politics, markets, customer needs, entire industries as well as consumer behavior and our own demands are all changing. We see change as an opportunity. Only those who continue to develop will stay at the top of their field. Together with our employees, we are fully determined to achieve the best for our customers, shareholders, stakeholders and our own company. We are driving change.

More about our innovative
solutions can be found
in the new Eco Magazine

DRIVING
CHANGE

DEAR READERS,

Ralf W. Dieter (58)

Next year Dürr celebrates its 125th anniversary. Our long company history has taught us many things – not least the fact that success is always based on the willingness to change. We, along with our markets, are currently undergoing a phase of major changes. Digitalization, electromobility and sustainability are trends with disruptive potential. Our goal is to be involved in shaping these trends and to support our customers in their transformation processes. This is why the title we have chosen for this annual report is “Driving Change”.

Electromobility is a great opportunity for us. Last year our incoming orders in this area rose by 44 % to almost € 400 million, with production technology for electric vehicles accounting for 22 % of our orders from the automotive industry. Our customers include not only incumbent automotive groups but also new manufacturers of battery-powered vehicles. More than 20 of these newcomers ordered production technology from us in 2019. Our market success in the e-mobility segment is based on a broad portfolio, ranging from paint and assembly systems and balancing machines for electric drives through to refrigerant filling systems for batteries. We have also positioned ourselves well in the market for battery production technology, for example by offering a unique technology for coating battery electrodes or glueing technology for battery modules.

Digital transformation is another area where we are pioneers. Aside from Industry 4.0 solutions for manufacturing execution systems, we are focusing on IIoT-platform-based smart analytics software. Applications for predictive plant maintenance and real-time quality control enable us to offer customers exactly what they need for their factories. Our software development is carried out in agile Digital Factories, a quarter of our innovation budget is being spent on digitalization, and a ranking published by RWTH Aachen University sees us at the forefront in the use of artificial intelligence. The ADAMOS IIoT network, in which we play a leading role, is developing into a successful model: Thanks to the ADAMOS cooperation, more than 20 participating mechanical engineering firms already support each other in developing apps, benefit from synergies, share knowledge and thus reduce their resource requirements.

THE KEY TOPIC OF **SUSTAINABILITY IS INCREASINGLY IMPACTING OUR CUSTOMERS' INVESTMENT DECISIONS.**

The key topic of sustainability is increasingly impacting our customers' investment decisions. Many automobile manufacturers are minimizing the ecological footprint of their production processes. They are assessing us based on how we can support them in doing so. This offers us opportunities, since we specifically develop material- and energy-efficient products. Over the last ten years, we have managed to lower the energy consumption in our paint shops by around 70 %. The acquisition of Megtec/Universal at the end of 2018 has enabled us to expand our leading position in environmental technology.

The motto of "Driving Change" also refers to the adaptation of our internal processes and structures to new requirements. Ongoing digital training, empowering our employees and optimizing the site structure are some examples of this. We are implementing measures to safeguard the company's future success, thus boosting our profitability.

One important project is the package of measures initiated at HOMAG in November 2019. The company, which we acquired in 2014, has a great deal of know-how and potential. The package of measures is designed to save around € 20 million from 2021 and enable HOMAG to achieve an EBIT margin in excess of 9 % by 2023 at the latest.

The growth in earnings at Paint and Final Assembly Systems shows that we can put optimizations into practice effectively. Thanks to the FOCUS 2.0 optimization program, the division increased its EBIT margin to 5.0 % in 2019, with further improvements in the pipeline.

DESPITE CHALLENGING CONDITIONS, THE GROUP AS A WHOLE FINISHED 2019 **WITH A RECORD LEVEL OF INCOMING ORDERS.**

Despite challenging conditions, the Group as a whole finished 2019 with a record level of incoming orders. Sales also reached a new all-time high, thanks to a disproportionately strong growth in service business. The increase in cash flow shows that our net working capital management is effective. Despite a slight decline in operating EBIT, the operating EBIT margin was 6.7 % and thus higher than expected after the scaled-back guidance announced in July. At 5.0 %, the reported EBIT margin also exceeded the target range – despite high extraordinary expenses (€ 67.2 million), which were largely attributable to the measures at HOMAG.

Although earnings after tax, at € 129.8 million, reached the upper end of the target corridor, they were down 20.6 % on 2018 mainly as a result of the extraordinary expenses. We took this into account in our proposed dividend: At € 0.80 per share, this falls below the previous year's level (€ 1.00), while the payout ratio of 43 % is slightly above the previous year's figure (42 %).

The first quarter of 2020 has been overshadowed by the corona epidemic. In China, where the economy temporarily came to a halt, we saw a noticeable decline in sales and earnings. Since the beginning of March the crisis has been increasingly spreading to other countries. As a result, the economic risks have risen significantly.

As long as the coronavirus does not put too heavy a burden on the global economy, we are targeting order intake and sales of up to € 4,100 million for 2020. In terms of earnings, 2020 will be a year of transition. While operating EBIT is likely to rise in most divisions, we expect it to decline at HOMAG on the back of lower sales, especially since the focus there is on the concentrated implementation of the optimization measures. We anticipate an operating EBIT margin of between 6.2 and 6.7 % for the Group. Extraordinary expenses are set to drop to around € 40 million and will be incurred for specific structural measures and purchase price allocations.

For 2021 we expect a significant improvement in the operating EBIT margin to between 7.0 and 7.5 %, underpinned above all by positive effects of the HOMAG optimization measures. In the medium term, we are targeting an EBIT margin of at least 8 % at the Dürr Group.

In view of the coronavirus spread, we – like many other companies – must adopt a vigilant approach. However, those who know us realize that we tend to be optimistic rather than pessimistic. Whatever happens, with our leading technologies for digital and sustainable production processes, we are well prepared for the transformation in our markets. The good reputation of the Dürr, Schenck and HOMAG brands is fueled by the expertise and the commitment of more than 16,000 employees. Together with my colleagues on the Board of Management, I would like to say a big thank you to them for everything they achieved in 2019. Our thanks also go to all customers, business partners and shareholders – we look forward to sharing our future with you!

Best wishes

Ralf W. Dieter
CEO

Bietigheim-Bissingen, March 19, 2020

BOARD OF MANAGEMENT

of Dürr AG

“FEW COMPANIES COMBINE DIGITAL EXPERTISE AND PRODUCTION KNOW-HOW LIKE WE DO. *THIS IS WHAT MATTERS.”*

Ralf W. Dieter (58)
CEO

Until July 31, 2020:
Interim CFO

“DIGITAL, SUSTAINABLE, FLEXIBLE: AT DÜRR **THE PAINT SHOP OF THE FUTURE HAS ALREADY BECOME REALITY.”**

Dr. Jochen Weyrauch (53)
Deputy CEO

“WE ARE IMPLEMENTING THE OPTIMIZATION MEASURES AT HOMAG BASED ON CLEAR ANALYSIS. **OUR AIM IS TO ACHIEVE AN EBIT MARGIN OF AT LEAST 9%.”**

Pekka Paasivaara (58)
Member of the Board of Management

DEAR SHAREHOLDERS,

In 2019 the Dürr Group performed well, given the challenging political and economic climate. Incoming orders and sales each reached new all-time highs, while the operating EBIT margin stood at 6.7 %, which is slightly above the target range that had been adjusted in July 2019. In addition, the Board of Management took measures in some fields to safeguard the company's future success and strengthen its competitiveness in the operating business. The most important example of this is the HOMAG Group, where measures were initiated to continue the optimization strategy of the past few years. At the same time, the HOMAG Group is laying the foundation to realize its potential as a world market leader and achieve its EBIT margin target of at least 9 % in the medium term.

The Supervisory Board believes that the Dürr Group is well positioned to benefit from key trends in its markets over the coming years.

The first trend is that of sustainable production processes. The topics of climate compatibility and environmental protection are widely debated throughout the world and also feature highly on the agenda of Dürr, Schenck and HOMAG customers. By offering technologies that reduce the consumption of energy, materials and resources, the Dürr Group is an important partner to its customers on their journey toward CO_2-neutral production and low-consumption processes.

Another great opportunity lies in the digitalization of production processes, because the Dürr Group combines two strengths that are particularly important here: firstly, software competence and secondly, domain expertise, i.e. the in-depth knowledge of processes in customers' factories.

The third important trend which can give rise to new business opportunities for the Group is electromobility. This has led to new OEMs entering the market and requiring production systems. At the same time, plant modification business will grow, since

Karl-Heinz Streibich
Chairman of the Supervisory Board

established vehicle producers are gradually changing their production toward electric models. In addition, the Dürr Group is increasingly offering scalable production systems, which can be flexibly expanded to suit customers' requirements.

The Supervisory Board provided careful and critical advice to the Board of Management in 2019. All required information on business performance, strategic measures, corporate planning, and activities requiring consent were provided and explained by the Board of Management in a prompt and comprehensive manner. The Supervisory Board adopted its resolutions following thorough reviews and debate, and based on written decision-making materials and discussions. The Supervisory Board carefully monitored the Board of Management's conduct of the company's affairs and confirms that the Board of Management always acted lawfully, diligently and economically. The Board of Management used the risk management system effectively in operational, financial and legal matters, while receiving support from the Compliance and Legal departments as well as Controlling and Internal Auditing.

The Supervisory Board received regular and comprehensive information on risks and opportunities, and it provided effective support to the Board of Management in further developing the risk control and monitoring system. The Supervisory Board held five regular meetings and one extraordinary meeting in 2019. One member was unable to attend two plenary meetings and two committee meetings; another member was absent from a committee meeting. In my capacity as Chairman of the Supervisory Board, I had regular contact with the Board of Management between the meetings.

KEY TOPICS OF THE MEETINGS

Market conditions, business performance, financial situation and outlook were key topics of discussion at all Supervisory Board meetings held in 2019. The Supervisory Board received regular information on the development of incoming orders, sales, EBIT and EBIT margin, ROCE, cash flow and liquidity, as well as on the largest contracts and on the pipeline of orders due to be awarded by customers. Other recurring topics of meetings were the development of service business and the refinancing of the Dürr Group.

At its first meeting held on March 21, 2019, the Supervisory Board reviewed and approved the annual and consolidated financial statements for 2018 as well as the agenda for the annual general meeting. On the recommendation of the Personnel Committee, the Supervisory Board renewed Dr. Jochen Weyrauch's Board of Management contract for another five years (January 1, 2020, to December 31, 2024). In addition, it approved a new investment scheme for Dürr's "VORaB" pension plan and gave its consent for establishing a share purchase program for employees. The meeting concluded with a presentation of the current personnel report by Mr. Dieter.

At the meeting held on May 10, 2019, prior to the annual general meeting, the Supervisory Board discussed the Group's refinancing planned by the Board of Management. The Chairman of the Audit Committee, Mr. Gerhard Federer, and CFO Carlo Crosetto outlined plans for issuing a Schuldschein loan and a new syndicated loan. The Supervisory Board made its approval of the refinancing plans conditional upon favorable terms being achieved.

At the start of the meeting held on July 30, 2019, I informed the Supervisory Board about Mr. Crosetto's decision not to extend his Board of Management contract terminating in February 2020. The Supervisory Board members expressed their regret and thanked Mr. Crosetto for his great commitment to the Dürr Group. During the course of the meeting, the Supervisory Board and the Board of Management had in-depth discussions on the adjusted forecast announced on July 22, 2019, and on the further outlook for the financial year in progress. In addition, the Board of Management provided information on the successful completion of the refinancing, the customer satisfaction levels recorded for the Group, and the results of the FOCUS 2.0 optimization program at Paint and Final Assembly Systems. Afterwards, Mr. Federer reported on the Audit Committee meeting held the previous day. The topics covered in that meeting included the risk report and the Group's compliance report. The committee had also defined the key points for the review of the 2019 annual financial statements.

The first topic of the meeting on October 2, 2019, was the replacement of Mr. Crosetto, with the Personnel Committee informing the Supervisory Board about the selection of suitable candidates. In his capacity as Chairman of the Dürr Technology Council, Prof. Dr. Holger Hanselka then reported on the work carried out by this external advisory board of experts. Dr. Weyrauch presented the Dürr Group's range of solutions for the production of electric cars and explained the product strategy in the business field of battery production technology. Finally, the Supervisory Board acknowledged the EMIR audit on hedging currency risks and dealt with the upcoming review of the non-financial consolidated declaration according to Section 315b (1) of the German Commercial Code. Dürr AG subsequently instructed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft to perform a limited assurance engagement on the non-financial consolidated declaration for 2019.

The Supervisory Board held an extraordinary meeting on November 6, 2019. This was to discuss a catalog of measures, prepared by the Board of Management, to safeguard the company's future success. Following a discussion, which sparked some controversy, the Supervisory Board took the majority decision to approve the planned measures for the Woodworking Machinery and Systems division (HOMAG Group), leading to an extraordinary expense of around € 40 million. Prior to this vote, the Supervisory Board had adopted a decision on the general future approach in the case of plant closures and staff cuts. It stipulates that the employees concerned and the works councils have the opportunity to present alternative concepts which must be reviewed by the Board of Management. During the meeting, the Supervisory Board also agreed to the purchase of the remaining 75 % of shares in Homag China Golden Field Ltd. and of the remaining 18.75 % of shares in Homag Machinery (Shanghai) Co., Ltd.

On December 10, 2019, the Supervisory Board appointed Dr. Weyrauch as Deputy CEO. On the recommendation of the Personnel Committee, it appointed Mr. Dietmar Heinrich as a full member of the Board of Management (CFO), effective August 1, 2020, at the latest; it also defined the modalities for Mr. Crosetto's departure. Given these personnel changes, the Supervisory Board adopted new schedules of responsibilities for the Board of Management, which became and will become effective on January 1, 2020, on March 1, 2020 (after Mr. Crosetto's departure), and on the day of Mr. Heinrich's arrival. During the meeting, the Board of Management also presented the new Group strategy and the strategies of the Dürr Systems, Schenck and HOMAG sub-groups. The Supervisory Board approved the budget for 2020 and acknowledged the planning for the period between 2021 and 2023.

It also discussed the second risk report and the report on the internal control system. On the subject of corporate governance, the Chairman of the Board of Management and the Chairman of the Supervisory Board signed the new declaration of compliance with the German Corporate Governance Code. The skills profile for the Supervisory Board was also reviewed.

WORK OF THE COMMITTEES

The Personnel Committee, which is also the Executive Committee, convened five times during 2019. The main focus of the meeting held on March 21 was the reappointment of Dr. Weyrauch. The meetings on July 30, October 2 and November 6 focused on the arrangements for Mr. Crosetto's replacement. At the committee meeting on December 10, preparations were made for the appointment of Dr. Weyrauch as Deputy CEO and Mr. Heinrich's appointment as the new CFO.

The Audit Committee held five meetings in 2019. It paid close attention to the quarterly, annual and consolidated financial statements as well as to new accounting matters such as the first-time application of IFRS 16 (Leases) and the Group's refinancing. Other topics of the meetings included the tax situation in China and the United States, the use of loss carryforwards and the discussion of the Group's risk and compliance reports. The Audit Committee worked intensively to prepare the 2019 non-financial consolidated declaration and recommended at the Supervisory Board's plenary meeting that this should be subject to another limited assurance engagement performed by the auditor. It also prepared the key points proposed to the plenum for the external audit and checked compliance with capital market regulations. The Committee reviewed and confirmed the efficiency of the internal control system, the risk management system and the internal auditing system; it also reviewed the financial reporting process and the compliance management system (CMS). At the Supervisory Board meetings held on March 21, May 10, July 30 and December 10, 2019, the Chairman of the Audit Committee reported to the Supervisory Board on the Committee's work. The Nominating Committee and the Mediation Committee did not have to convene in 2019.

AUDIT AND RATIFICATION OF THE ANNUAL FINANCIAL STATEMENTS

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft examined Dürr AG's annual financial statements, Dürr's consolidated financial statements and the combined management report prepared by the Board of Management for the period ended December 31, 2019, and issued unqualified auditors' certificates. The annual financial statements, the consolidated financial statements and the combined management report were submitted to the members of the Supervisory Board in good time. They were discussed in detail with the Board of Management and reviewed at the Supervisory Board meeting held to approve the financial statements on March 19, 2020. The same applies to the auditors' reports, which were also submitted in due time. The auditors signing the audit certificate participated in that meeting and in the Audit Committee meeting on March 18, 2020. They reported on their audit and were available for further explanations and discussions. Auditor Marco Koch from Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft was responsible for carrying out the audit for the third year in succession.

At the Supervisory Board meeting held to approve the financial statements, the Chairman of the Audit Committee, Mr. Federer, gave his detailed opinion on the audit documents, on the preliminary talks with the auditors, and on the key points of the audit. The latter included the balance-sheet presentation of the new Group financing, the first-time application of IFRS 16 (Leases) and the application of the Group's risks/opportunities check list in the sales process.

On the basis of the documents presented to it and the reports of the Audit Committee and the auditors, the Supervisory Board examined and accepted the annual financial statements, the consolidated financial statements and the combined management report, the latter containing the non-financial consolidated declaration. The Supervisory Board's own review found no cause for objection. The Supervisory Board approves the results of the audits of both sets of financial statements, agrees with the Board of Management in its assessment of the situation of the Group and of Dürr AG, and approves the annual financial statements and the consolidated financial statements prepared for the period ended December 31, 2019. The annual financial statements are thereby ratified. In light of the Audit Committee's recommendation and its own review, the Supervisory Board approves the Board of Management's proposal on the use of net retained profit – a dividend of € 0.80 per share is planned for 2019.

The Supervisory Board thanks the Board of Management as well as the division heads, employee representatives and all employees for their commitment in 2019. The Supervisory Board also thanks the shareholders for their trust.

Karl-Heinz Streibich
Chairman of the Supervisory Board

Bietigheim-Bissingen, March 19, 2020

CAPITAL MARKET

Intensive communications with investors

We are committed to objective investor relations activities based on a spirit of mutual trust to provide comprehensive information and to help achieve a fair valuation of our share – also compared with our peer group. Our team takes time for investors and analysts, explains the background and creates transparency.

The muted business in woodworking machinery and the global uncertainty afflicting the automotive industry called for detailed discussions with analysts and investors in 2019. Dürr's Board of Management and investor relations team attended 30 capital market conferences and visited investors at 19 road shows in Europe and America. As well as this, we registered strong demand for conference calls and visits by investors to our corporate headquarters in Bietigheim-Bissingen. All told, we held more than 500 discussions in 2019.

PRICE/EARNINGS RATIO IN LINE WITH PEER GROUP AVERAGE

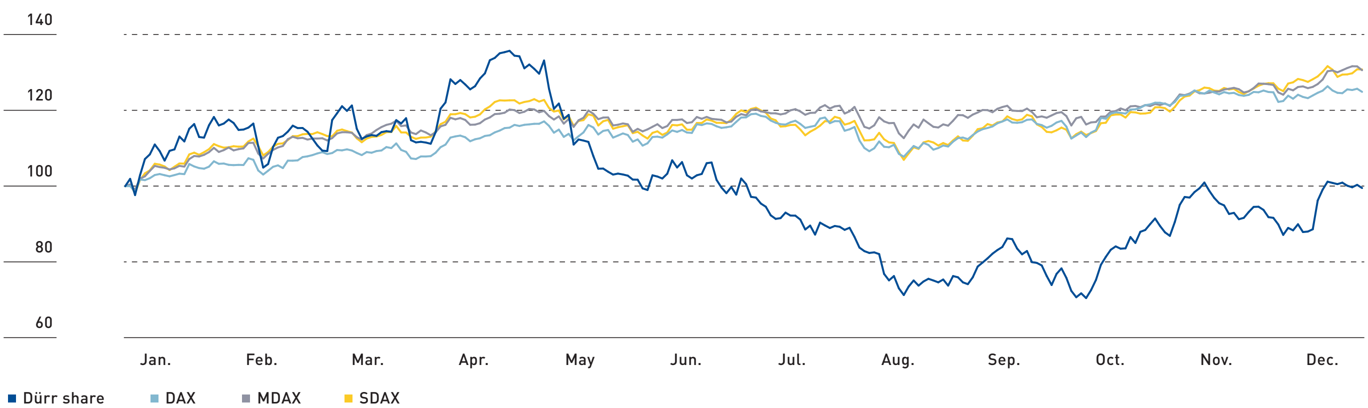
Our listed peer group includes mechanical engineering companies and engineering service providers such as Andritz, Bertrandt, Deutz, Edag, Gea, Heidelberger Druckmaschinen, Jungheinrich, Kion, Krones and Rheinmetall. The price/earnings ratio, enterprise value (EV) to EBIT, EBITDA and sales as well as share price to book value constitute the benchmarks for a peer group comparison of our valuation. At the end of 2019, EV/EBITDA was on a par with the peer group average, while the price/earnings ratio exceeded it. The consistently updated analyst consensus on sales, earnings and dividends can be found at www.durr-group.com under Investors/Share/Estimates.

STRONG YEAR-END RALLY ON THE MARKETS

The DAX indices entered 2019 on an upbeat note, underpinned in particular by the central banks, which additionally eased their monetary policies with the prospect of even lower interest rates in response to weaker macroeconomic indicators. However, the

1.1 — PERFORMANCE OF DÜRR SHARE IN XETRA TRADING, JANUARY – DECEMBER 2019

Compared to the DAX, MDAX and SDAX (indexed figures)



indices ceded a part of their gains in the further course of the year due to the worsening trade dispute between the United States on the one hand and China and Europe on the other. Signs of an easing of the trade conflicts together with unexpectedly strong corporate earnings increasingly raised spirits on the markets from the autumn. The DAX reached a high for the year of 13,426 points in December, with the MDAX hitting a new all-time high of 28,643 points. The two indices closed 2019 with a performance of 25.3 % and 31.1 %, respectively.

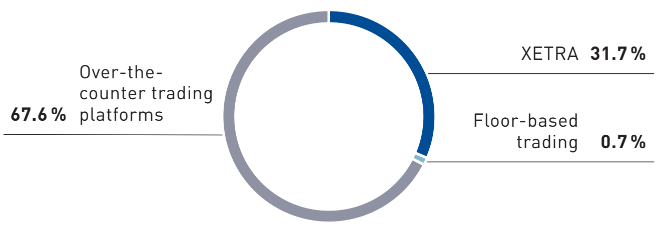
The Dürr share (ISIN: DE0005565204) moved in step with the upbeat overall market up until the beginning of April. After a brief rally, it reached a high for the year of € 42.26 on May 3, 2019, after which a negative trend emerged. Investors were expecting protracted restraint in the woodworking machinery market and structural shortcomings at HOMAG, following the announcement of our scaled-back guidance on July 22 and muted figures for the first half of the year. After reaching a low of just under € 21 at the beginning of October, the Dürr share recovered significantly. Driven in particular by the structural efficiency measures announced for the HOMAG Group, the share closed the year at € 30.38, thus achieving a performance for the year of 2.8 % (including the dividend of € 1.00).

DIVIDEND OF € 0.80 PER SHARE PROPOSED – PAYOUT RATIO AT 43 %

A dividend of € 0.80 per share is being proposed for 2019, equivalent to a reduction of 20.0 % over the previous year (€ 1.00). With the total distribution coming to € 55.4 million, the payout ratio stands at 43 % of consolidated net profit and thus above our customary range of 30 to 40 %. The higher ratio reflects the fact that earnings came under significant pressure from extraordinary effects in 2019. It also expresses our confidence about our business performance in 2020 despite the more challenging underlying conditions.

XETRA accounts for a good 95 % of trading in Dürr shares. However, the shares traded via XETRA and on the floor constitute only a good 30 % of daily trading. The shares are mostly traded on an over-the-counter basis. Average daily trading volumes of Dürr shares dropped to around 243,000 in 2019 (2018: 288,000). In value terms, daily trading volumes declined from € 11.9 million in the previous year to € 7.3 million due to the lower share price. XETRA trading volumes across all German shares decreased by 14 % to € 1,217 billion in 2019.

1.2 — DÜRR SHARE: BREAKDOWN OF TRADING VOLUMES



As we underperformed the overall market, we slipped substantially in the MDAX rankings. However, we asserted ourselves well compared with our peer group in performance terms. At the end of 2019, we ranked 53rd (December 31, 2018: 41st) among the 60 MDAX companies with respect to trading volumes and 65th (December 31, 2018: 57th) in terms of market capitalization.

THIRD PLACE FOR THE IR TEAM

Dürr AG's IR team reached third place in Europe in the capital goods category of the important EXTEL survey of capital market participants. Such a top ranking is very respectable indeed given the lean structure of our team, providing us with additional motivation.

1.3 — KEY FIGURES FOR DÜRR STOCK[1]

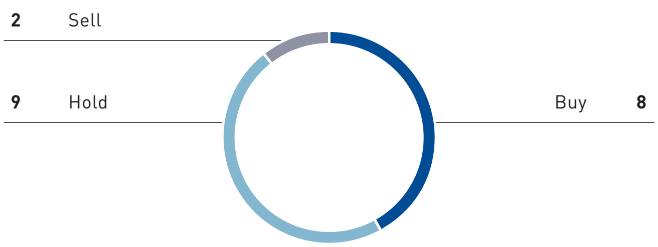
€	2019	2018	2017
Earnings per share	1.79	2.27	2.78[2]
Book value per share (December 31)	14.89	14.12	12.80[2]
Cash flow per share	2.48	2.34	1.73
Dividend per share	0.80[3]	1.00	1.10
High	42.26	57.18	60.28
Low	20.76	27.30	37.00
Closing price	30.38	30.53	53.28
Average daily trading volume (shares)[4]	243,000	288,000	269,000
Market capitalization in € million (December 31)	2,102.4	2,112.7	3,686.7
Number of shares	69,202,080	69,202,080	69,202,080

[1] The number of shares increased to 69,202,080 following the issue of bonus shares on a one-for-one basis on June 22, 2018. The figures shown here have been duly modified.
[2] Value subsequently adjusted due to the first-time application of IFRS 15.
[3] Dividend proposed to the annual general meeting
[4] XETRA

BROAD COVERAGE

At the end of 2019, the Dürr share was being covered by 19 analysts. The geopolitical risks, reservations about the automotive markets and the unsatisfactory performance of the HOMAG Group triggered substantial downside revisions in analysts' share target price in the course of the year. However, analysts adopted a more positive assessment following the announcement of structural adjustments at the HOMAG Group. The average target price for the Dürr share stood at € 31.66 as of December 31, 2019. 89 % of the analysts rated the share a "buy" or a "hold".

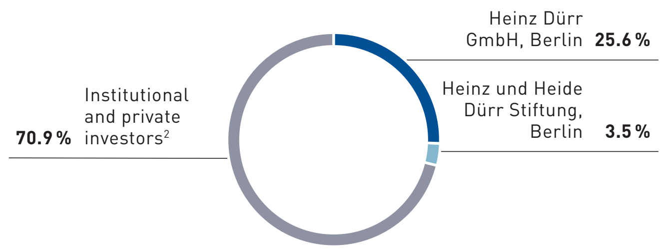
1.4 — ANALYST RECOMMENDATIONS (DECEMBER 31, 2019)



FREE FLOAT AT 71 %

The Dürr family as the anchor shareholder holds 29.1 % of Dürr AG's stock and plans to retain a quota of over 25 % in the future. Most of this share package (25.6 % of the subscribed capital) is held by Heinz Dürr GmbH and 3.5 % by Heinz und Heide Dürr Stiftung. The members of the Board of Management held a total of 0.3 % of Dürr shares as of December 31, 2019. Ralf W. Dieter held 179,600 shares, Dr. Jochen Weyrauch 6,000 shares, and Carlo Crosetto and Pekka Paasivaara 4,500 shares each. At 70.9 %, the free float in accordance with the Deutsche Börse definition was down slightly over the previous year.

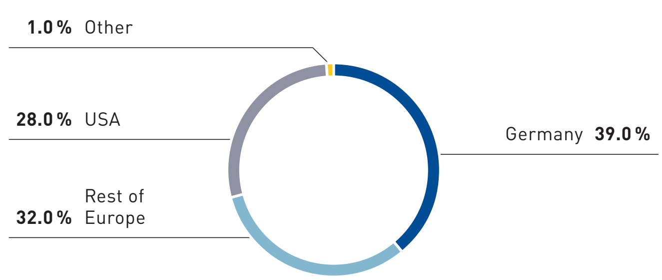
1.5 — SHAREHOLDER STRUCTURE[1] (DECEMBER 31, 2019)



Institutional and private investors[2]	Share
MainFirst	4.7 %
Alecta Pensionsförsäkring	3.2 %
Harris Associates	3.1 %
New York Life Insurance Company	3.1 %
Members of Dürr AG's Board of Management	0.3 %

[1] Free float as defined by Deutsche Börse AG
[2] On the basis of statutory notices

1.6 — SHAREHOLDERS BY REGION (DECEMBER 31, 2019)



DÜRR BOND AND FUNDING

Issued in 2014, the bond for € 300 million (ISIN XS1048589458) closed 2019 at 102.9 %. After reaching 103.9 % at the end of the first day of trading, it climbed to a high for the year of 105.5 % on June 6, 2019. Maturing in 2021, the bond has a coupon of 2.875 % and achieved a return of 0.6 % at the end of 2019. Average daily trading volumes on German trading platforms came to around € 44,000 (2018: € 35,000 on the Stuttgart Stock Exchange).

In June, we placed a Schuldschein loan for € 200 million with a coupon tied to the EcoVadis sustainability rating for the Dürr Group. Dürr AG is the world's first company to pursue this form of sustainability-oriented funding in a Schuldschein loan issue. The average coupon on the heavily oversubscribed loan stands at 0.84 %. The syndicated loan of € 750 million agreed upon in August also includes a sustainability component.

We have dispensed with issue and issuer ratings for some years as we see no reasonable justification for the expense of having a rating calculated. The capital market accepts this decision.

COMBINED MANAGEMENT REPORT

PAGE 20–98

COMBINED MANAGEMENT REPORT

COMBINED MANAGEMENT REPORT

We have combined the management report of the Dürr Group with the management report of Dürr AG, in accordance with Section 315 (3) of Germany's Commercial Code (HGB) in conjunction with Section 298 (2) HGB. The management report is therefore termed a combined management report. It contains the non-financial consolidated declaration within the meaning of Section 315b ff. HGB in association with Section 289b ff. HGB. The content of the non-financial consolidated declaration is marked with a line in the margin and the abbreviation NFD. Unless otherwise specified, the information below is applicable to both the Dürr Group and Dürr AG. Statements which refer exclusively to Dürr AG are correspondingly marked. These come at the end of the combined management report.

FUNDAMENTALS

NFD

The Group at a glance

PROFILE

The Dürr Group is one of the global leaders in mechanical and plant engineering. We are home to outstanding expertise in the digitalization and automation of industrial manufacturing processes. Our machines, plant and services stand for production efficiency and sustainability, whether in the automotive industry, which is responsible for 53 % of our sales, or in other sectors such as the woodworking, mechanical engineering, chemical, pharmaceutical and electrical/electronic engineering industries. We run 112 sites in 34 countries. We operate globally with our Dürr, Schenck and HOMAG brands. In addition to North America and Western Europe, we are also strongly represented in the emerging markets[1]. These accounted for 41 % of our order intake and 45 % of our sales in fiscal 2019.

GROUP ORGANIZATIONAL STRUCTURE

Dürr AG is the Group's management holding company. It holds – directly or indirectly – the investments in the Group companies and handles central tasks such as financing, controlling and accounting, as well as legal affairs, taxation, internal auditing, corporate communication and human resources management. Together with Dürr Technologies GmbH and Dürr International GmbH, which act as holding companies for equity interests, plus Dürr IT Service GmbH, Dürr AG forms the Corporate Center. Within the Dürr Group, there are the three sub-groups, Dürr Systems, Schenck and HOMAG, to which five divisions with their operating businesses are assigned. The divisions form the reportable segments within the meaning of the IFRS:

- Paint and Final Assembly Systems
- Application Technology
- Clean Technology Systems
- Measuring and Process Systems
- Woodworking Machinery and Systems

NFD

DIVISIONS, BUSINESS MARKETS, MARKET SHARES[2], IMPORTANT PRODUCTS AND SERVICES

Paint and Final Assembly Systems

Paint and Final Assembly Systems mainly plans, builds and upgrades turnkey paint shops and final assembly lines for the automotive industry. We supply products and processes for all the process stages in paint shop technology. The core products are the RoDip dip-coating ⟶ page 200 system, which gives vehicle bodies their anti-corrosion coat, and the energy-efficient **Eco**DryScrubber

2.1 — GROUP STRUCTURE

Management-Holding	Dürr AG				
Sub-groups	Dürr Systems			Schenck	HOMAG
Divisions	Paint and Final Assembly Systems	Application Technology	Clean Technology Systems	Measuring and Process Systems	Woodworking Machinery and Systems

[1] Asia (excluding Japan), South and Central America, Africa, Eastern Europe
[2] own figures

and **Eco**DryX paint booth systems. We usually also supply the relevant control, oven → page 200 and conveyor systems plus air supply and exhaust-air systems. We lead the field over the competition for paint shop business with a global market share of approximately 40 %. Our digital product offering is integrated in the DXQ software family. It includes, for example, solutions for plant monitoring, higher-level factory control, advanced analytics and predictive maintenance.

In final assembly systems, too, we are one of the few companies worldwide capable of supplying turnkey plants. Electromobility is opening up additional business opportunities in this field. Since electric cars have a less complex power train than conventional cars, a greater degree of automation is possible in their assembly process. Furthermore, our customers will increasingly be upgrading their assembly plants in the future so that, in addition to vehicles with internal combustion engines, they will also be able to produce hybrid and electric vehicles. We have a market share of 20 to 25 % in business related to final vehicle assembly lines.

Since January 1, 2020, the division has also included the automotive business in filling and testing technology → page 200 as well as assembly technology and marriage stations. Previously, these activities were based in the Measuring and Process Systems division. The realignment allows us to provide better customer service from a single source. The filling technology segment supplies systems for filling vehicles in the final assembly process, for example with oil or brake fluid. The major products in testing technology include end-of-line test stands and calibration stations for brakes, electronics and chassis geometry. The focus in assembly systems is on marriage stations, in which car bodies and power trains are brought together and attached to each other.

The Dürr Consulting unit is also part of Paint and Final Assembly Systems. It advises customers on planning and optimizing production and logistics processes, particularly in painting and final assembly technology. The focus of its consulting activities is currently on issues relating to the production of electric cars and batteries.

Application Technology

Application Technology generates almost 85 % of its sales with technologies for the automated spray application of primers, base coats and clear coats. The key products are the **Eco**Bell3 high-speed rotating atomizer → page 200, the **Eco**LCC2 color changer and the third generation of our **Eco**RP painting robot family. It also offers, for example, the **Eco**Supply P special paint supply system and other systems used for paint supply, quality assurance, as well as process control and evaluation. We are the leading supplier in the automotive sector with a global market share of around 50 %. Our two most important competitors are manufacturers of standard industrial robots.

In addition to paint application technology → page 200, we are active in two related business fields, i.e. sealing technology → page 200 and glueing technology → page 200. Sealing processes are used for sealing seams, applying underbody protection and injecting insulating materials in cars. Glueing is an alternative to welding vehicle components during body-in-white production and final assembly. One significant benefit is that it permits the use of non-weldable lightweight materials → page 200 in the manufacture of vehicle bodies. During final assembly, glueing technology is used, for instance, for fitting windows, glass roofs, cockpits and tanks.

Application Technology also addresses markets outside the automotive industry. Its Industrial Products business unit, which is responsible for this side of its activities, offers paint application products for sectors such as the plastics, ceramics, shipbuilding, timber and furniture industries.

Clean Technology Systems

Clean Technology Systems operates mainly in the field of exhaust-air purification technology. Our systems are used in the chemical and pharmaceutical industries, but also in sectors such as printing, mining, oil and gas, woodworking and carbon fiber production. Furthermore, the equipping of automotive paint shops accounts for around 15 % of sales in exhaust-air purification technology. Our most important process is thermal oxidation → page 200, in which pollutants are incinerated at up to 1,000 °C. The portfolio also includes sound insulation systems and coating systems for battery electrodes. Following the successful acquisition and integration of the US environmental technology companies Megtec and Universal in October 2018, we are now the world's leading supplier, with a market share of almost 25 %.

Measuring and Process Systems

Measuring and Process Systems offers balancing and diagnostic technology as well as solutions for the automated filling of refrigerators, air-conditioning systems and heat pumps with refrigerants. In 2019, 63 % of sales were generated in the automotive sector. We are the world's largest supplier of balancing technology → page 200, with a market share of around 45 %. In fiscal 2019, the division still included the filling, testing and assembly technology business for the automotive industry. Since January 1, 2020, this business has been part of the Paint and Final Assembly Systems division.

Woodworking Machinery and Systems

Woodworking Machinery and Systems consists of the activities of the HOMAG Group, the world's leading supplier of woodworking machinery and systems. With a global market share of more than 30 %, the HOMAG Group is significantly ahead of its two nearest competitors. Our technology is used by the furniture industry and woodworking trade, for example in the production of furniture, kitchens, parquet and laminate flooring, windows, doors, stairs and complete prefabricated timber houses. The range extends from entry-level machines to fully automated lines for mass production or batch size 1 manufacturing. Our core products include panel cutting systems, through-feed saws and drilling machines, sanders, edge-banding machines, CNC processing centers plus handling and storage systems. For the HOMAG Group as a system supplier, software solutions for digital production are of particular significance. These include, for instance, applications for maintenance and production management.

DIGITALIZATION/INDUSTRIAL INTERNET OF THINGS (IIOT)

We responded to the digitalization of manufacturing operations and the corresponding requirements of our customers by offering the ADAMOS **IIoT platform** ⟶ page 200 for mechanical engineering and modular software solutions for all stages of the production process. In the Digital Factories at Dürr Systems, Schenck and the HOMAG Group, we are developing smart applications for our customers. For instance, we rely on analysis functions that determine the causes of errors or remaining lifetimes and simplify maintenance. For further information on ADAMOS, our digital@DÜRR concept and smart products, please refer to the **"Strategy"** ⟶ page 27 and **"Research and development"** chapters ⟶ page 33.

COMPREHENSIVE SERVICE OFFER

Each machine and system sold adds to our installed base and thus to the potential to generate service business within the product life cycle. Our service offer includes planning, remodeling, upgrading, optimizing and relocating plants and machinery, as well as plant productivity and energy efficiency audits, software updates, training, maintenance, **remote diagnostics** ⟶ page 200, repairs and the supply of replacement parts. Service-related sales rose by 7.7 % to € 1,118.6 million in 2019 and accounted for 28.5 % of Group sales. As at the end of the year, the service side employed 2,669 persons, representing 16.2 % of the Group workforce.

TECHNOLOGY AND INDUSTRY PARK (TIP): REAL ESTATE SERVICE PROVIDER IN DARMSTADT

Schenck Technologie- und Industriepark GmbH (TIP), part of Measuring and Process Systems, markets and operates offices and also production and logistics space at Schenck's Darmstadt site. The floorspace for rent amounts to 109,900 m^2 on a 105,000 m^2 plot; offices account for 46 %. The Schenck Technologie- und Industriepark emerged from the restructuring of the Schenck sub-group in 2003/2004.

LEGAL STRUCTURE

Each of the following companies is wholly owned by Dürr AG: Dürr Systems AG, Dürr International GmbH, Dürr Technologies GmbH, Carl Schenck AG and Dürr IT Service GmbH. The first four of these companies and Dürr AG have entered into domination and profit transfer agreements. A profit transfer agreement has been concluded between Dürr AG and Dürr IT Service GmbH. We hold 64.02 % of the shares in HOMAG Group AG via Dürr Technologies GmbH. A domination and profit and loss transfer agreement has been in place between the two companies since March 2015. There is a pool agreement between Dürr Technologies GmbH and the Schuler/Klessmann shareholder group, which owns 14.1 % of the shares in HOMAG Group AG. This means we have around 78 % of the voting rights for votes at the annual general meeting. The Schuler/Klessmann shareholder group is made up of the Schuler family, who founded HOMAG, and the Klessmann Foundation. Dürr Systems AG, Dürr International GmbH, Carl Schenck AG and HOMAG Group AG hold direct or indirect stakes, usually 100 % holdings, in all the other Group companies.

PORTFOLIO CHANGES

In 2019, a purchase price of € 8.8 million was paid for the remaining 25 % of the shares in Benz GmbH Werkzeugsysteme. HOMAG Group AG had already acquired these shares in 2018. Apart from this, there were no significant acquisitions, equity investments or incorporations in 2019. We merged smaller Group companies, particularly in the course of the integration of the Megtec/Universal Group. For full information on acquisitions and mergers, please refer to ⟶ items 4 and 18 in the notes to the consolidated financial statements.

2.2 — ACTIVITIES AND BUSINESS MARKETS IN FISCAL 2019

PAINT AND FINAL ASSEMBLY SYSTEMS DIVISION

Business type	Activities	Customer groups
• Plant engineering	• Paint shops • Individual painting process stations • Final assembly systems • Service	• Vehicle manufacturers • Automotive suppliers • General industry (e.g. construction equipment and farm machinery)
• Consulting	• Consulting	• Vehicle manufacturers • Automotive suppliers • General industry

APPLICATION TECHNOLOGY DIVISION

Business type	Activities	Customer groups
• Mechanical engineering and component business	• Products for automated spray painting • Sealing technology • Glueing technology • Service	• Vehicle manufacturers • Automotive suppliers • General industry (e.g. plastics, ceramics, timber, shipbuilding)

CLEAN TECHNOLOGY SYSTEMS DIVISION

Business type	Activities	Customer groups
• Plant engineering and component business	• Exhaust-air purification systems • Noise abatement systems • Energy management and consulting • Service • ORC technology • Coating systems for battery electrodes	• Chemical industry • Pharmaceutical industry • Carbon fiber production • Printing/coating • Vehicle manufacturers (paint shops) • Automotive suppliers (paint shops) • Woodworking • Producers of lithium ion batteries • Mining • Energy sector • Oil and gas industry • Packaging industry • General industry • Operators of decentralized power plants

MEASURING AND PROCESS SYSTEMS DIVISION

Business type	Activities	Customer groups
• Mechanical engineering	• Balancing and diagnostic systems • Assembly technology for final vehicle assembly[1] • Testing technology for final vehicle assembly[1] • Filling technology for final vehicle assembly[1] • Filling technology for other industries • Service	• Vehicle manufacturers • Automotive suppliers • Electrical/electronic engineering • Turbines/power plants • Mechanical engineering • Aerospace industry • Household appliance industry

WOODWORKING MACHINERY AND SYSTEMS DIVISION

Business type	Activities	Customer groups
• Mechanical and plant engineering	• Machines and complete production lines for woodworking • Service	• Woodworking industry • Woodworking trade

[1] Part of the Paint and Final Assembly Systems division since January 1, 2020

BUSINESS MODEL

Our core competence is the engineering of efficient production technology. We support our customers with everything ranging from individual machines to turnkey manufacturing systems. In response to **Industry 4.0 ⟶ page 200,** we are expanding our offering related to the digital networking and control of production systems.

Our technologies and services are designed to help our customers achieve efficient and sustainable production. In doing so, we primarily rely on the following factors:

- Digitalization and technological innovation
- Planning and engineering expertise
- Reliable order execution
- Efficient production and assembly sites for core products
- Comprehensive range of services over the entire life cycle of our products
- Global presence, proximity to customers in all market regions

We are globally active in niche markets, in which we are the largest supplier, with market shares ranging from 25 to 50 %. 58 % of Group sales are attributable to mechanical engineering and 42 % to plant engineering. In mechanical engineering, we aim for EBIT margins of 10 to 12 %; in plant engineering, the target margin is 6 to 7 %. In terms of return on capital employed (ROCE), our plant engineering business achieves higher figures, in some cases in excess of 100 %, since the **capital employed ⟶ page 201** there is very low. In mechanical engineering operations, we aim for ROCE of 15 to 25 %. Our business model allows us on principle to achieve high operating cash flows and **free cash flows ⟶ page 201.**

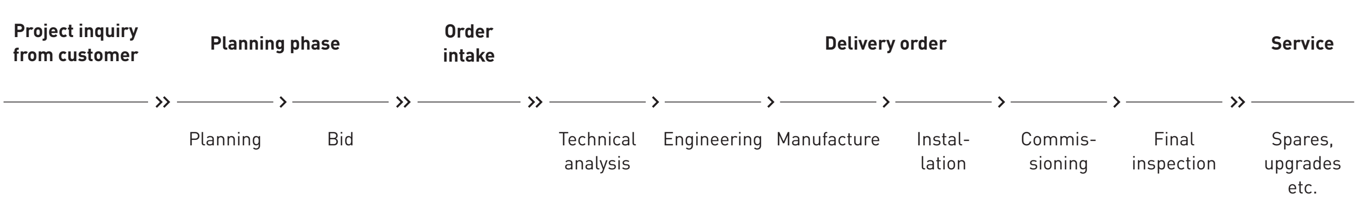
Financial importance of individual products, services and business markets

In view of our broad-based portfolio, the financial importance of individual products and services is limited. A key success factor in the paint shop business and at HOMAG is our systems expertise, i.e. the ability to plan and build turnkey systems. Increasingly, technology for the digital control of systems and machines is also playing an important role. The growing service business generates an above-average contribution to earnings within the Group. Thanks to our international presence, we have a balanced regional sales breakdown. In 2019, 17.1 % of revenue accrued in Germany, 27.4 % in other European countries, 26.9 % in North and South America and 28.7 % in Asia, Africa and Australia. The earnings contribution from the individual regions is approximately in line with the regional breakdown of sales. In regions of strong growth, we tend to achieve slightly higher margins.

Business processes/process advantages

Planning, engineering, order execution and service are our most important business processes. We have expanded our in-house production in recent years in the interests of quality, achieving on-time deliveries and protecting our intellectual property. Professional project management is critical to success in large plant engineering projects in particular. A large project usually requires 15 to 24 months for completion, while the figure for machinery orders is between 2 and 12 months. Smaller remodeling, upgrade and service projects are of shorter duration.

2.3 — PROCESSES IN PLANT ENGINEERING



NFD

Large projects require smooth collaboration between various departments and sites. We therefore operate with digitally assisted standard processes in planning, order execution, service and administration. Harmonized IT systems are of particular importance in this respect. They prevent interface problems, automate processes and enable the international sharing of work packages and effective capacity management.

Customer relations

Business with car manufacturers and suppliers is technically complex and long-term. We therefore maintain constant communication with them. We act as a planner, consultant and system supplier. In the case of major investment projects, we are involved for up to two years before an order is placed. As a service partner, we support our customers in plant operation and in the event of upgrades. Customers often inform us in advance of the development of new models to ensure that we can supply the required production technology in due time.

The mechanical engineering divisions – Measuring and Process Systems and Woodworking Machinery and Systems – have a broad market base with tens of thousands of customers. Sales-related expenses are therefore higher than for plant engineering business with the automotive industry. In addition to supplying individual machines, however, there are also larger projects with extended lead times in the mechanical engineering sector.

Supplier relations

We source goods, raw materials and services from several thousand suppliers. In addition to parts and component suppliers, we also often use the services of contract manufacturers, engineering consultancies and logistics companies. In the case of crucial commodity groups, we enter into global framework agreements with preferred suppliers. This enables us to pool the demands of several companies and divisions and achieve economies of scale. For further information, please refer to the "Procurement" chapter ⟶ page 32.

Further features of our business model

At 37 %, our real net output ratio is relatively low, though there are differences between the divisions. While, for example, the Woodworking Machinery and Systems division (mechanical engineering) has a real net output ratio of 46 %, in the Paint and Final Assembly Systems division (plant engineering), the real net output ratio is a mere 26 %.

Because of the low real net output ratio, the **asset intensity ⟶ page 201** and capital employed are also relatively low. The prepayments received from customers generally cover the receivables and inventories in current assets to a significant level. Consequently, the **net working capital (NWC) ⟶ page 201** in plant engineering is usually low or even negative. In relation to the fixed costs, too, we benefit from the low real net output ratio and asset intensity, which makes us more flexible in the event of cyclical order-book fluctuations. We have observed a change in payment behavior among our customers from the automotive industry: Payments are more often made with delays and prepayments are lower than in previous years. The days working capital at the end of the year was 46.1 days, the target corridor being 40 to 50 days. Measured against sales, our need for capital investment (excluding acquisitions) is low. This is due in particular to the low demand for tangible assets in plant engineering. By applying the accounting standard IFRS 16 "Leases", we report higher investments. The annual normal level is now € 95 to 105 million (2019: € 102.6 million); previously it was € 80 to 90 million. The HOMAG Group expects annual investments of approximately € 40 million. That is more than in the other divisions since the HOMAG Group's real net output ratio is significantly higher.

Most divisions have local production plants and procurement structures in major foreign markets. This reduces their need to import and thus the transaction risks. Translation effects resulting from the conversion of foreign currency items into euros are more important.

Projects in the automotive industry and with large furniture manufacturers often have long lead times. On principle, this allows us a clear picture in terms of the future order book. We can therefore make a rather accurate assessment of our future sales, capacity utilization and income situation for a major portion of the business.

NFD

BUSINESS LOCATIONS AND DIVISION OF LABOR WITHIN THE GROUP

We have 112 sites all over the world. At year's end 2019, 32.1 % of the workforce were employed in the emerging markets. Shanghai, with almost 2,400 employees (including around 320 external staff), is the largest location in the emerging markets.

Our lead sites in Germany control the Group's global operations. The Dürr Campus in Bietigheim-Bissingen (approx. 2,330 employees) is the Group's corporate headquarters and also the head office of Paint and Final Assembly Systems, Application Technology and Clean Technology Systems. Darmstadt (around 590 employees) coordinates Measuring and Process Systems' operations. The HOMAG Group head office in Schopfloch (approx. 1,770 employees) manages Woodworking Machinery and Systems' business activities.

Guidelines define how the Group companies collaborate on cross-border systems projects in plant engineering. In the case of major orders for Paint and Final Assembly Systems, the system centers in Bietigheim-Bissingen or Shanghai take over project leadership. There are also business centers that are responsible for smaller upgrades, parts of systems projects, and local sales and service. In mechanical engineering, the German lead sites act as the hub at the center of international projects.

Company-specific leading indicators

In managing the company, we follow various leading indicators. This enables us to prepare in good time for economic changes and changes in demand. We use four types of indicators:

- Key economic leading indicators are money supply, commodity and energy prices as well as purchase manager and business climate indices. Research reports and macroeconomic statistics also assist us in recognizing cyclical changes at an early stage. Moreover, we pay close attention to the development of interest rates. Business trends within our main customer industry segments (automotive and woodworking) correlate strongly with the development of the global economy.

- More specific indicators to assess future business potential are customers' investment plans as well as statistics and forecasts on production and sales. In addition, we follow the expectations of analysts regarding our customers' cash flows and investments.

- Our customers' specific investment projects constitute the third leading indicator. We collect information in this regard in our database, along with an assessment of our chances of being awarded a contract. In the product business, the quotation time for offers serves as an indicator. If customers require more time for investment decisions, the average time for submitting quotations increases. This indicates a trend toward weaker demand.

- The fourth group of indicators are incoming orders and order backlog. As many projects have a long lifetime, both key figures are suitable for assessing capacity utilization and sales for the coming quarters.

Strategy

The Dürr Group adopted its new mid-term strategy at the beginning of 2020. The strategy is the roadmap for profitable growth and for raising earnings to a top level in the international mechanical and plant engineering sector. The new strategy is linked to medium-term targets for four key indicators:

- **High profitability:** The EBIT margin is to widen gradually to at least 8 %. We consider this level to be appropriate in view of the increased proportion of mechanical engineering business in our portfolio.

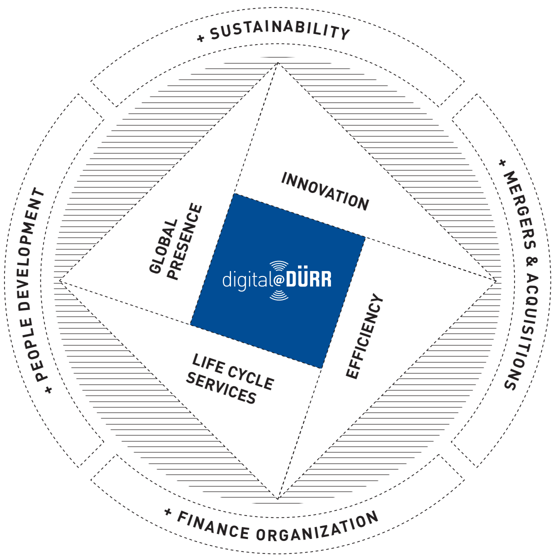
- **Sales growth:** Organic sales growth is expected to average 2 to 3 % and thus slightly exceed the expected growth in production and demand in our markets.

- **Attractive return on capital:** We are aiming for **ROCE** **→ page 201** of at least 25 %, underpinned by high EBIT contributions from mechanical engineering and low capital employed in plant engineering.

- **Increase in the proportion of service business:** Service business with its larger margins is to account for up to 30 % of Group sales. Efficient service business safeguards the Group's earnings and increases customer satisfaction.

In order to achieve our goals and expand our leading position in the world market, we are continuing to push ahead with digitalization as a central strategic element. In addition, we are positioning ourselves to optimum effect in four strategic fields: global presence, innovation, efficiency, lifecycle services. We have also defined four enablers, i.e. supporting functions that are particularly important for the successful implementation of our strategy: sustainability, mergers & acquisitions, finance organization and people development.

2.4 — MID-TERM STRATEGY DÜRR GROUP



+2–3 % p.a.
SALES

30 %
SERVICE SHARE

≥8 %
EBIT MARGIN

≥25 %
ROCE

GLOBAL PRESENCE

- Global business with local supply chain
- Strong regional set-up (North America, Asia, Europe)
- Expand in Southeast Asia

INNOVATION

- Technology leader with software as differentiator
- Enter new business fields supported by trends
- Efficient & sustainable products

EFFICIENCY

- Drive synergies, esp. scale, processes, standardization/costs
- Lean and agile organization
- Optimize global footprint

LIFE CYCLE SERVICES

- Leverage vast installed base
- Increase spare parts sales driven by proprietary parts
- Strengthen brownfield business
- Optimize life cycle by using asset data intelligence

DIGITALIZATION

Digitalization is the most important future trend in mechanical and plant engineering. It enables our customers to achieve greater plant availability, reduce costs and automate the production of individualized products. Digitalization is relevant for all four strategic fields in the Dürr Group: It exerts a decisive influence on innovation management and our service offerings. In addition, digital processes and tools are the key to efficient collaboration and global networking within the Group.

Market leader in the digital era

To remain ahead of the competition in the digital era, we need to offer our customers the best solutions for the digital optimization of their production. To this end, we are expanding our range of data-based software applications, intelligent products, digital services and corresponding business models. In this way, we are tapping into new sales potential and shielding our business from competitors in the software industry. We have a crucial advantage over them in that we combine digital know-how with expert knowledge of production processes – also known as "shop-floor competence".

digital@DÜRR: specific approaches

Our strategy for the digital transformation goes by the name of "digital@DÜRR". It defines various approaches for successfully structuring the digital transformation:

- **Comprehensive software range:** We offer a comprehensive range of software for digitalization, including the ADAMOS IIoT platform → page 200, manufacturing execution systems for overarching production management as well as smart analytics and smart maintenance applications for individual processes and machinery. Our analytics applications partly work with artificial intelligence. We operate digital marketplaces such as the tapio platform for the woodworking industry, via which applications can be sourced.

- **Intelligent products and services:** We develop intelligent, adaptive products fitted with sensors and connectors to measure data and make this available for smart applications. This data also forms the basis for digital services → page 200 such as predictive plant maintenance.

- **Expansion of software expertise:** We are recruiting additional software experts and supporting employees in acquiring digital skills. In addition, we are exploring M&A opportunities to enhance our digital range.

- **Customer orientation:** The starting point for the development of smart applications is formed by practical customer requirements, such as quality assurance in the painting process. Our digital innovations stand for simple connectivity and low resource requirements for customizing.

- **New business models:** We develop the business models required to market our applications, such as subscription models for software purchases, maintenance contracts for software and pay-per-use models.

- **Partnerships and cooperations:** In view of the complexity of the digital transformation, we rely on partnerships. One example is the ADAMOS network with Software AG and currently 19 participating mechanical engineering companies. Via ADAMOS we offer our customers the IIoT platform as well as an integration hub that networks different makes of machine and their application environments. This is joined by the growing portfolio of apps provided by the ADAMOS partners as well as digitalization consulting services. Thanks to the ADAMOS cooperation, partners are able to reduce their resource requirements as they benefit from synergistic effects, and share development results and experiences.

- **Internal transformation:** Digitalization is being accompanied by the internal transformation of the Dürr Group. We support order processing with digital tools and consolidate software development in Digital Factories so as to be able to offer new products more quickly. Agile working methods and short decision paths serve the same purpose. We also develop new ways of working together in the digital work environment.

STRATEGIC FIELD: GLOBAL PRESENCE

Our business is international and we have a global footprint with 112 locations in 34 countries. Strong localization reduces our exposure to regional market weakness and allows us to achieve market proximity in addressing our customers. In connection with global presence as a strategic field, we have defined ways of making the best possible use of our worldwide Group network.

Localization and global network

One key measure is the continued localization of our products. This means that we are adapting products even more closely to meet the specific requirements of the individual regional markets and producing on a local basis. This is accompanied by a global strategy for engineering → page 200, R&D and supply chain management. We will be distributing our activities in these areas worldwide to an even greater extent than before, taking advantage of the individual benefits offered by our locations. Whether it's expertise, cost advantages, technological skills or special customer relationships, each location is to contribute its own strengths to the Group network to optimum effect. Centers of competence for specific technologies are increasingly installed in high-growth emerging markets. With respect to production, we are relying on specialized production hubs that assemble their products for the global market on a cost-efficient basis.

Focus on Asia

Looking ahead over the next few years, Asia offers the greatest growth potential for us. For this reason, we are systematically aligning our organizational structures and product strategy to meet the needs of this market. Whereas we already have a strong footprint in China and India, we will be additionally expanding our position in the growth markets of Southeast Asia.

STRATEGIC FIELD: INNOVATION

Innovation is a pillar of our market leadership and calls for high R&D budgets. The Group's R&D agenda has two thrusts: Our innovations aim to enable sustainable production processes and unleash added value by means of production efficiency. In this way, we are addressing our customers' two most important requirements. Our product development activities aim at achieving low energy and resource consumption, reduced emissions and low unit costs in production. A further aspect is the flexibilization and modularization of factories. The latter means that we are developing scalable production systems that can be easily expanded depending on the market performance of the product in question.

The proportion of digital technologies is widening across practically all innovations. We make our machines and systems intelligent and network them so that they provide greater benefits for users. Further information on the innovation strategy and current examples can be found in the chapter entitled "Research and development" → page 33.

STRATEGIC FIELD: EFFICIENCY

Efficiency as a strategic field includes an ongoing portfolio analysis, which measures the performance of and contribution to value made by our activities and identifies the areas in which adjustments are necessary.

Efficiency as a strategic field encompasses all initiatives that improve our processes and structures and create a working environment that promotes performance. The goal is to achieve an efficient and flexible organization that contributes to profitability and adapts to market changes. One key aspect of this involves harnessing synergistic effects within the Group. This includes uniform processes, shared services, the use of economies of scale and end-to-end IT applications. In the interests of an efficient cost structure, we want to merge smaller national companies and pool local activities at larger locations. We have had good experience with this campus approach in Germany, the United States and China.

In connection with efficiency as a strategic field, we are not losing sight of our employees and managers either. Our Process Excellence approach is designed to enable them to achieve better results with less effort. This is what the "Better results, less stress" vision is all about. As an element of Process Excellence, we encourage the use of efficient methods such as lean management and agile working. We adapt processes, improve communications within the organization and promote independence, a sense of ownership and knowledge-sharing.

STRATEGIC FIELD: LIFE CYCLE SERVICES

Service business has strategic relevance in two respects as it generates higher margins than new business and directly contributes to customer loyalty. In order to achieve a sustained share of service business of up to 30 % of Group sales, we are increasingly aligning our service activities to the entire life cycle of the machinery and systems we install. In doing so, we have three main thrusts:

- **Leveraging the installed base:** Our broad installed base offers great potential for growth in service business. We will be leveraging this potential with the help of **IIoT tools** **⟶ page 200****:** Via connectivity and machine data analytics, we can provide customers with suggestions for increasing their overall equipment effectiveness.

- **Expanding spare parts business:** We are intensifying spare parts business with its recurring sales and earnings contributions by means of proactive selling and data-based requirement analyses. In addition, we are focusing on proprietary spare parts and equipping peer systems with our products.

- **Brownfield expansion:** We are systematically expanding our growing plant modernization business, also known as "brownfield projects". In paint technology business, the proportion of brownfield activities is expected to increase to around one third in the medium term. We will be systematically offering our customers the possibility of retrofitting existing plants with IIoT and digital technologies.

FOUR CENTRAL ENABLERS

Operating business is being flanked by four central enablers (supporting functions), which are relevant for the successful implementation of our strategy.

Sustainability

Sustainability is a key motive at several levels of the Group. We develop sustainable products and processes for our customers. At the same time, more and more customers and business partners expect us to provide evidence of sustainable activity. Our trustworthiness as an employer, a partner in the capital market and a participant in public life also requires us to adopt a responsible approach in our relations with our stakeholders and use of resources, and to observe the principles of corporate citizenship, compliance and good corporate governance. Further information can be found in the chapters entitled **"Sustainability"** and **"Corporate governance"** **⟶ pages 37 and 45.**

Mergers and acquisitions

By acquiring companies and technologies, we tap growth potential, enter new areas of business and secure our leading market positions. We are continually exploring the market. In doing so, we distinguish between cross-divisional and complementary acquisitions. Cross-divisional acquisitions are aimed at technologies and skills that benefit several divisions, for example in the software and digital sectors. Complementary acquisitions allow us to reinforce a division's existing business or establish a new division. Acquisition criteria for potential target companies and the establishment of a new division are:

- Mechanical and plant engineering
- Sales of over € 500 million
- Niche market, leading market and technological position
- Not in need of restructuring but offering potential for improved earnings and synergistic effects

Finance organization

The focus of our financial management is on cost control and the provision of liquidity. The finance organization is a service provider for operating business and supports management decision-making processes. The strategic starting points for enhancing the efficiency of the finance organization entail process standardization and digitalization, the use of shared services, the optimization of the legal structure and further training for employees.

People development

Our success as an **engineering company** ⟶ page 200 hinges decisively on the qualifications of our employees – particularly in view of digitalization and the capabilities that this calls for. We therefore see people development as a strategic task. Specifically, we pursue four approaches:

- Dürr Group Academy: further training in line with modern principles and methods
- Talent management: attractive career paths, succession planning for key positions
- HR development innovation: motivating work culture; preparation for new challenges; modern leadership that encourages a sense of ownership
- Employer branding: enhancing the Group's appeal for external job applicants

Procurement

The Dürr Group's cost of materials came to € 1,681.4 million in 2019, rising by 6.9 % over the previous year. This was primarily due to increased costs for bought-in parts and for the construction of buildings in systems projects.

In plant engineering, we mainly source manufacturing and assembly services, as well as modules, aggregates, complete units, engineering services and raw materials for in-house production. In mechanical plant engineering, we purchase a great deal of manufactured parts and pre-assembled modules. Other important procurement goods for all divisions are finished and semi-finished products such as electrical components and drives.

The slowdown in global economic growth has, by and large, caused the capacity utilization among our suppliers to normalize. To ensure supplier availability, we forecast our needs as early as the sales stage. We set store by long-term capacity planning and we closely monitor deadlines and milestones when dealing with suppliers. We have further expanded the systematic sourcing and development of new suppliers. We exclusively produce certain components ourselves in order to protect our intellectual property.

We address the pressure on prices exerted by our customers through various measures: We use worldwide framework agreements with preferred suppliers; we are stepping up the localization level of products and purchasing activities; and we are increasingly sourcing products and components in Asia for plants in other markets. We achieve economies of scale by pooling international purchasing needs. Our global lead buyers play a crucial role in enhancing localization and pooling. To achieve cost benefits, we consider purchasing factors early on in our product development.

Among the challenges we face in purchasing are the demand-driven fluctuations of our business as well as tight deadlines and cost pressure in plant engineering. In addition, sustainability aspects are becoming increasingly important and are taken into account in supplier assessments. Procurement is also hampered in no small part by administrative barriers and customs duties.

In digitalizing our purchasing activities, we use, for example, digital auctions, electronic supplier integration (EDI and WEB EDI integration), and automated order confirmation. In the year under review, extensive preparations were made for the Group-wide introduction of a new supplier relationship management (SRM) system. The SRM system enables us to further professionalize our supplier management and to benefit from efficient, digital processes and worldwide transparency regarding suppliers and volumes. Implementation is planned for 2020. Other current projects are the SAP integration of the Megtec/Universal Group and other HOMAG companies as well as the introduction of digital business intelligence. We regularly check, especially with major suppliers, to what extent we can achieve additional digital process improvements.

As part of a further standardization of our purchasing organization, we have reviewed our common purchasing manual. A comprehensive training concept ensures the sharing of best practices and a high level of expertise among our purchasing staff. We have reorganized the Chinese and German purchasing organization of Paint and Final Assembly Systems as part of the FOCUS 2.0 optimization program. We have also remodeled our purchasing activities at Clean Technology Systems following the acquisition of Megtec/Universal. A new Strategic Sourcing Team works on solutions for strategic purchasing issues in plant engineering. In addition, we have reinforced our project purchasing and supplier development activities in plant engineering.

As at December 31, 2019, we had almost 600 employees working in purchasing. The Global Sourcing Board coordinates worldwide purchasing operations at Group level. It is made up of the divisions' purchasing heads. The divisions operating under the Dürr brand (Paint and Final Assembly Systems, Application Technology and Clean Technology Systems) use the Global Sourcing Committee for pooling requirements and for deciding on framework agreements as well as major contract awards.

Research and development

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R&D GOALS

Our R&D work aims to deliver innovations that help our customers achieve maximum production efficiency while lowering per-item costs. In addition, we wish to set ourselves apart from our competitors and safeguard our market-leading position. Great importance is attached to innovations as part of our digital@DÜRR digital strategy.

R&D KEY FIGURES AND EMPLOYEES

As part of our measures to secure earnings, we reduced direct R&D expenditure in 2019 by 8.4 % to € 110.8 million. However, no cutbacks were made in strategically important areas of innovation, such as digitalization. The R&D ratio reached 2.8 %, compared to 3.1 % in the previous year. Order-related development costs are contained in the sales costs rather than the direct R&D costs. Capitalized development costs and their amortization totaled € 19.0 million and € 9.1 million (2018: € 14.5 million and € 9.9 million), respectively. Measured against the direct R&D costs, a capitalization rate of 17.1 % was achieved (2018: 12.0 %).

The proportion of the workforce engaged in R&D operations was 4.8 % at year's end 2019, corresponding to 789 employees (December 31, 2018: 782). We carry out R&D activities at sites in Europe, the Americas and China. Almost 90 % of R&D staff are employed in Germany. Numerous other experts work on new solutions as part of customer orders outside the R&D departments.

Responsibility for R&D lies with the five divisions. The "R&D/Technology" cross-functional team coordinates cross-divisional R&D activities and reports to the CEO. Processes and detailed issues relating to R&D work are governed by guidelines in the divisions.

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Developing new solutions represents around 70 % of our R&D expenditure, while some 30 % goes on maintaining existing products. Our R&D work generally focuses on specific products and applications. Basic research plays only a minor role.

2.5 — R&D KEY FIGURES

		2019	2018	2017
Group R&D ratio	%	2.8	3.1	3.1
Paint and Final Assembly Systems	%	1.5	1.3	1.1
Application Technology	%	4.6	4.0	4.1
Clean Technology Systems	%	1.2	2.6	2.0
Measuring and Process Systems	%	2.6	2.1	1.8
Woodworking Machinery and Systems	%	3.9	4.9	5.2
Capitalized development costs	€ million	19.0	14.5	9.6
Amortization of capitalized development costs	€ million	–9.1	–9.9	–12.7
R&D employees (Dec. 31)		789	782	713
R&D personnel costs	€ million	–79.3	–77.7	–69.1

NEW DEVELOPMENTS AND PATENTS

49 product innovations were completed in 2019. The number of patent families increased to 1,250, and the number of individual patents to 6,861 (December 31, 2018: 1,224 and 6,651). At 38 %, the Application Technology division is responsible for the largest proportion of our patents. The costs for protecting our intellectual property rose to € 9.3 million in 2019 (2018: € 7.6 million), as we had to rely increasingly on external support.

COLLABORATIVE RESEARCH AND BOUGHT-IN R&D SERVICES

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Close contacts with scientific institutions and development partners guarantee that leading-edge R&D is conducted. Expenditure on externally sourced R&D services in fiscal 2019 came to € 42.2 million (2018: € 47.7 million). We received state research grants to the sum of € 0.2 million; this represents 0.2 % of the total R&D costs.

R&D FOCUS

Our innovation work is based on our customers' requirements and on leading technology and manufacturing trends. The following are currently of particular importance:

- **Digitalization/Industrial Internet of Things** (IIoT) ⟶ page 200: The dominant trend in manufacturing technology is digitalization. This increases our customers' overall equipment effectiveness and enables adaptive manufacturing processes ⟶ page 200. One focus in the year under review was on smart applications, including digital maintenance assistants and analytics software for quality improvement. The use of artificial intelligence is playing an increasingly important role.
- **Increased flexibility:** Our customers need flexible production lines to be able to offer a wide diversity of models and variants. In doing so, we work on solutions that bypass rigid process chains and can be easily expanded.
- **Sustainability:** Consumers are increasingly opting for goods that have been produced in environmentally compatible processes, and the public is also looking more and more at the ecological footprint of producers. Energy and resource efficiency is therefore not only a cost issue for our customers. Several car

2.6 — R&D EMPLOYEES 2019

	Group	Paint and Final Assembly Systems	Application Technology	Clean Technology Systems	Measuring and Process Systems	Woodworking Machinery and Systems
Total	789	79	183	34	77	416
% of divisional workforce	4.8	2.2	7.9	2.4	3.4	6.3

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manufacturers have set themselves targets for when they plan on achieving CO_2-neutral production.

- **Customization/batch size 1:** We are seeing growing interest in systems that enable individually configured end products to be manufactured efficiently on automated lines.
- **Optimization of per-unit cost:** Reducing per-unit manufacturing costs is an important goal for our customers. Accordingly, we are developing new products and processes with a reduced demand for material, energy, maintenance and human resources.
- **Automation:** Maximum automation is the key to reproducible top quality and efficiency in industrial production. Our customers still have a great deal of potential for automation.
- **Electromobility:** There are differences in the final assembly of battery-powered vehicles and conventional cars – for example when connecting the power train and the body or during end-of-line ⟶ page 200 performance testing. We are therefore developing assembly and testing technology ⟶ page 200 specifically for electric vehicles. We are also aligning our painting solutions to the special requirements of the electric vehicle industry.
- **Autonomous driving:** Modern vehicles have an increasing number of driver assistance systems installed; the automotive industry is also working flat out on concepts for driverless vehicles. Highly sensitive automated test systems are crucial for testing and calibrating the required technology, for example sensors, during mass production.

R&D RESULTS

Paint and Final Assembly Systems

The painting line of the future breaks with traditional painting processes: Flexible individual boxes for the application of paint replace rigid line concepts whose cycle times are always based on the largest model and the paint with the longest application time. The modular box concept makes car manufacturers more flexible, as it facilitates the painting of different models in one paint shop. In addition, it enables the straightforward expansion of capacities according to customer requirements.

EcoProFleet, the world's first automated guided vehicle system specifically for paint shops, is available to complement the above. The freely controllable system transports vehicle bodies flexibly to the individual processing stations. It is precisely adapted to the requirements of the painting environment.

Application Technology

With **Eco**PaintJet Pro, Application Technology has taken the application of paint without overspray ⟶ page 200 to the next level. The approximately 50 nozzles of the applicator have a diameter of about one tenth of a millimeter and can be controlled individually. This opens up even more possibilities for product customization, such as the sharp application of two colors onto a vehicle roof. As with a digital printer, the automatic application of lettering and logos can also be achieved.

Targeted maintenance and improved quality: Thanks to historical data and artificial intelligence, it is now possible to make concrete statements, for example about service requirements. The software **DXQ**equipment.analytics – Advanced Analytics increases the availability and thus the efficiency of the painting robots.

Clean Technology Systems

Clean Technology Systems continues to drive the improvement in the emissions balance of its exhaust-air purification systems. The newly designed TARcom VII burner generation will further reduce nitrogen oxide emissions and thus enable compliance with more demanding limits.

Measuring and Process Systems

We have bundled digital innovations in balancing technology ⟶ page 200 under the umbrella of the new digital brand, Schenck ONE. The SmartCockpit app makes the information of the connected machines centrally available and thus helps to increase productivity in production. Thanks to the MaintenanceCenter maintenance application, customers can plan and document their service work and thus gain a simple overview of the condition and maintenance history of their machines.

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With the x-3Dsurface test stand, the vehicle geometry can be measured even more precisely and quickly at the **end of the line** → page 200. Vehicle manufacturers can now flexibly define measuring ranges and also inspect complex tire and body shapes with high precision. The retrofitting of existing test systems is possible without difficulty.

We have developed new digital applications in **filling technology** → page 200. For example, they help to manage vehicle-specific parameters and to verify that filling is performed correctly. Thanks to the analysis of historical data, the causes of errors can be detected and eliminated more quickly.

Woodworking Machinery and Systems

Woodworking Machinery and Systems (HOMAG Group) has developed easy-to-implement digitalization concepts for woodworking shops and medium-sized furniture manufacturers. Of particular importance in this regard are intuitive assistance apps and – for medium-sized companies – the TRANSBOT automated guided vehicle system, which transports workpieces between processing stations.

The fully automatic multifunctional bridge WALLTEQ M-380 with integrated blow-in plate has been developed for prefabricated house construction. It can be used to fill wooden elements with insulating materials. Thanks to the digital interface for work preparation, the machine adapts the filling process exactly to the respective element. In contrast to manual filling, this reduces processing times, waste and dust exposure, thus increasing efficiency and protecting the environment and workers.

DÜRR TECHNOLOGY COUNCIL

The Dürr Technology Council advises the Board of Management on questions of technology strategy. The Council brings together scientific expertise, consultancy skills and senior management experience in the automotive engineering, automation and IT sectors. Its members are:

- Prof. Dr. Holger Hanselka (Chairman), President of the Karlsruhe Institute of Technology (KIT)
- Ulrich Dietz, Chairman of the Administrative Board of GFT Technologies SE
- Jonathan Guenak, Senior consultant, Roland Berger GmbH
- Dr. Eberhard Veit, former CEO of Festo AG
- Prof. Dr. Thomas Weber, former member of the Board of Management of Daimler AG

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The Dürr Technology Council sees its role as a think tank and sparring partner for the Board of Management. It balances our innovation strategy against current trends in production and provides advice on the potential of technologies of the future. The Dürr Technology Council maintains constant contact with the Board of Management and, if necessary, exchanges information with the heads of divisions and managers from R&D, software and corporate development departments. It invites different representatives from this circle and external experts to its meetings.

In 2019, the Dürr Technology Council convened twice. At the first meeting in Darmstadt, the members were given an overview of Schenck's activities and innovation strategy. The focus was on current product developments, including 3D printing and remote-controlled commissioning of balancing machines. Specialists from the company presented the innovations and then held discussions with the participants. Other topics of the meeting included battery production for electric cars, the ADAMOS joint venture and the modern ways of thinking and working of digital champions.

The second meeting, held at the Karlsruhe Institute of Technology (KIT), initially focused on sustainability aspects of the organizational structure, production, and product development. Another focus was on artificial intelligence, on which, in particular, professors from different departments of the renowned KIT gave lectures and held discussions with the participants. The members of the Technology Council decided to continue the cooperation with contacts at KIT. The plan is to hold further discussions also on the requirements and opportunities for a consistent sustainability orientation of the organization and of product development.

SUSTAINABILITY

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Our economic activities are consistent with ecological and social concerns and the principles of responsible corporate governance. We are committed to the ten principles of the UN Global Compact. Our activities and results in the area of sustainability are regularly evaluated by CSR initiatives and rating agencies such as the Carbon Disclosure Project (CDP) and EcoVadis. In 2019, corporate financing was one of the priorities of our sustainability efforts: The interest rates of our new Schuldschein loan and the new syndicated loan are in part linked to the Dürr Group's sustainability rating as determined by EcoVadis.

Corporate Sustainability was added to the remit of Dr. Jochen Weyrauch on Dürr AG's Board of Management on March 1, 2020. Prior to this, CFO Carlo Crosetto had been responsible for the sustainability function. The framework for action is defined by various Group-wide provisions. Measures and initiatives aimed at greater sustainability are usually planned centrally in consultation with the Board of Management and implemented decentrally.

Our sustainability reporting does not yet follow any framework. We plan on providing more comprehensive information regarding sustainability issues in the Dürr Group and on publishing an independent sustainability report in compliance with the standards of the Global Reporting Initiative (GRI) in the future.

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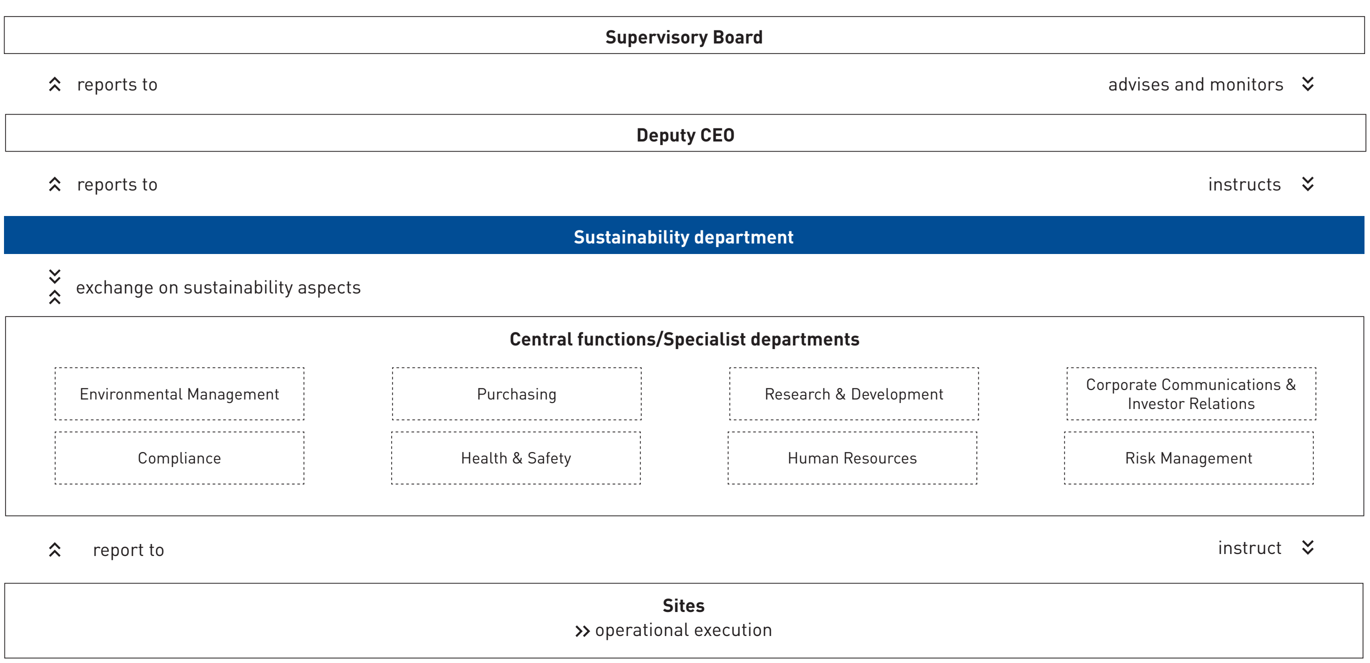
2.7 — PLAYERS AND RESPONSIBILITIES IN THE AREA OF SUSTAINABILITY



Materiality analysis

In 2017, we analyzed various non-financial matters in internal workshops and identified seven matters which are material for us:

- Innovation
- Compliance/anti-corruption
- Human rights
- People development and further training
- Health and safety
- Employee satisfaction/retention
- Employee recruitment

We review the material issues in regular discussions with the Group's specialist departments. In doing so, we consider the relevance of the issues for our business on the one hand and assess the impacts of our business operations on the issues on the other.

Following our review, we still regard the matter of the environment, which is required by the CSR Directive Implementation Act (CSR DIA), as non-material. This relates both to the relevance of environmental aspects to our activities and to the impacts of our business operations and our supply chain on the environment. Our core competences are **engineering** → page 200, construction, planning and order execution. These processes entail relatively low environmental impacts. Conversely, the value added as a result of production processes that are usually associated with relatively high impacts is comparatively low. We also classify the aspect of social matters as non-material.

NON-FINANCIAL DECLARATION

The non-financial consolidated declaration in accordance with Section 315b (1) of Germany's Commercial Code (HGB) is an integral part of the management report and is spread across several of its chapters. The following index (table 2.8) shows which chapters contain information on the non-financial matters that are material for us. The content of the non-financial consolidated declaration is marked in the relevant chapters with a line in the margin and the abbreviation NFD. The non-financial consolidated declaration did not form part of the audit of the annual and consolidated financial statements by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. At the request of Dürr AG, however, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft performed an audit of the non-financial consolidated declaration in order to obtain limited assurance in accordance with the ISAE 3000 (revised) auditing standard.

2.8 — INDEX OF NON-FINANCIAL MATTERS

Details in acc. with CSR DIA[1] (Section 315c of Germany's Commercial Code (HGB))	Chapter/sub-chapter/section
Business model	• Fundamentals/The Group at a glance/Profile • Fundamentals/The Group at a glance/Group organizational structure • Fundamentals/The Group at a glance/Business model
Risks in relation to material non-financial matters	• Report on risks, opportunities and expected future development/Risks/Risks in relation to material non-financial matters
MATERIAL NON-FINANCIAL MATTERS	
Combating corruption and bribery	• Sustainability/Integrity
Respect for human rights	• Sustainability/Integrity
Employee matters • People development and further training • Health and safety • Employee satisfaction/retention • Employee recruitment	• Sustainability/Employees
Innovation	• Fundamentals/Research and development
OTHER NON-FINANCIAL MATTERS	
Employee matters • Employee health	• Sustainability/Employees
Environmental matters	• Sustainability/Environment
Social matters	• Sustainability/Social commitment

[1] CSR Directive Implementation Act

Integrity

The corporate values of the Dürr Group are:

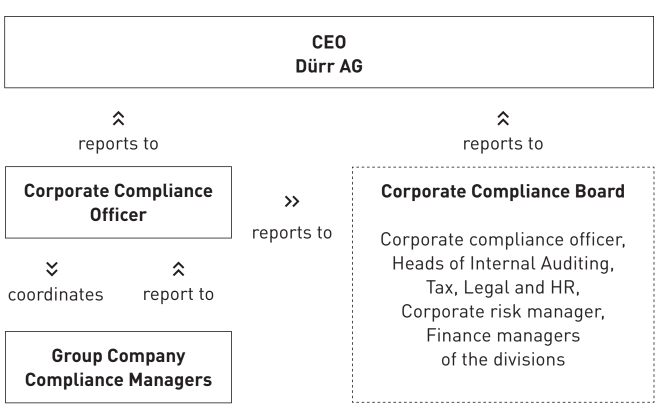
- Creating customer-focused value
- Entrepreneurial thinking and acting
- Innovation and technology
- Guaranteeing sustainability
- Valuing diversity

These five values are the foundation of our relationships with employees, customers, partners and shareholders. They form the basis of our code of conduct, which is available in ten languages. It postulates ethically correct behavior and contains principles for social responsibility and for dealing with business partners, competitors and colleagues. We also expect our suppliers to exercise the due diligence that we require internally. This requirement is set out in the code of conduct for suppliers, which has been a binding part of our contracts with suppliers since 2019.

COMPLIANCE/ANTI-CORRUPTION

Our compliance management system (CMS) provides the framework for action so that all activities in daily business operations can be carried out in accordance with legislation and in-house requirements. A Group-wide organizational instruction on compliance defines responsibilities, communication channels and measures. The central body is the Corporate Compliance Board, whose responsibilities include defining and further developing the compliance management system. Local compliance managers in the Group companies support the employees in meeting compliance requirements. The Corporate Compliance Officer is the contact person in the case of potential compliance violations and notifies the CEO and the Corporate Compliance Board of any concrete grounds for suspicion. The Board examines the need for other steps on a case-by-case basis.

2.9 — COMPLIANCE MANAGEMENT STRUCTURE



With regular compliance training courses that address the issue of corruption, among other things, we inform our employees and raise their awareness. Employees who face particular exposure because of their job are also required to complete advanced training courses on the subject of corruption and fair competition. Our Group-wide anti-corruption organizational instruction provides employees with a clear code of conduct for their dealings with business partners and in the event of conflicts of interest.

In 2019, we conducted mandatory online compliance training courses throughout the Group, consisting of a basic training course and refresher courses held every two years. Those employees of the Dürr Systems and Schenck sub-groups who had already received basic compliance training in previous years now completed the refresher course; all others completed the basic training. The training was new for HOMAG employees, who also participated in the basic training course.

In our employee survey of fall 2019, around 90 % of participants stated that they were comprehensively informed about compliance issues. Our aim is to prevent the giving and acceptance of bribes from the very outset. No cases of corruption were identified in 2019 and 2018.

HUMAN RIGHTS

It is our aim to ensure that no human rights violations occur in the Dürr Group or at our suppliers. In our code of conduct we have committed ourselves to ensuring that human rights are respected. We do not accept child or forced labor, we are committed to equal opportunities and do not tolerate any form of discrimination. If there is any suspicion of human rights violations of any kind, we check this using the compliance process described.

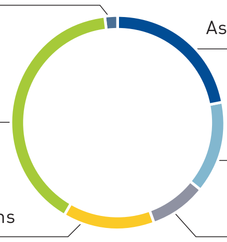
In 2019, we took systematic steps to prevent human rights violations in the supply chain in particular. We purchase the procurement goods and raw materials we need globally. We outsource a great deal of work to suppliers, especially in manufacturing operations. That is why, in the Dürr Systems sub-group, we consider the approach to employee and human rights as early as in the supplier selection process. At Dürr Systems, we monitor compliance with human rights as required by our code of conduct for suppliers by having included criteria on employee and human rights in our supplier audits since 2019. We plan to introduce this concept in other Group companies in the future.

Employees

As at year's end 2019, the number of employees working in the Group was up 1.1 %, totaling 16,493 staff (December 31, 2018: 16,312). In Poland and India, we increased our capacities for intra-Group **engineering** services ⟶ **page 200.** Employing external staff enables us to respond to short-term market changes and fluctuations in workload. At year's end 2019, 1,250 external staff were working for the Group, equivalent to 7.6 % of our regular workforce.

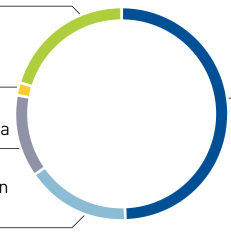
Half of our employees are based in Germany. China has the second largest workforce with almost 2,100 employees and around 320 external staff. The companies in the United States and Poland each account for almost 10 % of the Group's workforce. In the emerging markets, the number of employees increased by 2.9 % to 5,290 people, equivalent to 32.1 % of the total workforce.

2.10 — EMPLOYEES BY DIVISION (DECEMBER 31)



	2019	2018	2017
Paint and Final Assembly Systems	3,634	3,472	3,457
Application Technology	2,306	2,246	2,063
Clean Technology Systems	1,418	1,472	603
Measuring and Process Systems	2,293	2,279	2,279
Woodworking Machinery and Systems	6,569	6,593	6,371
Corporate Center	273	250	201
Total	**16,493**	**16,312**	**14,974**

2.11 — EMPLOYEES BY REGION (DECEMBER 31)



	2019	2018	2017
Germany	8,181	8,152	7,830
Other European countries	2,617	2,567	2,361
North/Central America	2,028	2,027	1,394
South America	354	341	313
Asia, Africa, Australia	3,313	3,225	3,076
Total	**16,493**	**16,312**	**14,974**

2.12 — PERSONNEL KEY FIGURES

	2019	2018	2017
Number of employees (Dec. 31)	16,493	16,312	14,974
of whom apprentices and students at cooperative state universities (Dec. 31)	450	431	420
Proportion of female employees (Dec. 31) (%)	16	16	16
Part-time employees (Dec. 31)	598	507	499
Average length of service (years)	11	11	11
Employee turnover (%)	8.2	9.3	7.7

OUR WORKFORCE

The average age of our workforce is 42. Germany has the oldest workforces, with an average age of 45. China and India, where almost half of the employees are under 35, have the youngest workforces. At 21 %, the proportion of female employees is highest in China, while the percentage for the Group is 16 %. By participating in initiatives such as the Girls' Day, we want to encourage young women to pursue technical apprenticeships and cooperative state university courses, in particular. We are also creating favorable framework conditions throughout the company to better reconcile work and family life, for instance by offering flexible working hours.

47 % of our workforce have a university degree, while 50 % have chosen a non-academic, vocational pathway. There are more than 2,100 employees working in engineering ⟶ page 200, while 730 staff are responsible for project management – these two areas are particularly relevant for our business. Staff working in assembly and manufacturing form the largest function group, accounting for 31 % of the workforce. Further personnel key figures can be found in table 2.12.

The diversity of our employees has a decisive influence on our corporate culture. Part of this is mutual respect – regardless of background, gender, religion or age. According to our code of conduct, every employee has the right to be treated fairly, politely and respectfully.

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PEOPLE DEVELOPMENT AND FURTHER TRAINING

Being an engineering company, we must keep pace with the digital transformation and other technological developments. This is why well-qualified specialists and managers are essential for the success of our company. Our people development and further training programs are designed to:

- prepare employees properly for new tasks, for example in the digitalization field
- ensure the availability of well-qualified managers
- promote the development of young, skilled personnel from the company's own ranks

The Corporate Human Resources department, which reports to the CEO, has overall responsibility for HR issues within the Group. The Corporate People Development department, which is part of Corporate Human Resources, is in charge of people development measures and further training.

The Group-wide, software-based "People Development" process helps us identify, develop and retain potential managers and young talent within our workforce, and to deploy them in the best possible way. At annual people development conferences, people developers and managers share their views on promoting employees with high potential and on internal succession planning. In 2019 we applied this process in all three sub-groups (Dürr Systems, Schenck and HOMAG) and identified 44 employees with high potential. Another topic was the identification of key positions in the Group.

In 2019 we launched the Dürr Group Academy, a central forum for further training. The online training platform, which has replaced the previous system, pools the further training activities of all Group companies and is available in 12 languages. This means all internal, organized training programs can be accessed online by most employees, and training documentation can be stored in a personalized media center.

NFD

Aside from online training courses, we also run face-to-face training and seminars. To ensure practice-oriented knowledge transfer, we also use internal specialist trainers. In 2019 the number of face-to-face training sessions held Group-wide dropped to just under 12,300 (2018: around 14,500). This is because, given the difficult market environment and the cost situation, we temporarily put on hold some further training measures. The participation rate stood at 0.7 training sessions per employee (2018: 0.9). Training events to further build on specialist qualifications accounted for almost half of all attendances. These include training in IT and digitalization as well as technical and commercial expertise. In the digitalization field, we offer training and webinars which provide sales and service employees with the necessary knowledge about new applications.

We have expanded our internationally staffed corporate training events. These were attended by a total of 1,454 employees in 2019 (2018: 1,228). The key topics were leadership, sales and project management as well as technical and commercial knowledge. As part of our corporate training, we offer special training programs for managers: "Fit for Leadership" for young executives and the "Advanced Leadership Program" for experienced managers. Both programs are based on the Dürr Group's Leadership Skills Model and are designed for international participants from various divisions. The "Fit for Leadership" program was attended by 358 people in 2019 (2018: 584), while the "Advanced Leadership Program" was attended by 223 people (2018: 288). Specially designed for project managers, the "Leadership Project Management Training" was attended by 64 participants in 2019 (2018: 109). The main reason for the lower number of participants in 2019 was that we have been running this training since 2016 and many managers who belong to the target group have already completed it.

HEALTH AND SAFETY

Our divisions' business models pose various safety risks, which we want to minimize through our health and safety measures. The relevant instructions and requirements for health and safety and accident prevention can be found in our Group-wide and sub-Group-specific health and safety guidelines. Cross-functional teams are responsible for developing these guidelines further and for implementing them globally. All Group companies have local health and safety managers, who implement our standards and processes

NFD

for health and safety locally. Regular internal audits are performed to ensure that health and safety guidelines and processes at our sites are complied with.

The aim of our health and safety Group strategy, “Striving for Excellence in Safety”, is to ensure the physical health of both our own employees and external staff, and to offer them a safe working environment. This is achieved, in particular, through preventative measures such as regular training and ongoing communication on health and safety topics.

In 2019 we delivered our first online health and safety training, which was compulsory for all Group employees. It replaces or complements the site-specific health and safety instructions and will be repeated on a regular basis. Employees exposed to particular risks receive additional, advanced training. In the case of emergencies while traveling, our employees have access to a professional emergency management service. Information for employees is published on a quarterly basis to raise awareness of health and safety issues. Our Group-wide health and safety reporting supports management in analyzing accidents and serves as a basis for improvement measures.

Going beyond accident prevention, we also ensure our employees’ wellbeing. We organize wellbeing days and offer numerous fitness packages and health-promoting measures, primarily at our German sites. The Group-wide sick leave rate was 3.1 % in 2019 (2018: 3.2 %).

NFD

2.13 — HEALTH AND SAFETY KEY FIGURES

	2019	2018[1]	2017
Number of work-related accidents[2] per thousand employees (including external staff, excluding commuting accidents)	14.1	14.8	12.7
Work-related accidents[2] per 100 thousand hours worked (including external staff, excluding commuting accidents)	0.7	0.7	0.6
Work-related accidents[2] resulting in death (including external staff)	0	0	0

[1] Figures exclude Megtec/Universal
[2] A work-related accident is an incident which requires at least medical treatment.

EMPLOYEE SATISFACTION AND RETENTION

NFD

Satisfied and motivated employees are key for our company’s success. We position ourselves as an attractive employer and boost our employees’ satisfaction through various offers and benefits. These include performance-based compensation, further training and career opportunities as well as flexible work arrangements relating to employees’ time and attendance, designed to meet our employees’ individual needs. Activities to promote work-life balance, sports, wellbeing and culture are also aimed at improving satisfaction.

Conducted every three years, our employee surveys help us measure employee satisfaction. The latest survey, carried out by an external service provider in the fall of 2019, had a participation rate of 82 %, thus exceeding the previous surveys (2016: 77 %). The good overall result increased by another 2 percentage points compared to 2016 on a like-for-like basis. The approval ratings for questions relating to engagement, enjoyment at work and pride in the company were particularly high. Compared with a benchmark group of other industrial companies, we achieved better results for the majority of the questions. There is room for improvement in particular regarding the communication of the corporate strategy, the organization of work processes, and development opportunities. We are developing Group-wide improvement measures to address these issues.

EMPLOYEE RECRUITMENT

The primary aim of our recruitment work is to fill any vacancies with suitable candidates as soon as possible. In 2019 around 1,300 new employees were hired throughout the Group (2018: almost 1,700). When recruiting new staff, we focus above all on highly qualified experts and digital specialists. In meeting this challenge, we want to use our attractive employer profile and benefit from our reputation as an innovative and digitally oriented company.

The Corporate People Development department is responsible for personnel and university marketing. It is in charge of the “PURE PASSIONEERING” employer branding campaign for the employer brands of Dürr, Schenck and HOMAG. The campaign visualizes our passion for innovative technology and specifically targets software and digitalization specialists. To attract suitable employees from this sought-after target group, we are increasingly relying on existing contacts and taking part in innovative recruitment events such as e-fellows.

NFD

In 2019 we established contact with graduates and professionals at 74 university and recruitment fairs worldwide. We promote the development of young academics by offering internships, work experience and opportunities for students to complete their theses. As a result, 351 people entering the job market gained their first practical experience in our company in 2019. In addition to traditional job postings on career pages and employment websites, we are also raising our profile in the labor market through social media such as Twitter, Instagram, Facebook and business networks such as LinkedIn and Xing.

Our attractiveness as an employer is underlined by independent awards and rankings:

- **Kununu Top & Open Company:** We have achieved an average score of 3.95 (out of 5) on the Kununu evaluation platform, thus substantially outperforming our industry peers (average 3.42).
- **FOCUS Best Employers:** In the employer ranking published by German magazine FOCUS, Dürr Systems came 30th and HOMAG 27th out of a total of 90 mechanical and plant engineering firms rated.
- **Best Companies for Vocational Training:** In a study conducted by business magazine Capital, Dürr Systems and HOMAG received the top mark of five stars for their vocational training programs. Schenck RoTec also achieved a good result of four stars.
- **Fair Company:** This quality seal confirms that we do not hire graduates as interns and that interns are paid appropriately.
- **Success Factor Family:** We are committed to a family-friendly personnel policy.
- **Outstanding Trainee Program:** This award shows that our Dürr Graduate Program is fair and provides career opportunities.

VOCATIONAL TRAINING

By offering opportunities for vocational training and study, we promote the development of young skilled personnel from our own ranks. We offer young people vocational training in 14 commercial and industrial/technical fields, plus ten study courses in the fields of engineering, business and information technology. In 2019 we employed 450 apprentices as well as students from cooperative state universities and "Studium Plus" students (2018: 431). 66 % of them were based at the HOMAG Group. Our Dürr Graduate Program offers high-achieving university graduates the opportunity to embark on a specialist or management career with good prospects, for instance in the fields of technology & innovation, software engineering & IIoT or project management.

Environment

Guaranteeing sustainability also includes the consideration of environmental aspects. We consider the environmental footprint of our own activities and our supply chain as well as the environmental impact of our products.

As an **engineering** company → page 200 with a low vertical depth of production, our energy, material and resource consumption is relatively low, as is the amount of waste generated. In the supply chain, however, the environmental impact of our business activities is much greater. We take this aspect into account in the purchasing process by means of supplier evaluations and audits. We want to reduce the environmental impacts caused by the use of our products and the associated consumption of resources and energy. For this purpose, we develop efficient and environmentally compatible technologies. Information on this can be found under **"Research and development" → page 33.**

We will monitor the environmental effects of our direct business activities more closely in the future and derive improvement measures from this. A Group-wide environmental policy is planned for this purpose. It will describe our understanding of environmentally sustainable management and our efforts in this area, and its purpose is to help reduce the environmental impacts of our activities, for example by reducing energy and water consumption and preventing waste. The environmental policy will provide a framework for action, and the principal responsibility for environmental aspects will continue to lie with the relevant site managers.

We continuously measure our consumption of energy and resources and the emissions generated within the Dürr Group. Where it is economically viable, we implement measures for reduction. Compared to 2018, our environmental indicators have largely deteriorated in relation to sales. This is due to the acquisition of the Megtec/Universal Group, which uses relatively old production equipment.

A large number of our production companies are already certified to the ISO 14001 environmental management system. In the future, all production and assembly sites and all sites with technology centers are to be certified according to this standard. Eleven HOMAG Group sites have a certified energy management system to ISO 50001. A number of sites carry out energy and quality audits. An overview of certifications held can be found at www.durr-group.com under Company/Sustainability/Certificates.

2.14 — ENVIRONMENTAL KEY FIGURES (ABSOLUTE)

	2019	2018[1]	2017[2]
Number of sites	112	108	92
of which quality management certified to ISO 9001[3]	46	41	41
of which environmental management certified to ISO 14001[3]	16	14	14
of which energy management certified to ISO 50001[3]	11	10	10
Consumption			
Electricity (MWh)	63,144	55,980	57,080
Gas/oil/district heat (MWh)	69,609	62,813	67,736
Water (m^3)	201,979	201,279	208,362
Waste water output (m^3)	191,388	188,329	192,099
Waste (t)	12,235	10,574	10,508
of which recycled (t)	8,838	8,457	8,664
Emissions			
CO_2 (t)	67,191	61,224	62,590
of which attributable to vehicle fleet (t)	12,601	12,586	12,185
SO_2 (t)	33	29	30
NO_x (t)	50	44	46

[1] Figures for 2018 do not include Megtec/Universal. Megtec/Universal were taken into account in the number of sites.
[2] The Dürr Ecoclean Group, which was sold with effect from March 31, 2017, is no longer included in the environmental figures for 2017.
[3] Sites used by several companies of the Dürr Group sometimes hold multiple certificates.

2.15 — ENVIRONMENTAL KEY FIGURES (INDEXED)

	2019	2018[1]	2017[2]
Consumption			
Electricity	72.3	64.9	68.9
Gas/oil/district heat	53.7	49.1	55.2
Water	84.5	85.3	92.0
Waste water output	90.3	90.0	95.6
Waste	136.0	119.1	123.3
Waste recycled	128.8	124.8	133.2
Emissions			
CO_2	71.9	66.4	70.7
CO_2 attributable to vehicle fleet	118.5	120.0	121.0
SO_2	71.3	64.0	68.1
NO_x	66.8	60.3	65.1

2010 = 100; in relation to sales
[1] Figures for 2018 do not include Megtec/Universal
[2] The Dürr Ecoclean Group, which was sold with effect from March 31, 2017, is no longer included in the environmental figures for 2017.

Social commitment

The Dürr Group's social commitment is manifold and includes, for example, donations and sponsorships. The priorities of our support are:

- Education: training, technology and science, universities, schools, kindergartens
- Sports: grassroots, youth and disability sports
- Social affairs: humanitarian and charitable projects
- Culture: cultural circles, support associations, donor associations

Our social commitment primarily takes place in the neighborhoods of our sites. At our Bietigheim-Bissingen headquarters, we support various educational and social institutions. Examples are the civic foundation, which is committed to affordable housing, early years rhythmical/musical education in children's daycare centers and the mentoring program "Kinderhelden" (child heroes) for children with difficult starting conditions. With its "HOMAG Cares" initiative, the HOMAG Group has been providing donations in kind and cash for over ten years.

In 2019, we launched our Group-wide campaign for "Donations instead of Christmas presents" and donated around € 70,000 to UNICEF, SOS Children's Villages and Plan International. In 2019, we donated a total of € 0.7 million for various charitable purposes (2018: € 0.8 million).

CORPORATE GOVERNANCE

The German Corporate Governance Code contains rules and recommendations for the reliable management and supervision of listed companies. We observe all recommendations of the Code in its version of April 24, 2017, valid in the year under review. Our current declaration of compliance is dated December 10, 2019. The full text is available at www.durr-group.com under Investors/Corporate Governance/Declaration on Corporate Governance.

Other information on corporate governance

The full declaration on corporate governance is available at www.durr-group.com under Investors/Corporate Governance. Unlike in previous years, this management report only contains a short excerpt from the declaration on corporate governance. This is to avoid duplication.

2.16 — RESPONSIBILITIES WITHIN THE BOARD OF MANAGEMENT IN 2019

	Ralf W. Dieter (CEO)	Carlo Crosetto (CFO)	Pekka Paasivaara	Dr. Jochen Weyrauch
Divisions	• Measuring and Process Systems		• Woodworking Machinery and Systems	• Paint and Final Assembly Systems • Application Technology • Clean Technology Systems
Corporate functions	• Corporate Communications • Human Resources (Employee Affairs Director) • Internal Auditing • Corporate Compliance • digital@DÜRR	• Finance/Controlling/ Internal Control System • Investor Relations • Risk Management • Legal Affairs/Patents/Insurance • Global Sourcing Non Production Material • Corporate Social Responsibility	• Operational Excellence	• Corporate Development • Global IT

BOARD OF MANAGEMENT

The Board of Management's responsibilities applicable in 2019 are shown in table 2.16. On January 1, 2020, Ralf W. Dieter took over responsibility for Global IT; Dr. Jochen Weyrauch was appointed Deputy CEO on the same date. Since the departure of Carlo Crosetto on February 29, 2020, Mr. Dieter has also been responsible for the CFO functions on an interim basis. Dietmar Heinrich will join the Board of Management and take over responsibility for the CFO tasks on or before August 1, 2020.

SHAREHOLDINGS AND MANAGERS' TRANSACTIONS

We publish managers' transactions, i.e. securities transactions that have to be reported pursuant to Article 19 of the MAR, as soon as the company is notified. An overview is available at www.durr-group.com under Investors/Corporate Governance.

As at December 31, 2019, the percentage of Dürr AG shares held by the members of the Supervisory Board remained at 0.1 %. As at the same date, the percentage of shares held by the members of the Board of Management remained at a total of 0.3 %; however, during the year there were some minor changes in the shareholdings of individual members of the Board of Management.

2.17 — RESPONSIBILITIES WITHIN THE BOARD OF MANAGEMENT BETWEEN JANUARY 1, 2020, AND FEBRUARY 29, 2020

	Ralf W. Dieter (CEO)	Dr. Jochen Weyrauch (Deputy CEO)	Carlo Crosetto (CFO)	Pekka Paasivaara
Divisions	• Measuring and Process Systems	• Paint and Final Assembly Systems • Application Technology • Clean Technology Systems		• Woodworking Machinery and Systems
Corporate functions	• Corporate Communications • Human Resources (Employee Affairs Director) • Internal Auditing • Corporate Compliance • Global IT • digital@DÜRR	• Corporate Development	• Finance/Controlling/ Internal Control System • Investor Relations • Risk Management • Legal Affairs/Patents/Insurance • Global Sourcing Non Production Material • Corporate Social Responsibility	• Operational Excellence

2.18 — RESPONSIBILITIES WITHIN THE BOARD OF MANAGEMENT SINCE MARCH 1, 2020

	Ralf W. Dieter (CEO, Interim CFO until July 31, 2020)	Dr. Jochen Weyrauch (Deputy CEO)	Dietmar Heinrich (CFO from August 1, 2020, at the latest)	Pekka Paasivaara
Divisions	• Measuring and Process Systems	• Paint and Final Assembly Systems • Application Technology • Clean Technology Systems		• Woodworking Machinery and Systems
Corporate functions	• Corporate Communications • Human Resources (Employee Affairs Director) • Internal Auditing • Corporate Compliance • Global IT • digital@DÜRR On an interim basis: CFO responsibilities: • Finance/Controlling/ Internal Control System • Investor Relations • Risk Management • Legal Affairs/Patents/Insurance • Global Sourcing Non Production Material	• Corporate Development • Corporate Sustainability	• Finance/Controlling/ Internal Control System • Investor Relations • Risk Management • Legal Affairs/Patents/Insurance • Global Sourcing Non Production Material	• Operational Excellence

ACT ON EQUAL PARTICIPATION OF WOMEN AND MEN IN EXECUTIVE POSITIONS

We have fulfilled the provisions of the Act on Equal Participation of Women and Men in Executive Positions as follows:

- Since the 2016 elections, the Supervisory Board of Dürr AG has had four female members. This corresponds to a women's quota of 33 %, which fulfills the 30 % minimum quota required by law.
- The percentage of women on Dürr AG's Board of Management is 0 %; an increase is not planned before June 30, 2022.
- At the most senior management level of Dürr AG, the women's quota is 0 %; at the second most senior management level it was 29 % as at December 31, 2019. The targets have been set at 0 % for the first management level and at 20 % for the second level. The date by which both targets must be achieved is June 30, 2022.

DIVERSITY

Diversity is one of the five basic values of our Leadership Skills Model. No form of discrimination on grounds of gender, age, religion, disease, background, skin color, sexual orientation or for any other reason is tolerated at the Dürr Group. We ensure diversity and equal opportunities when hiring staff. Flexible working time models which meet individual needs promote equal opportunities. Given the international nature of our business, intercultural diversity and tolerance are important values at the Dürr Group.

When appointing members to the Board of Management, the Supervisory Board pays particular attention to professional and social skills as well as to long-term experience in similar positions, in our industry and in an international environment. Added to that are character aptitude and an appropriate educational background (university degree or equivalent qualification). Preference is given to neither male nor female candidates. To ensure a balanced age structure, the age limit for members of the Board of Management is, generally, 63.

DISCLOSURES PURSUANT TO SECTIONS 289A (1) AND 315A (1) OF THE GERMAN COMMERCIAL CODE (HGB)

- **Structure of subscribed capital**
  Dürr AG's subscribed capital is divided into 69,202,080 bearer common shares with full voting rights. The rights and obligations associated with the shares are regulated in the German Stock Corporation Act.

- **Restrictions on voting rights/transfer of shares and related agreements**
  The Board of Management is not aware of any agreements by shareholders of Dürr AG which contain restrictions relating to voting rights or the transfer of shares. Legal voting right limitations exist, for example, pursuant to Section 44 (1) (breach of disclosure obligations) of the German Securities Trading Act as well as Section 71b (rights arising from own shares) and Section 136 (1) (voting right exclusion in the case of certain conflicts of interest) of the German Stock Corporation Act.

- **Shareholdings that exceed 10 %**
  Heinz Dürr GmbH, Berlin, holds 25.6 % of Dürr AG's capital stock. Taking into account the shares held by Heinz und Heide Dürr Stiftung, Berlin, (3.5 %), the Dürr family controls 29.1 % of the shares (as at December 31, 2019).

- **Shares conferring special rights**
  There are no shares in Dürr AG that confer special rights.

- **Voting right control of any employee stock ownership plan where the control rights are not directly exercised**
  There are no employee stock ownership plans where the control rights are not exercised directly by the employees.

- **Rules governing the appointment and replacement of members of the Board of Management**
  The applicable statutory rules are set out in Sections 84 and 85 of the German Stock Corporation Act and in Section 31 of the German Co-determination Act. Dürr AG's articles of incorporation do not contain any provisions that diverge from the statutory rules. Article 6 (1) of the articles of incorporation states additionally that the Board of Management consists of at least two members and that the appointment of deputy members of the Board of Management is admissible. Article 6 (2) states that the Supervisory Board may appoint one member of the Board of Management to be the Chairman of the Board of Management and another member of the Board of Management to be the Deputy Chair.

- **Rules governing amendment of the articles of incorporation**
Any changes in the articles of incorporation are made by resolution at the annual general meeting. Unless otherwise mandatorily specified in the German Stock Corporation Act, the resolution is passed in accordance with Article 20 (1) of the articles of incorporation by a simple majority of the votes cast and – where a majority of the capital stock represented in the voting is required – by a simple majority of the capital stock represented in the voting. In accordance with Article 14 (4) of the articles of incorporation, the Supervisory Board is given the power to enact changes in the articles of incorporation which relate only to the wording. Pursuant to Article 4 (4) and Article 5 of the articles of incorporation, the Supervisory Board is authorized upon utilization of the conditional or authorized capital to amend the wording of the articles of incorporation to reflect the extent of the utilization.

- **Powers of the Board of Management to issue or buy back shares**
Information on this point may be found in → item 26 in the notes to the consolidated financial statements.

- **Agreements in the event of a change of control following a takeover bid**
Bond: Section 7 of the terms of our corporate bond provides that the bondholders have the right to demand early redemption of their bond by Dürr AG in the case of a redemption event. The redemption amount in that case will be 100 % of the face value plus accrued and unpaid interest up to the redemption date. A redemption event occurs if a change of control and a rating event take place cumulatively. A change of control means in this regard (a) that a person or group of people acting in concert has become the legal or economic owner of more than 50 % of the voting rights in Dürr AG, or (b) that we intend to sell or otherwise dispose of all or almost all of the assets of Dürr AG to third parties (with the exception of a subsidiary of Dürr AG). The following cases constitute a rating event:

1. The bond has no rating, and no rating agency awards an investment grade rating for the bond within 90 days of the occurrence of the change of control.

2. The bond has a rating at the time of the change of control, and at the end of a 90-day period after the change of control this rating does not represent an investment grade rating or has been withdrawn.

Such covenants are customary practice and are included in comparable form in the terms of the bonds of other issuers. They serve to protect the interests of the bondholders.

Schuldschein loan: The terms of our Schuldschein loan agreement stipulate that, in the event of a change of control, the lenders have the right to demand redemption of the Schuldschein loan. A change of control occurs if: one person or a majority of people acting in concert holds more than 50 % of the shares; can control more than 50 % of the voting rights and/or the company's course of business; and/or has the power to appoint more than 50 % of the members of the Board of Management. The lenders of the Schuldschein loan has the right to demand redemption within 30 days of the notification of the change of control by the borrower. Redemption shall be due by the next interest payment date.

Syndicated loan: The terms of our syndicated loan agreement stipulate that, in the event of a change of control, no additional cash drawings or applications for guarantees may be made. In addition, any lender can cancel the credit commitments it has made, which could result in the syndicated loan having to be repaid in part or even in full. The agent representing the interests of the banking syndicate must be informed about a change of control immediately after it becomes known. A change of control occurs if in total, directly or indirectly, more than 50 % of the voting rights in Dürr AG are held or controlled by one or more persons who have come to an accord on the exercising of voting rights or who collaborate in some other manner with the aim of achieving a lasting and substantial change in the business focus of Dürr AG.

- **Agreements providing for compensation in the event of takeover bids**
The employment contract of a member of the Board of Management contains an arrangement that applies in the event of a takeover. If a change of control should occur, this arrangement offers an option for a defined period for the Board of Management member to terminate the contract himself with capitalization of all the contractual remuneration components and of the company pension as a severance payment. The severance payment is limited to a maximum of three fixed annual salaries (basic compensation); the severance payment relating to the short-term incentive and the pension is limited to the current financial year at the time and the two subsequent financial years. In all cases, the basis on which the severance payment is calculated does not go beyond the remaining term of the Board member's contract of employment. Any long-term-incentive components already granted are also included in the severance payment.

2019 compensation report

In addition to the details below, the information contained in → item 42 in the notes to the consolidated financial statements is part of this compensation report.

SIDELINE ACTIVITIES

The members of the Board of Management do not carry out any sideline activities other than those listed in → item 42 in the notes to the consolidated financial statements. No loan agreements, guarantees or other liabilities exist between the members of the Board of Management and Dürr AG or its subsidiaries.

REGULAR REVIEW

The Supervisory Board Personnel Committee reviews the compensation system for the Board of Management at regular intervals and draws up proposals for its further development where necessary. The Supervisory Board examines these recommendations carefully and passes its resolutions on that basis. The appropriateness of the Board of Management's compensation is assessed using several criteria. These include the tasks of the Board of Management as a whole and of its respective members, the members' personal performance, the economic situation as well as the company's long-term success and outlook. In addition, the Supervisory Board follows the development of the Board of Management's compensation in comparison with other companies from the relevant industry as well as with the Group's top management team and workforce.

The current compensation system has been in place since 2010. All contracts of the Management Board members include short-term and long-term incentives (variable compensation calculated over a period of one and several years, respectively), payment caps and a deductible that applies in connection with D&O (directors' and officers') liability insurance policies in case of liabilities.

COMPONENTS OF THE COMPENSATION SYSTEM

The compensation for the Board of Management consists of non-performance-related and performance-related (variable) components. The non-performance-related component is made up of the basic compensation (fixed compensation) payable in equal monthly installments, plus fringe benefits. The latter include the use of a company car, for example.

Performance-related compensation is based on short-term and long-term incentives; special bonuses may also be paid. The short-term incentive (STI) is calculated by multiplying the Group's earnings before tax (EBT) minus € 100 million by an individually defined factor. For Ralf W. Dieter this individual factor is 0.01, for Carlo Crosetto it is 0.004 and for Pekka Paasivaara and Dr. Jochen Weyrauch it is 0.005 each. The STI payment is subject to a cap and is only applicable if the Group's EBT exceeds the minimum threshold of € 100 million. Please see chart 2.20 for more information.

The compensation payable under the long-term incentive (LTI) scheme is based on the development of Dürr's share price and the Group's average EBIT margin over a three-year period (LTI period). The LTI scheme operates on a rolling basis; ten LTI tranches have been issued since its introduction in 2010. Each year a specified number of virtual Dürr shares are issued, known as performance share units. In 2019, the following performance share units were issued: 50,000 for Mr. Dieter, 6,000 for Mr. Crosetto and 8,000 each for Mr. Paasivaara and Dr. Weyrauch. The amount payable at the end of the three-year LTI period is calculated by multiplying the number of performance share units by a share price multiplier and an EBIT multiplier. The share price multiplier corresponds to the average closing price of the Dürr share in euros in the last 20 trading days prior to the first annual general meeting after the three-year LTI period. The EBIT multiplier is calculated on the basis of the average EBIT margin achieved by the Group during the term of the LTI tranche.

The overall LTI payment and the EBIT multiplier are subject to caps. The EBIT multiplier reaches its maximum of two if an average EBIT margin of at least 8 % has been achieved. If the average EBIT margin is 4 % or below, the EBIT multiplier is zero, and therefore no LTI payment is made.

During the term of the LTI scheme, the participants must hold a certain number of Dürr shares for the duration, in order to be awarded the maximum number of performance share units. The participants must purchase the Dürr shares with their own funds. Mr. Dieter must hold 50,000 shares, Dr. Weyrauch and Mr. Paasivaara must each hold 6,000 shares, and for Mr. Crosetto the number of shares was 4,500 (total number of shares to be held after the third LTI tranche). The LTI target achievement is illustrated using the example shown in chart 2.21.

2.19 — COMPENSATION FOR THE BOARD OF MANAGEMENT: BENEFITS GRANTED

	RALF W. DIETER CEO				DR. JOCHEN WEYRAUCH Deputy CEO			
€	2018	2019	2019 (min)	2019 (max)	2018	2019	2019 (min)	2019 (max)
Basic compensation (fixed compensation)	800,000	1,000,000	1,000,000	1,000,000	537,500	550,000	550,000	550,000
Fringe benefits (payments in kind, allowances related to insurance premiums etc.)	42,009	42,542	42,542	42,542	23,856	25,589	25,589	25,589
Total	**842,009**	**1,042,542**	**1,042,542**	**1,042,542**	**561,356**	**575,589**	**575,589**	**575,589**
One-year variable compensation (STI)	1,196,800	747,180	0	1,400,000	598,400	373,590	0	875,000
Total of multi-year variable compensation (LTI)	1,200,000	915,864	0	1,200,000	145,783	246,236	0	600,000
Variable compensation LTI 2016–2018	400,000	–	–	–	–	–	–	–
Variable compensation LTI 2017–2019	400,000	363,709	0	400,000	32,732	103,311	0	200,000
Variable compensation LTI 2018–2020	400,000	254,836	0	400,000	113,051	68,064	0	200,000
Variable compensation LTI 2019–2021	–	297,318	0	400,000	–	74,861	0	200,000
Other variable compensation	0	0	0	17,458	200,000	0	0	306,911
Total	**3,238,809**	**2,705,586**	**1,042,542**	**3,660,000**	**1,505,539**	**1,195,415**	**575,589**	**2,357,500**
Benefit obligation contribution	640,000	619,680	500,000	640,000	121,692	114,840	55,000	142,500
Total compensation	**3,878,809**	**3,325,266**	**1,542,542**	**4,300,000**	**1,627,231**	**1,310,255**	**630,589**	**2,500,000**

A further component of the compensation is the employer-financed contribution to the company pension. This contribution (benefit) is made up of 10 % of the basic compensation and 10 % of the previous year's STI, and is paid into the Dürr pension plan. The CEO additionally receives a fixed annual pension contribution of € 400 thousand by December 31, 2020. The pension scheme is the Group's defined benefit company pension plan based on a reinsurance scheme. If a member of the Board of Management resigns from office, no further expenses will be incurred under this scheme.

The Supervisory Board can agree targets with the members of the Board of Management for the further strategic development of the Group, and pay an additional bonus if these have been successfully implemented. A special bonus may also be paid for exceptional performance and successful achievements and/or if a member of the Board of Management takes on additional responsibilities. The special bonus is also subject to a cap, equivalent to the difference between the sum of the defined maximum individual compensation payments and the maximum total compensation.

Aside from the Board of Management, other top managers also participate in the LTI scheme. They, too, must purchase an individually defined number of Dürr shares and hold them for the duration in order to be awarded the maximum number of performance share units.

COMPENSATION FOR 2019

Total compensation expense for the Board of Management in 2019 was € 7,106 thousand. The main reason for the increase of 5.5 % over the previous year (€ 6,737 thousand) is that the Board of Management grew from three to four members following the appointment of Mr. Paasivaara on January 1, 2019. Prior to that, the compensation for Mr. Paasivaara had been paid by the Woodworking Machinery and Systems division. Former members of the Board of Management received pension benefits in the amount of € 554 thousand in 2019 (2018: € 550 thousand).

The LTI expenses shown in table 2.19 include the amounts recognized as liabilities on a pro-rata basis for the current LTI tranches. The share price multiplier used for the 2019 compensation was calculated based on the average closing price of the Dürr share in the last 20 trading days in December 2019. This is because the average closing price in the last 20 trading days prior to the 2020 annual general meeting was, of course, not known at the time. The following should be noted regarding Mr. Crosetto's compensation shown in table 2.19: Following his departure from the Board of Management on February 29, 2020, all LTI payments were made to Mr. Crosetto ahead of schedule. For this purpose, the relevant parameters – EBIT multiplier and share price multiplier – were calculated on an individual basis. In 2019, Ralf W. Dieter received a total payment of € 1,200 thousand from the 2016 to 2018 LTI tranche. Mr. Paasivaara and Dr. Weyrauch have not yet received any LTI payments, since they only joined the Board of Management in 2017 and 2019, respectively.

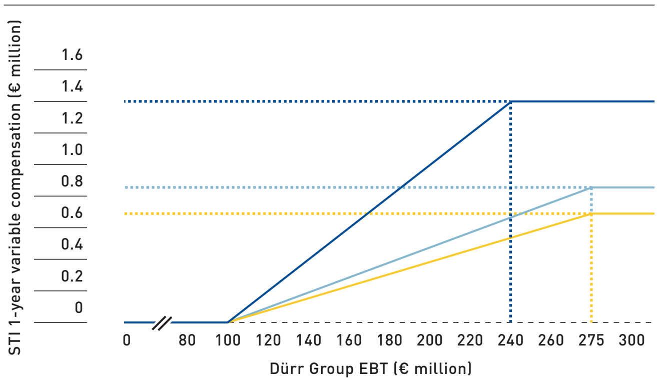
€	CARLO CROSETTO CFO				PEKKA PAASIVAARA Member of the Board of Management (from: Jan 1, 2019)			
	2018	2019	2019 (min)	2019 (max)	2018	2019	2019 (min)	2019 (max)
Basic compensation (fixed compensation)	500,000	500,000	500,000	500,000	–	525,000	525,000	525,000
Fringe benefits (payments in kind, allowances related to insurance premiums etc.)	16,590	15,989	15,989	15,989	–	18,000	18,000	18,000
Total	**516,590**	**515,989**	**515,989**	**515,989**	**–**	**543,000**	**543,000**	**543,000**
One-year variable compensation (STI)	478,720	298,872	0	700,000	–	373,590	0	875,000
Total of multi-year variable compensation (LTI)	129,203	377,166	0	450,000	–	53,377	0	200,000
Variable compensation LTI 2016 – 2018	–	–	–	–	–	–	–	–
Variable compensation LTI 2017 – 2019	44,415	125,722	0	150,000	–	–	–	–
Variable compensation LTI 2018 – 2020	84,788	125,722	0	150,000	–	–	–	–
Variable compensation LTI 2019 – 2021	–	125,722	0	150,000	–	53,377	0	200,000
Other variable compensation	0	158,512	0	214,011	–	0	0	329,500
Total	**1,124,513**	**1,350,539**	**515,989**	**1,880,000**	**–**	**969,967**	**543,000**	**1,947,500**
Benefit obligation contribution	106,618	97,872	50,000	120,000	–	52,500	52,500	52,500
Total compensation	**1,231,131**	**1,448,411**	**565,989**	**2,000,000**	**–**	**1,022,467**	**595,500**	**2,000,000**

The Supervisory Board granted Mr. Crosetto a special bonus of € 159 thousand for 2019. The reason for this was the new, sustainability-oriented Group refinancing, arranged in the summer of 2019.

In addition, Mr. Dieter was granted a special payment of € 15 million by Heinz Dürr GmbH in 2019, in recognition of his long-standing contribution as CEO. The payment is due in December 2020.

2.20 — COMPENSATION FOR THE BOARD OF MANAGEMENT: STI

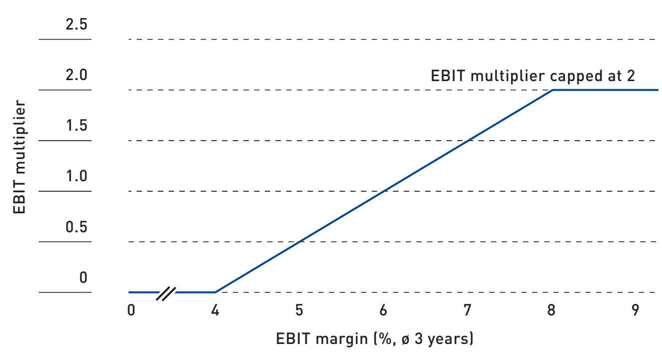
STI (€): (EBT reporting year – 100) * individual factor



- Cap Ralf W. Dieter € 1.4 million, STI payment (€ million): (EBT – 100) * 0.01
- Cap Dr. Jochen Weyrauch, Pekka Paasivaara € 0.875 million, STI payment (€ million): (EBT–100) * 0.005
- Cap Carlo Crosetto € 0.7 million, STI payment (€ million): (EBT – 100) * 0.004

2.21 — COMPENSATION FOR THE BOARD OF MANAGEMENT: LTI

LTI (€): number of performance share units (PSU) * share price * EBIT multiplier (3-year average)



Example of LTI calculation (3-year tranche):
EBIT multiplier 1.0 (≙ 6% EBIT margin, 3-year average)
* 8,000 PSU * € 29 share price = € 232,000

2.22 — COMPENSATION FOR THE BOARD OF MANAGEMENT: PAYMENTS MADE

€	RALF W. DIETER CEO 2018	2019	DR. JOCHEN WEYRAUCH Deputy CEO 2018	2019	CARLO CROSETTO CFO 2018	2019	PEKKA PAASIVAARA Member of the Board of Management (from Jan. 1, 2019) 2018	2019
Basic compensation (fixed compensation)	800,000	1,000,000	537,500	550,000	500,000	500,000	–	525,000
Fringe benefits (payments in kind, allowances related to insurance premiums etc.)	42,009	42,542	23,856	25,589	16,590	15,989	–	18,000
Total	**842,009**	**1,042,542**	**561,356**	**575,589**	**516,590**	**515,989**	–	**543,000**
One-year variable compensation (STI)	1,600,000	1,196,800	679,420	598,400	566,183	478,720	–	–
Multi-year variable compensation (LTI)	1,200,000	1,200,000	–	–	–	–	–	–
Other variable compensation	0	0	200,000	0	0	0	–	0
Total	**3,642,009**	**3,439,342**	**1,440,776**	**1,173,989**	**1,082,773**	**994,709**	–	**543,000**
Benefit obligation contribution	640,000	609,680	85,221	114,840	78,309	97,872	–	26,250
Total compensation	**4,282,009**	**4,049,022**	**1,525,997**	**1,288,829**	**1,161,082**	**1,092,581**	**–**	**569,250**

BOARD OF MANAGEMENT CONTRACTS

The contracts of the members of the Board of Management are concluded for a period of three years upon joining the Board. When the contracts are due for renewal, they are usually extended by a total period of five years as permitted by law. Mr. Dieter's Board of Management contract ends on June 30, 2023. Dr. Weyrauch's contract was extended in March 2019 and is due to end on December 31, 2024. Mr. Paasivaara's contract runs until December 31, 2021. The contract of Mr. Crosetto, who left the company at his own request, ended on February 29, 2020. Mr. Heinrich, who will join Dürr AG as CFO on or before August 1, 2020, has signed a three-year contract. Please also see the information in the paragraph entitled **"Disclosures pursuant to Sections 289 (1) and 315 (1) of the German Commercial Code (HGB)" ⟶ page 47.**

COMPENSATION SYSTEM FOR THE SUPERVISORY BOARD

The compensation paid to the members of the Supervisory Board is set out in Article 15 of Dürr AG's articles of incorporation. The full text is available on our website www.durr-group.com under Investors/Corporate Governance. The compensation system for the Supervisory Board stipulates that each member receives a fixed annual compensation payment of € 40,000. Members are also entitled to a € 1,000 attendance fee for each meeting attended, plus reimbursement of expenses. The variable compensation is based on the three-year rolling average EBT margin and must not exceed € 24,000. The Chairman of the Supervisory Board receives three times the total compensation paid to a regular member; each Deputy Chair receives one and a half times the total compensation paid to a regular member. The compensation paid to the members of the Audit Committee is € 10,000 per year, while the members of the Personnel Committee receive € 5,000 per year. The Chairs of both committees receive three times the compensation paid to a regular member; this is based on a resolution passed at the 2019 annual general meeting. Prior to that, they had received twice (Audit Committee) and one and a half times (Personnel Committee) the compensation paid to a regular member. The members of the Nominating Committee are entitled to a compensation payment of € 2,500 per meeting, with the Chair receiving one and a half times that amount. Any members serving on the Supervisory Board or a committee for a part of the fiscal year only are remunerated pro rata temporis.

Total compensation paid to the members of the Supervisory Board in 2019 was € 1,161 thousand, after € 1,151 thousand in the previous year. Information on the individual compensation payments made to the members of the Supervisory Board can be found in **⟶ item 42** in the notes to the consolidated financial statements.

PERFORMANCE-RELATED COMPENSATION FOR OTHER EMPLOYEES

Non-tariff employees receive a basic annual salary plus a performance-related bonus. The bonus is linked to the achievement of financial and personal performance targets. In most cases it is between 5 and 10 % of the basic salary, but higher for managers. Tariff employees at almost all German Group companies receive a profit-sharing bonus, which is subject to earnings exceeding a certain threshold pre-agreed with the works council. For 2019, the profit-sharing bonus payable to full-time tariff employees of the Dürr Group in Germany is € 2,000.

BUSINESS REPORT

Economy and industry environment

GLOBAL ECONOMY IN 2019: WEAKER GROWTH

Although the global economy remained on the upward trajectory of the previous years in 2019, it did so at a slower pace: At 3.0 %, growth fell appreciably short of the previous year's figure of 3.8 %. This was due to mounting uncertainty in the wake of the trade disputes, together with problems such as Brexit and the Iran conflict. As table 2.23 shows, nearly all the major economies experienced slower growth. One exception was Japan with its very expansionary fiscal policy. Interest rates and prices in the global market for commodities and energy remained largely unchanged in 2019.

2.23 — GROWTH IN GROSS DOMESTIC PRODUCT

% year-on-year change	2019	2018	2017
Global	3.0	3.8	3.7
Germany	0.5	1.5	2.2
Eurozone	1.2	1.9	2.4
Russia	1.3	1.6	1.5
United States	2.3	2.9	2.2
China	6.2	6.6	6.9
India	5.0	7.6	6.7
Japan	1.2	0.7	1.7
Brazil	1.1	1.1	1.0

Source: Commerzbank 01/2020

The exchange rates of the main currencies have fluctuated in only relatively narrow ranges over the past three years. The euro was temporarily strong in 2018 but weakened against the other main currencies again in 2019, something which benefited export-oriented companies in Germany.

2.24 — AVERAGE EXCHANGE RATES

€ 1 equals	2019	2018	2017
USD	1.1197	1.1792	1.1371
GBP	0.8757	0.8862	0.8764
JPY	121.9792	129.9983	127.3383
CNY	7.7175	7.8167	7.6614

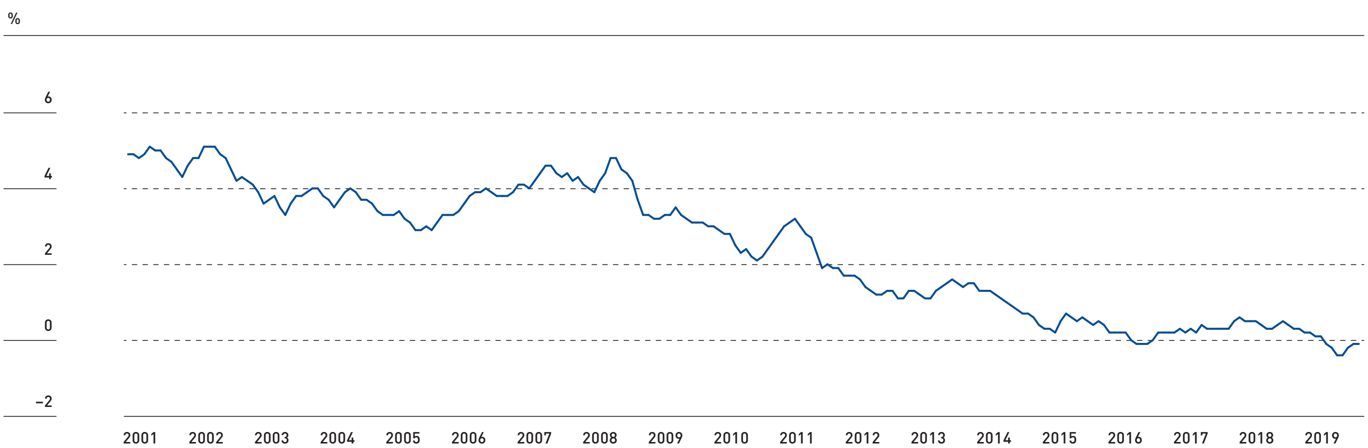
Source: Commerzbank

CURRENT YIELD IN GERMANY SLIGHTLY BELOW 0 %

In Germany, the current yield on bonds continued its downward trend, reaching negative territory in 2019 at –0.1 % (2018: 0.1 %). Despite rising wages and salaries, the inflation rate in Europe was low. The ECB maintained its low interest rate policy and left the key interest rate unchanged at 0 %; in the fall of 2019 it resumed the bond purchasing operations that had been suspended at the beginning of the year.

In the equity markets, the key indices posted gains in 2019, one reason for this being the copious liquidity available to investors. The DAX posted a positive performance of 25 % for the year as a whole, thus more than recouping the previous year's decline of 18 %. The more cyclical stocks in the automotive and capital goods sectors underperformed the market as a whole, with many companies in both these sectors scaling back their earnings guidance for 2019 and 2020.

2.25 — CURRENT YIELD IN GERMANY



Source: Deutsche Bundesbank 01/2020

GLOBAL AUTOMOTIVE PRODUCTION SIGNIFICANTLY WEAKER THAN EXPECTED

Global automotive production (passenger cars and light commercial vehicles) contracted by 5 % in 2019, reaching only 89.5 million units. At the beginning of the year, many industry observers had still been expecting growth. The decline was particularly pronounced in China (down 8 %), where the trade dispute with the United States and decreasing government incentives took their toll on demand for vehicles. Even so, Chinese automotive production reached 24.4 million units, thus accounting for 27 % of the global total. Production also contracted in most of the other major markets. One reason for this was the reticence of many consumers to buy cars ahead of the technology change toward electromobility.

Despite the sell-side problems, capital spending on machinery and plant increased in the automotive industry. This was mainly due to the growing need for production technology for electric vehicles on the part of both automotive incumbents and new OEMs. Moreover, many automotive OEMs expanded their production capacity in foreign markets to be able to produce locally and to lower their exposure to trade conflicts.

2.26 — PRODUCTION OF LIGHT VEHICLES

Million units	2019	2018	2017
Global	89.5	94.2	95.2
Western Europe	13.6	14.3	14.8
Germany	4.9	5.3	5.9
Eastern Europe	7.5	7.5	7.2
Russia	1.6	1.7	1.5
North America (incl. Mexico)	16.3	16.9	17.0
United States	10.6	11.0	11.0
South America	3.3	3.4	3.3
Brazil	2.8	2.8	2.7
Asia	46.6	49.4	49.9
China	24.4	26.4	27.6
Japan	9.3	9.2	9.2
India	4.2	4.7	4.4

Source: LMC 01/2020

DECLINE IN MECHANICAL AND PLANT ENGINEERING

After the strong previous years, German producers of capital goods faced more challenging market conditions in 2019. Although spending on plant and equipment nominally rose by just under 2 %, this was tantamount to stagnation in real terms. According to figures released by the German Mechanical Engineering Industry Association (VDMA), production contracted by 2 %, after expanding by 2 % in 2018. VDMA reported a sharp 9 % decline in order intake as a result of domestic and foreign weakness.

SHARPER DECLINE IN WOODWORKING MACHINERY

The VDMA trade association responsible for the woodworking machinery segment reported a 2 % decline in sales for the period from January through November 2019. It should be borne in mind in connection with this relatively moderate decline that many companies benefited at the beginning of the year from working off their high order backlogs. The decline in order intake accelerated: After dropping by 6 % in the previous year, new orders fell by 12 % in the period from January through November 2019. One reason for this was soft demand in the Chinese furniture industry, which was dragged down by higher US import tariffs and low capacity utilization. This was exacerbated by weak capital spending requirements after heavy spending on the part of many Chinese furniture producers in 2017. One encouraging sign, however, was the fact that the HOMAG Group was awarded a big-ticket system order again in the third quarter of 2019, after a prolonged dry spell in China.

Explanatory notes on the figures

The charts and tables in this management report generally contain IFRS figures for the years from 2017 through 2019.

EBIT

EBIT is defined as earnings before interest, income taxes and income from investments. Extraordinary effects are eliminated from operating EBIT; these extraordinary effects are listed in table 2.40.

ACCOUNTING: FIRST-TIME APPLICATION OF IFRS 16

We have been applying the new accounting standard IFRS 16 “Leases” since January 1, 2019. The most important change is that lessees must now recognize all main leases as right-of-use assets and the matching payment obligations as liabilities. The application of the new standard did not have any material impact on the Dürr Group’s results of operations, although it did lead to shifts within the income statement. Certain key balance sheet figures and the cash flows from operating and financing activities have been influenced by the application of IFRS 16, in some cases significantly.

When comparing periods, it should be borne in mind that the figures for 2018 and 2017 were not calculated in accordance with IFRS 16. Detailed information on the application of IFRS 16 can be found in → item 6 of the notes to the consolidated financial statements.

2.27 — IMPACT OF FIRST-TIME APPLICATION OF IFRS 16 ON PERFORMANCE INDICATORS

€ million	2018	2019	2019 Impact from the application of IFRS 16
KEY FINANCIAL PERFORMANCE INDICATORS			
Order intake	3,930.9	4,076.5	–
Sales	3,869.8	3,921.5	–
EBIT	233.5	195.9	1.7
EBIT margin (%)	6.0	5.0	–
ROCE (%)	24.0	16.9	–1.3 pp
OTHER FINANCIAL PERFORMANCE INDICATORS			
EBITDA	326.9	308.5	29.6
Net finance expense	–13.8	–21.2	–3.0
Earnings before taxes (EBT)	219.7	174.7	–1.3
Cash flow from operating activities	162.3	171.9	29.5
Free cash flow	78.4	44.9	–
Capital expenditure[1]	74.4	102.6[2]	26.3
Non-current assets (December 31)	1,244.3	1,322.4	92.2
Current assets (December 31)	2,370.1	2,560.0	–0.1
Equity (December 31)	992.2	1,043.4	–10.5
Total assets (December 31)	3,614.4	3,882.3	92.2
Net financial status (December 31)	32.3	–99.3	–101.2

[1] Net of acquisitions
[2] Since 2019, capital expenditure has also included additions to right-of-use assets under leases (IFRS 16).

REPORTING CONVENTIONS

With the exception of IFRS 16, amendments to IFRSs in 2019 had only a limited impact on the presentation of Dürr’s business situation. Relatively few reporting options are available under the IFRSs and their utilization barely impacts our net assets, financial position and results of operations. They can be used, for example, in connection with inventories or property, plant and equipment.

In the case of important balance sheet items, we exercise options in such a way that the greatest possible measurement continuity is preserved. We made use of most of the reporting options in unchanged form in 2019. Similarly, the use of accounting measures exerted at most only a minor influence on the presentation of the results of operations. Moreover, it is inconsistent in many cases with our commitment to continuity and cross-period transparency.

HOMAG GROUP AG: DOMINATION AND PROFIT AND LOSS TRANSFER AGREEMENT

Under the terms of the domination and profit and loss transfer agreement entered into between Dürr Technologies GmbH and HOMAG Group AG, all of the net profit earned by the HOMAG Group AG accrues to the Dürr Group. HOMAG Group AG's external shareholders (36.0 % of the capital) are not entitled to a variable dividend. Instead, they receive a guaranteed dividend of € 1.01 per share (net) for the duration of the domination and profit and loss transfer agreement. In addition, we have submitted a cash settlement offer of € 31.56 per share to them. The interest expense arising from the domination and profit and loss transfer agreement with HOMAG Group AG (2019: € 5.6 million) is recognized within the Dürr Group's financial result.

In valuation proceedings, external shareholders of HOMAG Group AG are having the amount of the guaranteed dividend and cash settlement reviewed in court. Under a ruling by the Regional Court of Stuttgart in August 2019, the cash compensation was to be increased to € 31.58 and the guaranteed dividend to € 1.03 per share (net). However, the ruling is not final as HOMAG Group AG shareholders filed an appeal against it in October 2019. The valuation proceedings will in all likelihood continue soon after the conclusion of the appeal proceedings before the Higher Regional Court of Stuttgart. Pending a decision by that court, the amounts originally set for the guaranteed dividend and the cash settlement (€ 1.01 net and € 31.56, respectively) continue to apply.

SALE OF THE DÜRR ECOCLEAN GROUP

When comparing the years 2019, 2018 and 2017, it should be borne in mind that we sold the Dürr Ecoclean Group (industrial cleaning technology) effective March 31, 2017. In the first quarter of 2017, the Dürr Ecoclean Group had contributed order intake of € 51.1 million, sales of € 47.5 million and EBIT of € 2.2 million to the Dürr Group, specifically the Measuring and Process Systems division. The proceeds of € 107.9 million from the sale of 85 % of Dürr Ecoclean's capital accrued to us on March 31, 2017, with the book gain of € 23.0 million entered as extraordinary income within the Corporate Center.

ACQUISITION OF MEGTEC/UNIVERSAL

A comparison of individual periods for the Group and Clean Technology Systems must take account of the acquisition in 2018 of the Megtec/Universal Group, which specializes in exhaust-air purification technology. Megtec/Universal contributed order intake of € 46.1 million, sales of € 47.6 million and EBIT of € 2.7 million (before purchase price allocation) in 2018 from the date of initial consolidation (October 5).

ISSUE OF BONUS SHARES/EARNINGS PER SHARE

Following the issue of bonus shares, the number of shares in Dürr AG doubled to 69,202,080 on June 22, 2018. The earnings per share reported in the management report for the years 2017 to 2019 were calculated on the basis of 69,202,080 shares.

Overall assessment by the Board of Management and target achievement

2019 was characterized by pronounced economic weakness and challenging market conditions. The automotive industry recorded a 5 % decline in global production. Demand from the furniture industry at the HOMAG Group fell by just under 9 %, with systems business comprising complete furniture production lines virtually collapsing in the first half of the year. Nevertheless, we were able to meet our Group forecasts for order intake and sales and achieve new record levels in both cases. The fact that order intake rose above € 4 billion for the first time is partly due to our strong position in automotive business. Moreover, environmental technology business achieved the growth targets sought with the acquisition of Megtec/Universal. Earnings were impacted by the market downturn in the furniture industry, structural shortcomings in the HOMAG Group and – to a lesser extent – market-related declines in the Measuring and Process Systems division. In addition, there were extraordinary expenses of € 67.2 million (including purchase price allocation effects, see table 2.40). Of this, an amount of € 36.6 million was attributable to a package of measures adopted at the HOMAG Group. In this way, we are continuing the HOMAG Group's optimization course and helping to ensure that it reaches its EBIT margin target of over 9 % by 2023 at the latest.

The Dürr Group's order intake increased by 3.7 % to € 4,076.5 million in 2019, thus reaching the upper end of the target corridor (€ 3,800 to 4,100 million). Adjusted for currency-translation effects, the increase would have been 2.1 %. A strong fourth quarter, which produced new orders of € 1,216.9 million, was the main contributor to this good performance. Our automotive business benefited from the strong demand for production technology for electric vehicles and was largely driven by new e-mobility OEMs. Order intake in Clean Technology Systems rose to € 449.1 million (2018: € 258.2 million) due to the full-year consolidation of Megtec/Universal as well as organic growth.

At € 3,921.5 million, sales also reached the target range (€ 3,900 to 4,100 million). Sales growth was a relatively slow 1.3 %. It was underpinned by significant growth in service business (7.7 %) and the full-year inclusion of Megtec/Universal in Clean Technology Systems. Paint and Final Assembly Systems posted a slight increase in sales, while the three other divisions fell short of the previous year's figures. Adjusted for exchange rate effects, sales would have been flat.

We adjusted the target corridor for the operating EBIT margin on July 22 from between 7.0 and 7.5 % to between 6.0 and 6.5 %. The main rationale for this was the market downturn afflicting the HOMAG Group, which was accompanied by high material and personnel costs as well as declining sales in China. At the Group level, we achieved an operating EBIT margin of 6.7 %, which was above the target corridor. This was underpinned by the noticeable improvement in the operating EBIT of all the divisions in the second half of the year compared with the first half. We adjusted our target for the EBIT margin after extraordinary effects from between 6.5 and 7.0 % to a corridor of 5.5 to 6.0 % in July and lowered it to between 4.4 and 4.9 % on November 6. The reason for the second adjustment was the extraordinary expenses of € 36.6 million for the package of measures implemented for the HOMAG Group and an amount of € 6.0 million in connection with a legal dispute. At 5.0 %, we exceeded the adjusted target corridor at the end of the year.

As expected, net finance expense increased from € 13.8 million to € 21.2 million. It was characterized by declining interest income, rising interest expenses due to the new Schuldschein loan and extraordinary expenses in connection with the acquisition of a previously leased property. The application of IFRS 16 also had a negative effect of € 3.0 million. At 25.7 %, the tax rate was lower than planned (27 to 28 %) due to extraordinary effects. At € 129.8 million, earnings after taxes thus reached the upper end of the target corridor of € 115 to 130 million defined in November.

Standing at 16.9 %, ROCE ⟶ page 201 reached the upper end of the target range of 12 to 17 % that had been adjusted in November. Initially, we had been expecting 20 to 30 % or – since July 2019 – 15 to 20 %. The step-by-step reduction in the ROCE target level was mainly due to the adjustments made to the EBIT guidance explained above.

Cash flow from operating activities exhibited a pattern that is not untypical of the Dürr Group: A muted first half was followed by a much brisker second half. Prepayments and progress payments from customers were particularly encouraging in the final quarter, while at the same time we were able to significantly reduce inventories. The result was a very high cash flow of € 233.2 million from operating activities in the fourth quarter, which resulted in a figure of € 171.9 million for 2019 as a whole. In this way, we achieved our original goal of improving cash flow.

The net financial status ⟶ page 201 benefited from the high cash flow at the end of the year and, at € –99.3 million, was better than planned in July (€ –180 to –130 million). Capital expenditure was also influenced by IFRS 16, rising to € 102.6 million in line with expectations as additions to right-of-use assets under leases were included for the first time.

DIVISIONS: MOST TARGETS ACHIEVED

The five divisions performed disparately in 2019, but most of them achieved and, in some cases, exceeded their full-year targets.

At Paint and Final Assembly Systems, new orders exceeded the prior-year figure as well as the target range. The main reasons for this were a strong fourth quarter and growth in e-mobility business and in North America. Sales reached the middle of the target corridor. At 4.1 %, the EBIT margin remained muted in the first half of the year but improved in the third and fourth quarters as announced, reaching a very solid full-year figure of 5.0 % in line with our expectations. This was due to two factors: the execution of higher-margin orders and the positive effects of the FOCUS 2.0 optimization program.

Application Technology achieved record order intake. Its subdued sales performance was due to the relatively low order intake in the second half of 2018; in addition, service business temporarily dipped due to the low capacity utilization of many paint shops. EBIT came under pressure in the final quarter from extraordinary expenses of € 6.0 million in connection with a legal dispute. Adjusted for this one-off effect and minor purchase price allocation effects, the EBIT margin would have been 10.7 % and thus within the target corridor.

2.28 — GROUP TARGET ACHIEVEMENT IN 2019

		2018 act.	2019 act.	2019 target (February 2019 forecast)	2019 target (July 2019 forecast)	2019 target (November 2019 forecast)
Order intake	€ million	3,930.9	4,076.5	3,800–4,100	3,800–4,100	3,800–4,100
Orders on hand (December 31)	€ million	2,577.2	2,742.8	2,400–2,900	2,400–2,900	2,400–2,900
Sales	€ million	3,869.8	3,921.5	3,900–4,100	3,900–4,100	3,900–4,100
EBIT margin	%	6.0	5.0	6.5–7.0	5.5–6.0	4.4–4.9
EBIT margin before extraordinary effects	%	7.1	6.7	7.0–7.5	6.0–6.5	6.0–6.5
ROCE	%	24.0	16.9	20–30	15–20	12–17
Net finance expense	€ million	–13.8	–21.2	Deterioration	Deterioration	Deterioration
Tax rate	%	25.6	25.7	27–28	27–28	27–28
Earnings after taxes	€ million	163.5	129.8	175–190	145–160	115–130
Cash flow from operating activities	€ million	162.3	171.9	Up on the previous year	Down on the previous year	Down on the previous year
Free cash flow	€ million	78.4	44.9	Up on the previous year	Down on the previous year	Down on the previous year
Net financial status (December 31)	€ million	32.3	–99.3	–60 to –20	–180 to –130	–180 to –130
Liquidity	€ million	655.0	662.0	660–700	740–790	740–790
Capital expenditure[1]	€ million	74.4	102.6[2]	80–90	80–90	95–105

[1] Net of acquisitions
[2] Since 2019, capital expenditure has also included additions to right-of-use assets under leases (IFRS 16).

Clean Technology Systems increased its business sharply as a result of the full-year consolidation of the Megtec/Universal group. Order intake was very encouraging and reached the upper end of the target range. By contrast, sales were slightly below target, as revenue recognition was initially subdued due to factors related to capacity utilization before rising sharply at the end of the year. The EBIT margin widened significantly and, at 3.1 %, was slightly above the target range.

Measuring and Process Systems achieved the target corridor for order intake thanks to a strong first half. Sales initially suffered from weak new orders in the second half of 2018 and declining business in balancing systems for combustion engine components. However, it caught up in the second half of the year, allowing the division to reach the target corridor. Reflecting the initial weakness in sales and high R&D expenditure for digitalization, the EBIT margin remained muted in the first half of the year at 6.9 %, but subsequently improved significantly and, at 9.4 % for the year as a whole, moved closer to the target corridor of 10 to 11 % as adjusted in July.

Weaker market conditions in business with the furniture industry left traces on order intake (down 8.8 %) and sales (down 1.5 %) in Woodworking Machinery and Systems. EBIT was also impacted by high costs, low business volumes in China, structural shortcomings and the extraordinary expenses for structural measures and purchase price allocation. We consider the structural measures and process improvements that have been initiated to constitute investments in the future of Woodworking Machinery and Systems and to achieve an appropriate level of profitability (target EBIT margin of over 9 % by 2023 at the latest). We adjusted our targets for 2019 in July and November in response to the market downturn and the adverse effects on earnings; please see table 2.29.

The division targets for 2020 can be found in the **"Report on expected future development" ⟶ page 92.**

2.29 — TARGET ACHIEVEMENT OF THE DIVISIONS 2019

	Order intake (€ million)				Sales (€ million)				EBIT margin (%)			
	2019 act.	2019 target (February 2019 forecast)	Revised 2019 target (July 2019 forecast)	Revised 2019 target (November 2019 forecast)	2019 act.	2019 target (February 2019 forecast)	Revised 2019 target (July 2019 forecast)	Revised 2019 target (November 2019 forecast)	2019 act.	2019 target (February 2019 forecast)	Revised 2019 target (July 2019 forecast)	Revised 2019 target (November 2019 forecast)
Paint and Final Assembly Systems	1,341.0	1,100–1,300	1,100–1,300	1,100–1,300	1,243.8	1,200–1,300	1,200–1,300	1,200–1,300	5.0	4.6–5.5	4.6–5.5	4.6–5.5
Application Technology	640.8	620–670	620–670	620–670	592.8	630–680	630–680	630–680	9.6	10.0–11.0	10.0–11.0	10.0–11.0
Clean Technology Systems	449.1	400–450	400–450	400–450	395.3	400–450	400–450	400–450	3.1	2.0–3.0	2.0–3.0	2.0–3.0
Measuring and Process Systems	425.9	400–450	400–450	400–450	410.4	400–450	400–450	400–450	9.4	11.5–12.5	10.0–11.0	10.0–11.0
Woodworking Machinery and Systems	1,219.6	1,250–1,450	1,100–1,300	1,100–1,300	1,279.1	1,280–1,380	1,200–1,300	1,200–1,300	2.9	6.7–7.5	5.5–6.3	2.5–3.0

PERFORMANCE INDICATORS

Our main financial performance indicators for Group management are order intake, sales, EBIT and EBIT margin as well as **ROCE** **⟶ page 201**. Cash flow from operating activities and **free cash flow** **⟶ page 201** are also important parameters particularly at the Group level. Detailed information on the main financial performance indicators can be found in the section entitled “Operating performance indicators” in the **“Financial development”** **⟶ page 72** chapter. This section also contains information on the non-financial performance indicators. Please also note the non-financial consolidated declaration in connection with the non-financial disclosures and performance indicators.

MAIN EVENTS DRIVING BUSINESS PERFORMANCE

Events and factors that had a significant impact on the Dürr Group’s results of operations, financial condition and net assets in 2019 entailed the decline in the HOMAG Group’s business, the structural measures adopted at the HOMAG Group in November and the sustainability-oriented Group refinancing initiated in the summer. Demand in automotive business was somewhat up on the good prior-year level and was buoyed by high capital expenditure on production technology for electric cars.

Business performance

ORDER INTAKE IN EXCESS OF € 4 BILLION FOR THE FIRST TIME

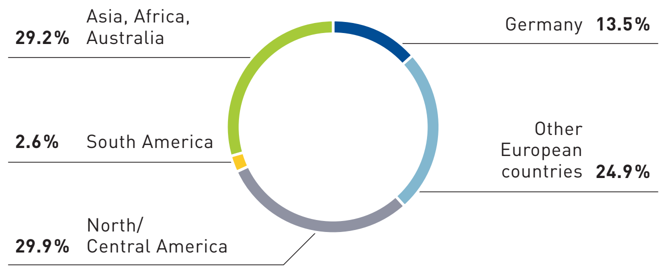
In 2019, order intake rose by 3.7 % to € 4,076.5 million, thus exceeding the threshold of € 4 billion for the first time. On the basis of like-for-like exchange rates, new orders would have climbed by 2.1 %.

At 74.0 %, Clean Technology Systems posted the greatest growth in new orders. This was primarily due to the full-year consolidation of Megtec/Universal. However, even adjusted for this effect, the division still achieved an increase at a percentage rate in the high single digits. Painting technology business also expanded despite the challenging market conditions facing the automotive industry, as demonstrated by the growth of 3.1 % in Paint and Final Assembly Systems and 1.3 % in Application Technology. Measuring and Process Systems posted the second-highest increase in orders of 5.6 %. By contrast, order intake for Woodworking Machinery and Systems dropped by 8.8 % due to the contraction of the furniture industry market. However, it should be noted that, after muted conditions in the first half of the year, order intake picked up in the second half of the year, falling only slightly short of the comparison figure for the previous year.

Order intake from the emerging markets dropped by 8.5 % over the previous year to € 1,659.3 million, accounting for 40.7 % of total new orders within the Group (2018: € 1,814.1 million and 46.1 %, respectively). New orders in China contracted by 20.3 % to € 704.3 million due to a temporary dip in order intake in automotive business. By contrast, other emerging markets such as India and Brazil, posted what in some cases were substantial gains. Demand was the strongest in North and Central America, where a very high order intake of € 1,217.2 million was achieved on growth of 72.6 %. This performance was underpinned by strong demand in the automotive industry, which increased capital expenditure on production technology for electric vehicles in particular. Order intake in Europe (including Germany) was down 10.9 % on the previous strong year. All in all, our order intake shows a good international distribution, confirming our ability to seize market opportunities all around the world.

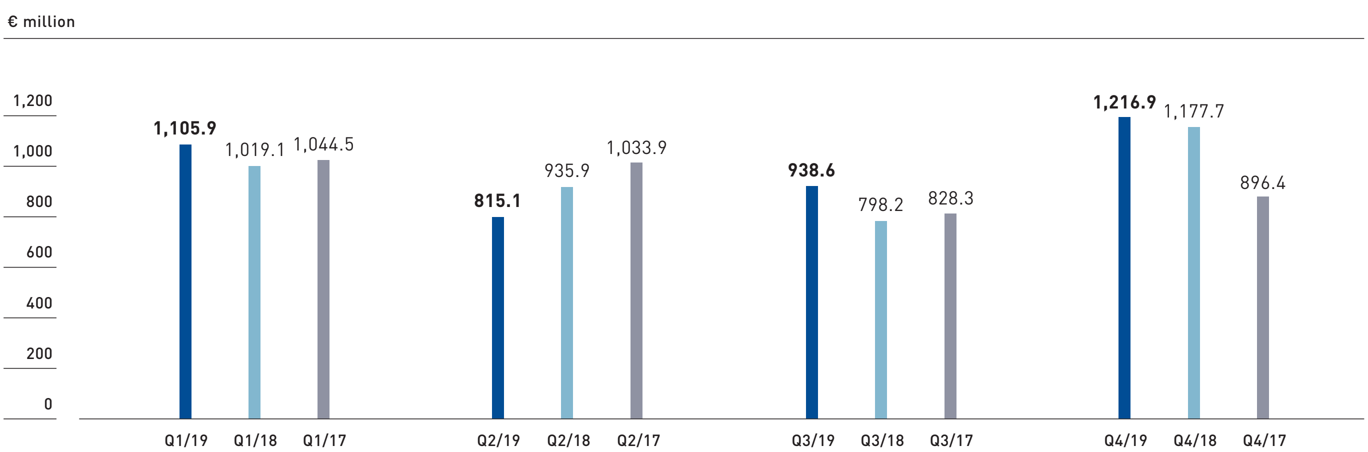
A quarter-by-quarter comparison of our order intake is not a reliable indicator as large system orders can result in considerable fluctuation. With orders worth € 1,216.9 million, the final quarter of 2019 was the strongest quarter in the previous five years.

2.30 — CONSOLIDATED ORDER INTAKE BY SALES REGION



€ million	2019	2018	2017
Germany	548.8	753.6	592.7
Other European countries	1,016.0	1,003.0	1,170.5
North/Central America	1,217.2	705.1	820.9
South America	104.5	80.0	92.1
Asia, Africa, Australia	1,189.9	1,389.3	1,126.8
Total	**4,076.5**	**3,930.9**	**3,803.0**

2.31 — CONSOLIDATED ORDER INTAKE BY QUARTER



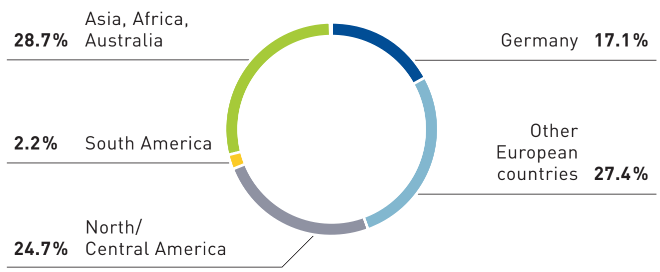
SLIGHT INCREASE IN SALES

Sales rose by 1.3 % in 2019 to a new record of € 3,921.5 million. Adjusted for currency-translation effects, it would have remained steady at the previous year's level.

Paint and Final Assembly Systems continued on its growth trajectory with a moderate increase of 0.7 %. Sales in Clean Technology Systems climbed by 74.4 %, primarily as a result of the full-year inclusion of Megtec/Universal; adjusted for this effect, it would have expanded by a percentage rate in the low double digits. The declines posted by Application Technology (down 9.2 %) and Measuring and Process Systems (down 10.1 %) reflected temporarily weaker order intake in the second half of 2018. The more muted market in business with the furniture industry left traces on Woodworking Machinery and Systems (down 1.5 %).

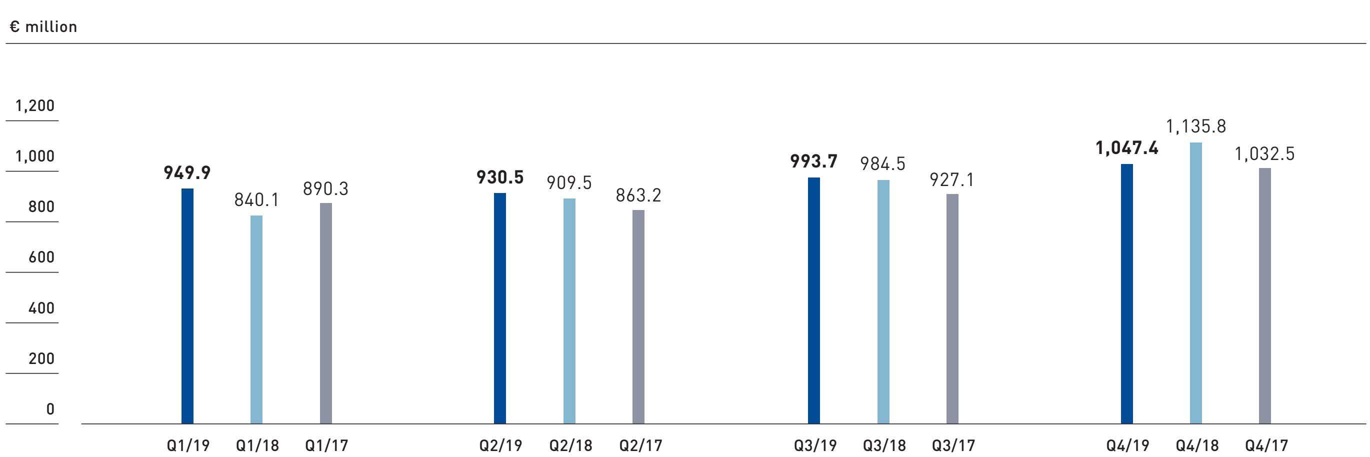
Sales were also regionally balanced in 2019: The greatest contribution of 44.4 % came from Europe, followed by Asia, Africa and Australia with 28.7 % and North, South and Central America with 26.9 %. The share accounted for by the emerging markets shrank slightly to 44.7 % (2018: 47.8 %).

2.32 — CONSOLIDATED SALES BY SALES REGION

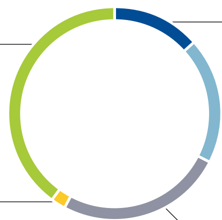


€ million	2019	2018	2017
Germany	668.7	609.4	485.9
Other European countries	1,074.0	1,184.4	1,090.0
North/Central America	969.0	826.1	926.8
South America	84.9	86.3	78.6
Asia, Africa, Australia	1,125.0	1,163.6	1,131.9
Total	**3,921.5**	**3,869.8**	**3,713.2**

2.33 — CONSOLIDATED SALES BY QUARTER



2.34 — CONSOLIDATED ORDER BACKLOG (DECEMBER 31) BY SALES REGION



€ million	2019	2018	2017
Germany	371.6	492.5	349.9
Other European countries	520.4	577.6	734.6
North/Central America	699.9	440.1	517.7
South America	59.1	40.3	50.8
Asia, Africa, Australia	1,091.8	1,026.7	796.5
Total	**2,742.8**	**2,577.2**	**2,449.4**

In contrast to order intake, the quarterly breakdown of sales reveals a distinct pattern. As a rule, our sales are higher in the third and fourth quarters than in the first half of the year. The final quarter is mostly the strongest in terms of sales as a greater number of projects enter the final billing stage at the end of the year.

Service business grew substantially more quickly than new business in 2019, increasing by 7.7 % to € 1,118.6 million. Performance was disparate in the individual divisions; at Application Technology, the declining capacity utilization of many automotive paint shops resulted in weaker demand for spare parts. The proportion of service business in Group sales widened from 26.8 % to 28.5 %, thus coming closer to the target of 30 %.

ORDERS ON HAND AT A RECORD HIGH

As order intake exceeded sales, the book-to-bill ratio[1] came to 1.04. The order backlog on December 31, 2019, was up 6.4 % compared with the end of 2018, rising to € 2,742.8 million. Most service business is not included in the order backlog because of its short-term nature. However, factoring it into the order backlog, we are confident of achieving our sales target of € 3.9 to 4.1 billion in 2020.

[1] Ratio of order intake to sales

Orders on hand as of the end of 2019 are sufficient to cover roughly two thirds of the sales target for 2020.

2.35 — INCOME STATEMENT AND PROFITABILITY RATIOS

		2019	2018	2017
Sales	€ million	3,921.5	3,869.8	3,713.2
Cost of sales	€ million	–3,083.3	–3,014.3	–2,856.0
of which cost of materials	€ million	–1,681.4	–1,573.0	–1,415.6
of which personnel expense	€ million	–713.8	–644.6	–623.0
of which depreciation and amortization	€ million	–78.7	–69.7	–56.9
Gross profit	€ million	838.2	855.5	857.2
Overhead costs[1]	€ million	–639.0	–612.9	–601.8
EBITDA	€ million	308.5	326.9	367.7
EBIT	€ million	195.9	233.5	287.0
EBIT before extraordinary effects[2]	€ million	263.1	274.9	283.7
Net finance expense	€ million	–21.2	–13.8	–19.8
EBT	€ million	174.7	219.7	267.3
Income taxes	€ million	–44.9	–56.2	–67.6
Earnings after taxes	€ million	129.8	163.5	199.6
Earnings per share[3]	€	1.79	2.27	2.78
Gross margin	%	21.4	22.1	23.1
EBITDA margin	%	7.9	8.4	9.9
EBIT margin	%	5.0	6.0	7.7
EBIT margin before extraordinary effects[2]	%	6.7	7.1	7.6
EBT margin	%	4.5	5.7	7.2
Return on sales after taxes	%	3.3	4.2	5.4
Interest coverage		7.3	11.5	13.4
Tax rate	%	25.7	25.6	25.3
Return on equity	%	12.4	16.5	22.2
Return on investment	%	4.2	5.3	6.5
ROCE	%	16.9	24.0	38.6

[1] Selling, administrative and R&D expenses
[2] Extraordinary effects in 2019: € –67.2 million (2018: € –41.4 million), see table 2.40 for further information
[3] Calculated on the basis of 69,202,080 shares since June 22, 2018

GROSS MARGIN DOWN

Total costs (cost of sales, selling, administrative and R&D costs plus other operating expenses) grew by 2.2 % in 2019 and, hence, somewhat more quickly than sales, coming to € 3,748.3 million. The cost of sales increased by 2.3 % to € 3,083.3 million. However, it should be borne in mind that this includes higher extraordinary expenses than in the previous year (2019: € 44.2 million / 2018: € 30.7 million). Gross operating profit was down in three out of five divisions. Against this backdrop, Group gross profit fell by € 17.3 million to € 838.2 million despite the slightly higher sales, causing the gross margin to shrink to 21.4 % (2018: 22.1 %).

SUBSTANTIAL RISE IN THE COST OF MATERIALS

At € 1,681.4 million, the cost of materials rose by 6.9 % and, thus, more quickly than sales. Consequently, the cost of materials ratio widened by 2.2 percentage points to 42.9 %. This increase was due to the higher cost of externally sourced parts and the construction of buildings for system projects. The cost of materials is fully included in the cost of sales and chiefly comprises the cost of externally sourced parts as well as production and assembly services. Further information can be found in the chapter entitled **"Procurement" ⟶ page 32.**

Overhead costs rose by 4.3 % to € 639.0 million in 2019. The largest cost block included in this figure is personnel expense, which was influenced by higher wages and salaries. The 7.5 % increase in selling expenses to € 337.6 million was chiefly caused by the acquisition of Megtec/Universal and higher trade exhibition expenses as well as our bi-annual "Open House". We scaled back research and development expenses (down 8.4 %) after the sharp increases in previous years. However, there were no cuts to spending on important innovation sectors such as digitalization. Further details can be found in the chapter entitled **"Research and development" ⟶ page 33.**

2.36 — OVERHEAD COSTS AND EMPLOYEES IN 2019

	Employees	Costs (€ million)	Personnel expense (€ million)	Depreciation and amortization (€ million)	Other costs (€ million)
Selling	1,816	–337.6	–223.3	–10.9	–103.4
(2018)	1,792	–314.2	–214.0	–6.3	–93.8
Administrative	1,480	–190.6	–120.5	–13.8	–56.3
(2018)	1,434	–177.8	–111.4	–7.3	–59.1
R&D	789	–110.8	–79.3	–9.3	–22.2
(2018)	782	–121.0	–77.7	–10.1	–33.2

SMALL INCREASE IN GROUP WORKFORCE

The number of employees as of December 31, 2019, increased only slightly compared with the end of 2018 to 16,493 (up 1.1 %). We had an annual average of 16,463 employees. A large part of the 5.6 % increase is due to the full-year consolidation of Megtec/Universal, which has around 860 employees. Personnel expense climbed by 8.5 % to € 1,136.9 million, reflecting not only higher wages and salaries but also the effects of the Megtec/Universal acquisition. The personnel expense ratio widened from 27.1 % to 29.0 %.

2.37 — PERSONNEL-RELATED INDICATORS

	2019	2018	2017
Employees (December 31)	16,493	16,312	14,974
Employees (annual average)	16,463	15,593	14,807
Personnel expense (€ million)	–1,136.9	–1,047.7	–1,017.6
Personnel expense ratio (%)	29.0	27.1	27.4
Personnel expense per employee (annual average) (€)	–69,055	–67,188	–68,725
Sales per employee (annual average) (€)	238,201	248,176	250,772

Net other operating expenses came to € 3.3 million in 2019 (2018: € 9.1 million). The primary determinant was currency-translation gains and losses, which resulted in net currency-translation expenses of € 1.4 million, down from € 4.5 million in the previous year. All other operating income and expenses remained within the customary range following the inclusion of transaction costs for the Megtec/Universal acquisition in the previous year.

EBIT ADVERSELY AFFECTED BY EXTRAORDINARY EFFECTS

EBIT – our main earnings parameter in our overall management process – dropped by 16.1 % to € 195.9 million in 2019. However, the decline is largely due to high extraordinary expenses, which rose by € 25.8 million over the previous year, to € 67.2 million. Aside from purchase price allocation effects, they also included, in particular, the cost of the optimization measures implemented to secure the future viability of Woodworking Machinery and Systems. The extraordinary effects included in EBIT are summarized in table 2.40.

On the basis of like-for-like exchange rates, EBIT would have been € 4.1 million lower, while the decline in EBIT would have been 1.8 percentage points greater. The application of IFRS 16 had a positive effect of € 1.7 million. The EBIT margin came to 5.0 % and was thus slightly above the target corridor of 4.4 to 4.9 % that we had adjusted in November 2019 to allow for the costs of the optimization measures for Woodworking Machinery and Systems. Further information can be found in the chapter entitled **"Overall assessment by the Board of Management and target achievement" ⟶ page 56.**

At € 263.1 million, operating EBIT (EBIT before extraordinary effects) was down only 4.3 % on the previous year (€ 274.9 million). The operating EBIT margin reached 6.7 % (2018: 7.1 %) thus exceeding the target range of 6.0 to 6.5 % that had been announced in July 2019.

The low EBIT in the fourth quarter of 2019 (€ 41.8 million) reflects the high extraordinary expenses of € 49.8 million. Of this amount, € 36.6 million was accounted for by the optimization measures at Woodworking Machinery and Systems. In addition, there were extraordinary expenses of € 6.0 million for Application Technology in connection with a legal dispute. At € 91.6 million, the Group operating EBIT for the fourth quarter fell only slightly short of the very high figure achieved in the previous year. The operating EBIT margin of 8.7 % in the final quarter was higher than in the same period of the previous year and significantly exceeded the margins recorded in the three preceding quarters.

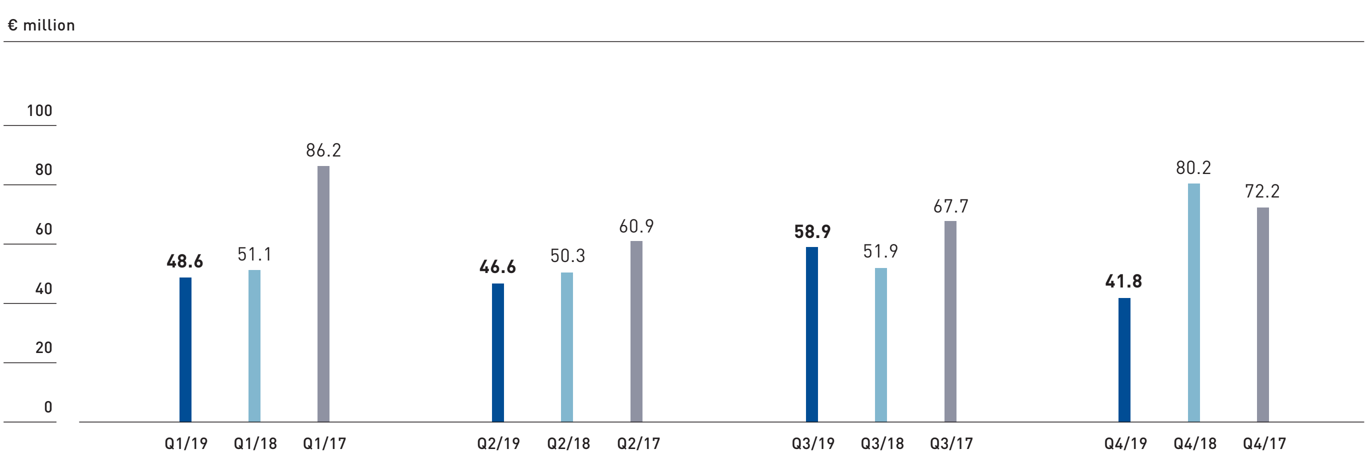
INCREASE IN NET FINANCE EXPENSE

Net finance expense increased to € 21.2 million in 2019 (2018: € 13.8 million). Whereas net investment income remained nearly steady, interest expense was higher. One factor in this regard was the additional interest expense of € 0.9 million for the sustainability Schuldschein loan issued in July. This was joined by a charge of € 3.0 million from the application of IFRS 16. Finally, non-recurring expense for the purchase of a previously leased property was recognized in interest result.

SUBSTANTIAL DECLINE IN EARNINGS AFTER TAXES

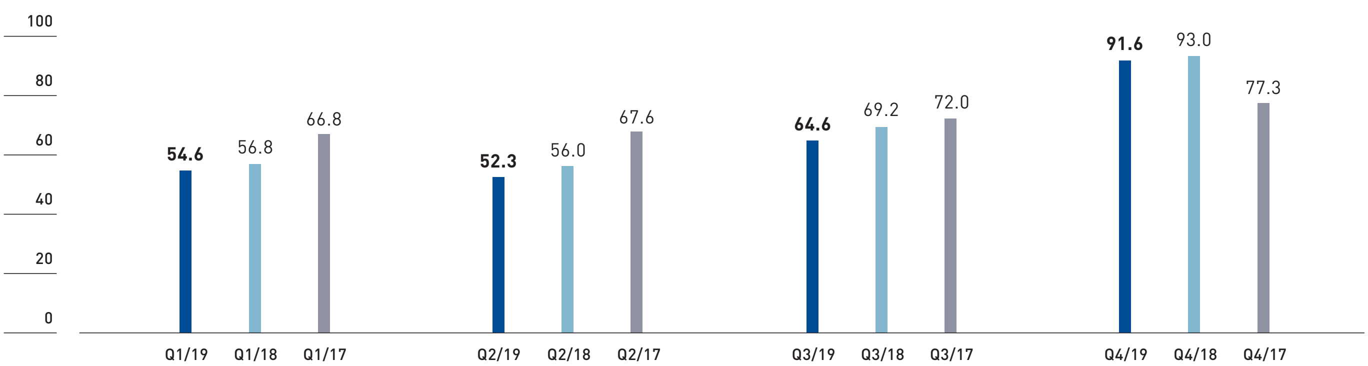
Earnings before taxes decreased by 20.5 % to € 174.7 million due to higher extraordinary expenses (€ 67.2 million) and higher net finance expense. Moreover, the growth in operating EBIT in the Paint and Final Assembly Systems and Clean Technology Systems divisions was insufficient to absorb the decline in operating EBIT in the Application Technology, Measuring and Process Systems and Woodworking Machinery and Systems divisions.

2.38 — EBIT BY QUARTER



2.39 — EBIT BEFORE EXTRAORDINARY EFFECTS BY QUARTER

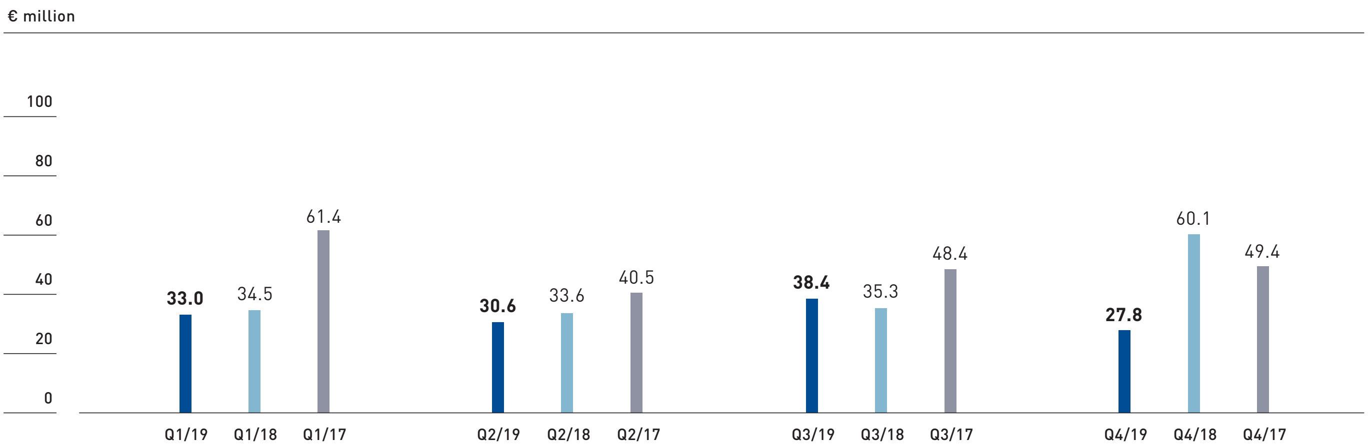
€ million



2.40 — EXTRAORDINARY EFFECTS WITHIN EBIT

€ million	2019		2018		2017	
Paint and Final Assembly Systems	−2.6	• Purchase price allocation expense • Capacity adjustment expense	−2.2	• Purchase price allocation expense	−2.2	• Purchase price allocation expense
Application Technology	−6.2	• Purchase price allocation expense • Expense for legal dispute	−0.2	• Purchase price allocation expense	−0.5	• Expense for realigning glueing technology (Wolfratshausen plant) • Income from litigation • Purchase price allocation expense
Clean Technology Systems	−11.2	• Purchase price allocation expense • Trailing expense from the Megtec/Universal acquisition	−20.1	• Expense from discontinuation of micro gas turbine business • Purchase price allocation expense	−0.7	• Purchase price allocation expense
Measuring and Process Systems	−1.6	• Purchase price allocation expense • Expense for closure of subsidiary in China (Shenlian)	−1.5	• Purchase price allocation expense	−2.4	• Expense for realigning filling technology (Agramkow) • Purchase price allocation expense
Woodworking Machinery and Systems	−45.3	• Purchase price allocation expense • Expense of measures to ensure future viability/ optimization	−8.7	• Purchase price allocation expense	−8.7	• Purchase price allocation expense
Corporate Center	−0.3	• Various minor special effects	−8.7	• Expense of FOCUS 2.0 optimization program (Paint and Final Assembly Systems) • Transaction costs from the acquisition of Megtec/ Universal	17.7	• Income from the sale of the Dürr Ecoclean Group • Discontinuation of business at Dürr thermea GmbH
Total	**−67.2**		**−41.4**		**3.3**	

2.41 — EARNINGS AFTER TAX BY QUARTER



Tax expense contracted by € 11.3 million to € 44.9 million. In this connection, we benefited from the tax rate of 25.7 %, which was roughly as low as it had been in the previous year. One reason for this was the recognition of unused tax losses of a subsidiary for the first time. In addition, we gained tax credits for R&D expenses abroad. Although earnings after taxes fell by 20.6 % to € 129.8 million (2018: € 163.5 million), this marked the upper end of the target range of € 115 to 130 million that had been announced in November. The return on sales after taxes came to 3.3 %, down from 4.2 % in the previous year. Earnings per share dropped to € 1.79 (2018: € 2.27).

We will be proposing a dividend of € 0.80 per share for 2019. This is equivalent to a reduction of 20.0 %, which reflects the 20.6 % decline in earnings after taxes. The dividend proposal translates into a total payout of € 55.4 million and a payout ratio of 43 % of earnings after taxes. This ratio exceeds our customary range of 30 to 40 %. The dividend proposal leaves Dürr AG with a remaining net retained profit of € 514.5 million (2018: € 508.4 million), which is to be carried forward.

SEGMENT REPORT: DIVISIONS

2.42 — EBIT BY DIVISION

€ million	2019	2018	2017
Paint and Final Assembly Systems	61.9	56.0	70.4
Application Technology	57.1	68.0	64.8
Clean Technology Systems	12.1	–15.0	3.3
Measuring and Process Systems	38.6	59.7	64.3
Woodworking Machinery and Systems	37.4	86.2	83.0
Corporate Center/consolidation	–11.2	–21.4	1.2
Total	**195.9**	**233.5**	**287.0**

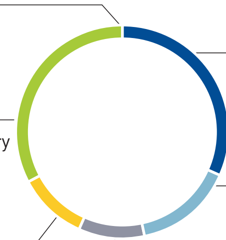
Table 2.42 shows EBIT by division; notes on this and on other division performance indicators can be found on the following pages. In the Corporate Center, loss at the EBIT level decreased to € 11.2 million in 2019 and included extraordinary expenses of only € 0.3 million. The loss at the EBIT level had stood at € 21.4 million in 2018, with extraordinary expenses coming to € 8.7 million. The consolidation effects included in the Corporate Center EBIT came to € –0.1 million (2018: € 1.4 million). The costs of the Corporate Center are largely covered by allocations from the Group companies. In return, the Corporate Center provides intra-Group services in the areas of legal, tax and finance etc.

2.43 — SALES, ORDER INTAKE AND EMPLOYEES (DECEMBER 31, 2019) BY DIVISION

3,921.5

SALES (€ MILLION)

SALES



4,076.5

ORDER INTAKE (€ MILLION)

ORDER INTAKE

16,493

EMPLOYEES

EMPLOYEES

Paint and Final Assembly Systems

Order intake in the Paint and Final Assembly Systems division rose by 3.1 % in 2019 despite the difficult situation facing the automotive industry. Several turnkey projects in North America contributed to this, while we also received major orders in India, South Africa and China. The greatest volume of new orders was obtained in the fourth quarter (€ 509.1 million).

North America accounted for the greatest proportion of order intake, closely followed by Europe. The Chinese market was temporarily more subdued, although we received several orders from e-mobility OEMs there. Consequently, the share of new orders attributable to the emerging markets shrank from 63 % to 47 %. The margin quality of the orders received improved somewhat compared to 2018. With sales rising slightly by 0.7 % to € 1,243.8 million, the book-to-bill ratio reached 1.08.

At 5.0 %, the EBIT margin improved substantially, reaching the middle of the target range (4.6 to 5.5 %), underpinned by a 10.5 % increase in EBIT to € 61.9 million. Whereas earnings in the first half of the year were impacted by old orders with lower margins, a positive trend emerged from the middle of the year, producing a wide EBIT margin of 6.9 % in the fourth quarter. The division also benefited from the positive effects of the FOCUS 2.0 optimization program.

Capital expenditure in Paint and Final Assembly Systems increased substantially by € 15.2 million to € 23.7 million from the previous year's low figure. One reason for this was the new additions to right-of-use assets under leases, which were included in capital expenditure for the first time in accordance with IFRS 16. In addition, we invested in a new production plant and an office building at the Radom site in Poland.

Capital employed ⟶ page 201 by Paint and Final Assembly Systems rose significantly due to delayed customer payments. However, by actively taking appropriate measures, we were able to significantly reduce net working capital ⟶ page 201 and capital employed in the fourth quarter.

Application Technology

Application Technology posted record order intake of € 640.8 million on a slight increase in new orders of 1.3 %. This was underpinned by a strong fourth quarter, in which orders rose by 26.5 % to € 184.6 million, compared to the same period of the previous year. Service business declined somewhat, as many automotive paint shops were operating at lower capacity utilization, meaning that requirements for spare parts were correspondingly lower. Division sales dropped by 9.2 % to € 592.8 million, reflecting the muted order intake in the second half of 2018. By the same token, the extensive orders placed in the fourth quarter of 2019 will not feed through to sales until 2020. The book-to-bill ratio reached 1.08 due to the high volume of new orders.

2.44 — PAINT AND FINAL ASSEMBLY SYSTEMS – KEY FIGURES

€ million	2019	2018	2017	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Order intake	1,341.0	1,300.4	1,142.3	394.1	194.4	243.4	509.1
Sales	1,243.8	1,235.7	1,175.2	311.1	293.6	319.9	319.1
Cost of materials (consolidated)	–618.5	–571.8	–487.4	–142.5	–141.1	–158.5	–176.4
EBITDA	84.2	70.4	84.7	18.1	17.5	21.2	27.5
EBIT	61.9	56.0	70.4	12.7	11.9	15.3	22.0
EBIT before extraordinary effects	64.5	58.1	72.6	13.7	12.5	15.8	22.5
EBIT margin (%)	5.0	4.5	6.0	4.1	4.1	4.8	6.9
EBIT margin before extraordinary effects (%)	5.2	4.7	6.2	4.4	4.3	5.0	7.1
Cash flow from operating activities	–22.4	117.0	–35.8	–35.1	–73.1	–18.1	103.9
Capital expenditure	23.7	8.4	22.2	5.3	5.4	6.1	6.9
Capital employed	132.5	6.5	53.9	91.6	174.9	209.5	132.5
ROCE (%)	46.7	>100	>100	55.3	27.3	29.2	66.3
Employees	3,634	3,472	3,457	3,514	3,542	3,594	3,634

The fact that EBIT dropped by 16.0 % to € 57.1 million is due to the lower sales and, above all, to extraordinary expense of € 6.0 million in connection with a legal dispute. Adjusted for all extraordinary expenses, the EBIT margin reached 10.7 %, thus coming within the target corridor of 10.0 to 11.0 %. With sales up, we were able to further reduce the losses in non-automotive business with industrial painting technology (Industrial Products).

At € 12.3 million, capital expenditure remained at normal levels. The increase in **capital employed** **⟶ page 201** is due to the changed payment practices of many customers.

Clean Technology Systems

In connection with Clean Technology Systems, it is important to bear in mind that the Megtec/Universal Group was consolidated

2.45 — APPLICATION TECHNOLOGY – KEY FIGURES

€ million	2019	2018	2017	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Order intake	640.8	632.4	586.5	159.6	145.5	151.1	184.6
Sales	592.8	652.6	622.4	139.4	132.3	155.5	165.7
Cost of materials (consolidated)	–240.9	–240.6	–209.7	–24.1	–56.1	–73.7	–87.0
EBITDA	70.6	79.4	76.4	17.8	16.6	19.6	16.6
EBIT	57.1	68.0	64.8	14.6	13.2	16.3	13.1
EBIT before extraordinary effects	63.3	68.2	65.3	14.7	13.2	16.3	19.1
EBIT margin (%)	9.6	10.4	10.4	10.5	10.0	10.5	7.9
EBIT margin before extraordinary effects (%)	10.7	10.4	10.5	10.6	10.0	10.5	11.5
Cash flow from operating activities	21.4	13.4	50.9	1.3	–13.4	24.4	9.2
Capital expenditure	12.3	11.8	26.2	2.4	3.4	2.9	3.6
Capital employed	320.9	275.1	222.2	294.8	323.2	313.1	320.9
ROCE (%)	17.8	24.7	29.2	19.8	16.3	20.8	16.3
Employees	2,306	2,246	2,063	2,271	2,251	2,306	2,306

2.46 — CLEAN TECHNOLOGY SYSTEMS – KEY FIGURES

€ million	2019	2018[1]	2017	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Order intake	449.1	258.2	164.9	112.6	95.5	126.0	115.0
Sales	395.3	226.7	185.6	88.3	92.1	91.6	123.4
Cost of materials (consolidated)	–216.4	–121.3	–99.9	–51.1	–53.3	–47.9	–64.2
EBITDA	25.2	1.6	6.0	2.5	4.6	7.0	11.1
EBIT	12.1	–15.0	3.3	–0.7	1.4	3.7	7.7
EBIT before extraordinary effects	23.3	5.1	4.0	1.2	4.1	6.6	11.3
EBIT margin (%)	3.1	–6.6	1.8	–0.8	1.5	4.1	6.3
EBIT margin before extraordinary effects (%)	5.9	2.3	2.2	1.4	4.4	7.3	9.2
Cash flow from operating activities	18.8	9.5	–11.5	–18.9	7.8	13.7	16.2
Capital expenditure	3.7	3.0	3.8	0.4	0.8	1.4	1.2
Capital employed	156.5	153.9	60.6	177.0	166.8	165.0	156.5
ROCE (%)	7.7	–9.7	5.5	–1.6	3.3	9.0	19.8
Employees	1,418	1,472	603	1,443	1,427	1,425	1,418

[1] The Megtec/Universal group was consolidated for the first time on October 5, 2018.

for the first full year in 2019 but had only been consolidated from October 5 in the previous year. The sharp 74.0 % rise in new orders is primarily due to this effect. However, Clean Technology Systems also posted organic growth in order intake in the high single digits. It is not possible to determine the exact growth rate due to the merger of subsidiaries in connection with the integration of Megtec/Universal. Sales climbed by 74.4 % to € 395.3 million in 2019. There was also organic growth in the low double-digit rates, the precise rate of which likewise cannot be calculated. The market for exhaust-air purification systems was resilient in Europe and America but flat in China.

The division's earnings achieved a clear turnaround: Despite purchase price allocation expenses, EBIT climbed to € 12.1 million, with the EBIT margin widening to 3.1 %. Both figures lived up to our expectations and mark good steps forward in our profitability-oriented

2.47 — MEASURING AND PROCESS SYSTEMS – KEY FIGURES

€ million	2019	2018	2017[1]	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Order intake	425.9	403.3	543.0	105.1	123.5	101.6	95.8
Sales	410.4	456.5	511.1	91.9	95.1	106.6	116.9
Cost of materials (consolidated)	–142.2	–162.3	–184.9	–27.4	–34.0	–36.0	–44.9
EBITDA	50.5	68.0	71.9	9.9	8.9	13.9	17.7
EBIT	38.6	59.7	64.3	6.8	6.0	11.4	14.4
EBIT before extraordinary effects	40.2	61.3	66.6	7.2	6.3	11.5	15.3
EBIT margin (%)	9.4	13.1	12.6	7.4	6.3	10.7	12.4
EBIT margin before extraordinary effects (%)	9.8	13.4	13.0	7.8	6.6	10.7	13.1
Cash flow from operating activities	48.2	31.3	55.4	21.3	6.6	10.6	9.7
Capital expenditure	18.0	6.6	5.6	1.6	2.7	4.5	9.3
Capital employed	313.7	282.7	253.2	293.5	293.8	298.8	313.7
ROCE (%)	12.3	21.1	24.5	9.3	8.1	15.2	18.4
Employees	2,293	2,279	2,279	2,306	2,309	2,326	2,293

[1] The figures for 2017 still include the results of the Dürr Ecoclean Group, which has since been sold, for the first quarter of 2017.

2.48 — WOODWORKING MACHINERY AND SYSTEMS – KEY FIGURES

€ million	2019	2018	2017	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Order intake	1,219.6	1,336.8	1,366.3	334.6	256.2	316.5	312.3
Sales	1,279.1	1,298.3	1,218.8	319.2	317.5	320.1	322.3
Cost of materials (consolidated)	–524.9	–536.1	–491.1	–136.8	–124.0	–129.0	–135.0
EBITDA	85.8	125.5	120.2	29.8	28.8	29.4	–2.2
EBIT	37.4	86.2	83.0	18.4	16.7	17.0	–14.6
EBIT before extraordinary effects	82.7	94.9	91.7	20.5	18.8	19.2	24.2
EBIT margin (%)	2.9	6.6	6.8	5.8	5.2	5.3	–4.5
EBIT margin before extraordinary effects (%)	6.5	7.3	7.5	6.4	5.9	6.0	7.5
Cash flow from operating activities	131.5	45.4	107.1	1.6	25.3	26.1	78.4
Capital expenditure	41.8	41.3	26.2	11.6	12.5	11.0	6.7
Capital employed	411.6	441.6	381.1	502.6	499.7	496.3	411.6
ROCE (%)	9.1	19.5	21.8	14.6	13.3	13.7	–14.2
Employees	6,569	6,593	6,371	6,633	6,592	6,615	6,569

course. By contrast, a restructuring-related loss of € 15.0 million had arisen in the previous year. The integration of the Megtec/Universal group has been largely completed and has progressed well.

We consider the capital expenditure of € 3.7 million to be a normal level after integration.

Measuring and Process Systems

Order intake in the Measuring and Process Systems division climbed by 5.6 % to € 425.9 million in 2019, although performance in the fourth quarter was muted. By contrast, sales dropped by 10.1 %. One reason for this was the moderate order intake in the fourth quarter of 2018, which was simultaneously characterized by extraordinarily high revenues. Business in **balancing technology** **⟶ page 200** for components of internal combustion engines (e.g. turbochargers and crankshafts) declined significantly but accounted for only around 1 % of total Group sales.

The book-to-bill ratio stood at 1.04. In tandem with high R&D expenditure on digitalization, the substantial decline in sales caused EBIT to contract by 35.4 % to € 38.6 million. At 9.4 %, the EBIT margin did not quite reach the target corridor of 10.0 to 11.0 %. In the fourth quarter, which is traditionally the strongest period for Measuring and Process Systems, it came to a very good 12.4 % for billing-related reasons.

Capital expenditure in the Measuring and Process Systems division rose by € 11.5 million to € 18.0 million. This increase primarily reflects the application of IFRS 16, together with software investments.

Woodworking Machinery and Systems

Woodworking Machinery and Systems sustained a pronounced decline in demand in its business with the furniture industry in 2019. This particularly impacted system business with integrated production lines. The division's order intake dropped by 8.8 % to € 1,219.6 million but was only slightly down on the previous year's figure in the second half of the year. In China, demand was initially muted. However, a large order placed in the third quarter caused full-year order intake to rise. Thanks to the high order backlog at the beginning of 2019, the division was able to limit the decline in sales to 1.5 %. The book-to-bill ratio of 0.95 reflects the muted order intake.

In response to the challenging market environment, structural overcapacities and process shortcomings, we announced a package of measures in the fourth quarter of 2019 aimed at achieving significant efficiency improvements in Woodworking Machinery and Systems. The division is thus continuing the optimization course adopted after the acquisition of the HOMAG Group in 2014. These measures are to generate annual savings of around € 20 million from 2021. Among other things, they include the discontinuation of production at the Hemmoor (Lower Saxony) site and other personnel adjustments. Roughly 350 jobs will be cut by the end of 2020. Further components of the optimization package include process improvements, the reorganization of the HOMAG production system and the merger of the Systems and Automation business units.

The package entails non-recurring expenses of € 40 million, of which € 36.6 million arose in the fourth quarter of 2019. A further € 8.7 million stems from purchase price allocation effects for the HOMAG Group, bringing the extraordinary effects for Woodworking Machinery and Systems to a total of € 45.3 million in 2019.

EBIT dropped by 56.6 % to € 37.4 million primarily as a result of the extraordinary effects, translating into an EBIT margin of 2.9 %, down from 6.6 % in the previous year. Operating EBIT fell by 12.8 %. The main reasons for this were lower revenues, a changed sales mix as well as shortfalls in capacity utilization, high costs and partially inefficient processes. The operating EBIT margin came to 6.5 %, down from 7.3 % in the previous year.

At € 41.8 million, capital expenditure was more or less unchanged and primarily concentrated on digital and IT projects as well as productivity enhancement measures. The decline in **capital employed** **⟶ page 201** was due to lower inventories, among other things.

Financial development

FUNDING AND LIQUIDITY MANAGEMENT

Our central finance and liquidity management is tasked with optimizing earnings and financing costs, mitigating financial risks and achieving transparency concerning the Group's funding and liquidity needs. The top priority of liquidity management is to always have an adequate volume of cash and cash equivalents available in order to be able to meet payment obligations at any time.

The cash flow from our operating activities is the key source of funding. As a rule, debt finance is raised by Dürr AG and made available to the Group companies as required. Liquidity management is another task of Dürr AG. Its cash pooling system serves to consolidate all cash and cash equivalents of the Group, unless capital flows are restricted by the rules and regulations of individual states. In countries where this is the case (China and India, for example), our national companies largely obtain their funding locally.

Group Treasury invests surplus funds in compliance with our financial asset management policy. At € 662.0 million, cash and cash equivalents at the end of 2019 slightly exceeded the previous year's level (€ 655.0 million) and reached a share of total assets equivalent to 17.1 % (December 31, 2018: 18.1 %).

Our **net working capital** ⟶ page 201 management is tasked with reinforcing the Group's internal funding capabilities and reducing the volume of capital employed. This has a beneficial effect on such key figures as our balance sheet structure and **ROCE** ⟶ page 201. For information on the utilization of financial instruments, please refer to the section "Currency, interest rate and liquidity risks as well as financial instruments for risk mitigation purposes" in the **"Risk report"** ⟶ page 81.

FUNDING STRUCTURE OF THE DÜRR GROUP

In 2019, we largely renewed our Group funding and partly linked the interest rates to the Dürr Group's sustainability performance. The two new, sustainability-oriented financing instruments are:

- **Sustainability Schuldschein loan:** In June 2019, we were the first enterprise worldwide to place a sustainability Schuldschein loan amounting to € 200 million. Its coupon is linked to the Dürr Group's sustainability rating prepared by the EcoVadis agency. The interest rate falls or rises, depending on the development of certain sustainability criteria, such as CO_2 emissions or water consumption. We received the total volume of € 200 million in July, distributed across tranches with maturities of five, six, eight and ten years. The average interest rate amounts to 0.84 %. The Schuldschein loan serves as follow-up financing for the corporate bond described below, expiring in 2021.

- **Syndicated loan:** A syndicated loan amounting to € 750 million has been available to us since the end of July 2019. As in the case of the new Schuldschein loan, its interest rate depends on the Dürr Group's sustainability rating, among other factors. The loan is divided up into a cash line of € 500 million and a guarantee line of € 250 million. The term to maturity initially agreed until 2024 can be extended twice, each time by one year, with the approval of the banks. In 2019, we repaid the predecessor credit facility arranged in 2014 (cash line: € 250 million, guarantee line: € 215 million) that would have been due in 2021 without incurring any prepayment fees. The terms of the new syndicated loan are considerably more attractive than those of the predecessor loan.

Other components of our Group financing include the following:

- **Schuldschein loan:** Our Schuldschein loan placed in 2016, amounting to € 300 million, comprises three tranches equal in size with maturities of five, seven and ten years and bearing interest at an average of 1.6 % p.a.

- **Corporate bond:** Our corporate bond issued in 2014 for € 300 million in nominal terms has a term to maturity until 2021 and a coupon of 2.875 % (effective interest rate: 3.085 %). Its yield at the end of 2019 was 0.6 %. Early termination is not possible.

- **Leasing:** At the end of 2019, leasing liabilities in accordance with IFRS 16 amounted to € 107.1 million. On the previous year's reference date, only liabilities from finance leases (€ 7.2 million) were reported as financial liabilities, in accordance with IAS 17.

- **Bilateral credit facilities:** Their volume came to € 4.1 million as at the 2019 balance sheet date (December 31, 2018: € 9.3 million).

- **Other:** We use money and capital market instruments. In addition, there are off-balance sheet financing instruments in the form of sales of receivables (in particular, forfaiting transactions), which reached a volume of € 22.0 million in 2019.

2.49 — FINANCIAL LIABILITIES (DECEMBER 31)

€ million	2019	2018	2017
Bond/Schuldschein loans	798.2	598.0	597.3
Liabilities to banks	0.4	1.0	1.9
Leasing liabilities	107.1	7.2	5.8
Other interest-bearing liabilities	7.3	7.8	8.3
Interest deferral	10.1	9.3	9.4
Total	**923.1**	**623.3**	**622.6**
of which due within one year	38.0	12.5	12.7

The substantial increase in financial liabilities by 48.1 % to € 923.1 million as at December 31, 2019, resulted from the placement of the sustainability Schuldschein loan and the first-time inclusion of leasing liabilities in accordance with IFRS 16. At the end of 2019, the total volume of all credit and guarantee lines available amounted to € 1,474.9 million, of which € 476.7 million was utilized. The cash lines of the previous and the new syndicated loans remained unutilized in 2019. In addition to the guarantee line from the syndicated loan, there are additional guarantee lines amounting to € 301.4 million that are made available by insurers and banks.

RISING CASH FLOW

2.50 — CASH FLOWS

€ million	2019	2018	2017
Cash flow from operating activities	171.9	162.3	119.8
Cash flow from investing activities	–231.8	–30.1	–17.2
Cash flow from financing activities	60.8	–134.0	–152.2

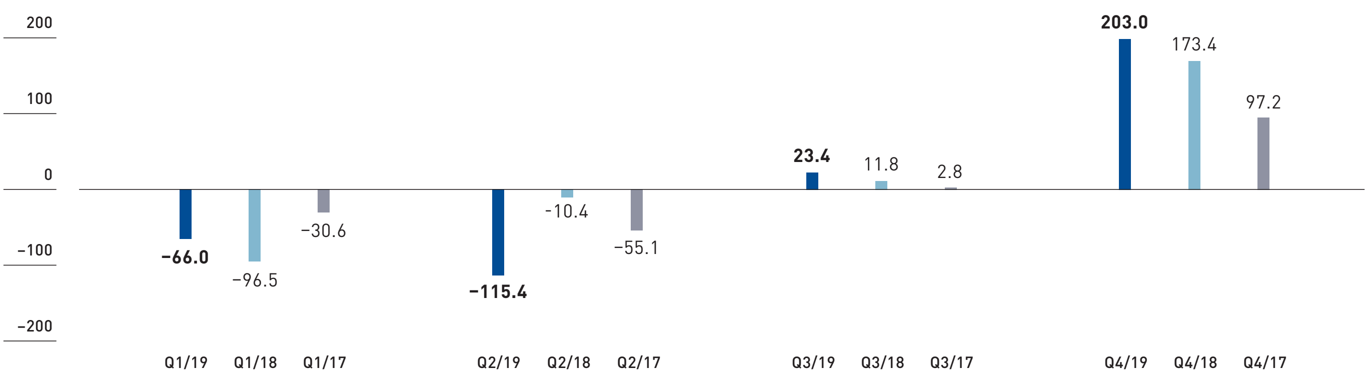
2.51 — CALCULATION OF CASH FLOW FROM OPERATING ACTIVITIES AND FREE CASH FLOW[1]

€ million	2019	2018	2017
Earnings before income taxes	174.7	219.7	267.3
Depreciation and amortization	112.6	93.4	80.7
Interest result	27.6	20.9	21.6
Income tax payments	–64.2	–93.0	–74.8
Change in provisions	18.8	–29.9	43.7
Change in net working capital	–64.8	–51.6	–178.5
Other	–32.7	2.7	–40.1
Cash flow from operating activities	**171.9**	**162.3**	**119.8**
Interest payments (net)	–20.2	–12.0	–17.9
Repayment of leasing liabilities	–27.4	0.0	0.0
Investment in property, plant and equipment and intangible assets	–79.4	–71.9	–87.5
Free cash flow	**44.9**	**78.4**	**14.3**
Other cash flows	–69.8	–222.4	3.3
Change in net financial status	**–24.9**	**–144.0**	**17.6**

[1] Exchange rate effects were eliminated in the cash flow statement. Accordingly, the changes in balance sheet line items indicated there cannot be fully reflected in the balance sheet.

Cash flow from operating activities improved by € 9.6 million in 2019, to € 171.9 million. The increase in **net working capital (NWC)** → page 201 turned out slightly higher, at € 64.8 million, than in the previous year (€ 51.6 million). However, we recorded a far higher intra-year NWC increase, which we partly managed to offset in the fourth quarter: In comparison with September 30, 2019, NWC at year end declined by € 146.1 million; accordingly, in the final quarter we achieved high values in terms of operating cash flow (€ 233.2 million) and **free cash flow** → page 201 (€ 203.0 million).

2.52 — FREE CASH FLOW BY QUARTER



Delayed payments from our customers were a key factor for the NWC buildup in the year as a whole; in contrast, we managed to lower our inventories. Besides net working capital, cash flow was impacted by additions to provisions in the context of the optimization measures at Woodworking Machinery and Systems. Tax payments declined in 2019, whereas in the previous year higher tax payments were incurred as at the effective dates.

Cash flow from investing activities amounted to € −231.8 million in 2019 (2018 year: € −30.1 million). The outflow of funds was chiefly attributable to the investment in term deposits amounting to € 159.4 million as well as payments of € 79.4 million for investments. The latter did not include any investments in lease assets as these are not considered effective payments at the time of investment.

Cash flow from financing activities amounted to € 60.8 million (2018: € −134.0 million). More substantial outflows were the dividend payment (€ 69.2 million), interest payments on the corporate bond and the Schuldschein loans as well as the redemption of leasing liabilities in accordance with IFRS 16. The placement of the sustainability Schuldschein loan increased our funds.

Free cash flow ⟶ page 201 decreased from € 78.4 million in 2018 to € 44.9 million. In addition to the cash flow from operating activities, the free cash flow also includes interest income and capital expenditure (included in the cash flow from investing activities) as well as interest expenditure (included in the cash flow from financing activities) and reflects the sum total of funding freely available following all expenditure within a given period.

The free cash flow shown in table 2.51 reflects a change in **net financial status** of € −24.9 million for 2019. A key item within other cash flows was the dividend payout of € 69.2 million for 2018, which strongly influenced our net financial status ⟶ page 201.

2.53 — NET FINANCIAL STATUS (DECEMBER 31)

	€ million	2019	2018	2017
+	Checks, cash in hand and credit balances with banks – net	662.0	655.0	659.9
+	Receivables from associated companies based on financial activities	1.9	0.0	0.0
+	Securities and term deposits	159.9	0.5	139.0
–	Bonds	299.2	298.6	298.0
–	Liabilities to banks	0.4	1.0	1.9
–	Schuldschein loans	499.1	299.4	299.3
–	Accrued/deferred interest on financial liabilities	10.1	9.3	9.4
–	Leasing liabilities	107.1	7.2	5.8
–	Other loans	7.3	7.8	8.3
=	**Net financial status**	**−99.3**	**32.3**	**176.3**

OPERATING PERFORMANCE INDICATORS: INCOMING ORDERS, SALES, EBIT, AND ROCE

2.54 — PERFORMANCE INDICATORS

		2019	2018	2017
Incoming orders	€ million	4,076.5	3,930.9	3,803.0
Sales	€ million	3,921.5	3,869.8	3,713.2
EBIT	€ million	195.9	233.5	287.0
EBIT margin	%	5.0	6.0	7.7
ROCE	%	16.9	24.0	38.6

The key performance indicators for the Dürr Group are incoming orders, sales, EBIT/EBIT margin and **ROCE** → page 201 (EBIT to capital employed). Operating cash flow and **free cash flow** → page 201 also play a central role, particularly at Group level. At divisional level, an additional focus is on order margins and **net working capital** → page 201. Net working capital, in turn, has a decisive influence on cash flow development.

We also determine non-financial performance indicators on a regular basis that assist us in management and the company's long-term strategic orientation. Examples are key figures on employee and customer satisfaction, further training, ecology/sustainability and R&D/innovation. While the non-financial performance indicators are becoming increasingly important, they do not primarily serve to control the company. Instead, they facilitate extended findings on the situation prevailing within the Group and decision-making on that basis. A detailed analysis of non-financial topics and performance indicators is available in the non-financial consolidated declaration.

The analysis of incoming orders and of the resulting sales enables us to engage in forward-looking capacity planning. As a rule, the realization of sales lags six to twelve months behind order intake. Incoming orders for 2019 (€ 4,076.5 million) reached the upper end of the target corridor (€ 3,800 to € 4,100 million), giving us a high degree of visibility as far as the realization of sales in 2020 is concerned. The analysis of margins in order intake for 2019 enables us to better estimate the earnings trend in 2020.

We use EBIT and our EBIT margin to measure our profitability. In 2019, EBIT decreased predominantly due to extraordinary effects, to € 195.9 million (2018: € 233.5 million). The EBIT margin, at 5.0 %, was slightly higher than the target corridor of 4.4 to 4.9 %, which had been adjusted in November 2019. For more information on the adjustment to the earnings forecast, please refer to the chapter entitled **"Overall assessment by the Board of Management and target achievement" → page 56.**

ROCE → page 201 shows whether we generate an appropriate return on our capital employed and thus represents the basis for efficient capital allocation. **Capital employed** → page 201 takes account of all assets except cash and cash equivalents and financial assets, less non-interest-bearing liabilities. In 2019, ROCE declined to 16.9 % (2018: 24.0 %), which was due both to the higher level of capital employed and to lower EBIT. That said, the figure of 16.9 % represents a good value given the difficult situation in our markets. Moreover, we clearly managed to exceed our capital costs.

2.55 — VALUE ADDED

		2019	2018	2017
Capital employed (Dec. 31)	€ million	1,160.6	971.9	738.9
ROCE	%	16.9	24.0	38.6
NOPAT	€ million	137.1	163.5	200.9
Weighted average cost of capital (WACC)	%	8.42	9.00	7.88
EVA	€ million	39.4	76.0	142.7

ROCE (in %) is calculated as follows:

$$\frac{\text{EBIT}}{\text{Capital employed}} \times 100$$

Economic value added (EVA) reflects the value added that a company generates in a financial year. While we have managed to achieve a high level of value added since 2011, in 2019 it turned out lower than in previous years. We determine the capital costs as the weighted average cost rate of equity and borrowing costs before taxes (weighted average cost of capital: WACC). In calculating the cost of equity, a beta factor is taken into account, derived from capital market data and the capital structure of peer group companies.

The borrowing costs comprise a basic interest rate for quasi-secure bonds and a surcharge determined from the credit rating of comparable peer group companies. In 2019, due to declining interest rates the cost of capital was lower than in the previous year.

EVA is calculated as follows:

EVA = NOPAT – (WACC × capital employed)
- NOPAT = Net Operating Profit After Taxes/EBIT after fictitious taxes
- WACC = Weighted Average Cost of Capital

The rule relating to the performance indicator ROCE ⟶ page 201 is that added value is generated when the return on capital employed exceeds the costs of capital. In 2019, this was the case in four of five divisions. Paint and Final Assembly Systems, Application Technology and Measuring and Process Systems achieved ROCE of well over 10 %. For Woodworking Machinery and Systems, ROCE exceeded the costs of capital slightly, although the result was impacted by extraordinary expenses on optimization measures. ROCE of Clean Technology Systems improved significantly, as expected; in 2020 it is likely to grow even further and exceed the costs of capital.

2.56 — ROCE BY DIVISION

%	2019	2018	2017
Paint and Final Assembly Systems	46.7	>100	>100
Application Technology	17.8	24.7	29.2
Clean Technology Systems	7.7	–9.7	5.5
Measuring and Process Systems	12.3	21.1	24.5
Woodworking Machinery and Systems	9.1	19.5	21.8

EQUITY EXCEEDS € 1 BILLION FOR THE FIRST TIME

2.57 — KEY BALANCE SHEET FIGURES

		2019	2018	2017
Net financial status (Dec. 31)	€ million	–99.3	32.3	176.3
Net financial liabilities in relation to EBITDA		–0.3	–	–
Gearing (Dec. 31)	%	8.7	–3.4	–24.3
Net working capital (NWC) (Dec. 31)	€ million	502.7	441.4	373.7
Days working capital	days	46.1	41.1	36.2
Inventory turnover	days	46.7	49.8	44.4
Days sales outstanding	days	53.8	56.1	51.7
Equity assets ratio (Dec. 31)	%	78.9	79.7	81.1
Asset coverage (Dec. 31)	%	158.8	142.9	152.0
Asset intensity (Dec. 31)	%	34.1	34.4	31.6
Current assets to total assets (Dec. 31)	%	65.9	65.6	68.4
Degree of asset depreciation	%	41.4	38.5	36.1
Depreciation expense ratio	%	6.1	6.4	6.5
Cash ratio (Dec. 31)	%	37.1	35.7	36.2
Quick ratio (Dec. 31)	%	69.1	66.5	64.8
Equity ratio (Dec.31)	%	26.9	27.4	25.6
Total assets (Dec. 31)	€ million	3,882.3	3,614.4	3,511.6

Total assets at the end of 2019 increased by € 267.9 million (up 7.4 %), to € 3,882.3 million. This resulted above all from the placement of the sustainability Schuldschein loan (€ 200 million in nominal terms) and the first-time capitalization of lease assets in the wake of IFRS 16 (€ 92.2 million).

Adjusted for exchange rate fluctuations, **net working capital** → page 201 as at December 31, 2019, was up by € 64.8 million, reaching € 502.7 million. We managed to reduce our inventories by € 26.2 million. While cash and cash equivalents only rose slightly, at € 662.0 million (December 31, 2018: € 655.0 million), our total liquidity increased substantially to € 822.1 million (December 31, 2018: € 655.6 million), as funds sourced from the Schuldschein loan were invested in term deposits. The latter are included in other non-current assets.

2.58 — NON-CURRENT AND CURRENT ASSETS (DECEMBER 31)

€ million	2019	% of total assets	2018	2017
Intangible assets	644.0	16.6	651.3	592.7
Property, plant and equipment	525.4	13.5	433.8	408.4
Other non-current assets	153.0	3.9	159.1	109.0
Non-current assets	**1,322.4**	**34.1**	**1,244.3**	**1,110.1**
Inventories	509.2	13.1	535.4	457.6
Contract assets	519.1	13.4	478.3	488.4
Trade receivables	570.3	14.6	566.7	522.4
Cash and cash equivalents	662.0	17.1	655.0	659.9
Other current assets	299.4	7.7	134.6	273.1
Current assets	**2,560.0**	**65.9**	**2,370.1**	**2,401.4**

2.59 — EQUITY (DECEMBER 31)

€ million	2019	% of total assets	2018	2017
Subscribed capital	177.2	4.6	177.2	177.2
Other equity	853.5	22.0	800.1	708.7
Equity attributable to shareholders	**1,030.6**	**26.6**	**977.3**	**885.9**
Non-controlling interest	12.7	0.3	14.9	14.6
Total equity	**1,043.4**	**26.9**	**992.2**	**900.5**

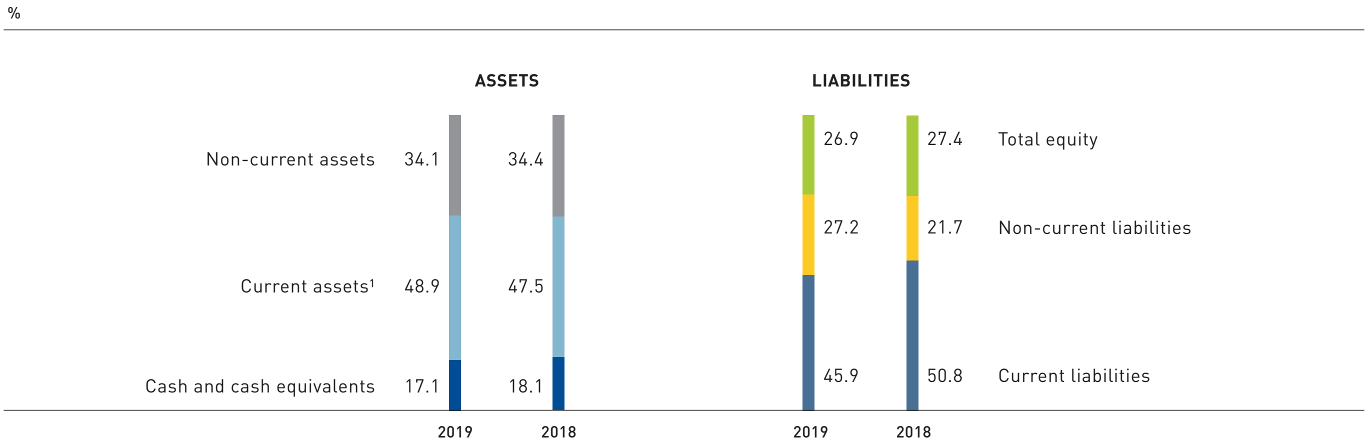
Equity was up by € 51.2 million at the end of 2019, to reach € 1,043.4 million, and thus exceeded the € 1 billion mark for the first time. After-tax earnings, above all, were a buoyant factor, whereas the dividend payment for 2018 had a negative influence. Other effects of relevance to equity, such as the change in currency-translation rates, largely canceled each other out. The substantial balance sheet expansion caused the equity ratio to decline slightly to 26.9 % (December 31, 2018: 27.4 %). Our target remains unchanged at 30 %.

Current and non-current liabilities increased by 8.3 %, to € 2,838.9 million, since the financial liabilities included therein increased by € 299.8 million, owing to the new Schuldschein loan and the application of IFRS 16. In contrast, contract liabilities declined, as did trade payables and other liabilities. Pension provisions rose to € 59.0 million as the discount rate in Germany decreased from 1.7 % to 0.7 %. However, they only accounted for 1.5 % of total assets.

2.60 — CURRENT AND NON-CURRENT LIABILITIES (DECEMBER 31)

€ million	2019	% of total assets	2018	2017
Financial liabilities (incl. bond)	923.1	23.8	623.3	622.6
Provisions (incl. pensions)	229.4	5.9	199.8	219.1
Contract liabilities	632.7	16.3	673.0	715.2
Trade payables	479.0	12.3	502.4	390.5
Income tax liabilities	48.5	1.2	35.0	50.4
Other liabilities (incl. deferred taxes, deferred income)	526.4	13.6	588.8	613.3
Total	**2,838.9**	**73.1**	**2,622.2**	**2,611.0**

2.61 — ASSET AND CAPITAL STRUCTURE (DECEMBER 31)



[1] Excluding cash and cash equivalents

HIDDEN RESERVES/FAIR VALUES

Hidden reserves – in comparison with total assets – are of lesser significance. Similarly, the difference between fair values and book values is also low. Property, plant and equipment may develop hidden reserves, especially in the case of land and buildings. Schenck Technologie- und Industriepark GmbH (TIP) in Darmstadt is worthy of mention in this regard. According to our assessment, its fair value exceeds the book value by a sum in the double-digit million euro range. In total, the fair values exceed the book values on the liabilities side of the balance sheet by approx. 0.7 % of total assets. Further particulars in this regard are listed in → item 35 of the notes to the consolidated financial statements.

INVESTMENTS IMPACTED BY IFRS 16

Investments (excluding acquisitions) amounted to € 102.6 million in 2019. The 37.9 % increase year-on-year was almost fully attributable to the application of IFRS 16, which required additions to right-of-use assets under leases to be reported under investments for the first time. Adjusted for this effect, investments (excluding acquisitions) remained more or less constant at € 74.8 million (2018: € 74.4 million). Of investments in property, plant and equipment (€ 47.6 million), 58 % was accounted for by replacement investments and 42 % by extension investments. We raised our investments in intangible assets, including the purchase of software and licenses, by 15.9 %, to € 27.2 million.

Equity investments were low, amounting to € 10.8 million. € 8.8 million of this was accounted for by the increase in the equity interest in Benz GmbH Werkzeugsysteme to 100 %.

2.62 — INVESTMENTS[1] AND DEPRECIATION/AMORTIZATION[2]

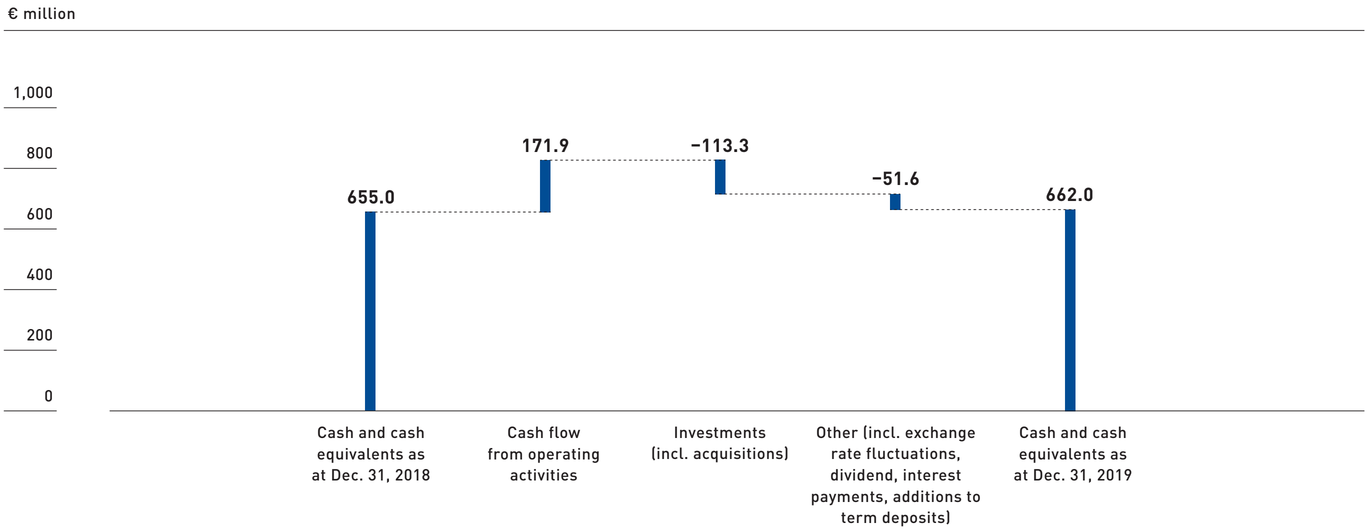
€ million	2019	2018	2017
Investments in property, plant and equipment	47.6	50.9	65.6
Investments in intangible assets	27.2	23.5	22.4
Equity investments	10.8	125.4	15.3
Investments in right-of-use assets	27.8	0.0	0.0
Depreciation and amortization	–112.6	–93.4	–80.7

[1] The capital expenditures in this overview deviate from the figures in the statements of cash flows according to IFRS.
[2] Including impairment losses and reversals. Depreciation and amortization taken into account in the financial result is not included.

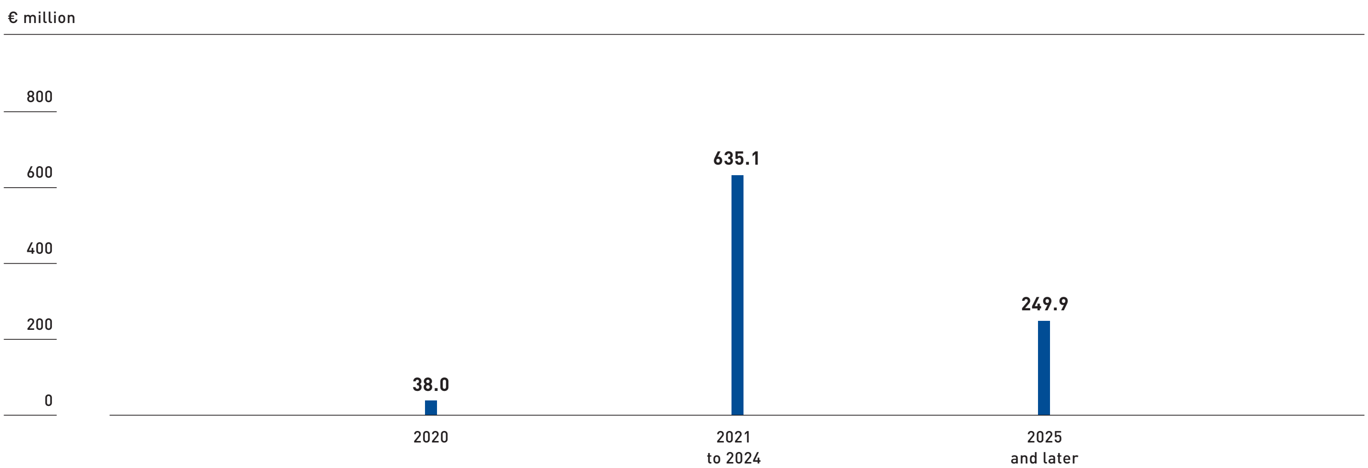
2.63 — CAPITAL EXPENDITURE ON PROPERTY, PLANT AND EQUIPMENT: REPLACEMENT AND EXTENSION INVESTMENTS

€ million	2019	2018	2017
Replacement investments	27.7	29.0	47.7
Extension investments	20.0	21.9	18.0
Investments in property, plant and equipment	47.6	50.9	65.6

2.64 — LIQUIDITY DEVELOPMENT



2.65 — MATURITY STRUCTURE OF FINANCIAL LIABILITIES



The volume of financial debt maturing in 2020 is low, amounting to € 38.0 million, and also includes maturities of leasing liabilities. In addition, obligations from the acquisition of property, plant and equipment exist to an extent of € 5.2 million.

OFF-BALANCE SHEET FINANCING INSTRUMENTS AND OBLIGATIONS

Off-balance financing instruments and obligations (excluding liabilities from procurement contracts) accounted for less than 1 % of total assets in 2019 and are therefore of lesser importance. Sales of receivables (forfaiting, premature performance under documentary credits) decreased from € 24.9 million to € 22.0 million at the end of 2019.

EVENTS SUBSEQUENT TO THE REPORTING DATE

The corona epidemic initially impacted economic activities above all in China. Since the beginning of March, however, the crisis has also been increasingly spreading to Europe and America. As things currently stand, it seems possible for us to make up for a large part of the corona-related declines incurred so far in the further course of the year. For fiscal 2020, no material impacts on the assets, financial position and results of operations of the Dürr Group are expected at this time. However, the economic risks resulting from the corona crisis have increased significantly in recent weeks.

At the end of his employment contract on February 29, 2020, CFO Carlo Crosetto left the company at his own request.

With the approval of the Supervisory Board, in February 2020 the Board of Management adopted a resolution to redeem and refinance the variable tranches (€ 100 million) of the Schuldschein loan issued in 2016 prematurely in April 2020 in order to further optimize the Group financing arrangement with regard to interest expenses and terms to maturity.

From the beginning of the current financial year to March 18, 2020, no further events occurred that materially affected, or could materially affect, the net assets, financial position and results of operations of the Group.

REPORT ON RISKS, OPPORTUNITIES AND EXPECTED FUTURE DEVELOPMENT

Risks

We follow the strategy of managing the risks associated with our entrepreneurial actions in such a manner that the opportunities prevail. To this end, we make use of an effective risk management system.

RISK MANAGEMENT SYSTEM OF THE DÜRR GROUP

Scope of application
Our risk management system is deployed throughout the Group. It has existed in its fundamental structure since 2008 and has since been continually adapted to new requirements. In 2019 it essentially remained unchanged. However, in 2019 we assessed our compliance risks for the very first time; these had not previously been quantified. The companies Megtec and Universal, acquired in October 2018, were included in the Dürr Group's risk management system for the full year 2019.

Objectives
Our risk management system is especially tailored to the mechanical and plant engineering business. In this way, we are able to record, analyze and – to the extent possible – evaluate risks systematically and uniformly. This allows effective countermeasures to be initiated at an early stage. We document all specific risks to the extent that these are identifiable and concrete to an adequate degree. Non-quantifiable strategic risks as well as general risks with a low level of probability of occurring, such as natural disasters, are not taken into account. We also document and evaluate our opportunities; the relevant information is contained in the "Opportunities report" ⟶ page 90.

Methods and processes
The risk management system covers all essential business and decision-making processes. We maintain open dealings with risks and encourage employees to report any misdirected developments at an early stage. The risk management process takes account of all risks of the participating companies. The central risk management team at Dürr AG initiates the nine-stage process every six months. The centerpiece of this standard risk cycle is the risk inventory of the Group's companies. In the process, individual risks are identified, evaluated and consolidated, i.e. classified into 15 specific risk fields (chart 2.66). The risk fields cover management, core and support processes as well as external risk areas.

The risk managers of the operating units and Dürr AG are responsible for evaluating individual risks. They use the risk management manual as well as risk structure spreadsheets to do so. The evaluation process consists of three stages: First of all, the damage potential is calculated, i.e. the maximum impact on EBIT that can result from a risk in the following 24 months. Next, we assess the likelihood of specific risk scenarios turning into reality. In a third step, the effectiveness of possible countermeasures is examined and evaluated with a risk-reducing factor.

The bottom line is the net risk potential, i.e. the net EBIT risk that remains after taking into account the probability of occurrence and the effectiveness of suitable countermeasures. The lower the probability of occurrence and the higher the effectiveness of countermeasures, the more sharply the net EBIT risk declines. The net EBIT risks of the 15 risk fields are calculated from the sum total of net EBIT risks of all individual risks assigned. Depending on the extent of its net EBIT risk, each risk field is assigned to one of the following categories:

- Very low (≤ € 5 million)
- Low (> € 5 million to ≤ € 20 million)
- Medium (> € 20 million to ≤ € 40 million)
- High (> € 40 million)

The net EBIT risks of all risk fields are totaled to produce the Group's entire potential risk exposure. Portfolio and correlation effects are not taken into consideration in this process.

The Group companies and divisions prepare their risk reports after the risk inventory has been completed. These reports constitute the basis for the Group risk report of Dürr AG, containing information on individual risks and overall risk. Following an analysis by the Board of Management and the Dürr Management Board, the Group risk report is forwarded to the Supervisory Board and then initially discussed at length by the Audit Committee. Next, the Audit Committee Chairman presents a statement to the Supervisory Board.

Acute risks are reported without delay to the Board of Management and the heads of the relevant divisions. The risk managers of the Group, divisions and Group companies are responsible for the process of identifying, evaluating, controlling and monitoring risks as well as for reporting; in most cases, these are the heads of the Controlling departments. The Internal Auditing department is also involved and verifies compliance with the defined processes on a regular basis.

RISKS IN RELATION TO MATERIAL NON-FINANCIAL MATTERS

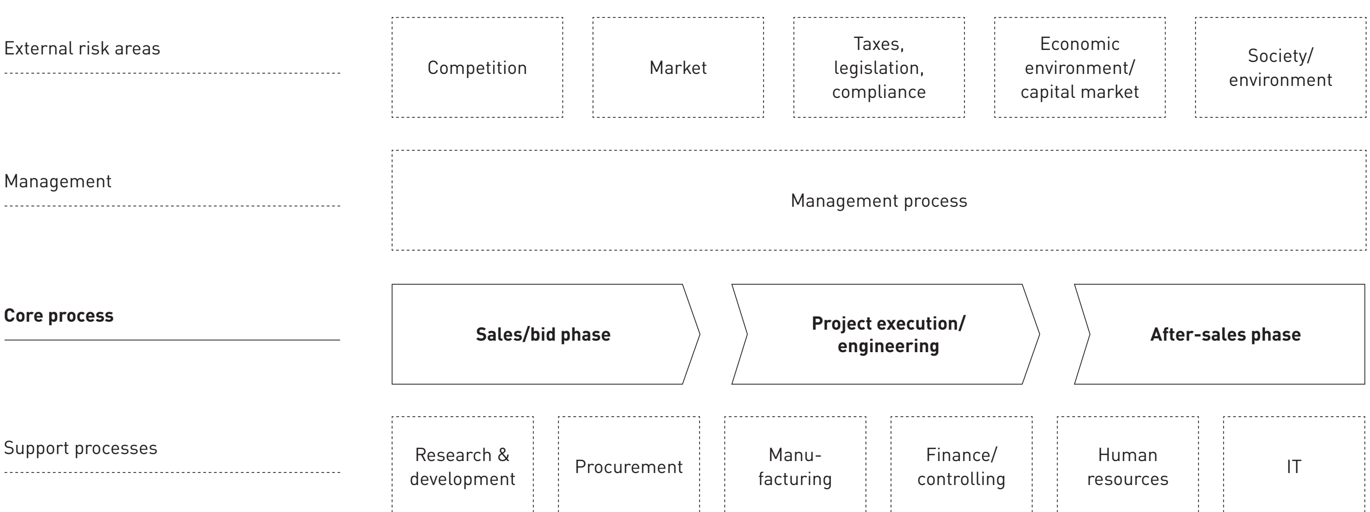
NFD

Due to the CSR Directive Implementation Act, our risk management system also takes into account risks that may arise from our business activities in general or specifically from our products and services and may have impacts on non-financial issues that we classify as material within the meaning of the CSR Directive Implementation Act. Essentially, a negative influence on material non-financial issues cannot be ruled out. However, we do not perceive any risks that could very probably lead to serious negative impacts.

KEY FEATURES OF THE INTERNAL CONTROL SYSTEM/RISK MANAGEMENT SYSTEM FOR THE ACCOUNTING PROCESS

The internal control system (ICS) and the risk management system (RMS) for the accounting process are elements of the Dürr Group's risk management system. It comprises all rules, measures and processes that guarantee the reliability of financial reporting to an adequate degree of certainty, and ensure that the financial statements of the Group and its companies are prepared in conformity

2.66 — RISK FIELDS OF THE DÜRR GROUP



with the IFRS. The Board of Management bears the overall responsibility for ICS/RMS and has set up an appropriate managerial and reporting organization to this end, covering all organizational and legal units of the Group. Monitoring of the ICS/RMS is the task of the Internal Auditing department. The internal control system takes account of the specific features of Group accounting. The key instruments as well as control and backup routines for the accounting process are as follows:

- Dürr AG's accounting guideline defines the accounting process at the Group companies. It is updated on a regular basis by Group Accounting and covers all IFRS rules and regulations of relevance. Supplementary internal accounting standards describe, for example, the processes of reconciliation of intercompany transactions for goods and services delivered.

- In a multi-stage validation process, we carry out samplings, plausibility checks and other control measures with regard to financial accounting. The operating companies, divisions as well as Group Controlling, Group Accounting and the Internal Auditing department are involved. The controls relate to various areas, such as reliability and appropriateness of IT systems, completeness of provisions or evaluation of customer orders where revenue recognition over time is applied. The results of all material control measures are systematically documented, recorded by the Compliance and Internal Controls department of Dürr AG, and sent to the Audit Committee of the Supervisory Board. The Chairman of the Audit Committee delivers a report to the Supervisory Board following an in-depth analysis of the outcome documentation.

- All material Group companies document their own internal controls with which they ensure reliable and factually correct financial reporting. The documentation created within the scope of ICS/RMS is deposited and forwarded to the Compliance and Internal Controls department. The Internal Auditing department verifies the existence and effectiveness of the documented measures and instruments.

- Our ERP system and the consolidation system automatically verify booking processes and ensure that individual facts and circumstances are duly assigned to the correct balance sheet line items. In addition, we carry out manual audits.

- Only a select group of employees has access to the consolidation system. Access to all data is reserved to only a few employees from Group Accounting and Group Controlling. All other users' access is confined to the data of relevance for their specific activities. Data entered at the level of the Group companies must be checked in a two-stage process – initially by the Controlling department of the division responsible and then by Group Accounting.

- Commercial processes that trigger booking entries in the consolidation system are subject to the "four-eye principle". Invoices must be signed off by the division head, senior management or the Board of Management, depending on the invoice amount.

In order to avoid risks and ensure unobjectionable financial statements, we deal carefully with key regulations and new developments in the field of accounting and reporting. Particular weight is assigned to accounting for customer orders for which revenue recognition over time is applied, the impairment test of goodwill, the reliability of qualitative statements in the management report and in the corporate governance report, as well as the implementation of new IFRS parameters such as IFRS 16 "Leases" in the financial year 2019.

Within the scope of the ICS/RMS, we provide regular training sessions for employees of our finance departments, for instance in the application of accounting standards, accounting rules as well as IT systems. In the case of corporate acquisitions, we adjust the accounting processes without delay and familiarize new employees with all the relevant processes, content and systems.

OVERALL RISK SITUATION

The overall risk potential at the end of 2019 amounted to approx. € 285 million, equivalent to an increase of around € 75 million, or 35 % year-on-year. However, due to two factors the values for 2018 and 2019 are only comparable to a limited degree: For one thing, the Megtec/Universal group was taken into account for the first time in 2019. For another, we assessed compliance risks for the first time that were previously classified as strategic risks and had therefore not been evaluated. About 30 % of the increase in the overall risk potential is attributable to these two factors. Moreover, risks in the "Economic environment/capital market" field saw a sharp rise due to trade conflicts, geopolitical uncertainties and declining cyclical activity. As in the previous year, this was the key risk field, followed by "Finance/controlling", "Taxes/legislation/compliance", "Market" and "Project execution/engineering".

The net risk potentials of 259 evaluated individual risks were included in the overall risk potential. The increased overall risk potential reflects the more difficult framework conditions of our business and is being carefully analyzed. Nevertheless, we do not assess this as alarming but, as in the past, we consider it controllable. Risks that might endanger the Group's continued existence as a going concern, whether separately or in combination with other risks, are not discernible from today's perspective.

2.67 — RISK FIELDS AND NET RISKS

	Net risk			
Risk field	Very low (≤ € 5 million)	Low (> € 5 million to ≤ € 20 million)	Medium (> € 20 million to ≤ € 40 million)	High (> € 40 million)
Economic environment/ capital market				■
Sales/bid phase	■			
Project execution/ engineering			■	
Taxes, legislation, compliance			■	
Market			■	
Research & development	■			
Competition		■		
Procurement		■		
Human resources		■		
IT		■		
Manufacturing		■		
Society/environment	■			
After-sales phase		■		
Finance/controlling				■
Management process	■			

RISK FIELDS AND SIGNIFICANT INDIVIDUAL RISKS

Economic environment

The risks arising from the economic environment increased yet again substantially in 2019. Trade disputes, unilateralism and political conflicts as well as a high level of public debt and the problems surrounding Brexit are a collective burden on economic development and global trade. This results in declining consumer confidence, lower demand for investment goods and growing uncertainty within corporate entities.

The deterioration in economic framework conditions had varying impacts on the Dürr Group. While demand in the furniture industry declined by around 9 % in 2019, we managed to boost the level of incoming orders from the automotive industry by close to 3 %, even though this industry segment registered declining sales and is undergoing a process of deep-seated structural change. In this context, we benefited from new customers and growing demand in the field of production technology for electric vehicles. We are not directly impacted by international trade conflicts since no punitive tariffs were imposed on our products.

In China, our biggest individual market, economic growth in 2020 is likely to turn out lower year-on-year due to the corona epidemic. The extent to which the epidemic will be damaging the economy in China and globally cannot, however, be reliably estimated at this time. In addition, please refer to the statements in the **"Report on expected future development" ⟶ page 92** on the consequences of the corona epidemic. The trade dispute with the United States has led to consumer reluctance to buy in China, which applies to both the automotive sector and the furniture industry. Nevertheless, there is medium- to long-term growth potential for both industry sectors in China, since market saturation is far from being reached, amid rising per-capita incomes. If an economic slump were to occur in China, this would substantially impair the Dürr Group's sales and earnings. Possible risks due to Brexit include trade impediments, investment declines and exchange rate distortions. The immediate impacts on our business are likely to be manageable since the United Kingdom only accounts for just under 3 % of our sales and 1 % of our assets.

We can bridge cyclical weaknesses relatively well in smaller-scale markets since the distribution of our business is balanced on an international level. Cyclical fluctuations are discernible at a comparatively late stage within the Dürr Group since our plant engineering business is shaped by long-term investment decisions of the automotive industry. In the early-cycle mechanical engineering business, macroeconomic changes tend to take effect faster.

Capital market

Economic crises and political conflicts may shock the capital markets, make new financing transactions more expensive and restrict credit availability. On the other hand, this is alleviated by the European Central Bank's policy of low interest rates, which enabled us to refinance at more favorable terms in the summer of 2019 than before.

We classify the risk of a hostile takeover of Dürr AG as relatively low since the Dürr family owns 29.1 % of the company's shares. In line with the domination and profit and loss transfer agreement with HOMAG Group AG, external shareholders of HOMAG Group AG receive a guaranteed dividend of € 1.01; in addition, we have made them a cash compensation offer amounting to € 31.56 per share. External shareholders of HOMAG Group AG have valuation proceedings underway to have the extent of the guaranteed dividend and cash compensation appraised by a court of law. According to a ruling handed down by the Regional Court of Stuttgart in August 2019, the cash compensation was to be raised to € 31.58 and the guaranteed dividend to € 1.03 per share. The ruling is not final and binding as yet since shareholders of HOMAG Group AG filed an appeal in October 2019. If the Higher Regional Court of Stuttgart, the court of second instance, holds higher contributions to be appropriate, this would give rise to additional expenditure.

It cannot be ruled out altogether that information of a confidential nature or of relevance to the capital market will be prematurely leaked outside the organization. We protect ourselves from this by keeping the number of persons with access to such information small and by instructing the relevant persons with regard to their duties. In addition, we set up project-related insider lists and use secure communication technologies.

Operating risks: sales/bid phase

One risk during the bid phase is that we may not be able to assert margin targets in contract award negotiations in a phase of high competitive intensity. When performing order calculations, there is potential for incorrect cost assessments. To prevent this, we always obtain current market prices on the procurement side and have our calculation assumptions reviewed internally. Woodworking Machinery and Systems has limited contact with end customers in China as sales activities take place via a partner company in which the HOMAG Group has a minority equity interest. At present, however, we are planning to acquire this partner company in full.

Operating risks: project execution/engineering

The key risk to bear in mind during project execution is any failure to meet deadlines or other commitments. This can lead to additional expenses or to customer payments being postponed. Although project lifetimes currently tend to grow shorter, we assess this risk as controllable since our capacities are adjusted to match our volume of business. Especially in the paint shop business, thanks to largely standardized products and professional processes we are able to handle numerous large projects safely in parallel.

Operating risks: after-sales phase

The spare parts business depends on capacity utilization of our customers' plants, among other factors. If the level of capacity utilization decreases, then the level of demand for spare parts usually declines. In 2019, this was felt particularly in the Application Technology division. However, the division managed to compensate for the impacts on earnings sustained through the declining spare parts business by the positive trend in new business. In addition, demand for spare parts increased again in the fourth quarter. A further risk in the spare parts business is that inventories in stock may age and need to be written off.

Taxes, legislation, compliance and compliance management system

The risk potential in the risk field "Taxes/legislation/compliance" has risen significantly as we assessed the compliance risks for the first time. No extraordinary legal disputes are pending at present.

We must observe different national legal norms. To avoid violations, we cooperate with local legal experts and train our employees accordingly. New trade barriers and legislation may increase our costs and reduce our sales opportunities. Changes under tax law may lead to higher tax payments and affect our tax assets and liabilities; in addition, there is the risk of uncertainties in interpreting the underlying tax legislation. In large system projects, tax and customs risks may occur in cases of complex international delivery processes.

As a rule, material legal risks arise from warranty claims, claims for damages in cases of production failures or patent litigation. If we fail to meet our contractual obligations in performing our services, we may be liable to penalties. Before making any contractual representations and warranties, we study what liability-related consequences we may face. As a principle, we rule out any commitments that we cannot fulfill. In most cases, contractual risks in project business are higher than in single machine business. Following our entry into the **IIoT business ⟶ page 200,** new risks under VAT law as well as risks relating to violation of third parties' intellectual property rights have additionally emerged.

Compliance violations, for instance in the field of competition or product liability law, may lead to criminal prosecution, liability risks and image loss. We are not aware of any serious violations at this time. We protect ourselves by means of a compliance management system, the basic features of which are described at www.durr-group.com in the section on Investors/Corporate Governance. The system is monitored on a regular basis and comprises all activities with the objective of ensuring that all employees in daily operations behave in conformity with the relevant rules and ethical requirements. It governs the responsibilities, communication channels and measures in three central fields of activity synchronized with one another: preventing, detecting promptly, and responding to compliance violations. In this way, the compliance management system supports employees in preventing contraventions and associated risks of liability and criminal convictions. In addition, we deal with corruption risks in a targeted manner. Key instruments are internal policies, online training sessions, the four-eye principle and the work carried out by the Internal Auditing department.

Market

Considering the huge investment demand in such segments as electromobility, autonomous driving and connectivity, the automotive industry might reduce production technology investments of relevance to us. At present, however, we continue to register a comfortable to high level of investments, and in 2019 our incoming orders in the automotive business were up by around 3 %. One of the reasons for this is that carmakers need high cash flows from business with conventional vehicles in order to develop new technologies. This presupposes that they will continue to invest adequately in efficiency-enhancing production technology. Another factor is that the trend toward e-mobility and increased localization of automotive production in the wake of the trade conflicts is opening up new business opportunities for us; the relevant information is listed in the "Opportunities report" ⟶ page 90.

In the automotive business, we cannot rule out dependency risks as only a small number of carmakers exist worldwide. That said, their number has grown most recently since new producers of electrically powered vehicles have entered the market. In 2019, 30 % of our sales were generated by business with the ten largest customers (2018: 32 %). Outside the automotive industry, the dependency risks are considerably lower as our customer base is very broad.

In our markets, we are confronted by price pressure; as a rule, this is most pronounced in paint shop construction for the automotive industry. We respond to price pressure with innovation, process optimization, localization and cost control.

In our business with the automotive industry there is a risk of customers asserting payment terms that are unfavorable to us. The general willingness to make substantial prepayments for large projects has declined in the industry in the past two to three years. Chinese customers in particular prefer acceptance drafts – a kind of bill of exchange – to conventional prepayments. In projects of this kind, payments by customers also tend to be made later or less evenly across the project duration. Defaults in payment have not increased, and uncollectible claims are extremely rare in business with the automotive industry.

For projects with new producers of electric cars, we avoid credit rating risks by conducting a thorough solvency check in advance. We carefully monitor receivables from customers without an investment grade rating.

We do not perceive any concrete risks to our market leadership at present. New products and business models that could endanger our position are not discernible in our markets. Disruptive technologies such as electromobility have not led to lower demand for painting, assembly and testing technology ⟶ page 200. Instead, the level of demand for final assembly technology is likely to rise since the assembly of electric cars partly calls for new methods to be deployed. In the field of painting technology, there are no serious substitution risks as there are still no alternatives to aluminum, steel and plastics in large-scale serial car body production. Composite materials deployed in lightweight ⟶ page 200 construction also need to be painted by conventional means. Wood and chipboard continue to dominate in furniture production; for this reason, the HOMAG Group is not exposed to any major substitution risks.

In the course of digitalization, we need to offer our customers top-performing software and IT solutions. Otherwise, competitors from the software industry could come between us and our customers with offers of their own. Thanks to ADAMOS and other software and smart products, however, we are well placed to defend our market position. Moreover, we know our customers' production processes very well.

Corporate strategic risks in the emerging markets

The high business share in the emerging markets (45 % of sales) entails specific risks:

- Cultural and language barriers, insufficient knowledge of suppliers, customers and market customs, and specific legal and general political parameters may give rise to disadvantages.
- The level of staff turnover in the emerging markets is higher than in Germany. Attractive remuneration packages, our status as world market leader and targeted career planning strategies help us retain top-performing employees.
- Product and brand piracy is more prolific in the emerging economies than in the established markets. However, the complexity of many of our products means that they cannot be easily copied to the same quality. Moreover, we protect ourselves with patents.
- Our local product development ensures that regional customer requirements are duly taken into account. This reduces the acceptance risks for new solutions.
- We protect ourselves against cost pressure of local competitors by means of a high degree of localization.

Strategy risks: acquisitions/new fields of activity

As regards corporate acquisitions, sales, earnings and synergies may turn out lower than planned. We hedge this risk by means of due diligence audits and integration plans. When entering into new fields of business, misguided estimates of resources deployed, customer requirements and price targets, as well as the development of demand, markets and competition cannot be ruled out. Moreover, problems may arise in the field of technology development. Such misguided estimates and problems may increase the risk of impairment on investments, goodwill, book values of equity interests and capitalized development costs.

R&D and product liability risks

With regard to innovations, there is a risk that we may not be able to adequately absorb our development costs through our product prices. Technical problems may also occur in the development of new products, resulting in delays or additional costs. To avoid market acceptance risks, we analyze demand accurately, engage pilot customers in our projects and develop products with a high return on investment. This also reduces the risk of impairment charges on capitalized development costs. We review the patent situation to ensure that no products violate any intellectual property rights of third parties. To prevent product liability cases, we ensure that our products meet health and safety regulations, and we take out appropriate insurance policies.

Competition

In view of our extensive market share, some customers choose to cooperate with smaller-sized competitors. This may make our price targets difficult to achieve. Local competitors sometimes undercut our prices. We counter this by increasing value added locally and by protecting our technology lead through innovations.

In the paint shop business, our competitor Automotive Engineering, a subsidiary of the Chinese Sinomach Group, plans to take over the insolvent German competitor Eisenmann. We do not expect this transaction to result in a marked change in the competitive situation.

We are not aware of any rival products that could endanger our market position. In certain markets, we have registered an above-average level of competitive intensity. We have noticed that competitors from the emerging markets are also starting to operate outside their home markets.

Procurement and manufacturing

The risk of a lack of supplier availability, which particularly impacted Woodworking and Machinery Systems in 2018, declined in 2019. This is also due to a lower level of demand. To mitigate availability and price risks, we enter into framework agreements with preferred suppliers and pool our procurement volumes. Dependency risks may occur in a few cases; we reduce these by broadening our supplier base. For standard bought-in parts, a change in suppliers may make it necessary for us to change constructions and contend with corresponding cost increases. At some production sites, fluctuations in orders placed may lead to low capacity utilization. Inventory risks are possible in particular when model changes occur within the product program.

We select and monitor suppliers carefully as a precaution against quality deficiencies or delayed deadlines, which may occur particularly among suppliers in the emerging markets. Moreover, we have reduced our dependency on suppliers in some divisions by extending our own production activities. We are often unable to pass rising supplier prices on to our customers in full. The insolvency risk of suppliers is low in most countries.

Human resources

We hire external workers to avoid risks of capacity bottlenecks. As we have numerous highly qualified employees, know-how losses may be incurred when they leave our company. This is why we distribute specialist expertise across a number of persons and promote knowledge transfer by documentation and training measures. Bottlenecks in personnel procurement are possible especially in the fields of information technology, digitalization and electrical engineering. To counteract this, we rely on long-term career planning for experts, intensified personnel and university marketing as well as vocational training and cooperative state university courses. Salary hikes during the lifetime of large, long-term projects can result in an additional cost factor; this risk exists above all in the emerging markets. We cannot rule out violations of labor law and tariff-based arrangements either.

We have outsourced pension commitments to external pension funds in which other enterprises also participate. Should one of these companies file for insolvency, this would give rise to the risk of co-liability for its retirement benefit commitments. Accordingly, we regularly monitor the financing status of the pension funds and the performance of the participating companies.

Our pension risks are manageable. The discount rate used for calculating pension obligations in Germany amounted to 0.7 % as at December 31, 2019, and thus turned out lower than on the previous year's reference date (1.7 %). Pension provisions amounted to € 59.0 million.

IT and management processes

IT risks, such as data loss, hacking and virus attacks or availability shortfalls, are increasing in the wake of ongoing digitalization. We protect ourselves by means of a Group-wide IT security organization and a robust IT infrastructure equipped with state-of-the-art firewalls and antivirus programs. We use back-up servers, redundant data lines and uninterrupted power supply units to avoid any outages. We rate the risk of hacker attacks and data theft as normal for the industry in which we operate.

Cybercrime fraud attempts by computer and data manipulations are no rarity. To avoid loss or damage, we use enhanced authentication standards in electronic payments, security certificates for email messages, secure smartphones and verified bank connections. In addition, we regularly draw our employees' attention to typical fraud practices.

Incorrect assignment of IT access privileges gives rise to the risk of data being read or manipulated by unauthorized persons. We protect ourselves by restrictive assignment of privileges. Reading and editing rights regarding sensitive data are assigned only to employees who absolutely depend on them to perform their work.

The EU General Data Protection Regulation, in force since 2018, has tightened the requirements for processing personal data. In order to lower the risk of violations, we have informed our employees of the rules and regulations and prepared instructions for action.

Environment, health and safety

We counter the risk of accidents at work by carrying out regular safety instruction, compulsory online training and comprehensive safety standards and procedures described in our health & safety policy. In addition, we cooperate with our customers in order to guarantee occupational safety on construction sites. To comply reliably with environmental conditions imposed, we have appointed environmental protection officers; we also rely on environmental management certifications and policies. Substances that are harmful to health or the environment are only used to a limited extent.

CURRENCY, INTEREST AND LIQUIDITY RISKS AS WELL AS FINANCIAL INSTRUMENTS FOR RISK MITIGATION PURPOSES

An exact description of currency, interest rate and liquidity risks is provided in the notes to the consolidated financial statements (⟶ item 41). A Group policy applies to the task of managing these risks. The top corporate body in this area is the Financial Risk Committee consisting of the CFO, the heads of Group Controlling and Group Treasury as well as the financial officers of the divisions. This body discusses strategic financial policy issues and prepares resolutions for the Board of Management.

Hedging currency risks

We use financial derivatives for hedging purposes. In most cases these are forward exchange contracts used as currency hedges. Their nominal value came to € 480.9 million at the end of 2019 (December 31, 2018: € 488.1 million). In particular, payment flows were hedged in the key currencies listed under ⟶ item 41 of the notes to the consolidated financial statements. The use of financial derivatives can entail risks, such as less favorable deposit conditions and higher financing costs. Moreover, the market value of financial derivatives may decrease if credit risk spreads increase due to changes on the financial markets.

In most cases, we hedge foreign currency risks of orders placed immediately after the relevant contract awards. In principle, we agree a separate (micro) hedge for each larger individual project. In the standard machinery and spare parts business, we also use macro-hedges for any number of orders bundled.

All financial derivatives and their underlying transactions are checked and valued on a regular basis. Financial derivatives are exclusively used to hedge loans and operations in commercial terms.

The risks involved in currency translation into euros saw a further increase in 2019. Our export-related transaction risks are relatively moderate as we produce numerous products locally or purchase them in local currency.

Hedging interest rate risks

We pursue a conservative interest rate and financing strategy comprising three core elements: long-term interest rate and financing certainty, matching maturities and a prohibition of speculation. Our financial debt primarily comprises the Schuldschein loans of the years 2019 and 2016, the bond placed in 2014 and the leasing liabilities required to be reported as financial liabilities since 2019 in accordance with IFRS 16. The risk of interest rate fluctuations of our Group financing arrangement is limited. For the purpose of hedging the interest rates for the variable tranches of the Schuldschein loan issued in 2016, a volume of financial derivatives amounting to € 100 million was deployed in 2019.

Interest rate risk management covers all interest-bearing and interest-sensitive balance sheet line items. Regular interest rate analyses enable risks to be identified at an early stage. Group Treasury is chiefly responsible for borrowing, investment and interest rate hedges; from a defined scale upward, exceptions must be submitted to the CFO for approval.

Hedging liquidity risks

We largely cover our liquidity needs from our cash flow. At times of temporary negative cash flows, we are able to use cash and cash equivalents and the cash line of the syndicated loan. This was not necessary in 2019. Please also refer to the chapter on "Financial development" ⟶ page 72 in this regard. Our cash pooling enables us to make use of liquidity surpluses of individual companies for other Group subsidiaries, provided that the capital transfer regulations of the individual states allow this practice. This enables us to avoid taking out loans and paying interest expenditure.

Financing risks

No risks relating to borrowing exist at this time. The terms of our corporate bond contain the usual restrictions and obligations. A violation could result in the bond amount plus accrued interest being called due for immediate payment. The two Schuldschein loans may also be called for immediate repayment in the event of a violation of material contractual obligations, in case of insolvency or a change of control. The agreement on our syndicated loan, redeemed in August, contained a financial covenant that obliged us to observe a certain key financial ratio. In 2019, this covenant was complied with on every effective calculation date until the loan was redeemed. For the new syndicated loan it is no longer applicable.

Hedging investment risks

Our policy for financial asset management governs how to deal with investment risks and defines the permissible asset classes and credit status requirements. As we do not hold any government or corporate bonds, we are not subject to corresponding repayment and impairment risks.

RATINGS

We do not have any ratings carried out to assess our credit status.

Opportunities

OPPORTUNITIES MANAGEMENT SYSTEM

We identify and evaluate new business opportunities with the help of a Group-wide opportunity management system. This is primarily done by the divisions, which collect information on new trends and market requirements through their contacts with customers, suppliers and partners. This information is aggregated to identify opportunity clusters, and duly evaluated. Opportunity clusters offering sustained economic potential are analyzed by the Board of Management and the division heads as part of the strategy process. The divisions then integrate the approved opportunity clusters in their strategy and define goals, measures, responsibilities and schedules.

Identifying and evaluating business opportunities is an ongoing process, which is coordinated by the division heads. The Board of Management and the Corporate Development department are responsible at the level of Dürr AG. If opportunities are found to be of major strategic significance, we form multidisciplinary teams to conduct potential analyses and establish the budget.

Joint activities with universities, research institutes and the Dürr Technology Council also from part of opportunity management. These contacts help us to determine the extent to which new scientific findings may yield opportunities for the Dürr Group. Opportunities may also arise from new legislation, e.g. on emission protection and international trade. Our opportunities management system takes account of global and regional business opportunities as well as the potential offered by specific products, customers and business models.

POTENTIAL OFFERED BY OPPORTUNITIES

This section now proceeds to describe the material opportunities of the Group and the divisions. The business plan for 2020 and the strategic plan through 2023 incorporate the sales and earnings potential that can realistically be expected to be generated by these opportunities. If we are able to make use of the opportunities to a greater extent than assumed, sales and EBIT may exceed the figures budgeted for 2020 by up to 4 % and 26 %, respectively. However, this additional sales and EBIT potential is achievable only in a best-case scenario.

STRATEGIC OPPORTUNITIES

Digitalization/Industrial Internet of Things: Digitalization is creating new business opportunities. Examples include sales growth in the software segment and the establishment of new business and pricing models that are based, for example, on the value of a digital service for system availability, the intensity of use or the number of connected machines. In addition, digitalization allows us to stand apart from our peers.

Sustainability: We are benefiting from the trend toward low-consumption and energy-efficient production systems. Many of our customers are attaching increasing importance to sustainability and want to produce on a carbon-neutral basis in the foreseeable future. As a supplier of production technology, we can contribute to this goal by offering low-consumption solutions.

Growth in automotive production: According to experts, automotive production is set to increase by an annual average of 2.5 % between 2019 and 2026. This corresponds to a total of a good 17 million additional units, for the production of which the automotive industry requires corresponding capacities. Above-average growth is projected in the emerging markets, where we have a strong footprint.

Electromobility: Electromobility offers opportunities for the Dürr Group. For one thing, new producers of electric vehicles are entering the market, something which is broadening our customer base. For another, we expect the automotive incumbents to significantly step up plant conversion spending and investments in special production technologies for EVs.

Automation: Our customers are increasingly demanding automated manufacturing processes with a view to improving quality and lowering operating costs. We benefit from this with our extensive automation competence.

Service: Our production technology is used in numerous factories worldwide. This broad installed base offers growth opportunities for us in service business with its higher margins. We intend to tap this potential within the framework of the life cycle services strategy field.

Process excellence: The quality and efficiency of our processes form a key thrust of our new mid-term strategy. Through methodical and structural process optimization, we want to harness potential for optimizing costs and earnings. This is what the efficiency strategy field stands for.

Localization/local products: By expanding our local capacities in key markets, we are improving cost structures and customer proximity. Localizing product development allows us to take better account of regional market requirements.

Southeast Asia: Driven by rising per-capita income, Southeast Asia is an attractive growth market in which we will be broadening our footprint. In local automotive business, we intend to intensify our relations with the Japanese automotive industry, which holds a strong market position in Southeast Asia.

OPPORTUNITIES IN THE DIVISIONS

Paint and Final Assembly Systems has completed the FOCUS 2.0 optimization program. Consequently, the EBIT margin should continue to widen and probably reach the target range of 6 to 7 % in 2021. The e-mobility transformation offers opportunities in painting and final assembly technology. Business in final assembly technology should benefit from the consolidation of all related activities under the umbrella of Paint and Final Assembly Systems. The innovative “Paint Shop of the Future” concept is expected to generate impetus for growth in paint shop technology. It replaces the previous line production with several flexible painting boxes and automated guided vehicles, and it also enables rapid plant expansion in accordance with requirements.

Application Technology is benefiting from various current trends: The division’s robot and software solutions are supporting the automation and flexibilization of painting lines. With the **Eco**PaintJet robot system for two-tone painting, Application Technology has a disruptive technology that offers customers new possibilities for product customization. There are also growth opportunities in business with general industry, in glueing technology ⟶ page 200 and with application technology solutions for insulating and glueing battery cells for electric vehicles.

Clean Technology Systems possesses further growth potential through the acquisition of Megtec/Universal. Earnings are expected to rise through a focus on attractive market segments and the harnessing of further economies of scale as a result of the acquisition. More stringent emission limits in emerging markets such as China are feeding demand for environmental technology equipment. The division can benefit from the trend toward electromobility with systems for double-sided coating of electrodes for lithium-ion batteries.

Measuring and Process Systems sees increasing opportunities with balancing technology ⟶ page 200 and spin test systems for e-mobility components. There is also growth potential in the airlines business segment (balancing technology for aircraft turbines). In addition, the division is benefiting from the increasing automation of the balancing process and the need for greater precision in view of lower tolerances in measuring and correcting unbalance. Japanese business is to gain new impetus from closer cooperation with the joint venture partner Nagahama Seisakusho.

Woodworking Machinery and Systems is intensifying the optimization course that it has adopted in order to harness further efficiency gains. Important measures include the roll-out of the new production system, IT harmonization and the improvement of internal interfaces. In conjunction with the structural measures in Germany, this is to yield significant savings from 2021 onward. The EBIT margin should reach the target level of over 9 % by 2023 at the latest. In China, demand should gradually pick up again after muted conditions in 2018 and 2019. As a technology leader, the HOMAG Group is benefiting from the growing digitalization and automation of furniture production.

Expected future development

UNCERTAIN PROSPECTS FOR MACROECONOMIC DEVELOPMENT

Prior to the corona outbreak, the global economy was expected to expand at a stable rate of around 3% per year in 2020 and 2021, according to economic experts. Given the recent developments, we must now assume that forecasts for 2020 will have to be corrected. The central banks look set to continue their accommodative monetary policies in 2020. Many governments have significantly widened public spending, which should stimulate the economy, but will simultaneously cause public-sector deficits to widen again. The growth forecasts for 2020 and 2021, published in January, are summarized in table 2.68.

Inflationary pressures are expected to remain low worldwide in 2020, although wages and salaries have increased, in some cases significantly. One reason for this is technological progress, for example in the area of digitalization. On the other hand, sharper price increases are unlikely given the intense international competition. The ECB has announced that it will be maintaining its policy of low interest rates. In the United States, the Federal Reserve lowered interest rates in March 2020 to prevent a financial crisis in the wake of the coronavirus spread.

2.68 — GROWTH FORECAST FOR GROSS DOMESTIC PRODUCT

% year-on-year change	2019	2020	2021
Global	3.0	3.1	3.2
Germany	0.5	0.8	0.8
Eurozone	1.2	0.9	1.1
Russia	1.3	1.8	1.8
United States	2.3	1.7	1.8
China	6.2	5.8	5.5
India	5.0	6.4	6.9
Japan	1.2	0.5	0.8
Brazil	1.1	2.0	2.0

Source: Commerzbank 01/2020

AUTOMOTIVE AND FURNITURE INDUSTRIES

Our main sell-side industries, the automotive industry and furniture manufacturers, experienced a lull in their long-term growth trajectories in 2018 and 2019. Looking to 2020, observers have predicted moderate growth for both sectors again, although the rapid spreading of the coronavirus is now casting doubt over this prediction. As things currently stand, spending on plant and equipment is expected to rise by just under 2 % in Germany in 2020.

According to a forecast published by LMC Automotive in January 2020, global automotive production should widen by 1.2 % to 90.6 million units in 2020. Whereas production in the United States is expected to rise by 5.4 %, LMC Automotive forecasts flat conditions in Europe and China. However, given the decline in output caused by the corona epidemic, it is currently more likely that global automotive production will shrink in 2020. Looking further down the road, LMC Automotive assumes that global automotive production will grow by just under 3 %, underpinned by strong consumer confidence and low borrowing costs. One important factor for the growth projected for the automotive industry is the increasing need for mobility in the emerging markets.

The Centre for Industrial Studies (CSIL) forecasts growth of 2.4 % in the furniture industry in 2020. However, this figure would place growth at a rate below the average of recent years. This forecast was also made before the coronavirus outbreak.

2.69 — PRODUCTION OF PASSENGER VEHICLES AND LIGHT TRUCKS

Million units	2019	2020[1]	2021[1]
Global	89.5	90.6	92.9
Western Europe	13.6	13.6	14.1
Germany	4.9	5.1	5.1
Eastern Europe	7.5	7.6	7.7
Russia	1.6	1.7	1.8
North America (incl. Mexico)	16.3	16.6	16.8
United States	10.6	11.2	11.3
South America	3.3	3.4	3.6
Brazil	2.8	2.9	3.0
Asia	46.6	46.8	48.2
China	24.4	24.5	25.2
Japan	9.3	8.9	9.1
India	4.2	4.3	4.4

[1] projection
Source: LMC 01/2020

LOWER SALES EXPECTED FOR MECHANICAL ENGINEERING

The German Mechanical Engineering Industry Association (VDMA) expects a 2% drop in production in 2020. This is mainly due to the weak order intake in 2019 and a correspondingly lower order backlog. The VDMA trade association for woodworking machinery projects a 10% drop in sales in 2020, also as a result of the muted order intake in 2019.

THE AUTOMOTIVE AND FURNITURE INDUSTRIES REMAIN OUR MAIN SELL-SIDE SECTORS, ENVIRONMENTAL TECHNOLOGY IS GAINING IN IMPORTANCE

In 2020, the project and investment volume of relevance for us in the automotive industry could just about repeat the level seen in 2019. However, the uncertainty around the corona crisis could lead to planned investments being put on hold. Spending on production technology for electric vehicles is likely to continue playing an important role given the ever-growing demand for battery and hybrid vehicles. In addition, capacity expansion, reductions in unit costs and more flexible production for different model types remain the most important investment factors driving capital spending in the automotive industry.

Demand in the woodworking industry for production technology is likely to decline slightly again, remaining flat at best in 2020. In China, there are growing signs of the downward trend bottoming out after the market contracted by roughly half in 2018 and 2019. One positive aspect in our market assessment is that the global furniture industry is undergoing a consolidation process from which larger companies are emerging. This should spur our systems business with automated production lines in the medium and long term. In addition, consumers are increasingly demanding individually configured furniture. As a result, demand for flexible production lines with batch size 1 capabilities is increasing on the part of producers. Another factor driving demand is the digitalization of production facilities.

The automotive and furniture industries remain our most important customer groups. Following the acquisition of Megtec/Universal, however, environmental technology business is also gaining in importance. For our success, digitalization is becoming increasingly important across all divisions, offering as it does the opportunity to bind customers by offering them new services and optimization concepts and to differentiate ourselves from our peers. We do not intend to fundamentally change our business policy.

SALES IN 2020: PROBABLY SLIGHTLY ABOVE PREVIOUS YEAR'S LEVEL

This outlook assumes that growth in the global economy will not be any less than expected, that there are no further macroeconomic dislocations and that political uncertainties do not increase any further. The effects the corona epidemic has had so far have been factored into the outlook. Earnings look set to come under appreciable pressure in the first quarter of 2020 due to postponements caused by the epidemic. As things currently stand, it is uncertain to what extent the corona crisis will impact the economy and trade in 2020 as a whole. From today´s perspective, we consider it possible that the declines incurred so far can for the most part be recouped in the further course of the year. However the economic risks resulting from the corona crisis have increased significantly since the beginning of March 2020.

Looking ahead over the next few years from today's perspective, we are seeking slight organic growth in sales and have defined a target range of € 3,900 to 4,100 million for 2020. Order intake should reach a corridor of € 3,800 to 4,100 million in 2020, thus ensuring that the order backlog remains at a high level.

Total costs (cost of sales and overheads, other operating expenses) are expected to remain steady in 2020. The largest cost items will continue to be the cost of materials and personnel expense, with the latter likely to increase at a slower pace in 2020 than in 2019. Both gross profit and the gross margin (2019: 21.4%) are expected to improve slightly.

EBIT MARGIN: INCREASE IN 2020

In 2020, the EBIT margin is likely to exceed the previous year's figure; a target corridor of 5.2 to 5.7% has been defined (2019: 5.0%). As things currently stand, the extraordinary expenses included in EBIT should drop to around € 40 million (2019: € 67.2 million). In addition to purchase price allocation effects of € 17 million, they will also include non-recurring optimization expenses in various divisions. These one-offs are included in the full-year forecasts for the Group and the divisions. It is already certain that non-recurring expenses totaling € 6.0 million will arise in the first quarter of 2020 for structural measures at the Karlstein and Goldkronach plants. Of this amount, € 3.5 million is attributable to the Application Technology division and € 2.4 million to the Clean Technology Systems division.

The Dürr Group's EBIT margin adjusted for extraordinary effects is expected to reach a range of 6.2 to 6.7 % in 2020. At Woodworking Machinery and Systems, most of the efficiency enhancements and savings that have been initiated will have a positive impact on earnings from 2021 onward. In 2020, the division should report lower EBIT before extraordinary effects in tandem with a slight decline in sales. However, EBIT should be higher after extraordinary effects.

RISING EARNINGS AFTER TAXES

Net finance expense should decline in 2020. Given an expected tax rate of around 28 %, earnings after taxes should rise to between € 135 and 150 million. Our dividend proposal for 2019 (€ 0.80 per share) translates into a payout ratio of 43 % of earnings after taxes, which is above the usual range of 30 to 40 %. This underscores our confidence in the Group's future performance. ROCE ⟶ page 201 should reach a range of 17 to 22 % in 2020, thus significantly exceeding the cost of capital.

SIGNIFICANT IMPROVEMENT IN CASH FLOW EXPECTED

We expect the cash flow from operating activities to improve to between € 180 and 230 million in 2020. Free cash flow ⟶ page 201 is also expected to increase significantly, coming within a range of € 70 to 120 million. Net working capital ⟶ page 201 will probably decrease, partly as a result of a reduction in inventories. Cash flow and cash and cash equivalents should be easily sufficient to cover operating funding requirements (capital expenditure, interest payments etc.) as well as the dividend payout.

CAPITAL EXPENDITURE

We expect capital expenditure on property, plant and equipment and intangible assets to remain at the normal level of € 95 to 105 million in 2020. One goal of our mid-term strategy is to pursue further corporate and technology acquisitions, although no major acquisition is currently on the horizon. It will be possible for us to fund a possible transaction with our high cash position and cash flow.

NET FINANCIAL STATUS, LIQUIDITY AND FUNDING

As things currently stand, we project a net financial status ⟶ page 201 of € –80 to –30 million for the end of 2020. This does not include possible outflows for acquisitions. Cash and cash equivalents should amount to between € 680 and 730 million at the end of 2020. Once again, we do not expect to draw on the cash credit line under our syndicated loan in 2020. We currently have no intention of raising any fresh capital; this would only be an option in an exceptional case in the event of a large acquisition. We have a stable funding position, with the syndicated loan agreed in summer 2019 continuing until 2024.

EXPECTATIONS FOR 2021

Turning to 2021, we project a slight increase in order intake and sales. We expect a significant improvement in operating EBIT (EBIT before extraordinary effects), so that the operating EBIT margin could reach a range of 7.0 to 7.5 %. The cash flow from operating activities is also likely to continue growing and, as things currently stand, an increase to between € 230 and 280 million appears realistic.

Table 2.70 summarizes the expected figures for the main financial performance indicators in 2020.

CHANGES IN THE PAINT AND FINAL ASSEMBLY SYSTEMS AND MEASURING AND PROCESS SYSTEMS DIVISIONS

At the beginning of 2020, we reorganized our automotive final assembly business. Testing technology ⟶ page 200, assembly products and automotive filling technology ⟶ page 200 were transferred from the Measuring and Process Systems division to Paint and Final Assembly Systems. Together with the final assembly activities based there, they form a powerful unit that provides better customer service. We are thus well positioned to take expansion in final assembly technology to the next level and to exploit the potential for growth offered by the electromobility transformation in this business in particular. In 2019, testing technology, assembly products and automotive filling technology contributed € 183 million to order intake and € 179 million to sales in the Measuring and Process Systems division. The outlook for the divisions for 2020 in table 2.71 factors in the changes made at Paint and Final Assembly Systems and Measuring and Process Systems.

2.70 — GROUP OUTLOOK

		2019	2020 target
Order intake	€ million	4,076.5	3,800–4,100
Sales	€ million	3,921.5	3,900–4,100
EBIT margin	%	5.0	5.2–5.7
EBIT margin before extraordinary effects	%	6.7	6.2–6.7
Earnings after taxes	€ million	129.8	135–150
ROCE	%	16.9	17–22
Cash flow from operating activities	€ million	171.9	180–230
Free cash flow	€ million	44.9	70–120
Net financial status (December 31)	€ million	–99.3	–80 to –30
Capital expenditure[1]	€ million	102.6	95–105

[1] Net of acquisitions

SUMMARIZED STATEMENT BY THE BOARD OF MANAGEMENT ON PROJECTED DEVELOPMENTS

Provided the corona epidemic does not impact the economy too severely, capital spending in the automotive industry relevant to us in 2020 could just about reach the previous year's level. A considerable proportion of this is likely to continue flowing into production technology for electric vehicles. This makes electromobility an opportunity for us and a key success factor. We expect demand in the woodworking industry to decline slightly or, at best, remain flat. Digitalization is the most important technological trend in the entire Group and also an opportunity: The digital products of the Dürr, Schenck and HOMAG brands incorporate not only software skills but also our expert knowledge of customers' production processes. This combination is an important competitive differentiator.

Consolidated sales should grow by a percentage rate in the low single digits to between € 3,900 and 4,100 million in 2020. The Group's EBIT margin is also expected to increase, as we anticipate a decline in extraordinary expenses; our target is 5.2 to 5.7 %. The operating EBIT margin should reach 6.2 to 6.7 %. Earnings after taxes are expected to rise to between € 135 and 150 million. Underpinned by significant increases in the cash flow from operating activities and free cash flow ⟶ page 201, the net financial status ⟶ page 201 should improve to between € –80 and –30 million by the end of 2020.

For 2021, we expect a significant improvement in earnings. The target is an operating EBIT margin of 7.0 to 7.5 %. At the same time, the cash flow from operating activities should continue to widen to between € 230 and 280 million and contribute to a further strengthening of our financial situation. The targeted improvement in earnings is to be largely driven by increases at the HOMAG Group. As part of its optimization course, it is implementing various savings and efficiency enhancement measures, which will unleash their full effect in 2021. On this basis, the HOMAG Group should achieve its target EBIT margin of over 9 % by 2023 at the latest. The medium-term EBIT margin target for the Dürr Group as a whole is at least 8 %.

2.71 — OUTLOOK BY DIVISION

	Order intake (€ million)			Sales (€ million)			EBIT margin (%)		
	2019 act.	2019[1] adjusted	2020 target	2019 act.	2019[1] adjusted	2020 target	2019	2019[1] adjusted	2020 target
Paint and Final Assembly Systems	1,341.0	1,524.1	1,300–1,500	1,243.8	1,422.5	1,400–1,500	5.0	5.4	5.0–5.5
Application Technology	640.8	–	610–660	592.8	–	620–670	9.6	–	9.0–10.0
Clean Technology Systems	449.1	–	420–460	395.3	–	400–440	3.1	–	3.2–4.2
Measuring and Process Systems	425.9	242.8	220–250	410.4	231.7	240–270	9.4	9.6	9.5–10.5
Woodworking Machinery and Systems	1,219.6	–	1,150–1,250	1,279.1	–	1,150–1,250	2.9	–	4.5–5.5

[1] Effective January 1, 2020, testing technology, assembly products and filling technology for final vehicle assembly were transferred from the Measuring and Process Systems division to the Paint and Final Assembly Systems division.

DÜRR AG (GERMAN COMMERCIAL CODE)

Dürr AG's annual financial statements are prepared in accordance with the provisions of the German Commercial Code, whereas the consolidated financial statements are prepared in accordance with IFRS. As the holding company, Dürr AG comprises the Group's central functions and does not engage in any operating business of its own. Its economic condition mainly hinges on the business performance of the Group's operating companies. Dürr AG holds shares in 133 companies directly or indirectly. The economic environment in which Dürr AG operates is essentially the same as the Group's and is described in the chapter entitled **"Economy and industry environment" ⟶ page 53**.

RESULTS OF OPERATIONS

In 2019 Dürr AG's sales increased by 7.4 % over the previous year. They chiefly arise from payments made by the Group companies under transfer pricing agreements for the services provided by Dürr AG as the holding company.

Lower currency-translation gains were the main reason for the 46.8 % decline in other operating income to € 12.9 million. However, currency-translation losses also dropped by a similar magnitude. Together with lower consulting costs, this contributed to a 30.3 % drop in other operating expenses. The 9.4 % decrease in personnel expense was primarily due to lower variable compensation as a result of weaker earnings.

The most important item in Dürr AG's income statement is net investment income. At € 78.1 million, it was down sharply in 2019 as Dürr AG received less income from profit and loss transfer agreements than in the previous year. This was primarily due to the decline in the HOMAG Group's earnings as a result of operating decreases and high extraordinary expenses. In addition, other domestic companies' earnings were also lower due partly to the fact that a number of older orders with low margins had been completed.

Net finance expense increased by 6.9 % over the previous year as interest expense was incurred from July 2019 for the new sustainability Schuldschein loan. Income taxes were down as a result of the lower earnings in the tax group in Germany.

Net income declined chiefly due to the lower net investment income. However, at € 61.4 million, it is sufficient to cover the proposed dividend payout. At € 569.9 million, net retained profit was virtually unchanged. The profit carried forward from the previous year included in this figure increased because € 83.1 million of the net income for 2018 remained after the dividend payment.

2.72 — DÜRR AG INDIVIDUAL FINANCIAL STATEMENTS – INCOME STATEMENT (GERMAN COMMERCIAL CODE)

€ million	2019	2018
Sales	37.0	34.5
Other operating income	12.9	24.1
Cost of materials	–3.6	–3.7
Personnel expense	–18.7	–20.7
Depreciation and amortization	–1.0	–1.0
Other operating expenses	–29.8	–42.8
Investment income	78.1	193.4
Net finance expense	–9.5	–8.9
Income taxes	–3.7	–22.6
Other taxes	–0.1	–
Net profit	**61.4**	**152.3**
Profit brought forward from the previous year	508.4	425.3
Net retained profit	**569.9**	**577.6**

NET ASSETS AND FINANCIAL CONDITION

Dürr AG's total assets rose by 23.5 % over the end of 2018 to € 1,945.1 million. Within non-current assets, we recorded an increase of 7.7 % in financial assets. The main reason for this was that we increased the capital reserve of our subsidiary Dürr Systems AG by € 72.0 million in connection with the acquisition of the Megtec/Universal group. There was a more pronounced change in current assets as a result of the 47.8 % increase in receivables and other assets. There were two reasons for this: For one thing, we lent the subsidiaries more funds to finance their operating business. For another, part of the proceeds accruing to us from the new sustainability Schuldschein loan were placed in time deposits. The increase in cash and cash equivalents to € 351.0 million likewise mainly resulted from the issue of the sustainability Schuldschein loan.

At € 814.6 million, equity was virtually unchanged over the end of 2018. The minimal decline in net retained profit is due to the fact that the dividend payment for 2018 (€ 69.2 million) distributed in May 2019 exceeded net income for 2019 (€ 61.4 million).

Provisions increased from € 16.5 million to € 18.7 million. Higher tax provisions were offset by lower additions to provisions for bonus payments. The significant increase of 51.1 % in liabilities is due to the new sustainability Schuldschein loan. A further factor was that we received more liquidity from our subsidiaries under the cash pooling system.

2.73 — DÜRR AG INDIVIDUAL FINANCIAL STATEMENTS – BALANCE SHEET (GERMAN COMMERCIAL CODE)

€ million	Dec. 31, 2019	Dec. 31, 2018
ASSETS		
Non-current assets		
Intangible assets	7.4	8.2
Property, plant and equipment	0.2	0.3
Financial assets	860.9	799.7
	868.5	**808.2**
Current assets		
Receivables and other assets	723.7	489.7
Cash and cash equivalents	351.0	274.1
	1,074.6	**763.8**
Prepaid expenses, sundry items	2.0	2.5
	1,076.6	**766.3**
Total assets	**1,945.1**	**1,574.5**
EQUITY AND LIABILITIES		
Equity		
Subscribed capital	177.2	177.2
Capital reserve	67.6	67.6
Net retained profit	569.9	577.6
	814.6	**822.4**
Liabilities		
Provisions	18.7	16.5
Liabilities	1,111.8	735.7
	1,130.5	**752.1**
Total equity and liabilities	**1,945.1**	**1,574.5**

OPPORTUNITIES AND RISKS

Dürr AG is exposed to the opportunities and risks of its subsidiaries. The extent of such exposure depends on the size of its share in the respective company. See also the **"Report on risks, opportunities and expected future development" → page 81** for further details. In addition, strain may arise from the contingent liabilities in existence between Dürr AG and its subsidiaries.

FORECAST

Dürr AG's future economic performance is closely linked to the Group's operating performance. Details of the outlook and our plans for our operating business can be found in the **"Report on risks, opportunities and expected future development" ⟶ page 92**.

Dürr AG's full individual financial statements can be found under Investors/Financial Publications/Presentations at our website at www.durr-group.com.

Bietigheim-Bissingen, March 18, 2020

Dürr Aktiengesellschaft
The Board of Management

Ralf W. Dieter

Dr. Jochen Weyrauch

Pekka Paasivaara

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CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED FINANCIAL STATEMENTS

3.1 — Consolidated statement of income

of Dürr Aktiengesellschaft, Stuttgart, for the period from January 1 to December 31, 2019

€ k	Note	2019	2018
Sales revenues	(8)	3,921,511	3,869,816
Cost of sales	(9)	−3,083,309	−3,014,331
Gross profit on sales		**838,202**	**855,485**
Selling expenses	(10)	−337,643	−314,153
General administrative expenses	(11)	−190,562	−177,797
Research and development costs	(12)	−110,796	−120,960
Other operating income	(14)	22,721	31,783
Other operating expenses	(14)	−26,027	−40,857
Earnings before investment result, interest and income taxes		**195,895**	**233,501**
Investment result	(15)	6,398	7,117
Interest and similar income	(16)	5,793	6,570
Interest and similar expenses	(16)	−33,368	−27,508
Earnings before income taxes		**174,718**	**219,680**
Income taxes	(17)	−44,893	−56,175
Profit of the Dürr Group		**129,825**	**163,505**
Attributable to			
Non-controlling interests		5,766	6,452
Shareholders of Dürr Aktiengesellschaft		**124,059**	**157,053**
Number of shares issued in thousands		69,202.08	69,202.08
Earnings per share in € (basic and diluted)		1.79	2.27

3.2 — Consolidated statement of comprehensive income

of Dürr Aktiengesellschaft, Stuttgart, for the period from January 1 to December 31, 2019

€ k	Note	2019	2018
Profit of the Dürr Group		**129,825**	**163,505**
Items of other comprehensive income that are not reclassified to profit or loss			
Remeasurement of defined benefit plans and similar obligations	(27)	−10,374	5,116
Associated deferred taxes	(17)	2,830	−257
Items of other comprehensive income that may be reclassified subsequently to profit or loss			
Changes in fair value of financial instruments used for hedging purposes recognized in equity	(41)	3,202	−3,350
Associated deferred taxes	(17)	−896	802
Currency translation effects		9,586	6,945
Currency translation effects from entities accounted for using the equity method		−325	524
Other comprehensive income, net of tax		**4,023**	**9,780**
Total comprehensive income, net of tax		**133,848**	**173,285**
Attributable to			
Non-controlling interests		5,728	6,371
Shareholders of Dürr Aktiengesellschaft		**128,120**	**166,914**

3.3 — Consolidated statement of financial position

of Dürr Aktiengesellschaft, Stuttgart, as of December 31, 2019

€ k	Note	December 31, 2019	December 31, 2018
ASSETS			
Goodwill	(18, 43)	449,160	446,817
Other intangible assets	(18, 43)	194,840	204,525
Property, plant and equipment	(18, 43)	525,395	433,828
Investment property	(18, 43)	20,215	19,203
Investments in entities accounted for using the equity method	(19, 43)	37,663	35,718
Other financial assets	(19, 43)	12,653	10,186
Trade receivables	(22)	15,816	36,276
Sundry financial assets	(23)	6,746	4,291
Deferred taxes	(17)	57,887	49,893
Other assets	(25)	1,978	3,568
Non-current assets		**1,322,353**	**1,244,305**
Inventories and prepayments	(20)	509,206	535,371
Contract assets	(21)	519,075	478,336
Trade receivables	(22)	570,261	566,748
Sundry financial assets	(23)	206,401	52,443
Cash and cash equivalents	(24)	662,024	655,042
Income tax receivables	(17)	46,634	28,151
Other assets	(25)	46,379	54,003
Current assets		**2,559,980**	**2,370,094**
Total assets Dürr Group		**3,882,333**	**3,614,399**

€ k	Note	December 31, 2019	December 31, 2018
EQUITY AND LIABILITIES			
Subscribed capital	(26)	177,157	177,157
Capital reserves	(26)	67,318	67,318
Revenue reserves	(26)	820,820	771,468
Other comprehensive income		−34,654	−38,650
Total equity attributable to the shareholders of Dürr Aktiengesellschaft		**1,030,641**	**977,293**
Non-controlling interests		12,745	14,858
Total equity		**1,043,386**	**992,151**
Provisions for post-employment benefit obligations	(27)	58,962	50,084
Other provisions	(28)	22,339	19,058
Contract liabilities	(29)	2,113	2,197
Trade payables	(30)	240	967
Bond and Schuldschein loans	(31)	798,242	597,958
Other financial liabilities	(31)	86,780	12,827
Sundry financial liabilities	(32)	6,290	6,266
Income tax liabilities	(17)	–	4,164
Deferred tax liabilities	(17)	81,151	91,949
Other liabilities	(33)	254	611
Non-current liabilities		**1,056,371**	**786,081**
Other provisions	(28)	148,058	130,676
Contract liabilities	(29)	630,570	670,795
Trade payables	(30)	478,771	501,403
Financial liabilities	(31)	38,045	12,496
Sundry financial liabilities	(32)	319,890	347,698
Income tax liabilities	(17)	48,467	30,806
Other liabilities	(33)	118,775	142,293
Current liabilities		**1,782,576**	**1,836,167**
Total equity and liabilities Dürr Group		**3,882,333**	**3,614,399**

3.4 — Consolidated statement of cash flows

of Dürr Aktiengesellschaft, Stuttgart, for the period from January 1 to December 31, 2019

Note (36)

€ k	2019	2018
Earnings before income taxes	174,718	219,680
Income taxes paid	–64,202	–92,977
Net interest	27,575	20,938
Profit from entities accounted for using the equity method	–6,202	–6,844
Dividends from entities accounted for using the equity method	2,585	4,387
Amortization, depreciation and impairment of non-current assets	112,570	93,369
Net gain/loss on the disposal of non-current assets	456	–97
Non-cash allowance on cash and cash equivalents	–648	855
Other non-cash income and expenses	–1,704	–365
Changes in operating assets and liabilities		
Inventories	26,550	–58,884
Contract assets	–39,663	28,245
Trade receivables	23,798	–40,079
Other receivables and assets	9,162	11,724
Provisions	18,789	–29,873
Contract liabilities	–50,125	–64,240
Trade payables	–25,375	83,360
Other liabilities (other than financing activities)	–36,719	–6,354
Other assets and liabilities	335	–571
Cash flow from operating activities	**171,900**	**162,274**
Purchase of intangible assets	–27,187	–23,453
Purchase of property, plant and equipment[1]	–52,202	–48,409
Purchase of other financial assets	–	–1
Proceeds from the sale of non-current assets	5,097	2,665
Acquisitions, net of cash acquired	–2,015	–103,970
Investments in time deposits	–159,382	138,287
Proceeds from the sale of assets and liabilities classified as held for sale	–	634
Interest received	3,934	4,098
Cash flow from investing activities	**–231,755**	**–30,149**

[1] The item "Purchase of property, plant and equipment" does not include cash outflows from additions to right-of-use assets from leases as there are no cash outflows at the acquisition date (exception: incidental acquisition cost and prepayments).

Note (36)

€ k	2019	2018
Change in current bank liabilities and other financing activities	−3,644	−970
Repayment of non-current financial liabilities	−538	−314
Schuldschein loan issue	199,565	–
Payments of lease liabilities	−27,431	−1,056
Cash paid for transactions with non-controlling interests	−8,750	−34,802
Dividends paid to the shareholders of Dürr Aktiengesellschaft	−69,202	−76,122
Dividends paid to non-controlling interests	−5,101	−4,689
Interest paid	−24,134	−16,088
Cash flow from financing activities	**60,765**	**−134,041**
Effects of exchange rate changes	5,439	−1,767
Change in cash and cash equivalents related to changes in the consolidated group	–	467
Change in cash and cash equivalents	6,349	−3,216
Cash and cash equivalents		
At the beginning of the period	656,695	659,911
At the end of the period	663,044	656,695
Less allowance according to IFRS 9	−1,020	−1,653
Cash and cash equivalents at the end of the reporting period (consolidated statement of financial position)	**662,024**	**655,042**

3.5 — Consolidated statement of changes in equity

of Dürr Aktiengesellschaft, Stuttgart, for the period from January 1 to December 31, 2019

€ k	Subscribed capital	Capital reserve	Revenue reserves
December 31, 2017	**88,579**	**155,896**	**690,417**
Adjustments IFRS 9	–	–	1,146
January 1, 2018	**88,579**	**155,896**	**691,563**
Profit for the period	–	–	157,053
Other comprehensive income	–	–	–
Total comprehensive income, net of tax	**–**	**–**	**157,053**
Capital increase Dürr Aktiengesellschaft from company funds	88,578	−88,578	–
Dividends	–	–	−76,122
Options of non-controlling interests	–	–	−530
Other changes	–	–	−496
December 31, 2018	**177,157**	**67,318**	**771,468**
Adjustments IFRS 16	–	–	−9,415
January 1, 2019	**177,157**	**67,318**	**762,053**
Profit for the period	–	–	124,059
Other comprehensive income	–	–	–
Total comprehensive income, net of tax	**–**	**–**	**124,059**
Dividends	–	–	−69,202
Options of non-controlling interests	–	–	3,888
Other changes	–	–	22
December 31, 2019	**177,157**	**67,318**	**820,820**

Note (26)

Other comprehensive income							
Items that are not reclassified to profit or loss	Items that may be reclassified subsequently to profit or loss						
Remeasurement of defined benefit plans	Unrealized gains/losses from cash flow hedges	Changes in the consolidated group/ reclassifications	Currency translation	Other comprehensive income	Total equity attributable to the shareholders of Dürr Aktien-gesellschaft	Non-controlling interests	**Total equity**
−35,924	**−228**	**630**	**−13,485**	**−49,007**	**885,885**	**14,637**	**900,522**
–	–	–	–	–	1,146	−73	1,073
−35,924	**−228**	**630**	**−13,485**	**−49,007**	**887,031**	**14,564**	**901,595**
–	–	–	–	–	157,053	6,452	163,505
4,864	−2,548	–	7,545	9,861	9,861	−81	9,780
4,864	**−2,548**	**–**	**7,545**	**9,861**	**166,914**	**6,371**	**173,285**
–	–	–	–	–	–	–	–
–	–	–	–	–	−76,122	−4,689	−80,811
–	–	–	–	–	−530	−1,427	−1,957
518	–	−22	–	496	–	39	39
−30,542	**−2,776**	**608**	**−5,940**	**−38,650**	**977,293**	**14,858**	**992,151**
–	–	–	−43	−43	−9,458	−53	−9,511
−30,542	**−2,776**	**608**	**−5,983**	**−38,693**	**967,835**	**14,805**	**982,640**
–	–	–	–	–	124,059	5,766	129,825
−7,481	2,306	–	9,236	4,061	4,061	−38	4,023
−7,481	**2,306**	**–**	**9,236**	**4,061**	**128,120**	**5,728**	**133,848**
–	–	–	–	–	−69,202	−5,101	−74,303
–	–	–	–	–	3,888	162	4,050
–	–	−22	–	−22	–	−2,849	−2,849
−38,023	**−470**	**586**	**3,253**	**−34,654**	**1,030,641**	**12,745**	**1,043,386**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the 2019 reporting period

Basis of presentation

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Dürr Aktiengesellschaft ("Dürr AG" or the "Company") has its registered offices in Stuttgart, Germany. Its headquarters for operations are located at Carl-Benz-Strasse 34 in 74321 Bietigheim-Bissingen. The Dürr Group, which consists of Dürr AG and its subsidiaries, is a mechanical and plant engineering company with distinct competence in automation and digitalization. The Group is one of the global market leaders in almost all of its fields of business. In addition to the automotive industry, it also acts as supplier of production technology for other industries including the mechanical engineering, energy, chemical and pharmaceutical industries as well as the woodworking industry. The Dürr Group serves the market with five global divisions: Paint and Final Assembly Systems offers assembly and paint finishing technology, mainly for the automotive industry. Application Technology manufactures products and systems for automated painting applications as well as sealing and glueing technology. Clean Technology Systems primarily manufactures plant and equipment for purifying exhaust gases. The machines and systems produced by Measuring and Process Systems are used, among other things, in engine and transmission construction. Woodworking Machinery and Systems develops and manufactures such machinery and systems.

Accounting policies

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) at the end of the reporting period, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code].

The accounting policies used generally correspond to the policies applied in the prior period. In addition, the Group has applied the new and/or revised standards and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) that became mandatory for the first time in the 2019 reporting period. ⟶ Table 3.6

IFRS 16 "Leases" regulates the recognition, measurement and presentation of leases. Pursuant to IFRS 16, lessees no longer differentiate between operating and finance leases, but instead account for most leases as right-of-use assets and lease liabilities. Lessors, by contrast, continue to differentiate between operating and finance leases.

The accounting treatment of leases was changed in compliance with the transitional provisions of IFRS 16. The Dürr Group has opted to adopt the standard applying the modified retrospective method, with the cumulative effect from the adjustment being recognized without impact on profit or loss as of the date of first-time application. The prior-period figures have not been adjusted. Past periods can therefore only be compared with the 2019 reporting period to a limited extent.

The transition as of January 1, 2019 reduced equity by € 9,511 thousand. Total assets rose by € 94,957 thousand, an increase of 2.6 %. A reconciliation of all items affected in the statement of financial position as well as other financial obligations as of December 31, 2018 to lease liabilities as of January 1, 2019 is presented in ⟶ note 6.

3.6 — CHANGES IN ACCOUNTING POLICIES FROM THE ADOPTION OF THE NEW AND REVISED STANDARDS AND INTERPRETATIONS

	First-time application[1]	Adopted by the EU Commission	Impact on the Dürr Group
NEW STANDARDS			
IFRS 16 "Leases"	January 1, 2019	Yes	Significant
AMENDED STANDARDS/INTERPRETATIONS			
IFRS 9 "Financial Instruments" – Prepayment features with negative compensation payment	January 1, 2019	Yes	Immaterial
IAS 19 "Employee Benefits" – Plan amendment, curtailment or settlement	January 1, 2019	Yes	Immaterial
IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2019	Yes	No
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019	Yes	Immaterial
Annual Improvements to IFRSs (2015–2017 cycle)	January 1, 2019	No	Immaterial

[1] The standards/amendments/interpretations are effective for reporting periods beginning on or after the specified date.

3.7 — ACCOUNTING STANDARDS AND INTERPRETATIONS THAT HAVE BEEN PUBLISHED BUT NOT YET ADOPTED IN THE REPORTING PERIOD

	First-time application[1]	Adopted by the EU Commission	Impact on the Dürr Group
NEW STANDARDS			
IFRS 17 "Insurance Contracts"	January 1, 2023	No	Immaterial
AMENDED STANDARDS/INTERPRETATIONS			
IFRS 3 "Business Combinations"	January 1, 2020	No	Immaterial
IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – Definition of material	January 1, 2020	Yes	No
IAS 1 "Classification of Liabilities as Current or Non-Current"	January 1, 2022	No	No
Amendments to IFRS 9, IAS 39 and IFRS 7 concerning the IBOR reform	January 1, 2020	Yes	No
Changes in references to the Framework in IFRS standards	January 1, 2020	Yes	Immaterial

[1] The standards/amendments/interpretations are effective for reporting periods beginning on or after the specified date.

The Group elected not to adopt standards and IFRIC interpretations early which have already been issued but have not yet become effective. Generally speaking, the Dürr Group intends to adopt all standards when they become effective. The requirements of the standards applied have been satisfied in full. The financial statements thus give a true and fair view of the net assets, financial position and results of operations and cash flows of the Group.

The Dürr Group's reporting period is the calendar year. The consolidated financial statements are prepared in euros; all amounts are presented in thousands of euro, unless stated otherwise.

All assets and liabilities are measured at historical or amortized cost. Exceptions to this rule are derivative financial instruments measured at fair value, other financial assets as well as financial assets measured at fair value through profit or loss or through other comprehensive income. Obligations from options held by non-controlling interests, liabilities from contingent purchase price installments and obligations from share-based compensation are also measured at fair value.

Assets and liabilities are treated as current if they are realized or settled within twelve months of the end of the reporting period. Within the statement of financial position, assets and liabilities with a remaining term of more than twelve months are presented as non-current. By contrast, deferred tax assets and deferred tax liabilities within the statement of financial position are always reported as non-current. Besides this, liabilities with a remaining term of between one and five years are presented in the notes to the consolidated financial statements as medium-term and those with a remaining term of more than five years as long-term.

2. BASIS OF CONSOLIDATION

The financial statements of the Dürr Group are based on the IFRS financial statements of Dürr AG and the consolidated subsidiaries and entities accounted for using the equity method as of December 31, 2019, prepared in accordance with uniform policies and audited by independent auditors.

For subsidiaries included in the consolidated financial statements for the first time, acquisition accounting is performed according to the acquisition method of accounting pursuant to IFRS 3 "Business Combinations". This involves offsetting the cost of the shares acquired against the proportionate equity of the subsidiaries. All assets and liabilities and contingent liabilities acquired are included in the consolidated statement of financial position at the acquisition date, taking hidden reserves and encumbrances into account. Any remaining positive difference is shown as goodwill. Negative differences are posted immediately to profit or loss. For acquisitions in which less than 100 % of the shares are purchased, IFRS 3 provides for a choice between the purchased goodwill method and the full goodwill method. This option can be exercised for every business combination. The Dürr Group determines the method to be used to recognize the goodwill for each business combination. For information on exercising the option for individual business combinations, please refer to → note 18. Changes in interests for subsidiaries which cause the Group's interest to increase or decrease without losing control are treated as transactions between equity providers that do not affect profit or loss.

Intragroup sales revenues, other income and expenses, all intragroup receivables, liabilities, provisions and cash and cash equivalents received and paid are eliminated. Intragroup profits which are not realized by sale to third parties are eliminated.

Entities over which Dürr exercises significant influence (associates) are accounted for using the equity method. Significant influence is the power to participate in the financial and operating policy of the investee. Interests in entities accounted for using the equity method are initially recognized at cost. Costs exceeding the share in the net assets of the entity accounted for using the equity method, after taking into account hidden reserves or encumbrances, are recognized as goodwill. Goodwill resulting from the acquisition of an associate is included in the carrying amount of the entity accounted for using the equity method and is not amortized, but tested instead for impairment as part of the overall carrying amount of the entity accounted for using the equity method.

For subsequent measurement, the Dürr Group's share of the profit or loss of the entity accounted for using the equity method is recorded under investment result in the consolidated statement of income. The share in other comprehensive income is recognized directly in Group equity. The cumulative changes after the acquisition date increase or decrease the carrying amount of the entity accounted for using the equity method. Dividends received are deducted from the carrying amount. If the losses of an entity accounted for using the equity method attributable to the Group correspond to or exceed the value of the interest in this entity, no further losses are recognized unless the Group has entered into obligations or has made payments for the entity accounted for using the equity method.

3. CONSOLIDATED GROUP

Besides Dürr AG, the consolidated financial statements as of December 31, 2019 contain all German and foreign entities which Dürr AG can control directly or indirectly. Under IFRS 10 "Consolidated Financial Statements", control exists if an entity is exposed, or has rights, to positive or negative returns from its involvement with another entity. It must also have the ability to affect these variable returns through its power over the investee. Control can exist due to voting rights or prevailing circumstances as a result of contractual arrangements, among other things.

The entities are included in the consolidated financial statements of Dürr from the date on which the possibility of control was obtained. For most of the Group companies, control is based on holding the majority of voting rights. On account of the contractual arrangements, the Dürr Group has the power to exercise control over four entities, although in each case the Group only holds 50 % of the shares or 50 % or less of the voting rights in the company. At two of the entities, the Group can bring about a decision in case of parity of votes; at the other two entities, the Dürr Group assumes operational management. Consolidation of an entity included in the consolidated financial statements ceases when the Dürr Group loses control over the entity.

Structured entities

A structured entity is often characterized by restricted activities and a narrow and precisely defined purpose. A key characteristic is that voting rights do not have any significant effect on the returns from this entity. The possibility of control does not result from the majority interest in capital or from voting rights, but rather from contractual arrangements.

As in the prior period, the consolidated group included a structured entity in the 2019 reporting period. This was a lease property company with properties in Bietigheim-Bissingen. The Group was the tenant of these properties as well as the lender of the entity; however, it did not hold any shares in this entity. There were no obligations for financial support; the loan was secured by a land charge registered to the Dürr Group. As of December 31, 2019, the Dürr Group acquired the properties, the loan was repaid and the lease property company was deconsolidated.

Entities accounted for using the equity method

Entities over which the Dürr Group exercises significant influence pursuant to IAS 28 "Investments in Associates and Joint Ventures" (associates) as well as joint ventures as defined by IFRS 11 "Joint Arrangements" are accounted for using the equity method. Significant influence is presumed with a share of voting rights ranging from 20 % to 50 %. Associates are included in the consolidated financial statements using the equity method from the date on which the possibility of significant influence existed. For shares of voting rights below 20 %, interests in entities are generally recognized under other investments.

3.8 — NUMBER OF ENTITIES

	Dec. 31, 2019	Dec. 31, 2018
FULLY CONSOLIDATED SUBSIDIARIES		
Germany	28	30
Other countries	98	104
	126	**134**
ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD		
Germany	–	–
Other countries	2	2
	2	**2**
OTHER INVESTMENTS		
Germany	3	3
Other countries	2	2
	5	**5**

The consolidated financial statements contain 11 entities (prior period: 15) which have non-controlling interests in them. There are four companies that are only included in the consolidated financial statements at cost on grounds of immateriality. Their revenue contribution to total Group sales revenues, the earnings contribution to Group earnings (before taxes) as well as the contribution of equity to Group equity is less than 0.05 %. The Dürr Group is not exposed to any risks from these entities due to their size, contribution to sales revenues, complexity and minor activities.

4. CHANGES IN THE CONSOLIDATED GROUP

3.9 — DECONSOLIDATIONS/MERGERS

Entity	Effective as of	Note
Dürr Systems Wolfsburg GmbH, Wolfsburg/Germany	January 1, 2019	Split-up
Schenck RoTec Corporation, Southfield, Michigan/USA	February 1, 2019	Merged into Schenck Trebel Corporation, Deer Park, New York/USA and renamed SCHENCK USA CORP.
MTS Environmental GmbH, Maintal/Germany	April 2, 2019	Merged into Luft- und Thermotechnik Bayreuth GmbH, Goldkronach/Germany
iTAC Software Inc., Southfield, Michigan/USA	October 1, 2019	Merged into Dürr Systems Inc., Southfield, Michigan/USA
MEGTEC Turbosonic Technologies Inc., De Pere, Wisconsin/USA	November 15, 2019	Merged into Durr MEGTEC Holdings Inc., De Pere, Wisconsin/USA
Universal Silencer (Shanghai) Co. Ltd., Shanghai/PR China	November 20, 2019	Closure
CPM Automation d.o.o. Beograd, Belgrade/Serbia	December 16, 2019	Closure
Olivia Grundstücksverwaltungsgesellschaft mbH & Co. KG, Pullach im Isartal/Germany	December 31, 2019	Termination of property lease structure

5. CURRENCY TRANSLATION

Financial statements denominated in the foreign currency of the subsidiaries included in the consolidation are translated to the euro on the basis of the functional currency concept pursuant to IAS 21 “The Effects of Changes in Foreign Exchange Rates”. For the majority of foreign subsidiaries in the Group, the functional currency is the local currency, since these entities operate independently from a financial, economic and organizational viewpoint. According to this concept, assets and liabilities are thus translated at closing rates, while income and expenses are generally translated at average rates. Any currency translation differences are recorded without effect on profit or loss in other comprehensive income.

In the separate financial statements of Dürr AG and its subsidiaries, receivables and liabilities in a currency other than the euro are measured at the historical rate; current transactions are translated at the current exchange rate. Any exchange rate gains and losses at the end of the reporting period are included in the statement of income. For actual figures of the exchange rate gains and losses recognized through profit or loss, please refer to → notes 9 and 14.

In the separate financial statements of the foreign subsidiaries, goodwill is translated at the rate prevailing at the end of the Group’s reporting period. The hidden reserves identified in acquisitions are accounted for using the functional currency of the acquired entity. An adjusted average rate is used for entities consolidated for the first time during the year.

3.10 — SIGNIFICANT EXCHANGE RATES

	Closing rate		Average rate	
in relation to one euro	Dec. 31, 2019	Dec. 31, 2018	2019	2018
Brazilian real (BRL)	4.5133	4.4449	4.4173	4.3244
Pound sterling (GBP)	0.8501	0.8971	0.8757	0.8862
Chinese renminbi (CNY)	7.8328	7.8600	7.7175	7.8167
Danish krone (DKK)	7.4710	7.4675	7.4658	7.4533
Indian rupee (INR)	80.1500	79.9088	78.7689	80.6401
Korean won (KRW)	1,296.3900	1,276.9371	1,302.9746	1,295.4805
Mexican peso (MXN)	21.2392	22.5196	21.6402	22.6299
Polish zloty (PLN)	4.2597	4.2981	4.2998	4.2679
Swiss franc (CHF)	1.0856	1.1266	1.1113	1.1515
US dollar (USD)	1.1228	1.1453	1.1197	1.1792

6. ADJUSTMENT OF THE FIGURES IN THE STATEMENT OF FINANCIAL POSITION

The first-time application of IFRS 16 “Leases” as of January 1, 2019, resulted in adjustments being made to the opening statement of financial position. The transition was made using the modified retrospective method. With this method, the right-of-use asset is recognized on the asset side as if IFRS 16 had been applied as of the commencement date of the lease, but using the incremental borrowing rate as of the transition date and less any accumulated depreciation. Discounted future payments were recognized under liabilities. The difference between these figures from the transition was recognized without impact on profit or loss directly in equity. Furthermore, the Dürr Group made use of the practical expedient in connection with the first-time application and did not reassess whether an agreement contains a lease pursuant to IFRS 16. Instead, the standard was applied to agreements previously containing a lease pursuant to IAS 17 “Leases” and IFRIC 4 “Determining whether an Arrangement contains a Lease”. In using the expedient, the Group also adjusted right-of-use assets to account for any provisions for onerous lease agreements that had been recognized in the statement of financial position as of the date of transition. The Dürr Group exercised the option not to apply IFRS 16 to leases ending within 12 months of the date of first-time application. These were accounted for in the same way as short-term leases and recognized under expenses for short-term leases. Leases previously classified as finance leases are continued as before. → **Table 3.11** presents the adjustments of the statement of financial position items affected.

3.11 — IFRS 16: RECONCILIATION OF THE STATEMENT OF FINANCIAL POSITION ITEMS AFFECTED AS OF JANUARY 1, 2019

€ k	Dec. 31, 2018 reported	Adjustments IFRS 16	Jan. 1, 2019 adjusted
ASSETS			
Non-current assets	**1,244,305**	**95,000**	**1,339,305**
Property, plant and equipment	433,828	90,812	524,640
Investment property	19,203	1,971	21,174
Deferred tax assets	49,893	2,217	52,110
Current assets	**2,370,094**	**−43**	**2,370,051**
Other assets	54,003	−43	53,960
Total assets Dürr Group	**3,614,399**	**94,957**	**3,709,356**

3.11 — IFRS 16: RECONCILIATION OF THE STATEMENT OF FINANCIAL POSITION ITEMS AFFECTED AS OF JANUARY 1, 2019

€ k	Dec. 31, 2018 reported	Adjustments IFRS 16	Jan. 1, 2019 adjusted
EQUITY AND LIABILITIES			
Total equity	**992,151**	**−9,511**	**982,640**
Non-current liabilities	**786,081**	**81,738**	**867,819**
Other provisions	19,058	−1,204	17,854
Other financial liabilities	12,827	83,329	96,156
Sundry financial liabilities	6,266	−143	6,123
Deferred tax liabilities	91,949	−244	91,705
Current liabilities	**1,836,167**	**22,730**	**1,858,897**
Other provisions	130,676	−554	130,122
Financial liabilities	12,496	23,328	35,824
Sundry financial liabilities	347,698	−44	347,654
Total equity and liabilities Dürr Group	**3,614,399**	**94,957**	**3,709,356**

Notes on adjustments to the items in the statement of financial position

Property, plant and equipment and investment property

In the transition to IFRS 16, right-of-use assets of € 92,783 thousand were recognized for the first time. Of this, € 90,812 thousand related to property, plant and equipment and € 1,971 thousand to investment property. Investment property relates to right-of-use assets held by Schenck Technologie- und Industriepark GmbH in Darmstadt for buildings that are sublet under operating leases. Please refer to → note 18 for more information on right-of-use assets.

Other assets

For individual lease agreements within the Dürr Group, lease payments are made when or before the leased asset is made available. With the first-time application of IFRS 16, these are recognized as part of the acquisition costs of the right-of-use asset. This led to rent prepayments of € 43 thousand being reclassified from other assets to right-of-use assets.

Other provisions

The Dürr Group makes use of the exception and adjusts right-of-use assets by the amount of any provisions for onerous leases. As a result, other provisions decreased by € 1,758 thousand.

Financial liabilities

As a result of the transition, lease liabilities increased by € 106,657 thousand. → Table 3.12 shows the reconciliation of the minimum payments for operating leases as of December 31, 2018 to the opening statement.

Deferred taxes

Deferred tax assets on financial liabilities and deferred tax liabilities on property, plant and equipment and investment property increased significantly due to the application of IFRS 16, as the Dürr Group recognizes deferred taxes on all differences arising from the commencement date of a lease. Please refer to → note 17 for further details.

3.12 — RECONCILIATION OF THE MINIMUM PAYMENTS FOR OPERATING LEASES AS OF DECEMBER 31, 2018 TO THE LEASE LIABILITIES AS OF JANUARY 1, 2019

€ k	
Minimum payments for operating leases as of December 31, 2018	**103,355**
Practical expedient for short-term leases	–5,226
Practical expedient for low-value assets	–4,041
Service components	957
Reasonably certain extension or termination options	24,514
Other	1,885
Gross lease liability from operating leases as of December 31, 2018	**121,444**
Discounting	–14,787
Additional lease liabilities from first-time application of IFRS 16 as of January 1, 2019	**106,657**
Present value of finance lease liabilities as of December 31, 2018	7,182
Lease liabilities as of January 1, 2019	**113,839**

As of January 1, 2019, lease liabilities were discounted using the incremental borrowing rate. The weighted average incremental borrowing rate came to 2.9 %.

Sundry financial liabilities

The € 187 thousand decrease in sundry financial liabilities is associated with rent-free periods. Under IFRS 16 these are taken into account in the lease term.

Further explanations on individual items and options are provided in → note 7.

7. RECOGNITION AND MEASUREMENT POLICIES

Revenue recognition pursuant to IFRS 15 "Revenue from Contracts with Customers"

The Dürr Group generates most of its sales revenues from the production and delivery of customer-specific plant and machinery. For these contracts, the sales revenues and planned gross margin is realized in accordance with the percentage of completion method (PoC method) in line with the percentage of completion of a contract over the performance period. The criteria of IFRS 15 for this are: the asset does not have any other alternative usage and, at the same time, the Group has an enforceable right to payment for work already performed. The progress towards satisfaction of a performance obligation is calculated on the basis of the costs incurred relative to the total estimated costs (cost-to-cost method). This ensures that both sales revenues and the associated costs are systematically recorded and therefore the profit or loss from the contract is recognized in the period incurred over which the control over the goods or services is transferred. Customer payments are contractually agreed and based on the progress of projects and on milestones set. This keeps the time that elapses between customer payments and progress towards satisfaction of a performance obligation to a minimum. The Group came to the conclusion that the input-based method is best suited for determining the progress towards satisfaction of a performance obligation as the Group uses IT-supported calculation methods and, with the help of division-specific project controlling, is able to reliably estimate planned costs and monitor total costs.

Where it is not possible to give a reliable estimation of the progress towards complete satisfaction of a performance obligation based on output factors or input factors, the zero profit method (ZP method) is applied as long as it can be assumed that the Dürr Group can recover the costs incurred from satisfying the performance obligation. With the zero profit method sales revenues and the associated costs are realized in equal amounts until it is possible to reliably estimate the progress towards complete satisfaction of a performance obligation. The gross margin is thus, in part at least, not made up for until a later stage of the contract and is recognized through profit or loss.

The other portion of sales revenues from contracts with customers is generated from both the sale of standard machines, spare parts and other goods as well as the rendering of services. These sales revenues are recognized at the date on which the customer obtains control over the promised asset. This is usually the point in time when the machine is delivered to the customer, at which point the customer obtains legal title to the machine or has inspected it. Services are rendered and recorded as sales revenues upon their completion. For standard machines and spare parts, the customer makes the payment upon receiving the invoice, which is done following delivery or inspection, depending on the contractual arrangements. In this case, advance payments are also invoiced to the customer.

Performance obligations

The Group divides its contracts with customers into performance obligations, separating them based on contractual terms into performance obligations that are either satisfied at a point in time or over time. The customer contracts are analyzed for separable performance obligations. In addition to the performance obligation to produce a machine or plant for the customer, separable performance obligations in the Paint and Final Assembly Systems, Application Technology and Clean Technology Systems divisions mainly include spare parts packages and partial modifications. In the Measuring and Process Systems and Woodworking Machinery and Systems divisions, it is primarily the assembly and commissioning that play a role as distinct performance obligations.

Intangible assets

Intangible assets comprise goodwill, franchises, brand names, industrial rights and similar rights, internally generated software, capitalized development costs as well as acquired customer relationships, orders and technological know-how. Purchased and internally generated intangible assets are recognized pursuant to IAS 38 “Intangible Assets” if, in addition to other criteria, it is probable that a future economic benefit will flow to the entity from the use of the asset, and the cost of the asset can be reliably determined.

Intangible assets are recognized at cost. Intangible assets with a finite useful life are amortized over their useful life using the straight-line method, unless they are impaired. Goodwill and other intangible assets with indefinite useful lives are not amortized. Other intangible assets are tested once annually to determine whether events and circumstances still justify the assumption that they have an indefinite useful life. If this is not the case, the estimated useful life is changed from indefinite to finite in accordance with the requirements of IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. Likewise, intangible assets with an indefinite useful life are tested once annually or sooner if there are any indications that an asset may be impaired. In addition to goodwill, the Dürr Group recognizes brand names as further intangible assets with mostly indefinite useful lives. These brand names are tested annually for impairment alongside goodwill. Like goodwill, the brand names are part of the net assets of a cash-generating unit.

In the Group, development costs are only recognized as internally generated intangible assets if the conditions set forth in IAS 38 are satisfied. These include the following criteria:

- Technical feasibility of completing the intangible asset so that it will be available for use or sale
- The probability of a future economic benefit arising from the use of the asset
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Cost is the sum of all directly attributable expenditure incurred from the date when the intangible asset first meets the recognition criteria. Development costs which do not meet these criteria, as well as research costs, are recognized immediately as an expense. Amortization of capitalized development costs is disclosed under cost of sales in the statement of income.

3.13 — USEFUL LIVES OF INTANGIBLE ASSETS (ESTIMATED)

years	
Brand names with finite useful life (DUALIS, Megtec, Universal)	0 to 4
Capitalized development costs	2 to 10
Franchises, industrial rights and similar rights	2 to 20
Customer relationships	4 to 10
Technological know-how	5 to 15
Other brand names	indefinite

More information on the brand names is provided in → note 18.

Property, plant and equipment

Property, plant and equipment are accounted for at cost less straight-line depreciation over their useful life. Cost comprises all production costs that are directly attributable to the production process.

3.14 — USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT (ESTIMATED)

years	
IT hardware	2 to 5
Machines and equipment	2 to 21
Furniture and fixtures	2 to 25
Buildings, hereditary building leases and leasehold improvements	3 to 50
Land	indefinite

The cost of property, plant and equipment includes major expenditures and replacements which extend useful lives or increase capacity. The historical cost of assets that are either sold or scrapped is derecognized, as is the accumulated depreciation. Any gains or losses from derecognition are determined as the difference between the net disposal proceeds and the carrying amount and recognized through profit or loss as other operating income or expenses in the period in which the item is derecognized. Costs of ongoing repairs and maintenance are posted immediately to profit or loss.

Investment property

Properties are allocated to investment property if a change in use has occurred which is substantiated by their being occupied by another party after the end of owner-occupation or the inception of an operating lease with another party.

Investment property is recognized initially at (amortized) cost, including transaction costs. The carrying amount contains the costs for investments to replace an existing investment property at the time these costs are incurred, provided the recognition criteria are satisfied, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured at amortized cost.

Investment property is derecognized when it is sold or retired from active use and no future economic benefit is expected upon its disposal. Gains or losses arising from the retirement or disposal of investment property are recognized in the year of retirement or disposal.

Leases

Several entities in the Dürr Group lease land, buildings, technical equipment and machines as well as office and operating equipment. One entity leases properties to external lessees.

A lease is a contract that transfers the right to use an asset (the leased asset) for a period of time in exchange for consideration. Since January 1, 2019, the Dürr Group as lessee has generally accounted for these leases as right-of-use assets and the corresponding payment obligations over the lease term as lease liabilities from the commencement date. The right-of-use assets are recognized under property, plant and equipment or investment property, while the lease liabilities are recognized as part of financial liabilities → notes 18, 31, 36, 40 and 41. Lease liabilities correspond to the present value of the lease payments made over the lease term. These comprise the fixed payments, variable payments (if linked to an index or interest rate) and the exercise price of a purchase option if it is reasonably certain that the option will be exercised. In order to ensure that the terms are flexible, some leases for land and buildings in particular contain options to extend or terminate the lease. If it is reasonably certain that the option will be exercised or not, the optional periods are taken into account accordingly when determining the lease term. For discounting, the interest rate implicit in the lease is used if this can be determined. Otherwise, the incremental borrowing rate is used. Right-of-use assets are measured at acquisition cost and comprise the lease liabilities, dismantling obligations and rent prepayments.

Lease liabilities and right-of-use assets are subsequently measured at amortized cost. The lease liability is measured using the effective interest method, i.e., the lease payments are apportioned between finance charges and a redemption of the lease liability. This is done so as to achieve a constant rate of interest over the period on the remaining balance of the lease liability. → Notes 16 and 36 contain disclosures on interest expenses and interest payments from leases.

The lease liability is remeasured if the lease agreement is modified or changes are made to the lease payments, lease term or estimates regarding the exercise of purchase options. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and their estimated useful lives and adjusted for any remeasurements of the lease liability.

3.15 — USEFUL LIVES OF RIGHT-OF-USE ASSETS (ESTIMATED)

years	
Vehicles	1 to 6
IT hardware	1 to 9
Machines and equipment	3 to 23
Land, buildings, hereditary building leases, office space	1 to 90

The Dürr Group makes use of the following exemptions and practical expedients:

- For short-term leases and leases of low-value assets, the lease payment is recognized through profit or loss.
- IFRS 16 is not applied to intangible assets.
- Lessees do not separate lease and non-lease components.

Furthermore, intragroup leases are recognized through profit or loss in the segment reporting pursuant to IFRS 8 and not in the statement of financial position.

Leases in which the Dürr Group is the lessor relate to investment property. For these leases, the opportunities and risks remain within the Group. The lease payments are recognized by the lessor separately from non-lease components on a straight-line basis as sales revenues from lease agreements.

Leases pursuant to IAS 17 (prior period)

Until December 31, 2018, lessees differentiated between operating and finance leases. In the Dürr Group, the majority of leases were classified as operating leases. Lease payments on operating leases were recorded as an expense in the statement of income over the lease term.

Assets leased under finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased asset, were capitalized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. A liability was also established at that time for the same amount. The lease liability and lease asset from finance leases were subsequently measured at amortized cost in line with the subsequent measurement of leases pursuant to IFRS 16.

Impairment testing for intangible assets and property, plant and equipment including right-of-use assets

All intangible assets with an indefinite useful life, intangible assets which are not yet ready for use and goodwill are tested for impairment at the end of each reporting period. Sundry intangible assets and property, plant and equipment including right-of-use assets are reviewed for impairment whenever events or changes in circumstances indicate that an asset may be impaired, i.e., that the carrying amount of an asset may not be recoverable. Investment property that is largely rented to third parties is also subjected to an impairment test at least once a year.

An impairment loss is recognized through profit or loss if the recoverable amount of the asset falls short of its carrying amount. The recoverable amount is the higher of an asset's net selling price and its value in use. The net selling price is the amount recoverable from the disposal of an asset at market conditions less costs to sell. Value in use is the fair value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The recoverable amount is determined for each asset individually or, if that is not possible, for the cash-generating unit to which the asset belongs. As regards goodwill acquired in business combinations, the relevant cash-generating units correspond to the business activities within the divisions of the Dürr Group based on internal reporting structures. To determine the estimated cash flows of each cash-generating unit, basic assumptions have to be made. These include assumptions regarding financial planning and the interest rates used for discounting.

Impairment losses recognized in prior periods are reversed against profit or loss if they cease to exist or have decreased. The reversal of an impairment loss or the reduction of an impairment loss of an asset is, however, only recognized to the extent that it does not exceed the carrying amount that would have existed if the regular amortization or depreciation had been recorded and no impairment losses had been recognized. Impairments on goodwill may not be reversed.

Other comments on intangible assets, property, plant and equipment and right-of-use assets can be found in → note 18.

Financial instruments

A financial instrument is a contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Pursuant to IFRS 9 “Financial Instruments”, financial instruments are classified in the following categories:

- Financial assets measured at amortized cost
- Financial assets measured at fair value through other comprehensive income
- Investments in equity instruments measured at fair value through other comprehensive income
- Financial assets measured at fair value through profit or loss
- Investments in equity instruments measured at fair value through profit or loss
- Financial liabilities measured at amortized cost
- Financial liabilities measured at fair value through profit or loss.

Purchases or sales of financial assets are recognized using trade date accounting.

Financial assets

Financial assets are classified in accordance with IFRS 9 based on the business model used to manage financial assets and on the basis of the characteristics of the contractual cash flows of the financial assets. The objective of the Dürr Group’s business model is to hold financial assets in order to collect contractual cash flows. With regard to the characteristics of the contractual cash flows, it is examined whether the contractual terms of the financial assets give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets in Dürr’s portfolio are measured at amortized cost provided that the business model is complied with and the contractual cash flows fulfill the condition above.

The business model for financial assets measured at fair value through other comprehensive income (debt instruments) includes both the holding and sale of financial assets. The contractual terms that have to be met give rise solely to payments of principal and interest on the principal amount outstanding on specific dates.

Equity instruments are generally classified as measured at fair value through profit or loss at initial recognition. However, upon initial recognition an irrevocable option may be exercised to classify equity instruments as measured at fair value through other comprehensive income. This option may only be exercised if the equity instruments are not held for trading and if they do not represent contingent consideration in a business combination. The Dürr Group generally holds its equity interests for strategic reasons as a way of expanding the Group's business operations. Focus is not placed on the intention to generate significant amounts of short-term gains on sale. Any fluctuations in the measurement of investments are therefore not expected to have any impact on the statement of income. Accordingly, equity instruments are classified as measured at fair value through other comprehensive income. Gains or losses of equity instruments in this category recognized through other comprehensive income are never reclassified to profit or loss. In derogation from this, the investment in SBS Ecoclean GmbH is classified as at fair value through profit or loss. In addition to the investment in Parker Engineering Co., Ltd., the Dürr Group holds a put option accounted for through profit or loss. In order to keep the economic effect on the statement of income to a minimum here too, both the investment and the related option are classified at fair value through profit or loss. Parker Engineering Co., Ltd. is recognized in the statement of financial position under other financial assets, the option under sundry financial liabilities.

Financial assets that do not satisfy the conditions for being classified as measured at amortized cost/at fair value through other comprehensive income are designated as measured at fair value through profit or loss. The Dürr Group does not currently make use of the option to measure financial assets at fair value through profit or loss at initial recognition.

Valuation and impairment of financial assets

IFRS 9 introduces an impairment model based on the expected credit loss model, which is applicable for all financial assets (debt instruments) that are measured at amortized cost or at fair value through other comprehensive income. The expected credit loss model distinguishes between the general approach and the simplified approach. The general approach allocates the financial assets to three risk stages and is mainly applicable for cash and cash equivalents as well as sundry financial assets. The simplified approach, which is applicable for contract assets, trade receivables and lease receivables, does away with the first of the three risk stages.

The Dürr Group allocates the financial assets to the individual valuation and impairment stages based on past-due criteria and historically tried-and-tested, qualitative internal and external risk assessments of the individual debtors. These assessments are applicable for all classes of financial assets. Provided that the non-derivative financial assets were not already impaired upon acquisition, the assets are allocated to stage 1. Generally speaking, a financial instrument is also allocated to stage 1 if it is deemed to be investment grade by external rating agencies.

If there has been a significant increase in the credit risk since initial recognition, the assets are allocated to stage 2. A number of qualitative criteria are used to assess whether the credit risk has increased significantly since a financial asset was recognized for the first time. This involves, for example, examining whether the total comprehensive income of the debtor has deteriorated significantly or whether it is expected to do so. Financial assets are allocated to stage 2 at the latest when contractual payment is more than 30 days past due.

Financial assets are allocated to stage 3 or their default is assumed once matters become known that could impair the ability of a certain debtor to meet its financial obligations. For all financial assets, this means observing the criteria of being 90 days past due as well as using qualitative credit ratings for debtors. For example, the likelihood of insolvency or any other financial reorganization of the debtor results in the financial assets being allocated to stage 3.

In deviation from the past due criteria mentioned above, trade receivables and contract assets measured in accordance with the simplified approach are allocated to stage 3, if they are more than twelve months past due. This appropriately reflects the industry-specific experience and payment patterns for long-term projects in the plant and machinery sector.

Financial assets are derecognized as soon as reasonable information is available that indicates that they are uncollectible, such as insolvency proceedings coming to an end or following a court decision. Further explanations on the valuation and impairment of financial assets can be found in → note 41.

Financial liabilities

Financial liabilities generally give rise to the right to receive settlement in cash or another financial asset. They include, for example, trade payables, liabilities to banks, bonds, Schuldschein loans, obligations from options, derivative financial liabilities and other financial liabilities.

After initial measurement, financial liabilities carried at amortized cost are subsequently measured at amortized cost using the effective interest method. Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading. Derivatives are deemed to be held for trading unless they are designated and effective hedging instruments. Gains or losses on financial liabilities held for trading are recognized through profit or loss.

The Dürr Group has not yet made use of the option to designate financial liabilities upon initial recognition as financial liabilities at fair value through profit or loss.

Derivative financial instruments and hedge accounting
The Dürr Group uses derivative financial instruments such as forward exchange contracts in order to hedge against currency risks. For accounting of hedges, the Dürr Group continues to apply the regulations of IAS 39 "Financial Instruments: Recognition and Measurement".

Derivative financial instruments are measured at fair value on initial recognition and in subsequent periods. Recognition of these changes – whether through profit or loss or through other comprehensive income (hedge reserve) – depends on whether the derivative financial instrument is part of an effective hedge in accordance with IAS 39. Changes in fair value are recognized through profit or loss unless the special criteria of IAS 39 for hedge accounting are satisfied.

Depending on the nature of the hedged item, hedging instruments are designated as follows:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset, liability, unrecognized firm commitment or an identifiable part of such assets, liabilities or firm commitment which could affect profit or loss;
- Cash flow hedges if they hedge exposure to variability in cash flows that is attributable to a recognized asset or liability or a forecast transaction and could affect profit or loss; or
- Hedges of a net investment in a foreign operation. They are treated in the same manner as cash flow hedges.

Fair value hedge accounting
In the case of fair value hedges, the carrying amount of a hedged item is adjusted through profit or loss by the profit or loss that is attributable to the hedged exposure. In addition, the derivative financial instrument is remeasured at its fair value. Gains or losses arising as a result are also recognized through profit or loss. In a perfect hedge, the fluctuation in fair value recognized through profit or loss for the hedged item practically offsets that of the hedging instrument. For fair value hedges which relate to hedged items carried at amortized cost, the adjustments of the carrying amount are released to profit or loss over their term until maturity. Every adjustment of the carrying amount of a hedged financial instrument is released to profit or loss using the effective interest method. The amount can be released as soon as an adjustment is made. It is released at the latest when the hedged item ceases to be adjusted for the changes in fair value that are attributable to the hedged exposure. If the hedged item is derecognized, the unamortized fair value is recognized immediately in the statement of income.

If an unrecognized firm commitment is designated as a hedged item, the subsequent accumulated change in its fair value that is attributable to the hedged risk is recognized as an asset or liability in the profit or loss of the period. The changes in fair value of the hedging instrument are also recognized in the profit or loss of the period. However, this does not apply if foreign exchange exposure is hedged, as that is treated as a cash flow hedge. Hedge accounting is discontinued when the hedging instrument is settled prematurely or matures or no longer qualifies for hedge accounting.

Cash flow hedge accounting

In the case of cash flow hedges, the effective portion of the gain or loss on a hedging instrument is recognized directly in equity. The ineffective portion is recognized through profit or loss. Amounts that are recognized directly in equity are reclassified to profit or loss in the period in which the hedged item affects the net profit or loss for the period. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or non-financial liability. If the forecast transaction is no longer expected to occur, any amounts previously taken to equity are reclassified to the net profit or loss for the period. When the hedge is settled prematurely or matures, the amounts previously disclosed remain a separate item in equity until the forecast transaction occurs. The same applies if the hedging instrument is exercised without replacement or rollover, or if the criteria for cash flow hedge accounting are no longer in place. If the forecast transaction is no longer expected to occur, the amount is recognized through profit or loss. Further explanations on derivative financial instruments are given in → note 41.

Other financial assets

Other financial assets include non-current investments in equity instruments. Other investments include shares in entities that are classified as at fair value through profit or loss or through other comprehensive income. Also included are non-consolidated entities that are included in the consolidated financial statements at cost on grounds of immateriality.

Inventories

Inventories of materials and supplies, work in process from the manufacture of standard machines and finished goods and merchandise are recognized at the lower of cost or net realizable value at the end of the reporting period. As a rule, an average value is used. Write-downs are recorded for obsolete and slow-moving inventories.

Costs of conversion comprise direct materials costs, direct labor costs as well as an appropriate portion of production-related overheads and depreciation. The overhead markups are determined on the basis of average capacity utilization. Borrowing costs are included, provided that they relate to qualifying assets.

Contract assets

For the Dürr Group, contract assets represent a legal right to consideration in exchange for goods or services that are subject to conditions other than the simple term of payment. To the extent that costs have been incurred on contracts, but the amounts cannot yet be billed under the terms of the contracts as the payment right is still conditional, they are reported as contract assets together with the corresponding estimated earnings. The contract assets contain directly allocable contract costs as well as, to an appropriate degree, production-related overheads and estimated earnings that can be derived from the agreed transaction price. In order to adequately portray the credit risk of the respective customer, a corresponding valuation allowance is recognized in accordance with IFRS 9. The valuation allowance is determined using the same methods as for trade receivables.

Trade receivables and other non-derivative financial assets

Receivables and other non-derivative financial assets constitute a contractual right to receive cash or another financial asset at a future point of time.

Receivables and non-derivative financial assets are carried at amortized cost less valuation allowances and impairments. To determine the valuation allowances and impairments the Group assesses the recoverability of the financial assets by referring to a number of factors. For this purpose, credit risks are segmented using common credit risk characteristics.

A central monitoring and local collection management system counters the risk of bad debts. This system includes regular credit ratings, the conclusion of credit insurance policies and – particularly in the export business – issuing letters of credit. Further information on valuation allowances and impairments can be found in the section on the valuation and impairment of financial assets.

Other assets

Other assets comprise capitalized assets that cannot be allocated to any other category.

Costs of obtaining a contract that have arisen in connection with customer contracts are recognized at the amount incurred under other assets. Usually, the contractually agreed commission is a percentage of the contract value. This is only based on judgment to a small degree. Only in some cases the amount of the commission is variable and depends on the estimated gross margin of the contract. The costs of obtaining a contract are generally amortized in line with the percentage of completion of the underlying goods and services. For customer contracts that are invoiced when control is transferred, this occurs when the costs of obtaining a contract are written off entirely. Impairment losses on recognized costs of obtaining a contract are posted immediately to profit or loss if the residual carrying amount of the capitalized costs of obtaining a contract are higher than the remaining portion of consideration less costs that are directly in connection with delivering the goods or rendering the services and were not yet expensed.

Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits and other short-term, highly liquid financial assets with an original term to maturity of less than three months. They are recognized at nominal value less valuation allowance. The credit risk rating is based on internal and external risk assessments. Further information on valuation allowance can be found in the section on the valuation and impairment of financial assets.

Other comprehensive income

This item presents changes in equity, including the deferred taxes thereon, other than those arising from capital transactions with owners (e.g., capital increases or distributions). These include exchange differences, accumulated actuarial gains and losses from the remeasurement of post-employment benefits and similar obligations as well as unrealized gains and losses from the measurement of financial assets and derivative financial instruments (cash flow hedges) measured at fair value.

Borrowing costs

Borrowing costs include interest and similar expenses, other finance costs and the cost of liabilities.

Pursuant to IFRS 9 “Financial Instruments”, borrowing costs incurred in connection with the issue of the bond and Schuldschein loans are deducted on the liabilities’ side of the consolidated statement of financial position. Calculated using the effective interest method, borrowing costs are amortized over the term of the bond and Schuldschein loans.

Post-employment benefits

The Group’s post-employment benefits include defined contribution plans and defined benefit plans. The defined benefit plans guarantee the beneficiary a monthly old-age pension or non-recurring payment upon leaving the company. These benefit plans are funded by the entities as well as by the employees.

In accordance with IAS 19 “Employee Benefits”, provisions for post-employment benefits are measured using the projected unit credit method. For this purpose, the future obligations are measured on the basis of the pro rata employee benefit obligations at the end of the reporting period. Provisions for post-employment benefit obligations are calculated taking into account development assumptions (e.g. relating to salary trends or pension increases) for those factors which affect the benefit amount.

Defined benefit cost is divided into service cost and net interest, which are recognized through profit or loss, and remeasurements, which are recognized directly in equity after deducting deferred taxes. Pursuant to the criteria of IAS 19, provisions for post-employment benefit obligations covered by assets held by a long-term benefit fund or by qualifying insurance policies are offset against the related plan assets, taking account of the asset ceiling. In addition to qualifying insurance policies, assets of an external insurance company or a fund are recognized as plan assets under IAS 19 if these assets can be used exclusively to pay or fund employee benefits and are protected from potential creditors.

Other provisions

Other provisions are recorded pursuant to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" if the obligation to a third party results from a past event which is expected to lead to an outflow of economic benefits and can be reliably determined. Provisions for restructuring are recognized only to the extent that a detailed formal plan has been prepared and communicated to the parties concerned. Other provisions represent uncertain liabilities, which were recognized on the basis of a best estimate of the amount needed to settle the obligations. If the amount of the provision can only be determined within a range, the most probable figure is used. If there is no difference in the level of probability, the weighted average is taken. Provisions with a remaining term of more than one year are discounted at market interest rates which reflect the risk and period until the obligation is settled.

Contract liabilities

Contract liabilities constitute an obligation to the customer when progress billings issued and payments received from customers are collected or fall due before the promised service is rendered. Contract liabilities from progress billings issued and payments received from customers are offset against the services as soon as they are rendered. If a contract contains several separate performance obligations, only one contract asset or contract liability from this contract is determined on a net basis.

Liabilities

Trade payables and sundry financial liabilities are recorded at amortized cost. Other liabilities are recorded at the settlement amount. Liabilities that do not lead to an outflow of resources in the following year are discounted at market interest rates as of the end of the reporting period.

At the inception of the lease, liabilities from leases are carried at the present value of the lease payments. Further information is contained in the section on leases.

Income taxes and deferred taxes

The Dürr Group operates in a large number of countries and is consequently subject to different tax jurisdictions. The anticipated current and deferred income taxes have to be determined for each taxable entity.

Deferred taxes are accounted for using the balance sheet liability method according to IAS 12 "Income Taxes". This involves creating deferred tax items for all temporary accounting and measurement differences between the carrying amounts for IFRS purposes and the tax bases of the assets and liabilities. They are not created if the taxable temporary difference arises from goodwill or the initial recognition of other assets and liabilities in a transaction (that is not a business combination) which affects neither the IFRS accounting profit nor the taxable profit or loss. Moreover, for leases where the Dürr Group is a lessee, already on the commencement date of the lease the Group recognizes:

- deferred tax assets on lease liabilities to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized, and
- deferred tax liabilities on right-of-use assets in property, plant and equipment or investment property.

A deferred tax asset is recognized for all taxable temporary differences arising from investments in subsidiaries or associates, and interests in joint ventures, unless the parent can control the reversal of the temporary difference and the temporary difference will probably not reverse in the foreseeable future. Further, deferred tax assets for future economic benefits from unused tax losses and unused tax credits are taken into account if it is highly probable that they will be used.

Deferred tax assets and deferred tax liabilities are measured taking into account the respective local income tax rates which are expected to apply in the individual countries at the time of realization based on tax laws that have been enacted or substantively enacted. Deferred tax assets are reversed if it is more probable that the tax benefit will be forfeited than that it will be utilized.

Deferred tax assets are recognized to the extent that they are likely to be used. The probability of their being used in the future is assessed taking into account various factors, such as future taxable profit in the planning periods, effects on earnings from the reversal of temporary differences, tax strategies and profit actually generated in the past. The Group uses a planning horizon of four years. Management reviews the deferred tax assets for utilization at the end of each reporting period. As these reviews are sometimes based on assumptions about the future, the actual values may diverge from estimates. These are then adjusted through other comprehensive income or through profit or loss, depending on how they were initially recognized. Based on past experience and the expected future income, the Dürr Group assumes that the corresponding benefits will be realized from the deferred tax assets.

Deferred tax assets and deferred tax liabilities are netted if, and only if, the entity has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied on the same taxable entity by the same taxation authority. Deferred taxes are recorded as tax income or expense in the statement of income unless they relate to items recorded through other comprehensive income; in this case, the deferred taxes are also recorded through other comprehensive income. Deferred tax assets from temporary differences in excess of deferred tax liabilities are only recognized to the extent that they can be utilized against future taxable profits.

IFRIC 23 "Uncertainty over Income Tax Treatments", applicable from January 1, 2019, clarifies the accounting for uncertainties in income taxes. The probability with which the relevant tax authority with full knowledge of the matter will follow the position taken in the tax returns must be assessed. Particularly, judgment is required for the following uncertainties:

- Should each tax treatment be considered independently or together with other tax treatments?
- Which assumptions need to be made for tax authorities' examination?
- What are the potential effects of a deemed tax field audit?
- How to deal with changes in matters, for example, due to new information?

The Dürr Group examines continuously whether IFRIC 23 needs to be applied to uncertain matters, primarily because the Group operates in a number of jurisdictions. Indications of uncertain tax treatments may be seen in the area of transfer pricing, which the Dürr Group intends to reduce through the application of the internal control system and documentation of transfer pricing. The Dürr Group, therefore, expects that it is probable that the tax authorities will accept the tax treatment of the Group.

Share-based payment

The share-based payment transactions pursuant to IFRS 2 "Share-based Payment" cover remuneration systems that are settled in cash. For the measurement, the Dürr Group calculates the fair value of the share-based payment transactions upon initial recognition, at each reporting date and on the settlement date. The fair value is accumulated over the period through profit or loss until they are settled and recognized in sundry financial liabilities. Changes in fair value are recognized in personnel expenses in the statement of income.

Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent liabilities can arise from a present obligation that results from past events but is not recognized because:

- it is not probable that an outflow of resources embodying economic benefits will be required to settle this obligation or
- the amount of the obligation cannot be measured with sufficient reliability.

A contingent liability is not disclosed if the possibility of an outflow of resources embodying economic benefits is remote; otherwise, information is provided in the notes to the financial statements. Contingent liabilities assumed in a business combination are recognized at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Use of assumptions and estimates

The preparation of the consolidated financial statements pursuant to IFRSs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the end of the reporting period and the reported amounts of income and expenses during the reporting period. Actual figures may diverge from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that risk causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are discussed below.

Significant accounting judgments when applying IFRS 15

Determining the transaction price

The transaction price is the amount of the consideration the Dürr Group expects to receive from its customers in exchange for transferring goods or rendering services. The transaction price of the individual performance obligations is determined using their stand-alone selling prices. The Group breaks down the transaction price agreed in the contract in proportion to the stand-alone selling prices. Variable consideration is only taken into account where it is highly probable that it will not result in a significant decrease in realized sales revenues once there is no longer any uncertainty in connection with the variable consideration. When determining the transaction price, it must therefore be assessed whether the contractual arrangements provide for variable consideration. The Dürr Group has variable consideration in the form of discounts and rebate arrangements. Either the expected value method or the most likely amount method is used when estimating the variable consideration. The method used is the one with which the Group can provide the most reliable estimate of the consideration. The Group came to the conclusion that the most likely amount method is the most suitable method for estimating variable consideration. If it is assumed that a rebate will be granted upon concluding the contract, the transaction price is adjusted to the most likely amount. The same applies if it is expected upon concluding the contract that the customer will claim the discount. The most likely amount is calculated as the single most likely amount in a range of possible considerations. In determining the transaction price, the time value of money also needs to be considered if the timing of payments agreed to by the parties to the contract provides the customer (payment after receipt of goods or services) or the entity (payment before transfer of goods or services) with a significant benefit of financing the transfer of goods or services to the customer. In those cases where it is assumed upon initiating the contract that the period between customer payments and transfer of control over the asset is less than one year, the Group has decided to make use of the practical expedient not to adjust the transaction price for significant financing components.

Determining the percentage of completion

The majority of orders in the Dürr Group are accounted for using the percentage of completion method and sales revenues are recorded over time in accordance with the criteria of IFRS 15. A precise assessment of the degree of completion is essential for determining the percentage of completion using the PoC method. The key estimation parameters include total contract revenues and contract costs, the remaining costs of completion and the contract risks. These estimates are reviewed and adjusted regularly.

As the PoC method and the ZP method are based on estimates, estimates of the expenses required for completion may have to be adjusted subsequently due to the uncertainties prevailing in this respect. Such adjustments to costs and income are recognized in the period in which the adjustments are determined. Provisions for onerous contracts are recognized at contract level and taken into account in the period in which the losses are identified; they are recognized as provisions pursuant to the requirements of IAS 37.

Contract amendments

Revenue recognition from the production and delivery of plant and machinery also takes into account amounts that the Group seeks to collect from customers or others for errors or changes in contract specifications or design, contract change orders in dispute or not yet negotiated as to both scope and price, or other customer-related causes of unanticipated additional contract costs, claims and pending change orders. These are carried at the estimated amount provided their realization is highly probable and they can be reliably estimated. Pending change orders involve the use of estimates. Therefore, it is possible that adjustments to the estimated recoverable amounts of recorded pending change orders will be made in the future.

Other accounting judgments

Impairment of goodwill

The Group tests goodwill for impairment at least once a year. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. To do this, management is required to make an estimate of the expected future cash flows from the cash-generating units. The Dürr Group uses a planning horizon of four years. In addition, it is necessary to choose a suitable discount rate in order to calculate the present value of these cash flows. Please refer to → note 18 for further details.

Leases

Leases on buildings and office space in particular contain options to extend or terminate the lease. The measurement of the lease liability requires an estimate of whether it is reasonably certain that these options will be exercised. The Group takes into account all facts and circumstances that have an impact on these options being exercised or not.

If the interest rate implicit in the lease cannot be determined, the incremental borrowing rate is used. This is derived for different terms of country-specific interest rate swaps and adjusted for a risk premium for leases.

Valuation and impairment of financial assets

During the recognition and measurement of financial assets, estimates and assumptions regarding the creditworthiness of debtors are necessary. Under the expected credit loss model, the measurement of valuation allowances for financial assets is subject to various assumptions and uncertainties. In particular, estimates are to be made about expected payment defaults, incoming payments and the collateral available. Please refer to → **note 41** for further details.

Pensions and other post-employment benefit plans

The cost of defined benefit plans is determined using actuarial calculations. This involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases (rate of pension progression). The mortality tables published by Heubeck AG (Heubeck 2018 G) are used to determine the post-employment benefit obligations. These tables are based on the most recent statistics from statutory pension insurance as well as the German Federal Statistics Office, and therefore reflect the most recent developments regarding life expectancy. The discount rates used are based on the market yields of high-quality, fixed-interest corporate bonds. The future pension increases in Germany follow the development in gross wages. In addition, the changes in the contribution rate in pension insurance and the development of the ratio of persons making contributions and pensioners are taken into account through sustainability factors. Due to the long-term nature of these plans, such assumptions are subject to significant uncertainty. Please refer to → **note 27** for further details.

Development costs

Development costs are capitalized in accordance with the presented accounting policy. Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, interest rates to be applied and the expected period of benefits.

Options in connection with the domination and profit and loss transfer agreement with HOMAG Group AG

Based on the domination and profit and loss transfer agreement that came into force in 2015, Dürr Technologies GmbH has the possibility to issue instructions to the corporate bodies of HOMAG Group AG and to recognize the entire profit of HOMAG Group AG as well as the obligation to absorb any losses. In return, the Dürr Group is required to make a compensation payment pursuant to Sec. 304 AktG [“Aktiengesetz”: German Stock Corporations Act] of € 1.18 (gross) per HOMAG share (€ 1.01 (net) after deducting corporate income tax and solidarity surcharge; before individual tax burden of the shareholder) for each reporting period as well as a settlement payment pursuant to Sec. 305 AktG of € 31.56 per HOMAG share. Since then, Dürr Technologies GmbH has guaranteed a dividend equivalent to the compensation payment. The domination and profit and loss transfer agreement can be terminated for the first time as of December 31, 2020. In the prior period, Dürr Technologies GmbH acquired another 8.0 % of the shares in HOMAG Group AG. The call option granted for this purpose was exercised for the shareholder group Schuler/Klessmann on February 2, 2018. The total purchase price in this connection amounted to € 34,802 thousand, which reduced sundry financial liabilities by € 32,756 thousand. This transaction and further share deals in the 2019 reporting period increased the share of Dürr Technologies GmbH in the subscribed capital of HOMAG Group AG from 55.9 % as of January 1, 2018 to 64.0 % as of December 31, 2019.

On August 28, 2019, the Stuttgart Regional Court made a provisional decision in the arbitration proceedings initiated by the shareholders of HOMAG Group AG, and ruled that the settlement for shareholders of HOMAG Group AG should be raised from € 31.56 to € 31.58. The Stuttgart Regional Court also decided that the compensation payment should be raised from € 1.18 to € 1.19 (gross) per HOMAG share (after deducting corporate income tax and solidarity surcharge from € 1.01 to € 1.03 (net); before individual tax burden of the shareholder). Due to an appeal filed against the Stuttgart Regional Court’s decision, the ruling has not become effective.

The decision of the Stuttgart Regional Court led to an increase of € 70 thousand in sundry financial liabilities. Until the final decision in the arbitration proceedings is made, the figures determined originally for compensation payment and settlement are still valid. For the claims of the minority shareholders of HOMAG Group AG, the arbitration proceedings may in principle lead to adjustments being made to the settlement and compensation payments.

For further information on the recognition of the sundry financial liability for the obligation to acquire shares as well as to pay the compensation claims in connection with the domination and profit and loss transfer agreement concluded with HOMAG Group AG, please refer to → note 32.

Share-based payment

The measurement of cash-settled share-based payment transactions is based on the anticipated share price at the end of the contractual term and earnings ratios over the duration of the program. Historical share prices are used to determine the fair value. The earnings ratios used are based on internal forecasts. The actual share prices and earnings ratios may deviate from the assumptions made.

Estimates and assumptions are also required for the recognition and measurement of contingent liabilities and other provisions; the same applies to determining the fair value of long-lived items of property, plant and equipment and intangible assets.

Notes to the items of the consolidated financial statements

Notes to the consolidated statement of income

Due to the first-time application of IFRS 16, the amounts for "amortization and depreciation of non-current assets" in the cost of sales, selling, general administrative expenses and research and development costs also contain depreciation of capitalized right-of-use assets since the 2019 reporting period.

The disclosures for the prior period include the values of the Megtec/Universal entities acquired as of the date of first-time consolidation October 5, 2018.

8. SALES REVENUES

3.16 — SALES REVENUES

€ k	2019	2018
Sales revenues recognized over time from contracts with customers	2,459,009	2,403,544
Sales revenues recognized at a point in time from contracts with customers	1,457,992	1,461,910
Sales revenues from lease agreements	4,510	4,362
Total sales revenues	**3,921,511**	**3,869,816**
thereof		
Sales revenues from services	1,118,612	1,039,036
Sales revenues with the automotive industry	2,060,366	2,152,839

In the 2019 reporting period, € 586,207 thousand (prior period: € 612,976 thousand) was recognized as sales revenues, which had still been recognized under contract liabilities at the beginning of the reporting period. In future periods, sales revenues from currently unsatisfied or partially unsatisfied performance obligations of € 2,742,844 thousand (prior period: € 2,577,164 thousand) will be generated, with an estimated € 2,220,139 thousand being recognized as sales revenues in the 2020 reporting period (prior period: € 2,037,030 thousand - 2019 reporting period).

In the 2019 reporting period, sales revenues of € 47,800 thousand (prior period: € 94,049 thousand) had been recognized relating to performance obligations that had been satisfied or partially satisfied in past periods.

Further information on the breakdown of sales revenues by division and region can be found in segment reporting under → note 37.

9. COST OF SALES

3.17 — COST OF SALES

€ k	2019	2018
Cost of materials	1,681,370	1,573,003
Personnel expenses	713,782	644,624
Amortization and depreciation of non-current assets	78,749	69,705
Exchange rate gains	–27,566	–55,691
Exchange rate losses	32,229	54,755
Other cost of sales	604,745	727,935
Total cost of sales	**3,083,309**	**3,014,331**
Gross margin in %	21.4	22.1

Of the total amount reported as amortization and depreciation of non-current assets, an amount of € 9,052 thousand (prior period: € 9,892 thousand) is attributable to the amortization of capitalized development costs.

10. SELLING EXPENSES

Selling expenses comprise all direct selling costs and overheads. These generally include all personnel expenses, cost of materials, amortization and depreciation as well as other costs relating to sales. In addition, selling expenses include expenses for valuation allowances and impairment relating to trade receivables and contract assets as well as amortization and impairment losses on recognized costs of obtaining a contract.

3.18 — SELLING EXPENSES

€ k	2019	2018
Personnel expenses	223,307	213,987
Amortization and depreciation of non-current assets	10,937	6,325
Write-downs of trade receivables	1,648	788
Additions to and releases of valuation allowances and impairments on trade receivables and contract assets	–6,511	2,328
Amortization and impairment on costs of obtaining a contract	19,703	15,635
Other selling expenses	88,559	75,090
	337,643	**314,153**

For further information about valuation allowances and impairments of trade receivables, please refer to → note 22. For additional information about amortization and impairment losses on costs of obtaining a contract, please refer to → note 25.

11. GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses comprise personnel expenses and non-personnel expenses of the central administrative functions, which are not attributable to contract processing, production, sales or research and development.

3.19 — GENERAL ADMINISTRATIVE EXPENSES

€ k	2019	2018
Personnel expenses	120,470	111,390
Amortization and depreciation of non-current assets	13,777	7,272
Other administrative expenses	56,315	59,135
	190,562	**177,797**

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs include all the costs of those activities undertaken to gain new scientific or technical knowledge, to develop new products or to improve products and manufacturing processes. They comprise both personnel expenses and non-personnel expenses and are included in profit or loss on the date they are incurred. Research and development costs are reduced by those development expenses that qualify for recognition as assets pursuant to IAS 38 "Intangible Assets".

3.20 — RESEARCH AND DEVELOPMENT COSTS

€ k	2019	2018
Personnel expenses	79,294	77,661
Amortization and depreciation of non-current assets	9,325	10,067
Capitalized development costs	–18,974	–14,524
Other research and development costs	41,151	47,756
	110,796	**120,960**

13. PERSONNEL EXPENSES

The expense items of the statement of income contain the personnel expenses according to → **table 3.21.**

3.21 — PERSONNEL EXPENSES

€ k	2019	2018
Wages and salaries	955,203	882,642
Social security contributions	181,650	165,020
Total personnel expenses	**1,136,853**	**1,047,662**
thereof post-employment benefits	65,080	64,666

14. OTHER OPERATING INCOME AND EXPENSES

3.22 — OTHER OPERATING INCOME AND EXPENSES

€ k	2019	2018
OTHER OPERATING INCOME		
Exchange rate gains	13,916	20,812
Reimbursements from damage claims	2,219	3,115
Reversal of provisions	922	2,014
Gains on disposal of non-current assets	659	616
Government grants	623	735
Sundry	4,382	4,491
	22,721	**31,783**
OTHER OPERATING EXPENSES		
Exchange rate losses	15,316	25,325
Expenses for litigation	5,987	1,532
Losses on disposal of non-current assets	1,115	519
Expenses for other local taxes	817	3,969
Expenses for canteens	752	705
Expenses from damage claims	711	261
Expenses from transaction costs in connection with acquisitions	–	4,887
Sundry	1,329	3,659
	26,027	**40,857**

Apart from the reversal of provisions recognized in prior periods, part of reimbursements from damage claims as well as the result of litigation, there are no other material income or expense items relating to other periods.

15. INVESTMENT RESULT

Investment result includes earnings from entities accounted for using the equity method, income from distributions of investments, profit or loss from the measurement of investments and options associated therewith as well as currency effects from hedging dividend payments.

Earnings from entities accounted for using the equity method amounted to € 6,202 thousand (prior period: € 6,844 thousand). This contains the share of profit or loss from accounting using the equity method. Profits from the sale of goods by consolidated entities to entities accounted for using the equity method (intragroup profits), which are not realized by sale to third parties, are eliminated in the profit from entities accounted for using the equity method in line with their interest.

16. NET INTEREST

3.23 — NET INTEREST

€ k	2019	2018
Interest and similar income	5,793	6,570
Interest and similar expenses	–33,368	–27,508
thereof		
Nominal interest expenses on the corporate bond	–8,625	–8,625
Interest expenses on Schuldschein loans	–5,325	–4,451
Interest expenses arising from subsequent accounting of the domination and profit and loss transfer agreement concluded with HOMAG Group AG	–5,578	–5,710
Interest expenses from leases	–3,172	–225
Amortization of transaction costs, premium from a bond issue and Schuldschein loans	–941	–672
Net interest expenses from the measurement of defined benefit plans	–826	–862
Other interest expenses	–8,901	–6,963
Net interest	**–27,575**	**–20,938**

17. INCOME TAXES

The income taxes relate to the German corporate income tax including a solidarity surcharge, trade tax on income and comparable taxes levied at foreign subsidiaries. The current taxes incurred by foreign subsidiaries are recognized at the tax rates and regulations of the respective national tax law. In Germany, deferred taxes are calculated using a tax rate of 28.7 % (prior period: 28.7 %).

3.24 — COMPOSITION OF THE INCOME TAX EXPENSE

€ k	2019	2018
CURRENT INCOME TAXES		
Income tax expense – Germany	9,733	27,265
Income tax expense – other countries	50,189	42,691
Adjustment for prior periods	–845	–745
Total current income tax expense	**59,077**	**69,211**
DEFERRED TAXES		
Deferred tax income – Germany	–14,444	–3,842
Deferred tax income – other countries	–2,056	–12,255
Adjustment for prior periods	2,316	3,061
Total deferred tax income	**–14,184**	**–13,036**
Total income tax expense	**44,893**	**56,175**

→ **Table 3.25** shows the reconciliation of theoretical income tax expense to the total income tax expense reported. For the 2019 reporting period, German corporate income tax law provided for a statutory tax rate of 15.0 % (prior period: 15.0 %) plus the solidarity surcharge of 5.5 % (prior period: 5.5 %). The average trade tax burden amounted to 12.9 % for the 2019 reporting period (prior period: 12.9 %). This means that the reconciliation is based on an overall tax rate in Germany of 28.7 % (prior period: 28.7 %). For the foreign entities, the respective country-specific income tax rates range from 8.75 % to 34.0 % (prior period: 8.75 % to 35.0 %).

3.25 — RECONCILIATION OF THE INCOME TAX EXPENSE

€ k	2019	2018
Earnings before income taxes	**174,718**	**219,680**
Theoretical income tax expense in Germany of 28.7 % (prior period: 28.7 %)	50,144	63,048
Adjustments of income taxes incurred in prior periods	205	2,316
Non-deductible operating expenses and withholding taxes	12,504	15,334
Foreign tax rate differential	–6,870	–6,767
Unrecognized deferred tax assets especially on unused tax losses	904	942
Subsequent recognition of deferred taxes on unused tax losses and changes in deferred taxes on impairment losses	–7,146	–2,835
Change in tax rates	–1,826	–10,889
Tax-exempt income	–2,937	–4,435
Other	–85	–539
Total income tax expense of the Dürr Group	**44,893**	**56,175**

3.26 — DEFERRED TAX ASSETS AND LIABILITIES

	Consolidated statement of financial position		Consolidated statement of income	
€ k	Dec. 31, 2019	Dec. 31, 2018	2019	2018
DEFERRED TAX ASSETS				
Accounting for intangible assets	3,074	3,842	–768	639
Remeasurement of land, buildings and property, plant and equipment	3,651	4,301	–650	1,897
Valuation allowances and impairments	1,782	1,743	39	94
Financial liabilities from right-of-use assets and interest/currency transactions	34,844	4,869	29,975[1]	–107
Contract assets/liabilities and inventories	44,023	39,949	4,074	22,521
Other assets and other liabilities	7,639	4,468	3,171	–101
Post-employment benefits	12,329	12,140	189	966
Provisions not recognized for tax purposes	19,858	20,569	–711	–2,110
Interest and tax loss carryforwards	6,109	8,231	–2,122	–4,933
Total deferred tax assets	**133,309**	**100,112**		
Netting	–75,422	–50,219		
Net deferred tax assets	**57,887**	**49,893**		
DEFERRED TAX LIABILITIES				
Accounting for intangible assets	–30,579	–32,487	1,908	3,511
Capitalized development costs	–10,763	–8,926	–1,837	630
Tax-deductible impairment of goodwill	–10,644	–13,550	2,906	–2,997
Remeasurement of land, buildings and property, plant and equipment including right-of-use assets	–45,301	–25,479	–19,822[2]	–1,578
Measurement of shares in subsidiaries	–17,020	–17,026	6	–2,743
Contract assets/liabilities and inventories	–35,589	–38,234	2,645	–3,585
Other assets and other liabilities	–6,563	–6,279	–284	2,779[3]
Amortization of costs related to bond and Schuldschein loans	–114	–187	73	68
Total deferred tax liabilities	**–156,573**	**–142,168**		
Netting	75,422	50,219		
Net deferred tax liabilities	**–81,151**	**–91,949**		
Reconciliation effect from first-time consolidation			212	–408
Translation effects from deferred tax items			–425	223
Effects recognized through other comprehensive income			–4,395	–1,730
Deferred tax income			**14,184**	**13,036**

[1] thereof € –25,169 thousand in revenue reserves due to IFRS 16
[2] thereof € 22,708 thousand in revenue reserves due to IFRS 16
[3] relates to the effect recognized in profit or loss adjusted by € 1,185 thousand due to IFRS 9

Deferred taxes

Pursuant to IAS 12 “Income Taxes”, a deferred tax asset should be recognized on unused tax losses and other deductible temporary differences only to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be offset. In calculating the possibilities for utilizing tax losses, the Dürr Group uses a four-year planning horizon and takes into account the minimum taxation rule applicable in certain countries. Losses arising in Germany from the period prior to the tax group are not recognized.

In sum, unused interest and tax losses amounted to € 145,329 thousand (prior period: € 181,355 thousand) as of December 31, 2019. Unused interest and tax losses for which no deferred tax assets were recognized came to € 122,202 thousand (prior period: € 148,488 thousand) and primarily exist in Germany, France and Brazil. In Germany, unused trade tax losses for which no deferred taxes were recognized amount to € 38,629 thousand (prior period: € 57,920 thousand). The unused trade tax losses can currently be carried forward for an indefinite period of time. Of the unused interest and tax losses not recognized, amounts of € 9,480 thousand expire within the next ten years (prior period: € 9,454 thousand). At present, the remaining unused tax losses do not lapse.

Other deductible temporary differences of € 1,689 thousand were not recognized as of December 31, 2019 (prior period: € 5,601 thousand).

In the 2019 reporting period, effects recognized through other comprehensive income contained € –2,461 thousand from the first-time application of IFRS 16. Without these effects, the amount would have been € –1,934 thousand. In the prior period, effects recognized through other comprehensive income contained € –1,185 thousand from the first-time application of IFRS 9. Without these effects, the amount would have been € –545 thousand.

Deferred tax assets and deferred tax liabilities are netted if, and only if, the entity has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

The income taxes and withholding taxes on distributable profits from subsidiaries are reported under deferred tax liabilities if it can be assumed that these profits will be subject to the corresponding taxation, or if there is a plan not to reinvest these profits permanently. No deferred tax liabilities were recognized on temporary differences in connection with shares in subsidiaries and associates of € 449,986 thousand (prior period: € 443,628 thousand). Dürr assumes that no reserves will be distributed to the respective parent in the tax group while the consolidated tax group is in place.

Income tax liabilities

As of December 31, 2019, all income tax liabilities of € 48,467 thousand were due within one year. At the end of the prior period, income tax liabilities of € 30,806 thousand were due within one year and of € 4,164 thousand within two years.

Notes to the consolidated statement of financial position: assets

18. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Details regarding the changes in the Group's intangible assets and property, plant and equipment are presented in the statement of changes in non-current assets in → note 43.

Amortization, depreciation and impairment

Amortization, depreciation and impairment is shown in the statement of income in the cost of sales and functional costs.

In connection with the strategic realignment of the environmental technology business, the Dürr Group discontinued its business with micro gas turbines in the prior period. This resulted in an impairment loss on capitalized development costs of € 10,421 thousand in cost of sales.

Intangible assets

In addition to goodwill, intangible assets with an indefinite useful life also include brand names of € 50,733 thousand (prior period: € 50,731 thousand). The Dürr Group intends to continue using these brand names in the future.

Impairment test for goodwill

The goodwill acquired from business combinations is allocated to the cash-generating units for impairment testing. The Dürr Group has defined the divisions or business activities within its divisions as cash-generating units. These are Paint and Final Assembly Systems, Application Technology, Clean Technology Systems, Balancing and Assembly Products, and Woodworking Machinery and Systems. The calculation model is used in exactly the same way for all cash-generating units as the main parameters apply equally to all business activities.

The recoverable amount of the cash-generating units is determined based on the value in use. The value in use of each of the business activities exceeded the net assets assigned to it. The calculation is based on cash flow forecasts for a planning period of four years. The pre-tax discount rate for the cash flow forecast ranged from 9.36 % to 15.53 % in the 2019 reporting period (prior period: 10.80 % to 13.65 %). Cash flows after the four-year period are extrapolated using a growth rate of 1.0 % (prior period: 1.0 %) based on the long-term growth rate of the business activities.

The Dürr Group tests goodwill for impairment at the end of each reporting period.

Planned gross profit margins

The planned gross profit margins are determined in the bottom-up planning of the Group's entities and business activities. They are based on the figures determined in the previous reporting periods taking anticipated price and cost developments as well as efficiency increases into account.

Cost of capital (discount rate)

The cost of capital is the weighted average cost of debt and equity before taxes. When calculating the cost of equity, a beta factor is taken into account, which is derived from capital market data and

3.27 — AMORTIZATION AND DEPRECIATION

	2019			2018		
€ k	Intangible assets	Property, plant and equipment[1]	Total amortization and depreciation	Intangible assets	Property, plant and equipment	Total amortization and depreciation
Cost of sales	−32,252	−46,497	−78,749	−29,332	−29,952	−59,284
Selling expenses	−1,794	−9,143	−10,937	−1,806	−4,519	−6,325
General administrative expenses	−1,006	−12,771	−13,777	−1,087	−6,185	−7,272
Research and development costs	−2,633	−6,692	−9,325	−3,162	−6,543	−9,705
	−37,685	**−75,103**	**−112,788**	**−35,387**	**−47,199**	**−82,586**

[1] including right-of-use assets pursuant to IFRS 16

the capital structure of the companies used to benchmark the Dürr Group's cash-generating units. Borrowing costs are based on a base interest rate for government bonds and a mark-up derived from the credit rating of benchmark companies.

Increase in the price of raw materials

Future increases in the price of upstream products and raw materials needed in the Group are primarily derived from the expected increase in the prices of those commodities needed to manufacture the goods or materials. These, in turn, are determined from the forecast price indices of the countries from which the upstream products and raw materials are procured by the respective Group entities.

Increase in wage and salary costs

In the four-year plan, the German subsidiaries have assumed annual average salary increases of 2.5 % p.a. from 2020 onwards (prior period: 2.9 % p.a. from 2019 onwards). The foreign subsidiaries have all used the applicable local rate of increase for the respective planning period.

Sensitivity analysis of goodwill

Independent of the current economic situation and the expectations for the future, the Dürr Group conducted sensitivity analyses of the recoverability of the goodwill carried in its activities. The impact of the following scenarios was examined:

- Decrease of 10 % in EBIT in all years within the planning horizon beginning in 2020 (in comparison to the figures projected in the approved business plans)
- Increase of 0.5 percentage points in the discount rate
- Decrease in the growth rate for the terminal value to 0.75 %.

The sensitivity analyses revealed that, from today's perspective, no impairment loss needed to be recognized on goodwill in any of the business activities even under these assumptions.

Development of goodwill

→ Table 3.28 shows the development of goodwill, broken down by division and business activity.

Goodwill of € 49,129 thousand is attributable to the acquisition of Megtec and Universal companies in the 2018 reporting period, of € 105,719 thousand is attributable to the acquisition of the HOMAG Group in 2014 and of € 11,192 thousand to the acquisition of the iTAC companies in 2015. From historical acquisitions, sales and restructuring, today € 98,453 thousand is attributable to the acquisition of former Alstom companies and € 93,832 thousand to the acquisition of the former Schenck Group.

In connection with the new strategy of the final assembly technology business, it was decided that all final assembly activities should belong to the Paint and Final Assembly Systems division. Accordingly, the product business with measuring and assembly technology as well as filling technology for the automotive industry were transferred from the Measuring and Process Systems division and have been assigned to the Paint and Final Assembly Systems cash-generating unit since January 1, 2020. The impairment test revealed that no impairment needs to be recognized for goodwill.

The change in goodwill from additions in the 2019 reporting period is explained below.

3.28 — DEVELOPMENT OF GOODWILL

€ k	Carrying amount as of Jan. 1, 2018	Exchange difference	Additions	Carrying amount as of Dec. 31, 2018	Exchange difference	Additions	Carrying amount as of Dec. 31, 2019
Paint and Final Assembly Systems	**106,016**	**434**	**–**	**106,450**	**238**	**–**	**106,688**
Application Technology	**66,429**	**24**	**–**	**66,453**	**98**	**–**	**66,551**
Clean Technology Systems	**16,413**	**63**	**49,129**	**65,605**	**801**	**–**	**66,406**
Balancing and Assembly Products	101,801	456	–	102,257	214	–	102,471
Measuring and Process Systems	**101,801**	**456**	**–**	**102,257**	**214**	**–**	**102,471**
Woodworking Machinery and Systems	**105,892**	**160**	**–**	**106,052**	**34**	**958**	**107,044**
Dürr Group	**396,551**	**1,137**	**49,129**	**446,817**	**1,385**	**958**	**449,160**

Acquisition

To further expand the sales and service activities of the Woodworking Machinery and Systems division in Turkey and the Middle East, Dürr Systems Makine Mühendislik Proje Ithalat ve Ihracat Ltd. Sirketi with registered offices in Izmit-Kocaeli, Turkey, acquired the activities of a company in an asset deal with effect from December 11, 2019. Operating activities commenced on January 1, 2020.

First-time consolidation was performed pursuant to IFRS 3 “Business Combinations” using the full goodwill method for acquisition accounting purposes. The purchase price of the acquisition amounted to € 2,015 thousand and was paid in full in cash. The goodwill from the first-time consolidation of the acquired activities and the acquired net assets are presented in ⟶ table 3.29.

3.29 — GOODWILL – ACQUISITION

€ k	
Purchase price	2,015
Fair value of net assets	–1,057
Goodwill	**958**

The goodwill reflects synergies, among others in the sales area, and earnings prospects in Turkey and the Middle East. It was allocated to Woodworking Machinery and Systems. The goodwill is tax-deductible in full.

The allocation of the purchase price to the acquired assets and liabilities can be found in ⟶ table 3.30.

3.30 — PURCHASE PRICE ALLOCATION – ACQUISITION

€ k	Carrying amount before acquisition	Adjustment	Carrying amount after acquisition
Intangible assets	–	963	963
Property, plant and equipment	36	–	36
Inventories and prepayments	270	–	270
Deferred tax liabilities	–	–212	–212
Net assets	**306**	**751**	**1,057**

The carrying amounts after acquisition correspond to fair value as of the date of first-time consolidation. The adjustments mainly relate to intangible assets, where customer relationships were recognized in the purchase price allocation. The fair value of customer relationships was measured using the multi-period excess earnings method and amounts to € 963 thousand. No contingent liabilities were recognized in the first-time consolidation.

Had the acquired activities been included in the consolidated group as of January 1, 2019, there would not have been any significant changes in sales revenues and in the Dürr Group’s profit for the 2019 reporting period.

Acquisition – prior period

Megtec/Universal

On October 5, 2018, Dürr AG acquired via its subsidiary Dürr Inc. 100 % of the shares in the companies Babcock & Wilcox Universal Inc., Babcock & Wilcox MEGTEC Holdings Inc. and Babcock & Wilcox MEGTEC LLC, with registered offices in Stoughton/De Pere, Wisconsin, USA, and their subsidiaries.

Megtec, the larger of the two acquired business activities, offers waste air purification plants and drying systems as well as coating machines for the production of electrodes for lithium-ion batteries. Universal is a leading provider of acoustic solutions specializing in noise and emission filtration systems.

First-time consolidation of Megtec/Universal was performed pursuant to IFRS 3 “Business Combinations” using the full goodwill method for acquisition accounting purposes. The profit or loss of the Megtec/Universal companies has been included in the consolidated financial statements since the date of first-time consolidation.

The goodwill from the first-time consolidation of the acquired Megtec/Universal entities and the acquired net assets are as follows:

3.31 — GOODWILL ACQUISITION MEGTEC/UNIVERSAL

€ k	
Purchase price for Megtec/Universal	125,340
Fair value of net assets	–76,211
Goodwill	**49,129**

The purchase price was settled in cash. The acquisition-related costs came to € 4,887 thousand in the 2018 reporting period and were recorded as an expense.

Goodwill of € 49,129 thousand contains intangible assets that cannot be separated such as the specialist knowledge of employees, expected synergy effects and earnings prospects for Megtec/Universal. € 15,945 thousand of the goodwill is tax deductible. The goodwill was allocated to Clean Technology Systems.

The purchase price of the acquired assets and liabilities was allocated as follows:

3.32 — PURCHASE PRICE ALLOCATION ACQUISITION MEGTEC/UNIVERSAL

€ k	Carrying amount before acquisition	Adjustment	Carrying amount after acquisition
Intangible assets	–	31,262	31,262
Property, plant and equipment	21,266	1,047	22,313
Deferred tax assets	750	909	1,659
Inventories and prepayments	17,226	427	17,653
Contract assets	19,149	–	19,149
Receivables and other assets	33,634	–	33,634
Cash and cash equivalents	19,567	–	19,567
Non-current liabilities	−5,603	–	−5,603
Deferred tax liabilities	−750	−501	−1,251
Current liabilities	−62,172	–	−62,172
Net assets	**43,067**	**33,144**	**76,211**

The carrying amounts after acquisition correspond to fair value as of the date of first-time consolidation. The gross contractual value of the acquired receivables and other assets approximates their fair value. The adjustments mainly relate to intangible assets, where technological know-how, customer relationships, brand names and order backlog were recognized in the purchase price allocation. For property, plant and equipment, real estate was recognized at market value. Hidden reserves were also uncovered to a lesser extent under property, plant and equipment and inventories. No contingent liabilities were identified in the course of the first-time consolidation.

3.33 — ACQUISITION MEGTEC/UNIVERSAL: HIDDEN RESERVES IDENTIFIED IN ACQUIRED INTANGIBLE ASSETS

€ k	Fair value
Technological know-how	5,287
Customer relationships	20,699
Order backlog	3,307
Brand names	1,969
	31,262

The fair value of technological know-how and the brand name was measured using the relief from royalty method; the fair value of customer relationships and the order backlog was measured using the residual value method.

The earnings contributed by the Megtec/Universal entities consolidated for the first time from October 5, 2018 until December 31, 2018 break down as follows:

3.34 — EARNINGS CONTRIBUTION MEGTEC/UNIVERSAL FROM THE DATE OF FIRST-TIME CONSOLIDATION

€ k	2018
Sales revenues	47,558
Earnings after income taxes	303

Earnings after income taxes include the effects from the subsequent measurement of hidden reserves and liabilities in the context of the purchase price allocation of € −2,184 thousand.

Had the acquired Megtec/Universal entities been included in the consolidated group as of January 1, 2018, the Dürr Group's statement of income for the 2018 reporting period of the Group would have been as follows:

3.35 — PRO FORMA RESULTS DÜRR GROUP

€ k	2018
Sales revenues	4,010,177
Gross profit on sales	886,191
Earnings before investment result, interest and income taxes	243,087
Profit of the Dürr Group	173,092

Property, plant and equipment

Prepayments and assets under construction

Items of property, plant and equipment are recognized as assets under construction if costs for own or third-party work have already been incurred but they had not been completed by the end of the reporting period. As of December 31, 2019, € 8,152 thousand related to the locations Radom, Püttlingen, Calw and Shanghai for the construction of new buildings, modernization measures, infrastructure and new machinery.

In the prior period, the majority of assets under construction related to the erection of a new building at the Herzebrock location as well as modernization measures at the Bietigheim-Bissingen location.

Land and buildings

Dürr invested € 10,080 thousand in property in the 2019 reporting period. Most of this related to the construction or completion of new buildings at the Herzebrock and Radom locations as well as to the acquisition of a property in Wolfsburg.

In the 2018 reporting period, property of € 15,942 thousand was acquired as part of the acquisition of Megtec/Universal, which primarily relates to the locations in De Pere and Stoughton, Wisconsin, USA, as well as San Luis Potosi, Mexico, and Shanghai, PR China. Further investments in property primarily related to the Schopfloch and Calw locations where new buildings were erected as well as modernization measures at the Bietigheim-Bissingen location.

Right-of-use assets

→ Table 3.36 shows the additions and depreciation of the right-of-use lease assets contained in property, plant and equipment and intangible assets.

Accumulated cost as well as accumulated depreciation and impairment contain the values for right-of-use assets that had already been accounted for as finance leases as of December 31, 2018. → Note 31 contains the disclosures on lease liabilities, → note 36 contains the explanations on the statement of cash flows.

The Dürr Group exercises the practical expedient to not recognize short-term leases and leases of low-value assets in the statement of financial position.

3.37 — EXPENSE FOR SHORT-TERM LEASES AND LEASES OF LOW-VALUE ASSETS

€ k	2019
Expense for short-term leases	3,820
Expense for leases of low-value assets	3,076

Investment property

The Dürr Group distinguishes between property that is largely owner-occupied and property that is mostly let to third parties. A property is considered to be largely used by third parties if the space used by the company itself is insignificant. Investment property comprises both property owned by the Dürr Group as well as property that is sublet under operating leases. The Dürr Group uses the cost method to measure all investment property. The investment properties concerned are a group of buildings as well as part of the infrastructure area of Schenck Technologie- und Industriepark GmbH in Darmstadt, Germany, which are allocated to the Measuring and Process Systems division.

3.36 — RIGHT-OF-USE ASSETS CONTAINED IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

€ k	Land and buildings	Technical equipment and machines	Other equipment, furniture and fixtures	Intangible assets	Dürr Group
Accumulated cost as of December 31, 2019	**183,950**	**1,321**	**38,057**	**4,228**	**227,556**
thereof additions	15,958	181	11,662	–	27,801
Accumulated depreciation and impairment as of December 31, 2019	**104,897**	**682**	**22,060**	**4,228**	**131,867**
thereof depreciation for the year	17,311	287	10,422	–	28,020
Net carrying amount as of December 31, 2019	**79,053**	**639**	**15,997**	**–**	**95,689**

3.38 — INCOME AND EXPENSES FROM INVESTMENT PROPERTY

€ k	2019	2018
Rental income in the reporting period	3,705	3,631
Future rental income expected based on the existing agreements	9,506	10,084
Directly attributable expenditure	1,151	1,358
Directly attributable expenditure for vacant property	35	56

Self-owned buildings are depreciated using the straight-line method of depreciation over their useful life ranging between 20 and 50 years.

In the 2019 reporting period, the composition of the properties accounted for pursuant to IAS 40 "Investment Property" was amended compared to the prior period by applying IFRS 16 "Leases".

As of December 31, 2019, the fair value came to € 40,870 thousand (prior period: € 35,580 thousand) and is allocated to level 3 in the fair value hierarchy. For more information on the fair value hierarchy levels please see → **note 35**. An internal calculation prepared on an annual basis is used to determine the fair value of the investment properties; no valuer was consulted in determining the values. Fair value of the property is calculated using capitalized income from the cash-generating unit based on market rents adjusted by risk markdowns customary for the region. A vacancy rate of 5 % (prior period: 5 %) and a property yield of 7.5 % (prior period: 7.5 %) were used in the calculation.

→ **Notes 31, 36 and 40** contain disclosures on the lease liabilities and lease payments.

19. INVESTMENTS IN ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD AND OTHER FINANCIAL ASSETS

Entities accounted for using the equity method

Homag China Golden Field Limited

The entity Homag China Golden Field Limited is based in Hong Kong, PR China, and is a sales and service company which sells the products of the HOMAG Group's manufacturing companies. It is responsible for ensuring a functioning service organization and for working the Chinese market.

3.40 — CONDENSED STATEMENT OF FINANCIAL POSITION OF HOMAG CHINA GOLDEN FIELD LIMITED

€ k	Dec. 31, 2019	Dec. 31, 2018
Non-current assets	14,150	14,481
Current assets	118,774	125,072
Non-current liabilities	377	512
Current liabilities	84,029	86,875
Equity	48,518	52,166
Carrying amount of the investment	16,983	15,998
Shareholding Dürr Group	25.0 %	25.0 %

3.39 — DEVELOPMENT OF INVESTMENT PROPERTY

€ k	Investment property owned by the Dürr Group	Right-of-use assets for investment property
Accumulated cost as of December 31, 2019	**44,000**	**5,499**
thereof additions	317	–
Accumulated depreciation and impairment as of December 31, 2019	**25,419**	**3,865**
thereof depreciation for the year	932	337
Net carrying amount as of December 31, 2019	**18,581**	**1,634**
Accumulated cost as of December 31, 2018	**43,795**	**–**
thereof additions	124	–
Accumulated depreciation and impairment as of December 31, 2018	**24,592**	**–**
thereof depreciation for the year	924	–
Net carrying amount as of December 31, 2018	**19,203**	**–**

3.41 — FURTHER FINANCIAL INFORMATION ON HOMAG CHINA GOLDEN FIELD LIMITED

€ k	2019	2018
Sales revenues	173,380	257,871
Earnings after income taxes	6,748	16,327
Cash flow from operating activities	39,349	–22,952
Cash flow from investing activities	4,897	–2,930
Cash flow from financing activities	–15,005	–19,170
Dividends received from Homag China Golden Field Limited	2,585	2,610

As in the prior period, the associate had no material contingent liabilities as of December 31, 2019. At present, there are no significant restrictions with respect to dividend distributions.

Nagahama Seisakusho Ltd.

The company Nagahama Seisakusho Ltd. has its registered office in Osaka, Japan, and offers machinery, systems and services in the area of balancing technology.

3.42 — CONDENSED STATEMENT OF FINANCIAL POSITION OF NAGAHAMA SEISAKUSHO LTD.

€ k	Dec. 31, 2019	Dec. 31, 2018
Non-current assets	6,452	5,995
Current assets	55,577	51,020
Non-current liabilities	7,235	7,367
Current liabilities	13,828	8,573
Equity	40,966	41,075
Carrying amount of the investment	20,680	19,720
Shareholding Dürr Group	50.0 %	50.0 %

3.43 — FURTHER FINANCIAL INFORMATION ON NAGAHAMA SEISAKUSHO LTD.

€ k	2019	2018
Sales revenues	45,741	38,070
Earnings after income taxes	4,224	4,022
Cash flow from operating activities	6,313	301
Cash flow from investing activities	–425	965
Cash flow from financing activities	–5,046	–3,262
Dividends received from Nagahama Seisakusho Ltd.	–	1,777

The reporting period of the company ends September 30; it is included using the equity method on the basis of the figures contained in the financial statements from that date. Significant effects that occurred between that date and December 31 are considered.

As in the prior period, the associate had no material contingent liabilities as of December 31, 2019. At present, there are no significant restrictions with respect to dividend distributions.

The carrying amounts of the entities accounted for using the equity method are influenced by currency effects. Further information on the consolidated companies is contained in → notes 3 and 4.

Other financial assets

As of December 31, 2019, other financial assets primarily included the investment in ADAMOS GmbH with a carrying amount of € 3,000 thousand (prior period: € 2,000 thousand) and in Parker Engineering Co., Ltd. with a carrying amount of € 9,347 thousand (prior period: € 7,880 thousand). In the 2018 reporting period, the carrying amount of the investment of € 5,924 thousand was adjusted in accordance with measurement pursuant to IFRS 9. Of this, € 6,402 thousand related to the adjustment in revenue reserves in the opening statement of financial position as well as an expense of € 478 thousand.

20. INVENTORIES AND PREPAYMENTS

3.44 — INVENTORIES AND PREPAYMENTS

€ k	Dec. 31, 2019	Dec. 31, 2018
Materials and supplies	238,986	259,555
less write-downs	−32,173	−29,382
Work in process	106,768	124,398
less write-downs	−4,889	−4,571
Finished goods and merchandise	173,446	154,590
less write-downs	−15,040	−12,739
Prepayments	42,246	43,658
less write-downs	−138	−138
	509,206	**535,371**

Materials and supplies were measured at average cost. On aggregate, write-downs on inventories increased to € 52,240 thousand (prior period: € 46,830 thousand) after taking into account exchange differences and consumption. The additions to write-downs in the 2019 reporting period of € 12,669 thousand (prior period: € 8,826 thousand) were recognized through profit or loss.

21. CONTRACT ASSETS

3.45 — DEVELOPMENT OF THE VALUATION ALLOWANCE ON CONTRACT ASSETS

	2019		2018	
€ k	Stage 2	Stage 3	Stage 2	Stage 3
As of January 1	**2,170**	**–**	**1,365**	**–**
Exchange difference	12	–	7	–
Additions				
newly acquired	975	–	1,522	–
already in the portfolio	–	–	–	–
Change in risk parameters	–	–	–	–
Reversal	−2,224	–	−724	–
Utilization	–	–	–	–
Reclassifications	–	–	–	–
As of December 31	**933**	**–**	**2,170**	**–**

The change in the valuation allowance of contract assets with a gross value of € 520,008 thousand (prior period: € 480,506 thousand) is primarily attributable to the fact that the composition of customers, the respective business volume with them and their credit ratings have changed.

22. TRADE RECEIVABLES

3.46 — CHANGES IN VALUATION ALLOWANCE AND IMPAIRMENT ON TRADE RECEIVABLES

	2019		2018	
€ k	Stage 2	Stage 3	Stage 2	Stage 3
As of January 1	**4,413**	**14,993**	**3,277**	**14,882**
Changes in the consolidated group	–	–	21	–
Exchange difference	55	74	47	53
Additions				
newly acquired	1,531	4,130	2,406	4,266
already in the portfolio	–	561	454	175
Change in risk parameters	–	–	–	–
Reversal	−4,449	−7,035	−1,616	−4,155
Utilization	−103	−900	−5	−359
Reclassifications	−203	203	−171	131
As of December 31	**1,244**	**12,026**	**4,413**	**14,993**

The changes in the valuation allowance are also attributable to a change in the receivables volume and a change in the composition of customers.

Receivables of € 1,648 thousand (prior period: € 788 thousand) were derecognized in the 2019 reporting period; € 1,003 thousand (prior period: € 364 thousand) thereof had already been written down in the past. The remaining € 645 thousand (prior period: € 424 thousand) was derecognized through profit or loss in the 2019 reporting period.

3.47 — TRADE RECEIVABLES BY MATURITY

	Dec. 31, 2019		Dec. 31, 2018	
€ k	Stage 2	Stage 3	Stage 2	Stage 3
Gross value	**576,016**	**23,331**	**603,611**	**18,819**
thereof				
not due	359,044	–	430,238	–
less than 1 month	77,890	–	68,999	–
between 1 and 3 months	70,432	–	45,916	–
between 3 and 6 months	38,516	–	32,449	–
between 6 and 9 months	16,742	–	13,469	–
between 9 and 12 months	13,392	–	12,540	–
more than 12 months/ stage 3	–	23,331	–	18,819
Valuation allowance and impairment	−1,244	−12,026	−4,413	−14,993
Net carrying amount	**574,772**	**11,305**	**599,198**	**3,826**

In stage 2, a provision matrix is used to calculate a portfolio-based valuation allowance. Receivables in stage 3 were impaired based on an individual risk assessment. Receivables in stage 2 are subject to the risk level with a low credit risk (not affected by credit rating), while receivables in stage 3 are subject to the risk level with a high credit risk (affected by credit rating).

23. SUNDRY FINANCIAL ASSETS

3.48 — SUNDRY FINANCIAL ASSETS

	Dec. 31, 2019			Dec. 31, 2018		
€ k	Total	Current	Non-current	Total	Current	Non-current
Derivative financial assets	3,807	3,655	152	3,691	3,602	89
Rent deposits and other collateral provided	7,118	3,324	3,794	6,194	3,208	2,986
Time deposits	159,926	159,926	–	539	539	–
Investments in equity instruments measured at fair value through profit or loss	19,507	19,507	–	19,507	19,507	–
Financial assets measured at fair value through profit or loss	–	–	–	5	5	–
Remaining sundry financial assets	22,789	19,989	2,800	26,798	25,582	1,216
	213,147	**206,401**	**6,746**	**56,734**	**52,443**	**4,291**

Remaining sundry financial assets include receivables from claims for damages of € 6,396 thousand (prior period: € 13,706 thousand), balances at suppliers of € 5,410 thousand (prior period: € 5,880 thousand) and receivables from employees totaling € 1,816 thousand (prior period: € 1,910 thousand).

For sundry financial assets, there is no major indication that the debtors will not be able to meet their payment obligations. Accordingly, sundry financial assets are primarily allocated to stage 1.

24. CASH AND CASH EQUIVALENTS

⟶ Tables 3.49 and 3.50

Cash and cash equivalents are allocated to credit risk rating grades.

The credit risk rating grades are based on internal and external risk assessments. For cash and cash equivalents, there is no major indication that the debtors will not be able to meet their payment obligations. For further information on credit risk, please refer to ⟶ note 41.

3.49 — CASH AND CASH EQUIVALENTS COMBINED BY CREDIT RISK RATING GRADE

	Dec. 31, 2019			Dec. 31, 2018		
€ k	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Investment grade AAA to A–	447,482	–	–	449,709	–	–
Investment grade BBB+ to BBB–	206,640	–	–	195,384	–	–
Sub-investment grade	8,922	–	–	11,602	–	–
Gross value	**663,044**	**–**	**–**	**656,695**	**–**	**–**
Valuation allowance pursuant to IFRS 9	–1,020	–	–	–1,653	–	–
Net carrying amount	**662,024**	**–**	**–**	**655,042**	**–**	**–**

3.50 — DEVELOPMENT OF THE VALUATION ALLOWANCE ON CASH AND CASH EQUIVALENTS

	2019			2018		
€ k	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
As of January 1	**1,653**	**–**	**–**	**806**	**–**	**–**
Exchange difference	15	–	–	–8	–	–
Additions						
newly acquired	275	–	–	1,179	–	–
already in the portfolio	–	–	–	–	–	–
Change in risk parameters	–	–	–	–	–	–
Reversal	–923	–	–	–324	–	–
Utilization	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–
As of December 31	**1,020**	**–**	**–**	**1,653**	**–**	**–**

25. OTHER ASSETS

3.51 — OTHER ASSETS

	Dec. 31, 2019			Dec. 31, 2018		
€ k	Total	Current	Non-current	Total	Current	Non-current
Tax reimbursement claims without income taxes	33,015	32,599	416	38,244	37,657	587
Cost of obtaining a contract	7,537	7,323	214	9,462	8,738	724
Rent, maintenance cost and royalties	3,340	2,782	558	7,803	6,273	1,530
Sundry	4,465	3,675	790	2,062	1,335	727
	48,357	**46,379**	**1,978**	**57,571**	**54,003**	**3,568**

The cost of obtaining a contract included in other assets comprises sales commissions in connection with customer contracts that would not have been incurred had the contract not been concluded.

Notes to the consolidated statement of financial position: equity and liabilities

26. EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF DÜRR AKTIENGESELLSCHAFT

Subscribed capital (Dürr AG)

As of December 31, 2019, the capital stock of Dürr AG came to € 177,157 thousand (prior period: € 177,157 thousand) and was made up of 69,202,080 no-par value shares (prior period: 69,202,080 shares). In the prior period, bonus shares were issued in a ratio of 1:1 to the existing shareholders in the course of a capital increase from company funds, during which part of the capital reserve of € 88,578 thousand was converted into subscribed capital. Each share represents € 2.56 of the subscribed capital and is made out to the bearer. The shares issued were fully paid in.

Authorizations

Authorization for acquisition and sale of treasury shares (Dürr AG)

The annual general meeting on May 4, 2016 authorized the Board of Management to purchase no-par value bearer shares once or several times until May 3, 2021. The purchases, whether for one or more purposes, may be transacted through the stock exchange or through a public tender addressed to all shareholders. The number of shares purchased in this way may not at any time exceed 10 % of the capital stock. The authorization may not be used for the purpose of trading with treasury shares. In the event of the shares being purchased through the stock exchange or by public offer, the consideration for the purchase of the shares is not allowed to exceed or fall below the arithmetic mean of the price in the closing auction on the XETRA trading system by more than 10 % during the last ten trading days before the contractual transaction is concluded. If the acquisition takes place through a public invitation addressed to all shareholders for the submission of bids, the Company sets a range of purchase prices per share. The 10 % threshold described above also applies here. The Board of Management, with the consent of the Supervisory Board, was also authorized to sell treasury shares under certain circumstances. In connection with this authorization, the Board of Management was also granted the option, under certain circumstances, to exclude the shareholders' put option and subscription right.

Authorized capital (Dürr AG)

The annual general meeting on May 10, 2019 authorized the Board of Management, subject to the approval of the Supervisory Board, to increase the capital stock once or several times in exchange for cash contributions and/or contributions in kind in the period up to May 9, 2024 by up to € 53,147 thousand by issuing up to 20,760,624 no-par value shares made out to the bearer. The Board of Management was also authorized to preclude, subject to the approval of the Supervisory Board, the subscription right of the shareholders in certain cases.

Conditional capital (Dürr AG)

The annual general meeting on May 10, 2019 authorized the Board of Management, subject to the approval of the Supervisory Board, to issue once or several times until May 9, 2024, bearer or registered convertible bonds, warrant-linked bonds, income bonds or combinations of these instruments with or without fixed maturity. For this purpose, the subscribed capital was conditionally increased by a maximum of € 17,716 thousand by issue of up to 6,920,208 new no-par value shares made out to the bearer. The Board of Management was also authorized, with the approval of the Supervisory Board, to preclude the subscription right of shareholders under certain circumstances and with defined limits.

None of the three authorizations have been exercised to date.

Capital reserve (Dürr AG)

The capital reserve includes share premiums and amounted to € 67,318 thousand as of December 31, 2019 (prior period: € 67,318 thousand). The capital reserve is subject to the restrictions on disposal of Sec. 150 AktG.

Revenue reserves

Revenue reserves contain the profits generated in the past by the entities included in the consolidated financial statements that have not been distributed. They totaled € 820,820 thousand as of December 31, 2019 (prior period: € 771,468 thousand). The change is chiefly owing to the addition of the result for the year, the recognition and measurement of options allocable to non-controlling interests and the distribution of the dividend for the 2018 fiscal year. An amount of € –9,415 thousand was attributable to the adjustment of revenue reserves in connection with the accounting pursuant to IFRS 16 "Leases".

Restriction on distribution, transfer and withdrawal in the separate financial statements of Dürr AG (Sec. 253 (6) HGB)

Due to the legal regulations on the measurement of provisions in the separate financial statements of Dürr AG prepared in accordance with the German commercial law, there are restrictions on distribution. A difference of € 807 thousand (prior period: € 931 thousand) arises from the recognition of provisions according to the respective average market interest rate from the past ten reporting periods and from the recognition of provisions according to the respective average market interest rate from the past seven reporting periods; this amount is also subject to a restriction on distribution.

Dividends

In accordance with the AktG, the distribution is measured based on net retained profit as reported by Dürr AG in its separate financial statements prepared in accordance with the provisions of German commercial law. In the 2019 reporting period, Dürr AG distributed a dividend to its shareholders of € 1.00 per share from the net retained profit recorded in 2018 (prior period: € 2.20 – based on 34,601,040 shares). The total amount distributed came to € 69,202 thousand (prior period: € 76,122 thousand). Based on the results of operations in the 2019 fiscal year, the Board of Management of Dürr AG will propose to the Supervisory Board that a dividend of € 0.80 per share be distributed, corresponding to a total distribution amount of € 55,362 thousand.

Disclosures on capital management

The primary objective of capital management is to support business operations, ensure a healthy capital ratio and increase business value.

The Dürr Group monitors its capital on a monthly basis using a gearing ratio, which reflects the ratio of net financial debt to equity and is defined as the ratio of net financial debt to equity and net financial debt. Pursuant to the Group's internal policy, the ratio should not exceed 30 %. The increase in lease liabilities due to the application of IFRS 16 had a negative effect on the net financial debt and gearing ratio. As of December 31, 2019, it amounted to 8.7 % (prior period: –3.4 %), however, it was still significantly below the threshold.

3.52 — GEARING RATIO

€ k	Dec. 31, 2019	Dec. 31, 2018
Cash and cash equivalents	–662,024	–655,042
Time deposits and sundry financial receivables	–161,792	–544
Bond and Schuldschein loans	798,242	597,958
Lease liabilities (IFRS 16)/ finance lease liabilities (IAS 17)	107,101	7,182
Other financial liabilities	17,724	18,141
Net financial debt	**99,251**	**–32,305**
Equity	1,043,386	992,151
Net financial debt	99,251	–32,305
Equity and net financial debt	**1,142,637**	**959,846**
Net financial debt	99,251	–32,305
Equity and net financial debt	1,142,637	959,846
Gearing ratio	**8.7 %**	**–3.4 %**

27. PROVISIONS FOR POST-EMPLOYMENT BENEFIT OBLIGATIONS

The Group's post-employment benefits include defined contribution plans and defined benefit plans.

Defined contribution plans

In the case of defined contribution plans, the Dürr Group pays contributions to state or private insurance institutions. Other than the subsidiary liability of the employer regarding its company pension plans, there are no other legal or constructive obligations for the Dürr Group. A claim from the subsidiary liability is currently unlikely. The contributions are recognized when they fall due as a personnel expense within the functional costs.

The post-employment benefits available to the employees of the German entities of the Dürr Group include a life insurance program in line with the respective tariff group, for which the Group recognized contributions of € 910 thousand (prior period: € 875 thousand) as an expense. In addition, the Group paid contributions of € 46,392 thousand (prior period: € 44,715 thousand) to the German statutory pension scheme, which also constitutes a defined contribution plan.

The US subsidiaries contribute to external pension funds for trade union employees. In the 2019 reporting period, pension expenses for these employees amounted to € 4,485 thousand (prior period: € 3,795 thousand). Payments for other defined contribution plans in other countries, including state pension systems, amounted to € 11,177 thousand (prior period: € 13,050 thousand).

In addition, the US subsidiaries of the Group have a "401(k)" profit-sharing plan for certain employees. Profit-sharing is based on the years of service and the employees' remuneration. The Dürr Group's contribution is discretionary and is determined annually by management. In the 2019 reporting period, expenses came to around € 2,638 thousand (prior period: € 2,164 thousand).

Defined benefit plans

Pension entitlements have been granted to individual former members of the Board of Management of Dürr AG and the members of the management board and general managers of German subsidiaries based on their most recent fixed salary and years of service.

Some non-pay-scale employees of the German subsidiaries of the Dürr Group, including the members of the Board of Management of Dürr AG, Carl Schenck AG and HOMAG Group AG, are also offered the possibility to convert employee contributions into a benefit obligation in addition to ongoing employer contributions (pension plan of the Dürr Group). Under these plans, Dürr employees are entitled to convert certain parts of their future pay into an entitlement to future supplementary company benefits. To secure and finance the resulting obligations, the Dürr Group has taken out employer's pension liability insurance for the life of the beneficiaries or invests to a small extent in balanced funds comprising shares and bonds. The Dürr Group has the exclusive right to the respective benefits. This therefore does not represent any significant actuarial or investment risk for the Dürr Group. The amount of post-employment benefits equals the benefit paid out under the employer's pension liability insurance concluded by the company, which consists of a guaranteed pension and the divisible surplus allocated by the insurance company. For the funds investment, the benefits paid out later correspond to the balance of the fund. The Dürr Group reports the benefit obligations net of assets.

At the German entities of the Dürr Group, those employees who were employed at the Schenck entities at the time of the takeover were entitled to post-employment benefits. These are based on years of service. The payments provided for by the pension plans comprise fixed amounts plus an element that is dependent on years of service.

A US entity has a pension plan covering all non-union employees at that subsidiary. This plan was closed in 2003 and the claims for active members were frozen. The amount of the future pension benefits is based on the average salaries earned and length of service before the pension entitlements were frozen in 2003.

A subsidiary in the US has an approximate 37 % share in a multi-employer plan which is maintained jointly with other non-affiliated metal-working companies. The defined benefit plan is accounted for as a defined contribution plan as it is not possible to allocate the share of obligations and plan assets to the individual member companies. The beneficiaries of the plan are members of a trade union. The contributions are calculated on the basis of the number of production hours worked by members. A temporary shortfall in capacity utilization as well as lower returns on plan assets meant there has been a deficit in the past. There was no longer a deficit from March 31, 2018. For 2019, the Group expects contributions of € 1,254 thousand (prior period: € 1,154 thousand) to be made to the pension plan.

Moreover, there are plans that provide for payouts when employees leave the company as well as further minor pension plans.

Post-employment benefit plan participants and risk management

Provisions for post-employment benefits are recognized for obligations from future and current post-employment benefits to eligible current and former employees as well as their surviving dependents. Pension plans vary according to local legal, tax and economic conditions and are usually based on employees' years of service as well as their remuneration. In the 2019 reporting period there were obligations in place for 3,772 eligible persons (prior period: 3,227), thereof 3,154 active employees (prior period: 2,650), 172 former employees with vested rights (prior period: 116) as well as 446 retired employees and surviving dependents (prior period: 461).

The defined benefit plans are largely financed via provisions which have corresponding qualifying fund assets as plan assets that are offset against the obligations. The plan assets mostly exist in the form of employer's pension liability insurance policies pledged to beneficiaries.

In order to take adequate account of risks associated with post-employment benefit obligations, the Dürr Group established the Corporate Pension Committee (CPC) several years ago. This committee convenes regularly and reviews and assesses all global post-employment benefit plans within the Dürr Group. Regular participants of the CPC are the Chief Financial Officer of Dürr AG as well as the heads of the central functional areas Human Resources, Accounting & Controlling, Treasury and Legal.

Furthermore, to minimize the risk from pension obligations, no new defined benefit pensions have been granted in Germany for several years if their value is largely not hedged by external counter-financing. At the same time, the current pension plans are largely financed through deferred compensation.

Development of defined benefit plans

3.53 — CHANGES IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

€ k	Dec. 31, 2019	Dec. 31, 2018
Defined benefit obligation at the beginning of the year	125,697	116,739
Exchange difference	446	876
Current service cost	3,670	3,488
Past service cost	142	554
Interest expenses	2,438	1,638
Remeasurement of the defined benefit obligation	12,554	162
thereof actuarial gains and losses from changes in demographic assumptions	−222	750
thereof actuarial gains and losses from changes in financial assumptions	12,181	−872
thereof experience adjustments	595	284
Employee contributions	1,893	1,875
Benefits paid	−6,956	−5,148
Changes in the consolidated group	–	5,728
Other	529	−215
Defined benefit obligation at the end of the year	**140,413**	**125,697**

3.54 — CHANGE IN PLAN ASSETS

€ k	Dec. 31, 2019	Dec. 31, 2018
Fair value of plan assets at the beginning of the year	77,205	68,340
Exchange difference	333	459
Interest income	1,653	839
Income from plan assets excluding amounts contained in net interest	1,688	5,205
Employer contributions	3,884	3,344
Employee contributions	1,893	1,875
Benefits paid	−4,377	−2,890
Changes in the consolidated group	–	172
Other	151	−139
Fair value of plan assets at the end of the year	**82,430**	**77,205**
Effect of asset ceiling	−930	−1,592
Plan assets taking into account the asset ceiling	81,500	**75,613**
Funded status [1]	**58,913**	**50,084**

3.55 — FUNDED STATUS

€ k	Dec. 31, 2019	Dec. 31, 2018
Present value of funded benefit obligations	132,271	113,832
Plan assets taking into account the asset ceiling	81,500	75,613
Defined benefit obligation in excess of plan assets	**50,771**	**38,219**
Present value of non-funded benefit obligations	8,142	11,865
Funded status [1]	**58,913**	**50,084**

[1] difference between the present value of the defined benefit obligation and the plan assets, taking into account the asset ceiling

At the end of the reporting period, the fair value of plan assets breaks down as shown in → table 3.57.

3.56 — ITEMS OF THE STATEMENT OF FINANCIAL POSITION FOR ACCOUNTING FOR POST-EMPLOYMENT BENEFIT OBLIGATIONS

€ k	Dec. 31, 2019	Dec. 31, 2018
Provisions for post-employment benefit obligations	58,962	50,084
Other assets	49	–
	58,913	**50,084**

3.57 — COMPOSITION OF PLAN ASSETS

€ k	Dec. 31, 2019	Dec. 31, 2018
Employer's pension liability insurance	64,515	65,943
Fixed-interest securities	13,822	9,968
Shares	2,147	828
Real estate	1,729	138
Other	217	328
	82,430	**77,205**

The plan assets of the German entities mainly consist of employer's pension liability insurance policies which guarantee the amount. These employer's pension liability insurance policies have been invested mainly in fixed-interest securities. When selecting the issuers, the factors considered include the individual rating by international agencies and the equity capitalization of the issuers. The aim of the investment strategy is long-term capital accumulation on the one hand, and ongoing interest income on the other. This leads to slightly greater volatility. As part of a balanced approach, the portfolio mix contains debt and equity securities. The long-term growth in plan assets should be achieved primarily by means of fixed-interest securities which will also secure ongoing interest income. Equity instruments also make up a share of the investment portfolio.

With the exception of shares, fixed-interest securities and real estate, there are no listed prices on an active market. Where employer's pension liability insurance belongs to plan assets as qualifying insurance policies and exactly match the benefits, the present value of the covered obligations applies as their fair value. Otherwise, the fair value of plan assets is generally calculated on the basis of the market expectations prevailing on that date.

The expenses for defined benefit plans recognized through profit or loss comprise the items listed in → table 3.58.

3.58 — SHARE OF EXPENSES FROM DEFINED BENEFIT PLANS RECOGNIZED THROUGH PROFIT OR LOSS

€ k	2019	2018
Current service cost	3,670	3,488
Past service cost	142	554
Net interest expenses	825	823
Other	23	–268
	4,660	**4,597**

The asset ceiling resulted in a change of € 638 thousand (prior period: € 51 thousand) in total comprehensive income. Of this amount, € 689 thousand (prior period: € 75 thousand) was recognized directly in equity and € –51 thousand (prior period: € –24 thousand) through profit or loss.

The reporting date for the measurement of projected benefit obligations and plan assets is December 31; the measurement date for defined benefit plans is January 1. In addition to the assumptions on life expectancy based on the Heubeck 2018 G biometric mortality tables for the German Group companies, the rates in → **table 3.59** were used as a basis for calculating the defined benefit obligations and the fair value of the plan assets. The application of the new mortality tables for the German pension obligations caused the present value of the defined benefit obligation to increase by € 824 thousand in the prior period, which was recognized as part of the remeasurement.

3.59 — AVERAGE RATES USED FOR CALCULATING OBLIGATIONS

	2019		2018	
%	Germany	Rest of world	Germany	Rest of world
Discount rate	0.70	1.51	1.70	2.40
Long-term salary increases	3.00	1.69	3.00	2.00

The rate of pension progression, which has a significant impact on the defined benefit obligations as of the end of the reporting period, came to 1.75 % in the 2019 reporting period (prior period: 1.75 %). The average rates are calculated on the basis of the weighted average of the defined benefit obligations.

The average duration of the post-employment benefit obligations as of the end of the 2019 reporting period was 10 years, the average duration of the post-employment benefit obligations from the Dürr Group's pension scheme was 18 years. For the 2020 reporting period, employers are expected to make contributions of € 3,450 thousand to the plan assets.

→ **Table 3.60** gives an overview of the payments for defined benefit plans expected in the coming reporting periods.

Sensitivity analyses

The material actuarial assumptions for the valuation of post-employment benefit obligations are the discount rate and, for obligations in Germany, also the rate of pension progression. By hedging the significant risks with employer's pension liability insurance policies, the longevity risk for the obligations in Germany plays only a minor role.

→ **Table 3.61** shows how the defined benefit obligation is influenced by potential changes to the respective assumptions using sensitivity analyses.

3.61 — SENSITIVITIES – CHANGES IN THE DEFINED BENEFIT OBLIGATION

€ k	Dec. 31, 2019	Dec. 31, 2018
DISCOUNT RATE		
+1 percentage point	–12,556	–10,332
–1 percentage point	15,676	12,791
RATE OF PENSION PROGRESSION		
+0.25 percentage points	2,366	1,994
–0.25 percentage points	–2,260	–1,910

3.60 — EXPECTED PAYMENTS FROM THE DEFINED BENEFIT PLANS

€ k	2020	2021	2022	2023	2024	2025 to 2029	Total
Expected payments from the defined benefit plans	6,308	6,751	6,457	6,530	6,524	32,847	**65,417**

There are dependencies between the actuarial assumptions. The sensitivity analyses do not take these dependencies into account.

28. OTHER PROVISIONS → Table 3.62

The contract-related provisions mainly consist of provisions for after-sales expenses, warranties and for onerous contracts in the order backlog. Around 66 % (prior period: 61 %) of the contract-related provisions relate to provisions for warranties and after-sales expenses. The calculation of the contract-related provisions is largely based on after-sales expenses that are still expected as well as on statutory or contractual warranty claims and was performed using past experience and taking current circumstances into account. The personnel provisions mainly contain obligations for the phased retirement scheme and provisions for long-service awards. These provisions are derived from actuarial investigation procedures. Sundry provisions relate to various identifiable specific risks and uncertain liabilities for which there is uncertainty as to the date and future costs and for which the amount can be estimated reliably. As of December 31, 2019, other provisions mainly include provisions for optimization measures in the Woodworking Machinery and Systems division (HOMAG Group).

Those other provisions that are expected to be used within the next twelve months are classified as current. The payments for non-current provisions are expected to be incurred within the next two to five years. → Table 3.63

29. CONTRACT LIABILITIES

Contract liabilities constitute obligations for the Dürr Group to transfer goods or services to a customer for which the customer has already paid or to which the customer has a claim. This relates to contracts for which customer payments received or due exceed the project status. Regular progress payments are typically agreed in the mechanical and plant engineering sector based on the progress

3.62 — OTHER PROVISIONS – CHANGES

€ k	Contract-related provisions	Personnel provisions	Sundry provisions
As of January 1, 2019[1]	**116,390**	**24,084**	**7,502**
Exchange difference	1,074	51	74
Utilization	−43,860	−6,243	−2,516
Reversal	−20,362	−663	−1,227
Additions	46,086	12,588	37,419
As of December 31, 2019	**99,328**	**29,817**	**41,252**

[1] These figures include the adjustments pursuant to IFRS 16. A reconciliation of all items affected in the statement of financial position is contained in note 6.

3.63 — OTHER PROVISIONS – EXPECTED UTILIZATION

	Dec. 31, 2019			Dec. 31, 2018		
€ k	Total	Current	Non-current	Total	Current	Non-current
Contract-related provisions	99,328	97,596	1,732	117,138	115,803	1,335
Personnel provisions	29,817	12,152	17,665	24,084	10,019	14,065
Sundry provisions	41,252	38,310	2,942	8,512	4,854	3,658
	170,397	**148,058**	**22,339**	**149,734**	**130,676**	**19,058**

of the project. In most cases a customer payment is already due before work commences. This results in the customer having to prefinance the project in the ordinary course of business. During the project, further payments are invoiced based on project milestones reached. In the 2019 reporting period, there were no notable deviations from this typical relationship between performance and customer payment. This is reflected in the disclosure of the balance as a contract liability. In the prior period, the acquisition of Megtec/Universal entities had an impact on the contract assets of € 19,149 thousand and of € 16,622 thousand on contract liabilities. Other than this, there were no significant changes to the balances from contract assets and liabilities.

30. TRADE PAYABLES → Table 3.64

31. BOND, SCHULDSCHEIN LOANS AND OTHER FINANCIAL LIABILITIES

All interest-bearing liabilities of the Group are shown in this item. → Table 3.65

Remaining other financial liabilities contain loans from employees of German HOMAG Group entities and liabilities for deferred interest for the bond and the Schuldschein loans.

3.64 — TRADE PAYABLES

€ k	**Total**	Current	**Total non-current**	Medium-term	Long-term
Trade payables	478,327	478,087	240	240	–
(2018)	(501,835)	(500,868)	(967)	(927)	(40)
Trade payables due to entities accounted for using the equity method	684	684	–	–	–
(2018)	(535)	(535)	(–)	(–)	(–)
December 31, 2019	**479,011**	**478,771**	**240**	**240**	**–**
(December 31, 2018)	(502,370)	(501,403)	(967)	(927)	(40)

3.65 — FINANCIAL LIABILITIES

€ k	**Total**	Current	**Total non-current**	Medium-term	Long-term
Bond	299,186	–	299,186	299,186	–
(2018)	(298,597)	(–)	(298,597)	(298,597)	(–)
Schuldschein loans	499,056	–	499,056	274,489	224,567
(2018)	(299,361)	(–)	(299,361)	(199,574)	(99,787)
Liabilities to banks	366	366	–	–	–
(2018)	(1,002)	(1,002)	(–)	(–)	(–)
Lease liabilities	107,101	27,554	79,547	54,196	25,351
(2018 – Finance lease liabilities (IAS 17))	(7,182)	(1,907)	(5,275)	(4,532)	(743)
Remaining other financial liabilities	17,358	10,125	7,233	7,233	–
(2018)	(17,139)	(9,587)	(7,552)	(7,552)	(–)
December 31, 2019	**923,067**	**38,045**	**885,022**	**635,104**	**249,918**
(December 31, 2018)	(623,281)	(12,496)	(610,785)	(510,255)	(100,530)

Financing of the Group

Bond

In March 2014, Dürr AG issued an unsubordinated bond of € 300,000 thousand with a coupon of 2.875 % and an issue price of 99.221 %. It was paid out to the Dürr Group and first listed on April 3, 2014. The bond has a term of seven years and cannot be terminated prematurely. It was issued to institutional and private investors outside the USA. The bond has not been rated.

Schuldschein loans

On March 24, 2016, Dürr issued a Schuldschein loan of € 300,000 thousand. The funds were received on April 6, 2016. The total volume is split into three tranches with terms of five, seven and ten years. The average interest rate amounts to around 1.6 % p.a. for tranches with both fixed and variable interest terms. The Schuldschein loan was arranged by Commerzbank AG, Landesbank Baden-Württemberg and UniCredit Bank AG and signed by numerous banks both within and outside of Germany. The funds serve to generally fund the Group and to strengthen strategic liquidity.

On June 19, 2019, the Dürr Group placed a sustainability Schuldschein loan of € 200,000 thousand. The payment of interest is partly coupled with the sustainability rating of the Dürr Group. The average interest rate for the Schuldschein loan is 0.84 % p.a. Dürr AG received the funds on July 4, 2019 and they are split into tranches with terms of five, six, eight and ten years. The Schuldschein loan strengthens the liquidity and will be used for long-term corporate financing. In addition, the Schuldschein loan serves as early follow-up financing for the corporate bond expiring in 2021.

Syndicated loan

As part of its sustainability oriented refinancing, Dürr AG concluded a syndicated loan of € 750,000 thousand on July 25, 2019, and on its effective date August 7, 2019, replaced the existing syndicated loan from 2014 prematurely. The new syndicated loan is split into a cash line of € 500,000 thousand and a bank guarantee of € 250,000 thousand. 13 banks from Europe, Asia and the USA belong to the syndicate. BNP Paribas S.A., Commerzbank AG, Deutsche Bank AG and UniCredit Bank AG are responsible for coordinating the syndicate.

The payment of interest of the new loan depends, among other things, on the sustainability rating of the Dürr Group. When the interest rate is coupled with the sustainability rating prepared by EcoVadis, the interest rate falls or rises according to certain sustainability criteria. Many factors are considered, for example, environmental indicators such as CO_2 emissions and water consumption, as well as fair working conditions and supplier practices. The syndicated loan does not include any collateral on fixed and current assets.

The new loan enlarges the financial headroom of the Dürr Group. It is intended for general corporate financing (cash line) and to cover other obligations from the mechanical and plant engineering vis a vis third parties (bank guarantee). The term has been agreed until July 25, 2024, however, it can be extended twice by one year each with the approval of the banks.

The consortium loan facility arranged in 2014 (€ 250,000 thousand cash line, € 215,000 thousand bank guarantee), which would have been due in 2021, was repaid by Dürr AG on August 7, 2019, without loan prepayment penalties. The syndicate of banks comprised Baden-Württembergische Bank, Commerzbank AG, Deutsche Bank AG, UniCredit Bank AG, HSBC Trinkaus & Burkhardt AG, BNP Paribas and KfW IPEX-Bank GmbH. The syndicated loan did not include any collateral on fixed and current assets and was intended for general corporate financing. The agreed financial covenant was complied with on all the specified measurement dates. Interest on the syndicated loan was payable at the matching refinancing rate plus a variable margin.

Credit lines and bank guarantees

At the end of the reporting period, € 174,360 thousand (prior period: € 153,707 thousand) of the bank guarantee of Dürr AG's syndicated loan had been utilized. Furthermore, there is an option to temporarily use the cash line of up to € 89,000 thousand as a bank guarantee. The cash lines of the syndicated loans of Dürr AG were not utilized in the 2019 and 2018 reporting periods. In addition, the Dürr Group has bilateral credit lines of € 4,144 thousand in place (usable for working capital or bank guarantees), bank guarantee facilities of € 720,570 thousand as well as smaller credit lines with various banks and insurance firms. The credit lines and bank guarantee facilities are not bound to any particular purpose and serve to generally fund the Group as well as project management.

3.66 — CREDIT LINES AND BANK GUARANTEES

€ k	Dec. 31, 2019	Dec. 31, 2018
Total amount of credit lines/ bank guarantees available	1,474,900	1,072,095
Total amount of credit lines/ bank guarantees utilized	476,728	317,288
thereof due within one year	237,658	152,175
thereof due in more than one year	239,070	165,113

Lease liabilities

In the course of the first-time application of IFRS 16, additional lease liabilities of € 106,657 thousand were recognized as of January 1, 2019. Lease liabilities amounted to € 107,101 thousand as of December 31, 2019. In the prior period, lease liabilities from finance leases of € 7,182 thousand were included in financial liabilities.

The leases mainly have terms of between one year and ten years, in some cases the contracts have a term of more than 15 years. Potential cash outflows of € 32,573 thousand are not included in the lease liabilities as it is not reasonably certain that the extension options will be exercised. Variable lease payments of € 242 thousand were recognized through profit or loss. To a small extent, the contracts contain price adjustment clauses based on consumer price indices. Any potential adjustments in lease payments arising as a result are not taken into account in the lease liability.

32. SUNDRY FINANCIAL LIABILITIES

Obligations from options of € 176,085 thousand (prior period: € 176,958 thousand) relate to the sundry financial liabilities recognized under the domination and profit and loss transfer agreement with HOMAG Group AG for the acquisition of shares as well as to pay the compensation entitlements. The options also relate to non-controlling interests of € 33,189 thousand (prior period: € 37,239 thousand).

3.67 — SUNDRY FINANCIAL LIABILITIES

€ k	Total	Current	Total non-current	Medium-term	Long-term
Derivative financial liabilities	3,744	3,680	64	64	–
(2018)	(7,573)	(7,232)	(341)	(341)	(–)
Obligations to employees	90,291	88,450	1,841	1,841	–
(2018)	(97,619)	(94,407)	(3,212)	(3,212)	(–)
Obligations from options	210,884	207,834	3,050	3,050	–
(2018)	(214,767)	(213,543)	(1,224)	(1,224)	(–)
Liabilities from contingent purchase price installments	552	552	–	–	–
(2018)	(9,532)	(9,532)	(–)	(–)	(–)
Remaining sundry financial liabilities	20,709	19,374	1,335	1,335	–
(2018)	(24,473)	(22,984)	(1,489)	(1,459)	(30)
December 31, 2019	**326,180**	**319,890**	**6,290**	**6,290**	**–**
(December 31, 2018)	(353,964)	(347,698)	(6,266)	(6,236)	(30)

33. OTHER LIABILITIES

3.68 — OTHER LIABILITIES

€ k	Total	Current	Total non-current	Medium-term	Long-term
Tax liabilities not relating to income taxes	38,454	38,449	5	5	–
(2018)	(62,361)	(62,357)	(4)	(4)	(–)
Liabilities relating to social security	8,118	8,118	–	–	–
(2018)	(8,085)	(8,085)	(–)	(–)	(–)
Obligations to employees	64,102	63,922	180	180	–
(2018)	(60,989)	(60,561)	(428)	(202)	(226)
Remaining other liabilities	8,355	8,286	69	69	–
(2018)	(11,469)	(11,290)	(179)	(179)	(–)
December 31, 2019	**119,029**	**118,775**	**254**	**254**	**–**
(December 31, 2018)	(142,904)	(142,293)	(611)	(385)	(226)

34. SHARE-BASED PAYMENT

There is a share-based long-term incentive (LTI) program in place for the members of the Board of Management of Dürr AG and top level management of the Dürr Group. The program takes the form of tranches that are issued every year and have a term of three years each. The payments will be made upon expiry of the contractual term in each case after the following annual general meeting.

Under the program, the beneficiaries receive an individually fixed number of phantom Dürr shares (performance share units). As of December 31, 2019, 239,250 phantom shares had been issued (prior period: 254,250 shares). At the end of the term of the incentive program, the benefits accrued are settled in cash. The settlement is calculated on the number of phantom shares, the rounded share price on the closing date (share price multiplier) and an EBIT multiplier based on the average EBIT margin generated over the term of the arrangement. There is a cap for the EBIT multiplier. Payment is capped individually in each case.

In the 2019 reporting period, expenses of € 1,722 thousand (prior period: € 849 thousand) were recorded under administrative expenses for the LTI program. The amounts reported under sundry financial liabilities as of December 31, 2019 came to € 4,392 thousand (prior period: € 5,302 thousand).

35. OTHER NOTES ON FINANCIAL INSTRUMENTS

Measurement of financial instruments by category

Based on the relevant items of the statement of financial position, the relationship between the categories of financial instruments pursuant to IFRS 9, classification pursuant to IFRS 7 and the carrying amounts of financial instruments are presented in → table 3.69.

3.69 — MEASUREMENT OF FINANCIAL INSTRUMENTS BY CATEGORY

€ k	Carrying amount as of Dec. 31, 2019	Amount recognized at: Amortized cost	Fair value (not through profit or loss)	Fair value (through profit or loss)
ASSETS				
Cash and cash equivalents	662,024	662,024	–	–
Trade receivables due from third parties	582,323	582,323	–	–
Trade receivables due from entities accounted for using the equity method	3,754	3,754	–	–
Other financial assets	12,653	–	3,306	9,347
Sundry financial assets	209,340	189,833	–	19,507
Derivative financial assets				
Derivatives not used for hedging	630	–	–	630
Derivatives used for hedging	3,177	–	2,820	357
LIABILITIES				
Trade payables	479,011	479,011	–	–
Bond	299,186	299,186	–	–
Schuldschein loans	499,056	499,056	–	–
Liabilities to banks	366	366	–	–
Lease liabilities (IFRS 16)[1]	107,101	107,101	–	–
Other financial liabilities	17,358	17,358	–	–
Obligations from options	210,884	176,085	33,189	1,610
Liabilities from contingent purchase price installments	552	–	–	552
Sundry financial liabilities	111,000	111,000	–	–
Derivative financial liabilities				
Derivatives not used for hedging	1,059	–	–	1,059
Derivatives used for hedging	2,685	–	2,141	544
THEREOF COMBINED BY MEASUREMENT CATEGORY IN ACCORDANCE WITH IFRS 9				
Financial assets measured at amortized cost	1,437,934	1,437,934	–	–
Investments in equity instruments measured at fair value through other comprehensive income	3,306	–	3,306	–
Financial assets measured at fair value through profit or loss	630	–	–	630
Investments in equity instruments measured at fair value through profit or loss	28,854	–	–	28,854
Financial liabilities measured at amortized cost	1,582,062	1,582,062	–	–
Financial liabilities measured at fair value	36,410	–	33,189	3,221

[1] Lease liabilities are accounted for pursuant to IFRS 16 (prior period: IAS 17) and are therefore not included in any of the above categories pursuant to IFRS 9.

3.69 — MEASUREMENT OF FINANCIAL INSTRUMENTS BY CATEGORY

€ k	Carrying amount as of Dec. 31, 2018	Amount recognized at Amortized cost	Fair value (not through profit or loss)	Fair value (through profit or loss)
ASSETS				
Cash and cash equivalents	655,042	655,042	–	–
Trade receivables due from third parties	593,644	593,644	–	–
Trade receivables due from entities accounted for using the equity method	9,380	9,380	–	–
Other financial assets	10,186	–	2,306	7,880
Sundry financial assets	53,043	33,531	–	19,512
Derivative financial assets				
Derivatives not used for hedging	623	–	–	623
Derivatives used for hedging	3,068	–	2,163	905
LIABILITIES				
Trade payables	502,370	502,370	–	–
Bond	298,597	298,597	–	–
Schuldschein loan	299,361	299,361	–	–
Liabilities to banks	1,002	1,002	–	–
Finance lease liabilities (IAS 17)[1]	7,182	–	–	–
Other financial liabilities	17,139	17,139	–	–
Obligations from options	214,767	176,958	37,239	570
Liabilities from contingent purchase price installments	9,532	–	–	9,532
Sundry financial liabilities	122,092	122,092	–	–
Derivative financial liabilities				
Derivatives not used for hedging	1,124	–	–	1,124
Derivatives used for hedging	6,449	–	4,775	1,674
THEREOF COMBINED BY MEASUREMENT CATEGORY IN ACCORDANCE WITH IFRS 9				
Financial assets measured at amortized cost	1,291,597	1,291,597	–	–
Investments in equity instruments measured at fair value through other comprehensive income	2,306	–	2,306	–
Financial assets measured at fair value through profit or loss	628	–	–	628
Investments in equity instruments measured at fair value through profit or loss	27,387	–	–	27,387
Financial liabilities measured at amortized cost	1,424,701	1,417,519	–	–
Financial liabilities measured at fair value	48,465	–	37,239	11,226

[1] Lease liabilities are accounted for pursuant to IFRS 16 (prior period: IAS 17) and are therefore not included in any of the above categories pursuant to IFRS 9.

In order to make the fair value measurement of financial instruments comparable, a fair value hierarchy has been established in IFRSs with the following three levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2)
- Inputs that are not based on observable market data (level 3).

The financial instruments measured at fair value by the Dürr Group break down as follows according to the fair value hierarchy levels:

3.70 — ALLOCATION TO THE FAIR VALUE HIERARCHY LEVELS

		Fair value hierarchy		
€ k	Dec. 31, 2019	Level 1	Level 2	Level 3
ASSETS AT FAIR VALUE – NOT THROUGH PROFIT OR LOSS				
Other financial assets	3,306	–	–	3,306
Derivatives used for hedging	2,820	–	2,820	–
ASSETS AT FAIR VALUE – THROUGH PROFIT OR LOSS				
Other financial assets	9,347	–	–	9,347
Sundry financial assets	19,507	–	–	19,507
Derivatives not used for hedging	630	–	630	–
Derivatives used for hedging	357	–	357	–
LIABILITIES AT FAIR VALUE – NOT THROUGH PROFIT OR LOSS				
Obligations from options	33,189	–	–	33,189
Derivatives used for hedging	2,141	–	2,141	–
LIABILITIES AT FAIR VALUE – THROUGH PROFIT OR LOSS				
Obligations from options	1,610	–	–	1,610
Liabilities from contingent purchase price installments	552	–	–	552
Derivatives not used for hedging	1,059	–	1,059	–
Derivatives used for hedging	544	–	544	–

		Fair value hierarchy		
€ k	Dec. 31, 2018	Level 1	Level 2	Level 3
ASSETS AT FAIR VALUE – NOT THROUGH PROFIT OR LOSS				
Other financial assets	2,306	–	–	2,306
Derivatives used for hedging	2,163	–	2,163	–
ASSETS AT FAIR VALUE – THROUGH PROFIT OR LOSS				
Other financial assets	7,880	–	–	7,880
Sundry financial assets	19,512	5	–	19,507
Derivatives not used for hedging	623	–	623	–
Derivatives used for hedging	905	–	905	–
LIABILITIES AT FAIR VALUE – NOT THROUGH PROFIT OR LOSS				
Obligations from options	37,239	–	–	37,239
Derivatives used for hedging	4,775	–	4,775	–
LIABILITIES AT FAIR VALUE – THROUGH PROFIT OR LOSS				
Obligations from options	570	–	–	570
Liabilities from contingent purchase price installments	9,532	–	–	9,532
Derivatives not used for hedging	1,124	–	1,124	–
Derivatives used for hedging	1,674	–	1,674	–

As of the end of each reporting period, an assessment is made as to whether there were reclassifications between the different hierarchy levels or measurement categories. No reclassifications were made between the fair value hierarchy levels or measurement categories in the 2019 reporting period.

Measurement at fair value of the financial instruments of levels 1, 2 and 3 held as of December 31, 2019 gave rise to the following total gains and losses:

3.71 — TOTAL GAINS AND LOSSES ON ASSETS

€ k	2019	2018
RECOGNIZED IN PROFIT OR LOSS		
Investments in equity instruments measured at fair value through profit or loss	1,467	–478
Derivative financial instruments	2,507	1,492
RECOGNIZED IN EQUITY		
Derivative financial instruments	1,246	2,171

3.72 — TOTAL GAINS AND LOSSES ON LIABILITIES

€ k	2019	2018
RECOGNIZED IN PROFIT OR LOSS		
Liabilities from contingent purchase price installments	50	–87
Obligations from options	–1,040	1,129
Derivative financial instruments	–2,600	–2,792
RECOGNIZED IN EQUITY		
Obligations from options	4,050	–761
Derivative financial instruments	–568	–3,650

3.73 — DEVELOPMENT OF LEVEL 3 OF THE FAIR VALUE HIERARCHY OF ASSETS

€ k	2019	2018
As of December 31, prior period	**29,693**	**19,507**
Adjustments IFRS 9	–	10,795
As of January 1	**29,693**	**30,302**
Changes in the consolidated group	–	–132
Exchange difference	–	1
Additions	1,000	–
Disposals	–	–
Change in fair value	1,467	–478
As of December 31	**32,160**	**29,693**

With the introduction of IFRS 9, other investments and non-consolidated Group entities in the category were reclassified to the fair value category and taken into account in the opening balance. The changes in the fair value of the assets reported in level 3 were reported in the investment result through profit or loss.

3.74 — DEVELOPMENT OF LEVEL 3 OF THE FAIR VALUE HIERARCHY OF LIABILITIES

€ k	2019	2018
As of December 31, prior period	**47,341**	**44,957**
Adjustments IFRS 9	–	1,699
As of January 1	**47,341**	**46,656**
Additions	–	1,196
Disposals	–8,930	–230
Change in fair value	–3,060	–281
As of December 31	**35,351**	**47,341**

Valuation techniques

The fair value of the derivative financial assets and liabilities allocated to level 2 of the fair value hierarchy is based on daily observable spot foreign exchange rates and interest yield curves. In connection with IFRS 13 “Fair Value Measurement”, both the counterparty credit risk and own risk of default have been taken into account during measurement. Input factors to take into account for the counterparty credit risk are credit default swaps (CDSs), observable on the markets, of the credit institution involved in the respective

3.75 — FAIR VALUES OF INVESTMENTS IN EQUITY INSTRUMENTS AND OPTIONS

	Dec. 31, 2019			Dec. 31, 2018		
	Carrying amount	Sensitivity analysis		Carrying amount	Sensitivity analysis	
€ k		+10 %	−10 %		+10 %	−10 %
ADAMOS GmbH	3,000	3,215	2,652	2,000	2,154	1,914
HOMAG eSolution GmbH – Option	1,440	1,297	1,584	1,196	1,243	1,148
Parker Engineering Co., Ltd.	9,347	10,032	8,661	7,880	8,445	7,315
SBS Ecoclean GmbH	19,507	19,507	19,507	19,507	19,507	19,507

transaction. If there is no CDS for a single credit institution, a synthetic CDS is derived from other observable market data (such as rating information). The counterparty credit risk is minimized by diversifying the portfolio and selecting the counterparties carefully. To calculate its own risk of default, the Dürr Group uses information received from credit institutions and insurance companies to derive a synthetic CDS for the Group.

The fair value of the options, contingent purchase price installments and other financial assets allocated to level 3 in the fair value hierarchy is calculated based on contractual arrangements or internal data. This primarily includes historical results, accounting data and forward-looking planning data of each company on which the amount of the financial liabilities depends. The fair value of financial assets is derived from contractual arrangements of a selling price and a fixed interest component. The assumptions are regularly reviewed and adjusted if necessary. If applicable, unwinding effects resulting from a convergence with the maturity date are also included in the valuation.

Sensitivity level 3

The fair value of ADAMOS GmbH is primarily based on the free cash flows expected for the coming years.

The measurement of the option for the acquisition of further shares of HOMAG eSolution GmbH is based on the distributable capital of future years until 2021 and interest-bearing purchase price.

The calculation of the fair value of Parker Engineering Co., Ltd. is largely based on estimates by management on the development of the future free cash flows of the company. The value of the related put option is based on the company's pro rata equity and would fluctuate upward or downward in the event of an assumed change of 10 %.

In connection with the sale of the Cleaning and Surface Processing business activity in 2017, the Dürr Group received a 15 % investment in the holding company SBS Ecoclean GmbH with registered offices in Stuttgart, Germany. The buyer, Shenyang Blue Silver Industry Automation Equipment Co., exercised the option to acquire the remaining 15 % of the investment in SBS Ecoclean GmbH from the Dürr Group. For calculating the fair value of the 15 % investment in SBS Ecoclean GmbH, the Group does not currently expect any performance-related contractual clauses that may have a positive impact on the value to apply.

From investments held in the portfolio, dividends of € 132 thousand were recognized in the 2019 reporting period.

Fair values of financial instruments carried at amortized cost

→ Table 3.76 shows the fair value of the financial assets and liabilities carried at cost or amortized cost. The fair value of financial instruments not carried at amortized cost approximates their carrying amount.

3.76 — FAIR VALUES OF FINANCIAL INSTRUMENTS CARRIED AT AMORTIZED COST

	Dec. 31, 2019		Dec. 31, 2018	
€ k	Fair value	Carrying amount	Fair value	Carrying amount
ASSETS				
Cash and cash equivalents	662,024	662,024	655,042	655,042
Trade receivables due from third parties	582,323	582,323	593,644	593,644
Trade receivables due from entities accounted for using the equity method	3,754	3,754	9,380	9,380
Other non-derivative financial instruments	189,833	189,833	33,531	33,531
LIABILITIES				
Trade payables	479,011	479,011	502,370	502,370
Bond	308,820	299,186	314,250	298,597
Schuldschein loans	510,048	499,056	298,445	299,361
Liabilities to banks	366	366	1,002	1,002
Remaining other financial liabilities	17,358	17,358	17,139	17,139
Finance lease liabilities	–	–	7,619	7,182
Obligations from options	182,531	176,085	180,857	176,958
Sundry financial liabilities	111,000	111,000	122,092	122,092
THEREOF COMBINED BY MEASUREMENT CATEGORY IN ACCORDANCE WITH IFRS 9				
Financial assets measured at amortized cost	1,437,934	1,437,934	1,291,597	1,291,597
Financial liabilities measured at amortized cost	1,609,134	1,582,062	1,436,155	1,417,519

Cash and cash equivalents, trade receivables, sundry financial assets, trade payables, other financial liabilities and overdraft facilities mostly fall due within the short term. Consequently, their carrying amounts at the end of the reporting period approximate their fair value.

The fair value of non-current liabilities is based on the current interest rate for borrowing at similar terms and conditions with comparable due date and credit rating. With the exception of the bond, the Schuldschein loans and the obligations from options, the fair value of liabilities approximates the carrying amount.

The fair value of the bond (fair value hierarchy level 1) is calculated by multiplying the nominal value with the quoted price at the end of the reporting period. As of December 31, 2019, the bond was quoted at 102.94 % (prior period: 104.75 %), which is equal to a market value of € 308,820 thousand (prior period: € 314,250 thousand). The fair value of the Schuldschein loans (fair value hierarchy level 2) and finance lease liabilities (2018, fair value hierarchy level 2), is determined by discounting the cash flows as of the measurement date with discount rates with matching terms.

The obligations from options measured at amortized cost (level 3 in the fair value hierarchy) relate to the sundry financial liabilities recognized under the domination and profit and loss transfer agreement with HOMAG Group AG for the acquisition of shares as well as to pay the compensation entitlements. The sundry financial liabilities are recognized through profit or loss in the subsequent measurement. The expected term of the arbitration proceedings as well as the expected amount of the compensation payment and cash settlement determine the measurement of the option. The expected term of the arbitration proceedings remains unchanged on the prior period. Due to an initial ruling of the Stuttgart Regional Court, which is not yet legally binding, the expected compensation payment was raised from € 1.01 to € 1.03 (net) and the expected cash settlement from € 31.56 to € 31.58. The fair value is determined using a net present value model based on the cash settlement including compensation payment as well as the legal minimum interest rate and a discount rate with a matching term. The difference between the fair value and the carrying amount is due to the fact that the fair value takes into account changes in the actual interest rate environment, while the discount rate used for measurement at amortized cost remains mostly unchanged over the term.

Net gains and losses by measurement category

3.77 — NET GAINS AND LOSSES BY MEASUREMENT CATEGORY 2019

		From subsequent measurement				
€ k	From interest	At fair value	Currency translation	Valuation allowance and impairment	From disposals	**Net gain or loss**
Financial assets measured at amortized cost	4,852	–	–5,544	6,250	–645	4,913
Investments in equity instruments measured at fair value through profit or loss	–	1,467	–	–	–	1,467
Financial liabilities measured at amortized cost	–28,970	–	–79	–	–	–29,049
Financial liabilities measured at fair value through profit or loss	–	–1,903	–	–	8,930	7,027
Total	**–24,118**	**–436**	**–5,623**	**6,250**	**8,285**	**–15,642**

3.78 — NET GAINS AND LOSSES BY MEASUREMENT CATEGORY 2018

		From subsequent measurement				
€ k	From interest	At fair value	Currency translation	Valuation allowance and impairment	From disposals	**Net gain or loss**
Financial assets measured at amortized cost	5,899	–	–3,096	–1,907	–177	719
Financial assets measured at fair value through profit or loss	52	–751	–	–	–	–699
Investments in equity instruments measured at fair value through profit or loss	–	–478	–	–	–	–478
Financial liabilities measured at amortized cost	–25,019	–	10	–	–	–25,009
Financial liabilities measured at fair value through profit or loss	–87	1,129	–	–	–	1,042
Total	**–19,155**	**–100**	**–3,086**	**–1,907**	**–177**	**–24,425**

Financial assets which are subject to an enforceable master netting arrangement or a similar agreement

Some derivative financial instruments concluded with credit institutions are subject to certain contractual netting agreements which allow the Dürr Group, in the event of a credit institution filing for insolvency, to offset certain financial assets against certain financial liabilities.

3.79 — DERIVATIVE FINANCIAL ASSETS SUBJECT TO NETTING AGREEMENTS, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS

€ k	Dec. 31, 2019	Dec. 31, 2018
Gross amounts of financial assets	3,807	3,691
Gross amounts of financial liabilities netted in the statement of financial position	–	–
Net amounts of financial assets reported in the statement of financial position	**3,807**	**3,691**
Associated amounts from financial instruments not netted in the statement of financial position	−2,263	−2,972
Net amount	**1,544**	**719**

3.80 — DERIVATIVE FINANCIAL LIABILITIES SUBJECT TO NETTING AGREEMENTS, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS

€ k	Dec. 31, 2019	Dec. 31, 2018
Gross amounts of financial liabilities	3,744	7,573
Gross amounts of financial assets netted in the statement of financial position	–	–
Net amounts of financial liabilities reported in the statement of financial position	**3,744**	**7,573**
Associated amounts from financial instruments not netted in the statement of financial position	−2,263	−2,972
Net amount	**1,481**	**4,601**

Pledges

At the end of the reporting period, financial assets of € 2,077 thousand (prior period: € 2,348 thousand) were pledged mainly as collateral for cash deposits.

36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The consolidated statement of cash flows shows how the cash and cash equivalents changed in the 2019 reporting period as a result of cash received and paid and thus provides information on the sources and use of cash and cash equivalents. The consolidated statement of cash flows prepared in accordance with IAS 7 "Statement of Cash Flows" makes a distinction between the cash flows from operating, investing and financing activities.

The cash presented in the statement of cash flows contains all of the Group's cash and cash equivalents, i.e., cash in hand, checks and bank balances, with an original term to maturity of less than three months. The valuation allowance to be recognized on cash and cash equivalents under IFRS 9 is eliminated from non-cash income and expenses in the statement of cash flows.

Cash of € 88,702 thousand (prior period: € 190,331 thousand) is restricted due to the restrictions on capital transfers, mainly in some Asian countries.

Cash flow from operating activities

The cash flow from operating activities is derived indirectly from the earnings of the Group. Income tax payments are added to earnings before income taxes which is also adjusted for net interest and non-cash items. The latter includes amortization and depreciation of non-current assets, the profit from entities accounted for using the equity method and the net gain or loss on the disposal of property, plant and equipment. To derive the cash flow from operating activities, changes in the items of the statement of financial position that result from operating activities are then considered. Effects from foreign currency translation and changes in the consolidated group are eliminated. Changes in operating assets and liabilities contained in the consolidated statement of cash flows therefore do not necessarily match the changes in the related items of the consolidated statement of financial position.

The amortization and depreciation reported in the consolidated statement of cash flows in the 2019 reporting period were not reduced by the amount contained in net interest or investment income (prior period: € 478 thousand). The cash flow from operating activities contains effects of € 22,046 thousand from non-recourse financing and premature settlement of letters of credit (prior period: € 24,888 thousand).

3.81 — OTHER NON-CASH INCOME AND EXPENSES

€ k	2019	2018
Result from contingent purchase price installments	50	−87
Income from the disposal of assets and liabilities classified as held for sale	–	61
Valuation or impairment on financial assets and other investments	427	−827
Currency translation differences and other	1,227	1,218
Total	**1,704**	**365**

Cash flow from investing activities

The cash flow from investing activities is derived from actual cash flows. This relates mainly to the cash outflows for investments made in non-current assets, investments of free cash and acquisitions. Cash outflows for the acquisition of property, plant and equipment are divided into € 21,194 thousand (prior period: € 19,472 thousand) for expansion investments and € 31,008 thousand (prior period: € 28,937 thousand) for replacement investments. Cash inflows arise from the disposal of non-current assets and interest received. Investment of free cash in time deposits results in cash outflows of € 159,382 thousand (prior period: cash inflows of € 138,287 thousand).

Under the accounting of leases pursuant to IFRS 16, cash flow from investing activities only shows a cash outflow for prepayments and acquisition-related costs, because the addition of right-of-use assets is not accompanied by cash outflow, except in the abovementioned cases. The same applied to the conclusion of extension of finance lease contracts in the prior period. The payments for leases are reported under cash flow from financing activities.

The "acquisitions, net of cash acquired" item in the reporting period contains the purchase price for the asset deal in Turkey. The Dürr Group did not receive any cash and cash equivalents from this transaction. In the prior period, the purchase price for Megtec/Universal of € 125,340 thousand contained cash and cash equivalents of € 19,567 thousand.

Cash flow from financing activities

The cash flow from financing activities is also derived from actual cash flows. It contains dividends and cash paid to shareholders and non-controlling interests, interest paid for the bond, Schuldschein loans and the other financing activities. It also includes the payments made to settle liabilities under the terms of leases and other non-current loans. The line item "Change in current bank liabilities and other financing activities" mainly contains cash inflows and outflows from overdraft facilities.

On July 4, 2019, the Dürr Group received cash and cash equivalents of € 199,565 thousand (after deducting transaction costs) from the sustainability Schuldschein loan.

In the reporting period, there were cash outflows of € 8,750 thousand for the acquisition of the remaining 25 % of the shares in Benz GmbH Werkzeugsysteme and its subsidiary. In the prior period, the Dürr Group acquired further shares in HOMAG Group AG. The purchase price for these shares was € 34,802 thousand. Pursuant to IAS 7 "Statement of Cash Flows", the cash outflow for the additional shares was contained in the cash flow from financing activities under the item "Cash paid for transactions with non-controlling interests", as the entities were already previously fully consolidated in the Dürr Group.

Interest paid includes the payment of guaranteed dividends to the outside HOMAG Group AG shareholders, as the conclusion of the domination and profit and loss transfer agreement has led to the situation where outside shareholders according to IFRS accounting are not considered as owners of non-controlling interests. Interest payments from lease liabilities in the 2019 reporting period amounted to € 3,039 thousand.

According to the amendments to IAS 7 "Statement of Cash Flows", the reconciliation in → table 3.82 presents the changes in liabilities from financing activities. These are defined as liabilities whose cash inflows and outflows are recognized in the statement of cash flows as cash flows from financing activities. This includes liabilities related to the acquisition of non-controlling interests. Assets that serve to hedge non-current liabilities are also presented here.

The Group has unused credit lines and bank guarantees of € 998,172 thousand (prior period: € 754,807 thousand). The credit lines and bank guarantee facilities are not bound to any particular purpose and serve to generally fund the Group as well as project management. More information on the financing of the Group can be found in → note 31. A breakdown by division of the Dürr Group of the cash flows from operating activities, investing activities and financing activities can be found in → note 37. An explanation of the statement of cash flows can be found in the section on "Financial development" in the combined management report.

3.82 — CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES

			With non-cash effect					
€ k	Carrying amount as of Jan. 1	With cash effect	Exchange difference	Changes in the consoli-dated group	Addition	Changes in fair value	Other changes	Carrying amount as of Dec. 31
Bond	298,597	–	–	–	–	–	589	299,186
(2018)	(298,027)	(–)	(–)	(–)	(–)	(–)	(570)	(298,597)
Schuldschein loans	299,361	199,565	–	–	–	–	130	499,056
(2018)	(299,258)	(–)	(–)	(–)	(–)	(–)	(103)	(299,361)
Lease liabilities	113,839	−27,431	930	–	23,192	–	−3,429	107,101
(2018 – Finance lease liabilities (IAS 17))	(5,810)	(−1,056)	(−26)	(45)	(2,507)	(–)	(−98)	(7,182)
Liabilities from options	155,848	−3,497	–	–	–	−1,004	–	151,347
(2018)	(153,787)	(−3,497)	(–)	(–)	(1,196)	(4,362)	(–)	(155,848)
Liabilities from contingent purchase price installments for non-controlling interests	9,177	−8,750	–	–	–	–	–	427
(2018)	(9,090)	(–)	(–)	(–)	(–)	(87)	(–)	(9,177)
Liabilities from accrued interest	9,313	−9,125	–	–	10,122	–	−240	10,070
(2018)	(9,363)	(−9,092)	(–)	(–)	(9,244)	(–)	(−202)	(9,313)
Sundry financial liabilities	8,828	−1,178	4	–	–	–	–	7,654
(2018)	(10,137)	(−1,284)	(−25)	(–)	(–)	(–)	(–)	(8,828)
Total 2019	**894,963**	**149,584**	**934**	**–**	**33,314**	**−1,004**	**−2,950**	**1,074,841**
(Total 2018)	(785,472)	(−14,929)	(−51)	(45)	(12,947)	(4,449)	(373)	(788,306)

Other notes

37. SEGMENT REPORTING

The segment reporting was prepared according to IFRS 8 "Operating Segments". Based on the internal reporting and organizational structure of the Group, the data contained in the consolidated financial statements is presented by division. The presentation of segments is designed to provide details on the results of operations, net assets and financial position of individual activities.

The reporting is based on the divisions of the Group. As of December 31, 2019, the Dürr Group consisted of the Corporate Center and five operating divisions, each with global responsibility for its products and results. Paint and Final Assembly Systems plans and builds paint systems and final assembly lines for the automotive industry. Application Technology develops and manufactures products and systems for the automated application of paint, sealants and adhesives. Clean Technology Systems mainly specializes in exhaust gas purification systems. Measuring and Process Systems offers balancing and diagnostics equipment and testing, assembly and filling technology. Woodworking Machinery and Systems develops and produces machinery and systems for woodworking. The Corporate Center mainly comprises the holdings Dürr AG and Dürr Technologies GmbH as well as Dürr IT Service GmbH, which performs IT services throughout the Group. A detailed description of the activities of the individual divisions can be found in the section "The Group at a glance" in the combined management report. Transactions between the divisions are carried out at arm's length.

3.83 — SEGMENT REPORTING

€ k	Paint and Final Assembly Systems	Application Technology	Clean Technology Systems	Measuring and Process Systems	Woodworking Machinery and Systems	**Total segments**	Reconciliation[1]	**Dürr Group**
2019								
Sales revenues recognized over time from contracts with customers	1,174,728	448,636	324,514	261,450	249,681	2,459,009	–	2,459,009
Sales revenues recognized at a point in time from contracts with customers	69,032	144,201	70,813	144,460	1,029,466	1,457,972	20	1,457,992
Sales revenues from lease agreements	–	–	–	4,510	–	4,510	–	4,510
Sales revenues with other divisions	2,037	4,707	1,466	3,797	223	12,230	−12,230	–
Total sales revenues	**1,245,797**	**597,544**	**396,793**	**414,217**	**1,279,370**	**3,933,721**	**−12,210**	**3,921,511**
thereof from services	346,362	222,771	132,644	136,307	287,055	1,125,139	−6,527	1,118,612
EBIT	**61,857**	**57,088**	**12,122**	**38,616**	**37,404**	**207,087**	**−11,192**	**195,895**
Earnings from entities accounted for using the equity method	–	–	–	2,162	4,040	6,202	–	6,202
Cash flow from operating activities	−22,402	21,443	18,787	48,160	131,462	197,450	−25,550	171,900
Cash flow from investing activities	−9,685	−12,379	−92,202	−11,844	−32,658	−158,768	−72,987	−231,755
Cash flow from financing activities	−50,652	−27,071	92,933	−35,307	−95,853	−115,950	176,715	60,765
Amortization and depreciation	−22,377	−13,549	−13,056	−11,862	−48,599	−109,443	−3,345	−112,788
Non-cash income and expenses	1,477	307	2,236	−1,684	−144	2,192	160	2,352
Additions to intangible assets	2,887	3,043	84	3,738	17,255	27,007	1,138	28,145
Additions to property, plant and equipment	20,784	9,292	3,589	14,295	25,524	73,484	1,910	75,394
Investments in entities accounted for using the equity method	–	–	–	20,680	16,983	37,663	–	37,663
Assets (as of Dec. 31)	702,535	540,224	408,866	442,576	897,344	2,991,545	−92,853	2,898,692
Liabilities (as of Dec. 31)	625,912	240,754	177,101	187,311	484,125	1,715,203	178,160	1,893,363
Employees (as of Dec. 31)	3,634	2,306	1,418	2,293	6,569	16,220	273	16,493

[1] The number of employees, amortization and depreciation, impairment losses, additions to intangible assets and property, plant and equipment and non-cash income and expenses as well as sales revenues from contracts with customers reported in the reconciliation column relate to the Corporate Center.

3.83 — SEGMENT REPORTING

€ k	Paint and Final Assembly Systems	Application Technology	Clean Technology Systems[1]	Measuring and Process Systems	Woodworking Machinery and Systems	Total segments	Reconciliation[2]	Dürr Group
2018								
Sales revenues recognized over time from contracts with customers	1,178,864	487,111	204,428	292,467	240,674	2,403,544	–	2,403,544
Sales revenues recognized at a point in time from contracts with customers	56,808	165,450	22,272	159,686	1,057,663	1,461,879	31	1,461,910
Sales revenues from lease agreements	–	–	–	4,362	–	4,362	–	4,362
Sales revenues with other divisions	1,222	6,797	1,655	3,905	217	13,796	–13,796	–
Total sales revenues	**1,236,894**	**659,358**	**228,355**	**460,420**	**1,298,554**	**3,883,581**	**–13,765**	**3,869,816**
thereof from services	351,124	224,548	57,445	135,994	276,524	1,045,635	–6,599	1,039,036
EBIT	**55,964**	**67,958**	**–14,973**	**59,735**	**86,231**	**254,915**	**–21,414**	**233,501**
Earnings from entities accounted for using the equity method	–	–	–	2,005	4,839	6,844	–	6,844
Cash flow from operating activities	116,964	13,419	9,478	31,308	45,401	216,570	–54,296	162,274
Cash flow from investing activities	–3,910	–8,209	–110,824	–4,510	–35,736	–163,189	133,040	–30,149
Cash flow from financing activities	3,238	–4,524	120,646	–21,541	–20,138	77,681	–211,722	–134,041
Amortization and depreciation	–14,427	–11,403	–6,110	–8,244	–38,947	–79,131	–3,455	–82,586
Impairment of intangible assets and property, plant, and equipment	–	–	–10,421	–	–362	–10,783	–	–10,783
Non-cash income and expenses	223	–42	607	590	–777	601	–1,091	–490
Additions to intangible assets	3,023	2,641	50,301	1,733	12,437	70,135	2,447	72,582
Additions to property, plant and equipment	5,419	9,110	1,842	4,821	28,829	50,021	895	50,916
Investments in entities accounted for using the equity method	–	–	–	19,720	15,998	35,718	–	35,718
Assets (as of Dec. 31)	600,956	547,771	319,075	438,085	919,974	2,825,861	–317	2,825,544
Liabilities (as of Dec. 31)	613,316	283,758	171,773	178,940	446,165	1,693,952	178,096	1,872,048
Employees (as of Dec. 31)	3,472	2,246	1,472	2,279	6,593	16,062	250	16,312

[1] The amounts reported for Clean Technology Systems contain the figures of the Megtec/Universal entities as of the date of first-time consolidation October 5, 2018, taking into account the effects from the subsequent measurement of hidden reserves and liabilities in the context of the purchase price allocation.
[2] The number of employees, amortization and depreciation, impairment losses, additions to intangible assets and property, plant and equipment and non-cash income and expenses as well as sales revenues from contracts with customers reported in the reconciliation column relate to the Corporate Center.

The basis for segment reporting in accordance with IFRS 8 is the same as that used internally. Management monitors the sales revenues and the EBIT from each of the five divisions separately for the purpose of making decisions about resource allocation and evaluating operating segment performance as well as the development of the segments. Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Sales revenues from contracts with customers are accounted for pursuant to IFRS 15 for every division and divided into sales revenues recognized over time and recognized at a point in time. Only the Woodworking Machinery and Systems division recognizes most sales revenues from contracts with customers when control is transferred, which is related to the high degree of standardization of the machines and the resulting potential alternative uses. All other divisions primarily generate their sales revenues over time due to the conditions of their contracts.

Due to the first-time application of IFRS 16 in the 2019 reporting period, depreciation of property, plant and equipment, additions to property, plant and equipment, cash flow from

3.84 — RECONCILIATION OF SEGMENT FIGURES TO THE FIGURES OF THE DÜRR GROUP

€ k	2019	2018
EBIT of the segments	207,087	254,915
EBIT of the Corporate Center	−11,055	−22,830
Elimination of consolidation entries	−137	1,416
EBIT of the Dürr Group	**195,895**	**233,501**
Investment result	6,398	7,117
Interest and similar income	5,793	6,570
Interest and similar expenses	−33,368	−27,508
Earnings before income taxes	**174,718**	**219,680**
Income taxes	−44,893	−56,175
Profit of the Dürr Group	**129,825**	**163,505**
€ k	Dec. 31, 2019	Dec. 31, 2018
Segment assets	2,991,545	2,825,861
Assets of the Corporate Center	1,024,498	982,100
Elimination of consolidation entries	−1,117,351	−982,417
Cash and cash equivalents	662,024	655,042
Time deposits	159,926	544
Sundry financial assets	19,507	19,507
Investments in entities accounted for using the equity method	37,663	35,718
Income tax receivables	46,634	28,151
Deferred tax assets	57,887	49,893
Total assets of the Dürr Group	**3,882,333**	**3,614,399**
Segment liabilities	1,715,203	1,693,952
Liabilities of the Corporate Center	210,292	208,053
Elimination of consolidation entries	−32,132	−29,957
Bond and Schuldschein loans	798,242	597,958
Finance lease liabilities (IAS 17)	–	7,182
Other financial liabilities	17,724	18,141
Income tax liabilities	48,467	34,970
Deferred tax liabilities	81,151	91,949
Total liabilities of the Dürr Group[1]	**2,838,947**	**2,622,248**

[1] Consolidated total assets less total equity

operating activities and financing activities as well as segment assets and liabilities can only be compared with the prior-period figures to a limited extent. Intragroup leases are not capitalized, but disclosed as income or expense.

Regional segmentation → Table 3.85

Sales revenues are allocated to regions based on the location of the project or delivery locations. The Group's assets are allocated on the basis of the location of the subsidiary reporting these assets. In accordance with IFRS 8.33 they include all non-current assets of the Group except for financial instruments and deferred tax assets.

In the 2019 reporting period, sales revenues in the USA came to € 674,856 thousand (prior period: € 626,387 thousand).

In the 2019 reporting period, 6.95 % of consolidated sales revenues were generated with one customer compared to 9.02 % in the prior period. The second- and third-largest customers accounted for 5.32 % (prior period: 4.33 %) and 5.28 % (prior period: 3.35 %) respectively. The sales revenues with these customers are attributable to all divisions aside from the third-largest customer, with which no sales revenues were generated in the Woodworking Machinery and Systems division. Entities that are known to be under common control are considered as one customer.

38. RELATED PARTY TRANSACTIONS

Related parties comprise members of the Supervisory Board and the Board of Management.

Some members of the Supervisory Board of Dürr AG hold high-ranking positions in other entities. Transactions between these entities and the Dürr Group are carried out at arm's length. For further information about members of the Board of Management and the Supervisory Board of Dürr AG, please refer to → note 42.

Related parties include entities accounted for using the equity method and non-consolidated subsidiaries of the Dürr Group as well as entities for which Dürr represents an associate.

3.85 — REGIONAL SEGMENTATION

€ k	Germany	Other European countries	North/Central American countries	South America	China	Other Asian countries/ Africa/ Australia	Dürr Group
2019							
Sales revenues with customers	668,709	1,073,954	968,989	84,867	726,253	398,739	3,921,511
Additions to property, plant and equipment	38,108	17,244	4,625	504	7,537	7,376	75,394
Non-current assets (as of Dec. 31)	709,210	221,038	181,989	11,343	76,937	28,245	1,228,762
Employees (as of Dec. 31)	8,181	2,617	2,028	354	2,064	1,249	16,493
2018							
Sales revenues with customers	609,412	1,184,449	826,096	86,309	823,343	340,207	3,869,816
Additions to property, plant and equipment	37,550	4,937	3,657	558	2,186	2,028	50,916
Non-current assets (as of Dec. 31)	690,967	190,891	177,154	11,377	54,720	17,738	1,142,847
Employees (as of Dec. 31)	8,152	2,567	2,027	341	2,081	1,144	16,312

In the 2019 reporting period, there were transactions between the Dürr Group and its related parties of € 108,089 thousand (prior period: € 176,429 thousand). These mainly resulted from the regular project business and were primarily attributable to Homag China Golden Field Limited. As of December 31, 2019, outstanding receivables from related parties totaled € 5,620 thousand (prior period: € 6,211 thousand), while liabilities to related parties amounted to € 1,811 thousand (prior period: € 4,559 thousand). Both the receivables and liabilities are current. Prepayments received of € 17,606 thousand (prior period: € 30,102 thousand) from related parties are also included in the statement of financial position.

39. CONTINGENT LIABILITIES

3.86 — CONTINGENT LIABILITIES

€ k	Dec. 31, 2019	Dec. 31, 2018
Obligations from warranties and guarantees	9,315	9,225
Collateral pledged for third-party liabilities	72	72
Other	313	702
	9,700	**9,999**

The Dürr Group assumes that these contingent liabilities will not lead to any liabilities or cash outflows.

40. OTHER FINANCIAL OBLIGATIONS

Besides liabilities, provisions and contingent liabilities, the Group has other financial obligations for the acquisition of property, plant and equipment of € 5,165 thousand (prior period: € 11,221 thousand). In the prior period, the obligations primarily included those for the expansion of a location in Poland. There were also purchase commitments stemming from procurement agreements on a customary scale.

Since January 1, 2019, lease agreements have been accounted for pursuant to the requirements of IFRS 16 “Leases”. As of December 31, 2019, there were obligations of € 2,264 thousand for leases that the Dürr Group has already entered into but have not commenced yet. As of December 31, 2019, obligations for short-term leases amounted to € 1,963 thousand.

Rent and lease agreements (prior period)

In the prior period, the Group had other financial obligations, in particular from rental and lease agreements for buildings, furniture and fixtures, office space and vehicles.

3.87 — NOMINAL VALUES OF FUTURE MINIMUM PAYMENTS FOR OPERATING LEASES

€ k	Dec. 31, 2018
Less than one year	31,200
Between one and five years	52,474
More than five years	19,681
	103,355

In the 2018 reporting period, expenses of € 36,599 thousand were recorded in the statement of income for operating leases.

As of December 31, 2018, future minimum payments for finance leases amounted to € 7,654 thousand. For further prior-period figures on finance leases, please refer to → notes 31 and 41.

41. RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS

The Group operates in countries in which there are political and economic risks. These risks did not have any material effect on the Group in the 2019 reporting period. The Dürr Group may be involved in litigation, including product liability, in the ordinary course of business. There are no matters pending that the Board of Management expects to be material in relation to the Group's business or financial position. Provision has been made for expected litigation costs. The Group is generally exposed to financial risks. These include mainly credit risks, liquidity risks and exposure to interest rate changes or currency risks. The regulations for a Group-wide risk policy are set forth in the Group's guidelines. Detailed information on the risk management system of the Dürr Group can be found in the "Risk report" in the combined management report.

Credit risk

Credit risk relates to the possibility that business partners may fail to meet their obligations in a transaction involving non-derivative and derivative financial instruments and that capital losses could be incurred as a result.

For a valuation allowance to be recognized pursuant to IFRS 9, the credit risks of the individual debtors are firstly segmented using common credit risk characteristics. Determining the valuation allowance requires a diversified analysis of the debtors. Information on delayed payment and current market information, such as credit default swaps, future assessments by management and external ratings, among other things, are used for the analysis. This involves dividing the respective debtors into important and less important debtors measured in terms of the volume of the business relationship. As the economic development of the Dürr Group hinges to a large extent on the willingness of the automotive industry to invest, some automotive manufacturers are for example classified as important debtors. Despite their modest number, the Dürr Group generates a significant portion of sales revenues in business with these debtors. Using the simplified approach, this information is processed and used to derive valuation allowance rates. These are applied throughout the Group as provision matrices. With the general approach, the valuation allowance rates for important debtors are calculated on an individual basis. However, for less important debtors, clusters are formed to calculate the valuation allowance rates.

The quantification of the expected credit losses primarily relates to three risk parameters: Probability of default, loss given default and exposure at default. Depending on the debtor and maturity, the calculated amount of the valuation allowance rates ranges from virtually 0 % to 2.5 %. The credit risks and associated valuation allowance rates are regularly reviewed and adjusted accordingly.

In order to minimize the credit risk, credit ratings are performed for new customers, while the payment patterns of regular customers are analyzed on an ongoing basis. In addition to this, for certain customer groups with a higher risk of default the Group analyzes market information in the public domain and publications. The Dürr Group uses respective terms of payment as well as credit insurance policies such as letters of credit, trade credit insurance policies and federal government guarantees to further limit the risk of default. The maximum credit risk is shown by the carrying amount of financial assets recognized in the statement of financial position.

Further explanations on the valuation and impairment of financial assets can be found in → note 7.

3.88 — RECEIVABLES SECURED AGAINST DEFAULT

€ k	Dec. 31, 2019	Dec. 31, 2018
Letters of credit	8,241	21,583
Trade credit insurance policies	3,156	1,130
	11,397	**22,713**

In connection with the investment of liquid funds, investments as part of financial asset management and the portfolio of derivative financial assets, the Group is exposed to losses from credit risks should the credit institutions and companies fail to meet their obligations. The Dürr Group manages the resulting risk position by diversifying the portfolio and selecting the counterparties carefully. No cash and cash equivalents, investments of active asset management or derivative financial assets were past due on account of credit defaults.

Dependence on few customers

Due to the concentration of certain divisions on the automotive industry, a significant portion of the Group's receivables are due from comparably few automobile manufacturers. Generally these receivables are not secured by bank guarantees or other collateral. As of December 31, 2019, 27.9 % (prior period: 30.6 %) of the trade receivables were due from ten customers. Owing to its customers' group structure with international subsidiaries, the Dürr Group does not see any concentration of credit risk from its business relations with individual debtors or groups of debtors despite the fact that its business is concentrated on a relatively small number of customers. Due to the various divisions each with its own different customer base, the level of diversity displayed among the Group's customers is high compared to other automotive suppliers.

Liquidity risk

Liquidity risk is the risk that the Group may not be in a position to meet its obligations in the future, or to meet them at a reasonable price, when they fall due.

The liquidity situation is secured by available cash and cash equivalents as well as the credit lines which the Group can draw on. The situation is monitored and managed by means of a liquidity plan with a planning horizon of 18 months, coupled with a short-term liquidity forecast. In addition, use of cross-border cash pooling structures has improved the structure of the statement of financial position through liquidity pooling, reduced the volume of borrowed funds and thus helped to enhance the financial result. At the same time, the liquidity situation has become more transparent. Moreover, excess liquidity at individual entities within the Group can be used to finance the cash needs of other Group entities internally.

Dürr AG concluded a syndicated loan on July 25, 2019, and on its effective date August 7, 2019, replaced the existing syndicated loan from 2014. The new syndicated loan of the Dürr AG runs until July 25, 2024 and can be extended twice by one year each by the Dürr Group. Please refer to ⟶ note 31 for further details.

There are also financial guarantees of € 2,674 thousand (prior period: € 2,703 thousand). They were issued as part of sales financing to customers. The Group does not currently expect this to result in any significant cash outflows.

⟶ Table 3.89 shows the contractually agreed (undiscounted) interest and principal payments for financial liabilities.

Foreign currency risk

Currency risks exist in particular where receivables or liabilities are carried or will arise in the ordinary course of business in a currency other than the functional currency of the entity. Foreign exchange risks are hedged where they affect the cash flows of the Group. Foreign exchange risks that do not affect the cash flows of the Group (i.e., the risks from translating the items from the statement of financial position of foreign operations to the euro, the Group's reporting currency), however, are generally not hedged. Forward exchange transactions are entered into to hedge exchange rate fluctuations from cash flows relating to forecast purchase and sales transactions with original terms of up to 84 months (prior period: 84 months).

Regarding the presentation of market risks, IFRS 7 "Financial Instruments: Disclosures" requires sensitivity analyses showing how profit or loss and equity would have been affected by hypothetical changes in the relevant risk variables. The periodic effects are determined by relating the hypothetical changes of the risk variables to the financial instruments as of the end of the reporting period. The presentation is based on the assumption that the portfolio at the end of the reporting period was representative for the whole year. Currency risks as defined by IFRS 7 arise from financial instruments that are denominated in a currency other than the functional currency and are of a monetary nature; exchange differences from the translation of financial statements to the Group's currency are not taken into account. All currencies other than the functional currency in which the Dürr Group holds financial instruments are relevant risk variables.

3.89 — INTEREST AND PRINCIPAL PAYMENTS FOR FINANCIAL LIABILITIES

€ k	Carrying amount as of Dec. 31, 2019	Cash flows Current	Total non-current	Medium-term	Long-term
Non-derivative financial liabilities					
Trade payables	479,011	478,771	240	240	–
Bond	299,186	8,625	308,625	308,625	–
Schuldschein loans	499,056	6,165	526,933	295,015	231,918
Liabilities to banks	366	366	–	–	–
Remaining other financial liabilities	17,358	10,125	7,233	7,233	–
Lease liabilities (IFRS 16)	107,101	30,179	88,543	60,263	28,280
Obligations from options	210,884	207,834[1]	3,050	3,050	–
Liabilities from contingent purchase price installments	552	552	–	–	–
Sundry financial liabilities	111,000	107,824	3,176	3,176	–
Derivative financial liabilities					
Derivatives not used for hedging	1,059	1,039	20	20	–
Derivatives used for hedging	2,685	2,641	44	44	–

€ k	Carrying amount as of Dec. 31, 2018	Cash flows Current	Total non-current	Medium-term	Long-term
Non-derivative financial liabilities					
Trade payables	502,370	501,403	967	927	40
Bond	298,597	8,625	317,250	317,250	–
Schuldschein loan	299,361	4,478	321,744	215,744	106,000
Liabilities to banks	1,002	1,002	–	–	–
Remaining other financial liabilities	17,139	9,587	7,552	7,552	–
Finance lease liabilities (IAS 17)	7,182	2,120	5,534	4,783	751
Obligations from options	214,767	213,543[1]	1,224	1,224	–
Liabilities from contingent purchase price installments	9,532	9,532	–	–	–
Sundry financial liabilities	122,092	117,391	4,701	4,671	30
Derivative financial liabilities					
Derivatives not used for hedging	1,124	1,112	12	12	–
Derivatives used for hedging	6,449	6,120	329	329	–

[1] The cash flows for obligations from options relate primarily to the sundry financial liability recognized under the domination and profit and loss transfer agreement with HOMAG Group AG. The expected cash flows were classified as current. However, the options can also be exercised with differing terms. Please refer to note 7 for further details.

Material non-derivative monetary items which constitute currency risks for the Group are cash, trade receivables and payables as well as contract assets. Non-derivative financial instruments which could give rise to currency risks are usually hedged by derivative financial instruments that are accounted for as fair value hedges. In the process, both the change in the non-derivative financial instrument and the change in the value of the derivative financial instrument are recognized through profit or loss. In addition, Dürr is exposed to currency risks from derivatives that are embedded, in accordance with IAS 39, in effective cash flow hedges of fluctuation in payments caused by exchange rates. Exchange rate changes concerning the currencies underlying these transactions affect the currency reserve in equity and the fair value of the hedges.

The analyses of the Group's sensitivity to fluctuations in foreign exchange rates use the currency pairs that are relevant for the Dürr Group. This involves projecting the impact of a hypothetical 10 % appreciation, or depreciation respectively, of the euro against the US dollar, the Chinese renminbi, pound sterling, the Polish zloty as well as an appreciation and depreciation of the US dollar against the Mexican peso and the Korean won.

Interest rate risk

Interest rate risks arise from fluctuations in interest rates that could have a negative impact on the net assets, financial position and results of operations of the Group. Interest rate fluctuations lead to changes in net interest and in the carrying amounts of the interest-bearing assets and liabilities.

The Dürr Group concluded interest rate swaps with a nominal value of € 100 million to hedge against the interest rate risk from the variable tranches of the Schuldschein loan concluded in 2016. The changes in cash flows from the hedged transactions resulting from changes in the Euribor rate are offset by changes in cash flows from the interest rate swaps. The aim of the hedging measures is to transform the variable-rate financial liabilities into fixed-interest financial liabilities and thus to hedge the risks in the cash flow from the financial liabilities. Credit risks are not hedged. A hypothetical increase in the interest rates of 25 base points per year would have not have caused any increase in the fair value of the interest rate swaps and equity. A hypothetical decrease in the interest rates of 25 base points per year would also not have caused any decrease in the fair value of the interest rate swaps and equity. The variable

3.90 — IMPACT ON THE STATEMENT OF INCOME AND EQUITY

	Dec. 31, 2019		Dec. 31, 2018	
€ k	Impact on the statement of income	Impact on the hedge reserve in equity	Impact on the statement of income	Impact on the hedge reserve in equity
EUR/CNY				
EUR +10 %	6,569	–509	–1,739	2,657
EUR –10 %	–8,007	683	2,166	–3,185
EUR/GBP				
EUR +10 %	1,204	511	248	371
EUR –10 %	–1,427	–616	–293	–446
EUR/PLN				
EUR +10 %	–1,992	–1,312	785	–1,052
EUR –10 %	2,480	1,622	–926	1,308
EUR/USD				
EUR +10 %	–371	7,006	–445	4,834
EUR –10 %	504	–8,434	609	–5,852
USD/KRW				
USD +10 %	–1	1,138	9	517
USD –10 %	9	–1,675	–12	–758
USD/MXN				
USD +10 %	–1,820	–2,564	1,421	–1,980
USD –10 %	2,117	3,284	–1,899	2,442

tranches of the Schuldschein loan issued in 2019 are not hedged against interest rate risk.

The Dürr Group has cash and cash equivalents that are subject to fluctuation in interest rates as of December 31, 2019. A hypothetical increase in these interest rates of 25 base points per year would have caused a € 1,265 thousand (prior period: € 1,278 thousand) increase in interest income. A hypothetical decrease of 25 base points per year would have caused a € 1,265 thousand (prior period: € 1,278 thousand) decrease in interest income.

Other price risks

In the presentation of market risks, IFRS 7 also requires disclosures on the effects of hypothetical changes in the risk variables on the price of financial instruments. The main risk variables include stock market prices and indices. Please refer to → note 35 for more information on the price risk of the financial assets, equity instruments, options and the liabilities from contingent purchase price installments disclosed as a level 3 financial instrument.

Use of derivative financial instruments

Derivative financial instruments are used in the Group to minimize the risks concerning changes in exchange rates and interest rates on cash flows and the change in fair value of receivables and liabilities. Hedging allows the amount of the expected cash inflow/outflow in the functional currency to be estimated in advance. This generally involves fully hedging all payments for which there is significant economic risk from changes in the exchange and interest rate. The Dürr Group is exposed to a replacement risk in the event of non-performance by counterparties (credit institutions) relating to the financial instruments. Derivative financial instruments, mainly forward contracts, are only entered into to hedge the operating business and to hedge loans. In hedging the operating business, derivative financial instruments are entered into on the basis of an internal estimate of progress and payment dates. In order to ensure the effectiveness of the hedging relationships, various features/parameters, such as expected date and volume of payment between the hedged item and corresponding hedge are reviewed and adjusted if necessary. Any ineffectiveness may result, for example, from various different credit risks and delays in contract processing. However, any hedges entered into are expected to be highly effective in offsetting changes in fair value or cash flows. They are assessed on an ongoing basis to determine that they actually have been highly effective throughout the periods for which they were designated. All financial derivatives as well as the respective hedged transactions are subject to regular internal control and measurement in accordance with the directive of the Board of Management. The hedged transactions are primarily included in the following items of the statement of financial position: Trade receivables and trade payables, contract assets, dividend payments and the interest hedge for the Schuldschein loan from 2016. The hedging relationships from cash flow and fair value hedges did not result in any significant ineffectiveness. The changes in value of the hedged transactions therefore run counter to the developments of derivatives.

At the inception of the hedge, the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge are formally documented. This documentation contains identification of the hedging instrument, the related hedged item or transaction, the nature of the risk being hedged, and how the entity

3.91 — SCOPE AND FAIR VALUE OF FINANCIAL INSTRUMENTS

	Nominal value		Positive market value		Negative market value		Change in the fair value to recognize ineffectiveness	
€ k	**Dec. 31, 2019**	Dec. 31, 2018	**Dec. 31, 2019**	Dec. 31, 2018	**Dec. 31, 2019**	Dec. 31, 2018	**Dec. 31, 2019**	Dec. 31, 2018
Interest rate swaps in connection with cash flow hedges	100,000	100,000	–	–	–108	–323	–108	–323
Forward exchange contracts	480,921	488,146	3,807	3,691	–3,636	–7,250	600	–3,058
thereof in connection with cash flow hedges	139,741	135,818	2,820	2,163	–2,033	–4,452	787	–2,289
thereof in connection with fair value hedges	39,508	67,526	357	905	–544	–1,674	–187	–769
thereof not used for hedging	301,672	284,802	630	623	–1,059	–1,124	–	–

3.92 — NOMINAL VALUES OF HEDGING INSTRUMENTS

€ k	Total	Current	Total non-current	Medium-term	Long-term
Interest rate swaps in connection with cash flow hedges	100,000	100,000	–	–	–
(2018)	(100,000)	(–)	(100,000)	(100,000)	(–)
Forward exchange contracts	480,921	460,519	20,402	20,402	–
(2018)	(488,146)	(455,782)	(32,364)	(32,364)	(–)
thereof in connection with cash flow hedges	139,741	132,582	7,159	7,159	–
(2018)	(135,818)	(127,088)	(8,730)	(8,730)	(–)
thereof in connection with fair value hedges	39,508	39,508	–	–	–
(2018)	(67,526)	(67,526)	(–)	(–)	(–)
thereof not used for hedging	301,672	288,429	13,243	13,243	–
(2018)	(284,802)	(261,168)	(23,634)	(23,634)	(–)

will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or the hedged item's cash flows attributable to the hedged risk.

Depending on their market value at the end of the reporting period, derivative financial instruments are reported under sundry financial assets (positive market value) or sundry financial liabilities (negative market value) respectively.

The fair value of the financial instruments was estimated using the following methods and assumptions. The fair values of the forward exchange contracts were estimated at the present value of cash flows on the basis of the difference between the contractually agreed forward exchange rates and the forward rate prevailing at the end of the reporting period. The fair values of the interest hedges are estimated as the discounted value of expected future cash flows based on current market parameters.

3.93 — AVERAGE RATES AND INTEREST FOR DERIVATIVE FINANCIAL INSTRUMENTS CONCLUDED FOR SIGNIFICANT CURRENCY PAIRS AND INTEREST HEDGES

	Average rate		Closing rate	
€ k	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Interest hedge	1.2675 %	1.2675 %	–	–
EUR/CNY	7.9819	8.1032	7.8328	7.8600
EUR/GBP	0.8675	0.8952	0.8501	0.8971
EUR/PLN	4.3157	4.3326	4.2597	4.2981
EUR/USD	1.1348	1.1876	1.1228	1.1453
USD/KRW	1,166.7827	1,081.7207	1,154.6046	1,114.9368
USD/MXN	19.7195	20.4610	18.9163	19.6626

Accounting and disclosure of derivative financial instruments and hedge accounting

Currency hedges that clearly serve to hedge future cash flows from foreign exchange transactions and which meet the requirements of IAS 39 in terms of documentation and effectiveness are accounted for as cash flow hedges. Such derivative financial instruments are recognized at fair value. Changes in fair value that impact hedge effectiveness are recognized directly through other comprehensive income until the hedged item is realized. Upon realization of the future transaction (hedged item), the effects recorded through other comprehensive income are transferred to profit or loss and recognized in sales revenues or cost of sales, other operating income and expenses or in net interest in the statement of income.

3.94 — DISCLOSURES OF FORWARD EXCHANGE CONTRACTS IN CASH FLOW HEDGES

€ k	Interest rate swaps		Forward exchange contracts	
	Dec. 31, 2019	Dec. 31, 2018	**Dec. 31, 2019**	Dec. 31, 2018
Change in the fair value of the hedged item	108	323	–787	–2,289
Hedge reserve	–56	–271	462	–2,517
Reclassification from hedge reserve to profit or loss				
hedged items through profit or loss	–214	–181	1,956	188
hedged items no longer expected	–	–	–	–

3.95 — DISCLOSURES OF FORWARD EXCHANGE CONTRACTS IN FAIR VALUE HEDGES

€ k	Assets		Liabilities	
	Dec. 31, 2019	Dec. 31, 2018	**Dec. 31, 2019**	Dec. 31, 2018
Carrying amount of the hedged items	16,609	15,769	4,856	4,090
Cumulative fair value hedge adjustment	96	–11	–39	9
Statement of financial position item	Trade receivables	Trade receivables	Trade payables	Trade payables

The changes in value of the hedged items corresponds to the accumulated amount of fair value hedge adjustments.

3.96 — RECONCILIATION HEDGE RESERVE IN EQUITY

€ k	**2019**	2018
As of January 1	**–2,788**	**575**
Exchange difference	–7	–23
Additions and changes in value	5,241	–2,856
Reclassification to other statement of financial position items	–298	–477
Reclassification in profit or loss	–1,742	–7
thereof		
Sales revenues	–309	–
Cost of sales	–1,650	–183
Other operating income	3	–
Other operating expense	–	–5
Interest income	214	181
As of December 31	**406**	**–2,788**

In the 2019 reporting period, the determination methods did not result in any significant inefficiencies for fair value hedges and cash flow hedges. Any inefficiencies are disclosed in sales revenues or cost of sales in the statement of income. The reclassification amount did not contain any significant result for which the hedged item was no longer expected.

The effect on earnings (before income taxes) expected for the 2020 reporting period from the amounts recognized through other comprehensive income at the end of the reporting period comes to € 354 thousand. In subsequent reporting periods, accumulated effects on earnings of € 52 thousand are expected.

In the 2019 reporting period, no hedging options were used; for forward exchange contracts, no distinction was made between forward and spot elements.

The changes in the fair value of all derivative financial instruments that do not meet the requirements for hedge accounting in accordance with IAS 39 are recognized through profit or loss at the end of the reporting period.

42. OTHER NOTES

Declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG

The declaration of compliance prescribed by Sec. 161 AktG was submitted by the Board of Management and the Supervisory Board of Dürr AG in Bietigheim-Bissingen on December 10, 2019, and made accessible to the shareholders on the internet. For additional information, please refer to the combined management report.

Headcount

The number of employees in the Dürr Group breaks down as of December 31, 2019 and as an average over the 2019 reporting period as shown in → **tables 3.97 and 3.98**.

3.97 — EMPLOYEES AS OF THE END OF THE REPORTING PERIOD

	Dec. 31, 2019	Dec. 31, 2018
Industrial employees	7,726	7,750
Salaried employees	7,731	7,610
Employees without interns/trainees/others	**15,457**	**15,360**
Interns/trainees/others	1,036	952
Total employees	**16,493**	**16,312**

3.98 — AVERAGE HEADCOUNT DURING THE YEAR

	2019	2018
Industrial employees	7,732	7,393
Salaried employees	7,711	7,230
Employees without interns/trainees/others	**15,443**	**14,623**
Interns/trainees/others	1,020	970
Total employees	**16,463**	**15,593**

Fees payable to the auditor of the consolidated financial statements

→ **Table 3.99** shows the audit fees payable to the auditor of the consolidated financial statements Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft recorded as an expense for the 2019 reporting period.

3.99 — AUDITOR'S FEES

€ k	2019	2018
Audit of the financial statements	1,540	1,503
Other attest services	48	29
Tax advisory services	288	224
Other services	15	52
Total	**1,891**	**1,808**

Auditor's fees relate to the audit of the consolidated financial statements and the separate financial statements of Dürr AG and its affiliated companies included in the consolidated financial statements. Auditor's fees also include fees for voluntary audits of separate financial statements of € 144 thousand (prior period: € 88 thousand).

The fees for non-audit services comprise voluntary audit of financial statements, audit-related services, tax services and other services. They amounted to € 495 thousand in the 2019 reporting period (prior period: € 393 thousand).

Subsequent events

The corona epidemic initially impacted economic activities above all in China. Since the beginning of March, however, the crisis has also been increasingly spreading to Europe and America. As things currently stand, it seems possible for the Dürr Group to make up for a large part of the corona-related declines incurred so far in the further course of the year. For fiscal year 2020, no material impacts on the assets, financial position and results of operations of the Group are expected at this time. However, the economic risks resulting from the corona crisis have increased significantly in recent weeks.

Chief Financial Officer Carlo Crosetto left the Company of his own volition at the end of his service agreement on February 29, 2020.

With the approval of the Supervisory Board, in February 2020 the Board of Management decided that the variable tranches (€ 100,000 thousand) of the Schuldschein loan issued in 2016 be replaced prematurely in April 2020 and refinanced to further optimize corporate financing in terms of interest expenses and maturities.

Between the beginning of the current reporting period and March 18, 2020, there have been no further events that could have a material influence on the net assets, financial position and results of operations of the Group.

Authorization for issue and publication of the consolidated financial statements as of December 31, 2019

The consolidated financial statements and combined management report of Dürr AG prepared by the Board of Management as of December 31, 2019 were authorized for issue to the Supervisory Board at the meeting of the Board of Management on March 18, 2020 and are scheduled for publication in the 2019 annual report on March 20, 2020.

MEMBERS OF THE BOARD OF MANAGEMENT

Ralf W. Dieter
CEO
Provisional CFO (from March 1, 2020)

- ▪ Carl Schenck AG, Darmstadt[1] (Chairman)
- ▪ Dürr Systems AG, Stuttgart[1] (Chairman)
- ▪ HOMAG Group AG, Schopfloch[1,2] (Chairman)
- ▪ iTAC Software AG, Montabaur[1] (Chairman)
- ▪ Körber AG, Hamburg
- ▪ Schuler AG, Göppingen[2]
- » Dürr Paintshop Systems Engineering (Shanghai) Co. Ltd., Shanghai/PR China[1] (Supervisor) (until July 10, 2019)

Dr. Jochen Weyrauch
Deputy Chairman of the Board of Management
(since January 1, 2020)

- » Dürr Paintshop Systems Engineering (Shanghai) Co. Ltd., Shanghai/PR China[1] (Supervisor) (since July 11, 2019)

Carlo Crosetto
(until February 29, 2020)
Chief Financial Officer

- ▪ Carl Schenck AG, Darmstadt[1] (until February 29, 2020)
- ▪ Dürr Systems AG, Stuttgart[1] (until February 29, 2020)
- ▪ HOMAG Group AG, Schopfloch[1,2] (until February 29, 2020)

Pekka Paasivaara
Member of the Board of Management (since January 1, 2019)

- ▪ Deutsche Messe AG, Hannover (since January 1, 2019)
- » Stiles Machinery, Inc., Grand Rapids, Michigan, USA[1] (Chairman)

▪ Membership in statutory supervisory boards
» Membership in comparable German and foreign control bodies (of business entities)
[1] Group boards
[2] listed

The members of the Board of Management were remunerated as shown in → table 3.100.

3.100 — REMUNERATION OF THE BOARD OF MANAGEMENT

€ k	2019	2018
Short-term employee benefits (excluding share-based payment)	4,629	4,394
Post-employment benefits	885	868
Share-based payments	1,593	1,475
Total	**7,107**	**6,737**

Former members of the Board of Management received pension payments of € 554 thousand in the 2019 reporting period (prior period: € 550 thousand). Pension provisions for this group of persons amounted to € 1,776 thousand as of December 31, 2019 (prior period: € 604 thousand). The remuneration includes the Board of Management of Dürr AG.

In addition, in the 2019 reporting period Heinz Dürr GmbH granted the Chairman of the Board of Management a bonus of € 15,000 thousand for his many years of service.

Individualized disclosures on the remuneration of the members of the Board of Management are presented in the section “Compensation report” in the combined management report.

MEMBERS OF THE SUPERVISORY BOARD

Karl-Heinz Streibich[1,4,5]
Supervisory Board member, Frankfurt
Chairman

- Deutsche Telekom AG, Bonn[6]
- Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft, Munich[6] (since April 30, 2019)
- Siemens Healthineers AG, Munich[6]
- WITTENSTEIN SE, Igersheim (until March 31, 2019)

Hayo Raich[1,3,4]
Full-time Chairman of the Group Works Council of Dürr AG, Stuttgart
Full-time Chairman of the Works Council of Dürr Systems AG, Stuttgart, at the Bietigheim-Bissingen site
Deputy Chairman

- Dürr Systems AG, Stuttgart (Deputy Chairman)

Richard Bauer[1,4,5]
Supervisory Board member, Wentorf near Hamburg
Additional Deputy Chairman

- Körber AG, Hamburg (Chairman)

Mirko Becker[2,3]
Full-time member of the Group Works Council of Dürr AG, Stuttgart
Full-time member of the Works Council of Dürr Systems AG, Stuttgart, at the Bietigheim-Bissingen site

Dr. Rolf Breidenbach
President and CEO of HELLA GmbH & Co. KGaA, Lippstadt

Prof. Dr. Dr. Alexandra Dürr[2,5]
Professor for medical technology at Sorbonne Université and ICM (Institut du Cerveau et de la Moelle épinière), Paris/France

Gerhard Federer[2]
Independent consultant, Gengenbach

- HOMAG Group AG, Schopfloch[6] (Additional Deputy Chairman)

Carmen Hettich-Günther[3,4]
Full-time Chairwoman of the Group Works Council of HOMAG Group AG, Schopfloch
Full-time Chairwoman of the Works Council of HOMAG GmbH, Schopfloch

- HOMAG GmbH, Schopfloch (Deputy Chairwoman)
- HOMAG Group AG, Schopfloch[6] (Deputy Chairwoman)

Thomas Hohmann[3]
Head of Personnel at Dürr Systems AG, Stuttgart (until February 29, 2020)
Commercial manager of Dürr Systems AG, Stuttgart (Division Application Technology) (since March 1, 2020)

Dr. Anja Schuler
Member of the Supervisory Board, Zurich/Switzerland

- HOMAG Group AG, Schopfloch[6]

Dr. Martin Schwarz-Kocher[2,3]
General manager of IMU Institut GmbH, Stuttgart

Dr. Astrid Ziegler[1,3]
Head of Department for Industrial, Structural and Energy Policy on the Board of Management of IG Metall, Frankfurt/Main

- Pfleiderer Deutschland GmbH, Neumarkt/Oberpfalz

Dr.-Ing. E.h. Heinz Dürr
Honorary Chairman of the Supervisory Board

[1] Member of the Executive Committee and Personnel Committee
[2] Member of the Audit Committee
[3] Employee representative
[4] Member of the Mediation Committee
[5] Member of the Nomination Committee
[6] listed
▪ Membership in statutory supervisory boards

→ Table 3.101 shows a breakdown into components of the remuneration of individual Supervisory Board members in the 2019 reporting period.

3.101 — REMUNERATION OF THE SUPERVISORY BOARD IN 2019

€	Basic remuneration	Remuneration for committee membership	Attendance fees[3]	Variable remuneration	Total
Karl-Heinz Streibich, Chairman	120,000	15,000	11,000	40,500	186,500
(2018)	(120,000)	(7,500)	(8,000)	(51,000)	(186,500)
Hayo Raich*[1,2], Deputy Chairman	63,000	5,000	11,600	20,250	99,850
(2018)	(63,000)	(5,000)	(8,600)	(25,500)	(102,100)
Richard Bauer, Deputy Chairman	60,000	5,000	7,000	20,250	92,250
(2018)	(60,000)	(5,000)	(6,000)	(25,500)	(96,500)
Mirko Becker*[2]	40,000	10,000	11,000	13,500	74,500
(2018)	(40,000)	(10,000)	(8,000)	(17,000)	(75,000)
Dr. Rolf Breidenbach	40,000	–	6,000	13,500	59,500
(2018)	(40,000)	(–)	(5,000)	(17,000)	(62,000)
Prof. Dr. Dr. Alexandra Dürr	40,000	10,000	10,000	13,500	73,500
(2018)	(40,000)	(10,000)	(8,000)	(17,000)	(75,000)
Gerhard Federer[1]	55,000	49,500	32,000	13,500	150,000
(2018)	(53,125)	(39,500)	(21,000)	(17,000)	(130,625)
Carmen Hettich-Günther*[1,2]	62,500	12,000	30,000	28,500	133,000
(2018)	(62,500)	(12,000)	(23,000)	(32,000)	(129,500)
Thomas Hohmann*	40,000	–	6,000	13,500	59,500
(2018)	(40,000)	(–)	(5,000)	(17,000)	(62,000)
Dr. Anja Schuler[1]	50,000	4,500	20,000	13,500	88,000
(2018)	(50,000)	(4,500)	(15,000)	(17,000)	(86,500)
Dr. Martin Schwarz-Kocher*[2]	40,000	10,000	11,000	13,500	74,500
(2018)	(40,000)	(10,000)	(8,000)	(17,000)	(75,000)
Dr. Astrid Ziegler*[2]	40,000	5,000	11,000	13,500	69,500
(2018)	(40,000)	(5,000)	(8,000)	(17,000)	(70,000)
Total 2019	**650,500**	**126,000**	**166,600**	**217,500**	**1,160,600**
(Total 2018)	(648,625)	(108,500)	(123,600)	(270,000)	(1,150,725)

* Employee representative
[1] Also member of the Supervisory Board of Dürr Systems AG or HOMAG Group AG and HOMAG GmbH
[2] These employee representatives have declared that they will transfer their remuneration to the Hans-Böckler Foundation in keeping with the guidelines of the German Federation of Trade Unions
[3] For Supervisory Board and committee meetings

43. STATEMENT OF CHANGES IN NON-CURRENT ASSETS

3.102 — INTANGIBLE ASSETS INCLUDING RIGHT-OF-USE ASSETS

€ k	Goodwill	Franchises, industrial rights and similar rights	Capitalized development costs	Prepayments for intangible assets	Dürr Group
Accumulated cost as of January 1, 2018	**396,551**	**291,191**	**85,239**	**22,057**	**795,038**
Exchange difference	1,137	202	–11	–7	1,321
Changes in the consolidated group	–	31,277	–	–	31,277
Additions	49,129	4,509	14,524	4,420	72,582
Disposals	–	–4,056	–1,155	–192	–5,403
Reclassifications	–	13,787	4,232	–18,075	–56
Accumulated cost as of December 31, 2018	**446,817**	**336,910**	**102,829**	**8,203**	**894,759**
Exchange difference	1,385	903	–4	2	2,286
Changes in the consolidated group	–	963	–	–	963
Additions	958	4,559	18,974	3,654	28,145
Disposals	–	–1,903	–514	–552	–2,969
Reclassifications	–	3,583	681	–4,264	–
Accumulated cost as of December 31, 2019	**449,160**	**345,015**	**121,966**	**7,043**	**923,184**
Accumulated amortization and impairment as of January 1, 2018	**–**	**149,078**	**51,910**	**1,344**	**202,332**
Exchange difference	–	–2	–9	–	–11
Changes in the consolidated group	–	4	–	–	4
Amortization for the year	–	25,495	9,892	–	35,387
Impairment losses for the year	–	–	10,670	–	10,670
Disposals	–	–3,842	–1,123	–	–4,965
Reclassifications	–	143	–	–143	–
Accumulated amortization and impairment as of December 31, 2018	**–**	**170,876**	**71,340**	**1,201**	**243,417**
Exchange difference	–	240	–2	–	238
Amortization for the year	–	28,633	9,052	–	37,685
Reversal of impairment losses	–	–	–218	–	–218
Disposals	–	–1,851	–87	–	–1,938
Reclassifications	–	–514	514	–	–
Accumulated amortization and impairment as of December 31, 2019	**–**	**197,384**	**80,599**	**1,201**	**279,184**
Net carrying amount as of December 31, 2019	**449,160**	**147,631**	**41,367**	**5,842**	**644,000**
Net carrying amount as of December 31, 2018	446,817	166,034	31,489	7,002	651,342
Net carrying amount as of January 1, 2018	396,551	142,113	33,329	20,713	592,706

3.103 — PROPERTY, PLANT AND EQUIPMENT INCLUDING RIGHT-OF-USE ASSETS

€ k	Land, land rights and buildings including buildings on third-party land	Investment property	Technical equipment and machines	Other equipment, furniture and fixtures	Prepayments and assets under construction	Dürr Group
Accumulated cost as of January 1, 2018	**373,557**	**43,922**	**86,703**	**158,987**	**7,292**	**670,461**
Exchange difference	473	–	73	94	30	670
Changes in the consolidated group	15,942	–	5,220	1,212	30	22,404
Additions	13,328	124	4,911	20,513	12,040	50,916
Disposals	–78	–251	–2,009	–4,953	–206	–7,497
Reclassifications	4,194	–	886	783	–5,807	56
Accumulated cost as of December 31, 2018	**407,416**	**43,795**	**95,784**	**176,636**	**13,379**	**737,010**
Adjustments IFRS 16	158,010	5,499	1,002	22,838	–	187,349
Accumulated cost as of January 1, 2019	**565,426**	**49,294**	**96,786**	**199,474**	**13,379**	**924,359**
Exchange difference	3,545	–	492	1,207	57	5,301
Changes in the consolidated group	–	–	36	–	–	36
Additions	26,038	317	6,626	31,416	10,997	75,394
Disposals	–4,971	–112	–1,795	–8,248	–974	–16,100
Reclassifications	5,201	–	5,132	6,395	–12,378	4,350
Accumulated cost as of December 31, 2019	**595,239**	**49,499**	**107,277**	**230,244**	**11,081**	**993,340**

3.103 — PROPERTY, PLANT AND EQUIPMENT INCLUDING RIGHT-OF-USE ASSETS

€ k	Land, land rights and buildings including buildings on third-party land	Investment property	Technical equipment and machines	Other equipment, furniture and fixtures	Prepayments and assets under construction	Dürr Group
Accumulated depreciation and impairment as of January 1, 2018	**85,225**	**23,742**	**38,317**	**94,487**	**67**	**241,838**
Exchange difference	–81	–	118	12	–	49
Changes in the consolidated group	–	–	–	49	–	49
Depreciation for the year	15,167	924	9,472	21,636	–	47,199
Impairment losses for the year	–	–	113	–	–	113
Disposals	–36	–74	–782	–4,310	–67	–5,269
Reclassifications	11	–	–16	5	–	–
Accumulated depreciation and impairment as of December 31, 2018	**100,286**	**24,592**	**47,222**	**111,879**	**–**	**283,979**
Adjustments IFRS 16	82,618	3,528	362	8,058	–	94,566
Accumulated depreciation and impairment as of January 1, 2019	**182,904**	**28,120**	**47,584**	**119,937**	**–**	**378,545**
Exchange difference	1,300	–	182	705	–	2,187
Depreciation for the year	32,991	1,269	10,006	30,837	–	75,103
Disposals	–1,520	–105	–254	–6,226	–	–8,105
Reclassifications	–	–	–1,639	1,639	–	–
Accumulated depreciation and impairment as of December 31, 2019	**215,675**	**29,284**	**55,879**	**146,892**	**–**	**447,730**
Net carrying amount as of December 31, 2019	**379,564**	**20,215**	**51,398**	**83,352**	**11,081**	**545,610**
Net carrying amount as of December 31, 2018	307,130	19,203	48,562	64,757	13,379	453,031
Net carrying amount as of January 1, 2018	288,332	20,180	48,386	64,500	7,225	428,623

3.104 — FINANCIAL ASSETS

€ k	Investments in entities accounted for using the equity method	Other investments	Other loans	Dürr Group
Accumulated cost as of January 1, 2018	**30,772**	**11,526**	**602**	**42,900**
Exchange difference	2,489	–	–	2,489
Additions	2,457	1	–	2,458
Disposals	–	–187	–	–187
Change in value	–	–478	–	–478
Reclassifications	–	–257	–	–257
Accumulated cost as of December 31, 2018	**35,718**	**10,605**	**602**	**46,925**
Exchange difference	194	–3	–	191
Additions	1,751	2,467	–	4,218
Disposals	–	188	–	188
Accumulated cost as of December 31, 2019	**37,663**	**13,257**	**602**	**51,522**
Accumulated write-downs as of January 1, 2018	**–**	**731**	**602**	**1,333**
Disposals	–	–187	–	–187
Reclassifications	–	–125	–	–125
Accumulated write-downs as of December 31, 2018	**–**	**419**	**602**	**1,021**
Exchange difference	–	–3	–	–3
Disposals	–	188	–	188
Accumulated write-downs as of December 31, 2019	**–**	**604**	**602**	**1,206**
Net carrying amount as of December 31, 2019	**37,663**	**12,653**	**–**	**50,316**
Net carrying amount as of December 31, 2018	35,718	10,186	–	45,904
Net carrying amount as of January 1, 2018	30,772	10,795	–	41,567

44. LIST OF GROUP SHAREHOLDINGS

3.105 — LIST OF GROUP SHAREHOLDINGS

Name and location	Share in capital %*	Equity** € k	Result for the year** € k
A. FULLY CONSOLIDATED SUBSIDIARIES			
GERMANY			
BENZ GmbH Werkzeugsysteme, Haslach im Kinzigtal	100.0	18,797	6,788
Carl Schenck Aktiengesellschaft, Darmstadt[1,2]	100.0	94,960	–
DUALIS GmbH IT Solution, Dresden[1]	100.0	290	–
Dürr Assembly Products GmbH, Püttlingen[1,2]	100.0	5,981	–
Dürr International GmbH, Stuttgart[1,2]	100.0	12,428	–
Dürr IT Service GmbH, Stuttgart[1,2]	100.0	30	–
Dürr Somac GmbH, Stollberg/Erzgeb.[1,2]	100.0	5,015	–
Dürr Systems AG, Stuttgart[1,2]	100.0	217,343	–
Dürr Technologies GmbH, Stuttgart[1,2]	100.0	304,408	–
Dürr thermea GmbH, Bietigheim-Bissingen	100.0	5,868	3,586
HOMAG Automation GmbH, Lichtenberg/Erzgeb.[1,2]	100.0	15,488	–
HOMAG Bohrsysteme GmbH, Herzebrock-Clarholz	100.0	40,021	–564
Homag eSolution GmbH, Schopfloch	51.0	1,160	557
HOMAG Finance GmbH, Schopfloch	100.0	62,226	14,386
HOMAG GmbH, Schopfloch[1,2]	100.0	86,546	–
Homag Group AG, Schopfloch[1]	64.0	106,207	–
HOMAG Kantentechnik GmbH, Lemgo[1,2]	100.0	19,602	–
HOMAG Plattenaufteiltechnik GmbH, Calw[1,2]	100.0	14,025	–
iTAC Software AG, Montabaur	100.0	11,093	4,470
LOXEO GmbH, Stuttgart[1,2]	100.0	25	–
Luft- und Thermotechnik Bayreuth GmbH, Goldkronach[1,2]	100.0	2,720	–
Schenck Industrie-Beteiligungen GmbH, Darmstadt	100.0	21,668	1,820
Schenck RoTec GmbH, Darmstadt[1,2]	100.0	9,226	–
SCHENCK TECHNOLOGIE- UND INDUSTRIEPARK GMBH, Darmstadt[1,2]	100.0	12,540	–
SCHULER Consulting GmbH, Pfalzgrafenweiler[1,2]	100.0	15	–
tapio GmbH, Nagold[1,2]	100.0	971	–
Torwegge Holzbearbeitungsmaschinen GmbH, Schopfloch	100.0	11	–2
Weinmann Holzbausystemtechnik GmbH, St. Johann	75.9	7,840	5,582
OTHER EUROPEAN COUNTRIES			
AGRAMKOW Fluid Systems A/S, Sønderborg/Denmark	100.0	–2,246	1,354
Carl Schenck Machines en Installaties B.V., Rotterdam/Netherlands	100.0	867	175
Carl Schenck spol. s r.o., Modřice/Czech Republic	100.0	686	114
CPM S.p.A., Beinasco/Italy	51.0	21,997	6,350
Datatechnic S.A.S., Uxegney/France	100.0	8,846	654
Duerr Cyplan Limited, Aldermaston/UK	100.0	1,247	–868
Durr Limited, Warwick/UK	100.0	11,043	2,336

3.105 — LIST OF GROUP SHAREHOLDINGS

Name and location	Share in capital %*	Equity** € k	Result for the year** € k
Dürr Poland Sp. z o.o., Radom/Poland	100.0	17,060	2,909
Dürr Systems Czech Republic a.s., Ledeč nad Sázavou/Czech Republic	100.0	4,687	–40
Dürr Systems Makine Mühendislik Proje Ithalat ve Ihracat Ltd. Sirketi, Izmit-Kocaeli/Turkey	100.0	2,284	152
Dürr Systems S.A.S., Guyancourt/France	100.0	20,216	1,082
Dürr Systems Spain S.A.U., San Sebastián/Spain	100.0	10,055	5,037
Dürr Systems spol. s r.o., Bratislava/Slovakia	100.0	1,313	636
Dürr Universal Europe Ltd., Hinckley/UK	100.0	4,005	–1,100
Homag (Schweiz) AG, Höri/Switzerland	100.0	4,099	2,540
HOMAG AUSTRIA Gesellschaft m.b.H., Oberhofen am Irrsee/Austria	100.0	1,248	381
HOMAG DANMARK A/S, Galten/Denmark	100.0	2,252	876
HOMAG ESPAÑA MAQUINARIA, S.A., Llinars del Vallès (Barcelona)/Spain	100.0	1,737	301
HOMAG France S.A.S., Schiltigheim/France	100.0	5,775	2,746
HOMAG Group Trading SEE EOOD, Plovdiv/Bulgaria	100.0	873	151
HOMAG ITALIA S.p.A., Giussano/Italy	100.0	4,487	1,372
HOMAG MACHINERY BARCELONA SA, L'Ametlla del Vallès/Spain	100.0	5,748	2,481
HOMAG POLSKA Sp. z o.o., Środa Wielkopolska/Poland	100.0	27,763	3,392
HOMAG Services Poland Sp. z o.o., Środa Wielkopolska/Poland	100.0	1,680	83
HOMAG U.K. LTD., Castle Donington/UK	100.0	6,009	2,237
MEGTEC Environmental Limited, Standish/UK	100.0	1,730	–2,230
MEGTEC IEPG BV, Amsterdam/Netherlands	100.0	25,095	3,618
MEGTEC Systems AB, Gothenburg/Sweden	100.0	8,416	–8
MEGTEC Systems S.A.S., Lisses/France	100.0	12,883	–27
Olpidürr S.p.A., Novegro di Segrate/Italy	65.0	4,724	–562
OOO "Homag Russland", Moscow/Russia	100.0	1,898	744
OOO Dürr Systems RUS, Moscow/Russia	100.0	1,763	1,319
Schenck Italia S.r.l., Paderno Dugnano/Italy	100.0	410	7
Schenck Limited, Warwick/UK	100.0	2,274	478
Schenck S.A.S., Jouy-le-Moutier/France	100.0	8,564	3,000
Stimas Engineering S.r.l., Turin/Italy	51.0	118	6
Verind S.p.A., Rodano/Italy[3]	50.0	7,162	987
NORTH AMERICA/CENTRAL AMERICA			
BENZ INCORPORATED, Hickory, North Carolina/USA	100.0	1,660	259
Dürr de México, S.A. de C.V., Santiago de Querétaro/Mexico	100.0	17,858	5,140
Dürr Inc., Southfield, Michigan/USA	100.0	105,561	–1,522
Durr MEGTEC Holdings Inc., De Pere, Wisconsin/USA	100.0	27,686	–2,920
Durr MEGTEC LLC, De Pere, Wisconsin/USA	100.0	61,805	1,985
Dürr Systems Inc., Southfield, Michigan/USA	100.0	130,489	6,715
Durr Universal Inc., Stoughton, Wisconsin/USA	100.0	39,812	5,898
Dürr Universal S. de R.L. de C.V., San Luis Potosi/Mexico	100.0	3,290	109
HOMAG CANADA INC., Mississauga, Ontario/Canada	100.0	4,560	1,094
Homag Machinery North America, Inc., Grand Rapids, Michigan/USA	100.0	–1,791	–553
MEGTEC Energy & Environmental LLC, De Pere, Wisconsin/USA	100.0	3,137	–
MEGTEC India Holdings LLC, De Pere, Wisconsin/USA	100.0	2,778	–

3.105 — LIST OF GROUP SHAREHOLDINGS

Name and location	Share in capital %*	Equity** € k	Result for the year** € k
MEGTEC Systems Australia Inc., Wilmington, Delaware/USA	100.0	757	5
MEGTEC Turbosonic Inc., Waterloo/Canada	100.0	9,439	1,056
MTS Asia Inc., De Pere, Wisconsin/USA	100.0	9,064	–
Schenck Corporation, Deer Park, New York/USA	100.0	67,460	4,463
Schenck México, S.A. de C.V., Mexico City/Mexico	100.0	1,210	603
SCHENCK USA CORP., Deer Park, New York/USA	100.0	18,450	2,303
STILES MACHINERY, INC., Grand Rapids, Michigan/USA	100.0	30,164	18,729
Test Devices Inc., Hudson, Massachusetts/USA	100.0	5,176	631
Universal AET Holdings, LLC, Stoughton, Wisconsin/USA	100.0	–	–
Universal Silencer Mexico II LLC, Stoughton, Wisconsin/USA	100.0	82	–
Universal Silencer Mexico LLC, Stoughton, Wisconsin/USA	100.0	8,166	–
SOUTH AMERICA			
AGRAMKOW do Brasil Ltda., Indaiatuba/Brazil	100.0	356	376
CPM DO PERNAMBUCO MANUTENÇÃO DE MÁQUINAS E EQUIPAMENTOS LTDA., Goiana/Brazil	99.0	542	113
Dürr Brasil Ltda., São Paulo/Brazil	100.0	12,952	2,336
HOMAG INDÚSTRIA E COMÉRCIO DE MÁQUINAS PARA MADEIRA LTDA., Taboão da Serra/Brazil	100.0	2,094	78
Irigoyen 330 S.A., Buenos Aires/Argentina	100.0	30	–
VERIND BRASIL SERVICOS E SOLUCOES LTDA. – EPP, Betim/Brazil[3]	100.0	892	111
AFRICA/ASIA/AUSTRALIA			
AGRAMKOW Asia Pacific Pte. Ltd., Singapore/Singapore	100.0	782	221
Dürr (Thailand) Co., Ltd., Bangkok/Thailand	100.0	2,939	265
Dürr Africa (Pty.) Ltd., Port Elizabeth/South Africa	100.0	4,285	2,722
Dürr India Private Limited, Chennai/India	100.0	7,871	3,405
Dürr Japan K.K., Tokyo/Japan	100.0	–723	11
Dürr Korea Inc., Seoul/South Korea	100.0	24,291	1,273
Dürr Paintshop Systems Engineering (Shanghai) Co. Ltd., Shanghai/PR China	100.0	83,068	28,237
Durr Systems (Malaysia) Sdn. Bhd., Petaling Jaya/Malaysia	100.0	1,496	22
Dürr Systems Maroc sarl au, Tangier/Morocco	100.0	455	140
DURR VIETNAM COMPANY LIMITED, Ho Chi Minh City/Vietnam	100.0	1,837	1,337
EPE Fund 3 (RF) (Pty) Ltd., Port Elizabeth/South Africa[3]	100.0	10	–
H O M A G Equipment Machinery Trading LLC, Dubai/United Arab Emirates[4]	49.0	–709	–108
Homag Asia (Thailand) Co., Ltd., Bangkok/Thailand	100.0	637	219
HA MALAYSIA SDN. BHD., Puchong/Malaysia	100.0	–485	–209
HOMAG Arabia FZE, Dubai/United Arab Emirates	100.0	–305	–92
HOMAG ASIA PTE LTD, Singapore/Singapore	100.0	–202	–1,376
Homag Australia Pty. Limited, Sydney/Australia	100.0	3,045	30
Homag India Private Limited, Bangalore/India	100.0	4,861	484
Homag Japan Co., Ltd., Higashiosaka/Japan	100.0	8,025	1,431
HOMAG KOREA CO., LTD., Seoul/South Korea	100.0	2,761	584
Homag Machinery (Shanghai) Co., Ltd., Shanghai/PR China	81.3	22,987	5,056
HOMAG NEW ZEALAND LIMITED, Auckland/New Zealand	100.0	25	10
HOMAG VIETNAM COMPANY LIMITED, Ho Chi Minh City/Vietnam	100.0	–80	–75

3.105 — LIST OF GROUP SHAREHOLDINGS

Name and location	Share in capital %*	Equity** € k	Result for the year** € k
Luhlaza Industrial Services (Pty) Ltd., Port Elizabeth/South Africa[3]	75.0	832	28
MEGTEC Systems India Private Ltd., Pune/India	100.0	3,328	479
MEGTEC Systems Shanghai Ltd., Shanghai/PR China	100.0	4,489	95
MEGTEC Thermal Energy & Environment Technology (Shanghai) Ltd., Shanghai/PR China	100.0	2,032	–162
PT Durr Systems Indonesia, Jakarta/Indonesia	100.0	866	19
Schenck RoTec India Limited, Noida/India	100.0	8,055	792
Schenck Shanghai Machinery Corp. LTD, Shanghai/PR China	100.0	30,506	6,430
Shanghai Shenlian Testing Machine Works Co., Ltd., Shanghai/PR China	100.0	–694	–888
Universal Acoustic & Emission Technologies Pvt. Ltd., Pune/India	100.0	1,360	91
B. NON-CONSOLIDATED SUBSIDIARIES			
Aviva Vermögensverwaltung GmbH i.L., Munich/Germany	100.0	–1,078	–2
Futura GmbH, Schopfloch/Germany	100.0	25	–
Prime Contractor Consortium FAL China, Stuttgart/Germany	50.0	–	–
Unterstützungseinrichtung der Carl Schenck AG, Darmstadt, GmbH, Darmstadt/Germany	100.0	1,114	–18
C. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD			
HOMAG CHINA GOLDEN FIELD LIMITED, Hong Kong/PR China	25.0	48,518	6,748
Nagahama Seisakusho Ltd., Osaka/Japan	50.0	40,966	4,224
D. OTHER INVESTMENTS			
ADAMOS GmbH, Darmstadt/Germany	14.3	859	–7,558
Fludicon GmbH, Darmstadt/Germany	1.4	–	–
HeatMatrix Group B.V., Utrecht/Netherlands	13.4	2,281	272
Parker Engineering Co., Ltd., Tokyo/Japan	10.0	48,522	4,064
SBS Ecoclean GmbH, Stuttgart/Germany	15.0	146,105	5,909

* Investment pursuant to Sec. 16 AktG
** German entities HGB figures, foreign entities IFRS figures, figures for 100 % capital share
[1] Profit and loss transfer agreement with the respective parent company
[2] Exemption pursuant to Sec. 264 (3) HGB
[3] Controlling influence as a result of contractual arrangements to control the relevant activities
[4] 100% share in voting right

Bietigheim-Bissingen, March 18, 2020

Dürr Aktiengesellschaft
The Board of Management

Ralf W. Dieter	Dr. Jochen Weyrauch	Pekka Paasivaara

INDEPENDENT AUDITOR'S REPORT

To Dürr Aktiengesellschaft

Report on the audit of the consolidated financial statements and of the group management report

OPINIONS

We have audited the consolidated financial statements of Dürr Aktiengesellschaft, Stuttgart, and its subsidiaries (the Group), which comprise the consolidated income statement, and the consolidated statement of comprehensive income for the reporting period from January 1 to December 31, 2019, the consolidated statement of financial position as of December 31, 2019, the consolidated statement of cash flows and the consolidated statement of changes in equity for the reporting period from January 1 to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Dürr Aktiengesellschaft for the reporting period from January 1 to December 31, 2019, which is combined with the management report ("group management report"). In accordance with the German legal requirements, we have not audited the content of the group non-financial statement included in the "Sustainability" section of the group management report as well as the disclosures in the "Other information on corporate governance" section and the Corporate Governance Declaration.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2019 and of its financial performance for the reporting period from January 1 to December 31, 2019, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the group non-financial statement included in the "Sustainability" section of the group management report as well as the disclosures in the "Other information on corporate governance" section and the Corporate Governance Declaration.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the Group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the reporting period from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. Impairment testing of goodwill

Reasons why the matter was determined to be a key audit matter:

Goodwill is subject to an annual impairment test. As a rule, the basis of the measurements is the present value of future cash flows of the cash-generating unit to be measured to which goodwill was allocated. The measurements are based on budgetary planning of the cash-generating units for four detailed planning years. The discounting is based on the weighted average cost of capital (WACC) of the respective cash-generating unit. The inputs used in the calculation of the discounting rate are partly based on estimated market expectations and are, therefore, also subject to judgment.

The result of these measurements depends chiefly on the future cash inflows of each company estimated by the executive directors as well as the discount rate used and is, therefore, subject to uncertainty.

Auditor's response:

The subsidiaries' budgets are consolidated by division and reviewed and approved by the Board of Management in a multi-stage process. The Supervisory Board approves the budget for the following year and acknowledges the long-term planning for the next three years. Due to new developments, the budget was updated once again. For our audit we relied on these internal controls and reviewed their effectiveness. Our assessment was based, among other things, on a comparison with general and industry-specific market expectations as well as management explanations regarding the significant value drivers in the budgets and forecasts. We also compared the plans for consistency with the forecast information provided in the group management report. We also analyzed the budget-to-actual comparison of the prior-period planning on the basis of a target-actual deviation analysis. We assessed the underlying valuation models for the determination of net realizable value in terms of methodology and re-performed the calculations with the assistance of internal valuation specialists. We assessed the derivation of the risk-adjusted discount rate with the involvement of our internal experts in particular by scrutinizing the peer group, comparing market data with external evidence and checking the clerical accuracy. We also checked the results of the impairment test for plausibility using our own sensitivity analyses.

Our audit procedures did not lead to any reservations relating to the assessment of goodwill impairment.

Reference to related disclosures:

The Company's disclosures on the impairment of goodwill in terms of the recognition and measurement policies applied in accounting as well as the associated judgments are contained in notes 7 and 18 of the notes to the consolidated financial statements.

2. Revenue recognition over time and accounting for construction contracts pursuant to IFRS 15 (Revenue from Contracts with Customers)

Reasons why the matter was determined to be a key audit matter:
Sales revenues from customer-specific construction contracts are generally calculated according to the progress towards complete satisfaction of a performance obligation pursuant to IFRS 15. This involves recognizing sales revenues and the planned contract margin in line with the degree to which the contract has been completed. The degree of completion is calculated on the basis of the costs incurred relative to the total estimated costs.

The application of revenue recognition over time pursuant to IFRS 15 requires substantial exercise of judgment, particularly related to the estimate of the total costs of a contract and the consideration of contract modifications and project risks.

Auditor's response:
In assessing the contract analysis performed by the executive directors, we evaluated in particular whether the requirements to recognize revenue over time have been met based on construction contracts. We relied on a controls-based approach during the audit and examined the underlying corporate processes and tested controls relevant for the processing and accounting of construction contracts, particularly for the calculation of contract values, the processes for the estimate of contract costs as well as the reporting and allocation of accrued costs. We also tested the control mechanisms in the area of contract acceptance and planning as well as in the area of budgeting and cost control for their proper functioning. To identify anomalies in the development of margins over the course of the year and to recognize them compared to the prior period, we performed analyses of the planned costs and changes in contract values. With regard to the status of completion and the assessment of the risks associated with the contract, we obtained management's evaluation of the significant contracts.

Furthermore, we performed the following substantive procedures for specific construction contracts:

- Compared the contract values underlying the revenue calculation with the respective customer contracts;
- Analyzed the planned contract costs and planning costs used underlying the determination of the degree of completion of the individual construction contracts, reviewing among other things the quality of budgets on the basis of using target-vs. actual analyses;
- Verified whether the material and production costs recognized for each construction contract were allocated properly and in the correct period, during which we primarily verified the allocation of costs in terms of their amount and the related project using orders, evidence of services as well as supplier invoices;
- Obtained evidence from third parties for selected projects (for example external confirmations of significant receivables and customer prepayments);
- Checked that the sales revenues had been entered in the right amount in particular by comparing a sample of the transaction prices with their applicable contractual bases.

Our audit procedures did not lead to any reservations regarding the revenue recognition over time and accounting of construction contracts according to IFRS 15.

Reference to related disclosures:
The Company's disclosures on the recognition and measurement policies applied in accounting with regard to the revenue recognition over time and accounting of construction contracts according to IFRS 15 are contained in notes 7, 8, 21 and 22 of the notes to the consolidated financial statements.

3. Recognition and measurement of income tax provisions and deferred taxes

Reasons why the matter was determined to be a key audit matter:
The Dürr Group operates in different legal systems coupled with the complexity of changing tax law as well transfer pricing issues. The calculation of provisions for income tax obligations as well as the

accounting assessment and measurement of deferred and uncertain tax items requires that the executive directors of Dürr Aktiengesellschaft exercise judgment for the assessment of subject matters related to tax and must perform estimates regarding income tax risks.

In the context of accounting and measurement of deferred tax items, an assessment of future usability of the tax loss carryforwards as well as other deferred tax assets from temporary differences is necessary. The recognition of deferred tax assets for tax loss carryforwards depends on the usability of losses in each country due to country-specific provisions on the one hand, and, on the other, on budget assumptions for future taxable income. Particularly the corporate planning regarding the future taxable income is subject to judgment to a high degree. The executive directors make estimates regarding the economic development of every taxable entity, which is affected by the current and future market environment.

Auditor's response:
Due to the complexity in the area of tax provisions, we consulted internal experts from our tax department with expertise in the relevant local legal systems and provisions in our audit. We also assessed the correspondence with the responsible tax authorities, analyzed and reviewed the assumptions for the calculation of income tax provisions on the basis of their knowledge and experience in the current application of the relevant legal provisions by the authorities and courts.

To assess the recognition and measurement of deferred taxes at Group companies, we considered, among other things, the underlying processes for complete reporting and measurement of deferred taxes as well as to avoid or detect and correct errors. In addition, we verified the identification and quantification of deviations between the recognition and measurement of assets and liabilities according to income tax provisions and financial reporting in accordance with IFRSs as well as the calculation of the deferred taxes with regard to these deviations using the corresponding tax rate. For the impairment testing of deferred tax assets from temporary differences as well as from loss carryforwards, we verified using samples whether tax forecasts were derived from corporate planning, the Group-wide planning horizon was used to assess the usability of tax loss carryforwards and the respective country-specific tax requirements for the use of loss carryforwards were observed.

In the course of our substantive audit procedures for uncertain tax treatments, we assessed the compliance with the relevant local tax law of assessments made by the executive directors for tax implications of significant business transactions or events in the 2019 reporting period, from which uncertain tax treatments may result or could influence the measurement of existing uncertain tax treatments. In particular, this includes the income tax implications arising from the acquisition or disposal of company shares, corporate restructuring as well as findings from tax field audits.

Our audit procedures did not lead to any reservations regarding the recognition and measurement of income tax provisions and deferred taxes.

Reference to related disclosures:
The Company's disclosures on the accounting policies for income tax provisions and deferred taxes are contained in notes 7 and 17 of the notes to the consolidated financial statements.

4. Restructuring measures
Reasons why the matter was determined to be a key audit matter:
In connection with the changes in market conditions in the Woodworking Machinery and Systems division, process improvements and structural adjustments were announced in the fiscal year 2019 and the works council was informed. The measures adopted include the closure of the Hemmoor production site and further personnel adjustments at other locations.

During our audit, we determined this as a key audit matter because the valuation of the obligations is significantly influenced by the estimates and assumptions of the executive directors and may result in significant effects on various items of the consolidated financial statements (non-current liabilities, provisions, cost of sales, selling, general and administrative expenses).

Auditor's response:
During our audit of the restructuring measures, we examined the underlying corporate processes and performed analytical audit procedures and substantive testing.

The audit procedures regarding the reported expenses as well as the recognition and measurement of provisions and liabilities included in particular the review of restructuring plans, the associated written agreements and contracts and communication with employees.

For the group companies and the potential employees affected by these measures, we compared the years in service and salary information for payroll accounting with the personnel master data, and tested the underlying assumptions on the basis of past experience, for example, comparable previous restructuring measures.

Our audit procedures did not lead to any exceptions relating to the accounting treatment of restructuring measures.

Reference to related disclosures:
The Company's disclosures related to the restructuring measures are contained in notes 7 and 28 of the notes to the consolidated financial statements.

OTHER INFORMATION

The Supervisory Board is responsible for the Report of the Supervisory Board. Otherwise, the executive directors are responsible for other information. Other information particularly comprises the following components of the annual report: The Chairman's letter, the Report of the Supervisory Board, the section "Dürr on the capital market", the disclosures made in the annual report in the Responsibility Statement contained in the consolidated financial statements, the group non-financial statement included in the "Sustainability" section of the group management report as well as the disclosures in the "Other information on corporate governance" section and the Corporate Governance Declaration. We received a version of this "Other information" by the time this auditor's report was issued.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems;
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures;
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions;

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides;

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor of the consolidated financial statements by the annual general meeting on May 10, 2019. We were engaged by the Supervisory Board on November 6, 2019. We have been the group auditor of Dürr Aktiengesellschaft without interruption since the 2002 reporting period.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Marco Koch.

Stuttgart, 18 March 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Marbler	**Koch**
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

INDEPENDENT AUDITOR'S LIMITED ASSURANCE REPORT

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

To Dürr Aktiengesellschaft, Stuttgart

We have performed a limited assurance engagement on the group non-financial statement of Dürr Aktiengesellschaft according to § 315b HGB ("Handelsgesetzbuch": German Commercial Code), consisting of the disclosures in the combined management report which are marked with a line in the margin and the abbreviation "NFD" for the reporting period from 1 January 2019 to 31 December 2019 (hereafter group non-financial statement). Our engagement did not include any disclosures for prior years.

MANAGEMENT'S RESPONSIBILITY

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

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

AUDITOR'S DECLARATION RELATING TO INDEPENDENCE AND QUALITY CONTROL

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

Our audit firm applies the national statutory regulations and professional pronouncements for quality control, in particular the by-laws regulating the rights and duties of Wirtschaftsprüfer and vereidigte Buchprüfer in the exercise of their profession [Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer] as well as the IDW Standard on Quality Control 1: Requirements for Quality Control in audit firms [IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW QS 1)].

AUDITOR'S RESPONSIBILITY

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

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

Within the scope of our assurance engagement, which has been conducted between December 2019 and March 2020, we performed amongst others the following assurance and other procedures:

- Inquiries of employees regarding the selection of topics for the group non-financial statement, the risk assessment and the concepts of the group for the topics that have been identified as material,
- Inquiries of employees responsible for data capture and consolidation as well as the preparation of the group non-financial statement, to evaluate the reporting processes, the data capture and compilation methods as well as internal controls to the extent relevant for the assurance of the group non-financial statement,
- Identification of likely risks of material misstatement in the group non-financial statement,
- Inspection of relevant documentation of the systems and processes for compiling, aggregating and validating data in the relevant areas in the reporting period and testing such documentation on a sample basis,
- Analytical evaluation of disclosures in the group non-financial statement,
- Inquiries and inspection of documents on a sample basis relating to the collection and reporting of selected data,
- Evaluation of the presentation of disclosures in the group non-financial statement.

ASSURANCE CONCLUSION

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

INTENDED USE OF THE ASSURANCE REPORT

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

ENGAGEMENT TERMS AND LIABILITY

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

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

Munich, 18 March 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Nicole Richter
Wirtschaftsprüferin
(German Public Auditor)

Annette Johne
Wirtschaftsprüferin
(German Public Auditor)

RESPONSIBILITY STATEMENT BY MANAGEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the combined 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.

Ralf W. Dieter | **Dr. Jochen Weyrauch** | **Pekka Paasivaara**

Bietigheim-Bissingen, March 18, 2020

TEN-YEAR SUMMARY

4.1 — TEN-YEAR SUMMARY DÜRR GROUP[1]

		2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Incoming orders	€ million	4,076.5	3,930.9	3,803.0	3,701.7	3,467.5	2,793.0	2,387.1	2,596.8	2,684.9	1,642.2
Orders on hand	€ million	2,742.8	2,577.2	2,449.4	2,568.4	2,465.7	2,725.3	2,150.1	2,316.8	2,142.7	1,359.1
Sales revenues	€ million	3,921.5	3,869.8	3,713.2	3,573.5	3,767.1	2,574.9	2,406.9	2,399.8	1,922.0	1,261.4
Gross profit on sales	€ million	838.2	855.5	857.2	858.3	828.0	591.1	487.3	437.8	331.4	237.5
Overhead costs (incl. R&D costs)	€ million	–639.0	–612.9	–601.8	–605.5	–566.4	–359.5	–280.7	–262.9	–225.5	–201.6
EBITDA	€ million	308.5	326.9	367.7	360.3	348.2	262.9	230.4	205.4	127.1	54.6
EBIT	€ million	195.9	233.5	287.0	271.4	267.8	220.9	203.0	176.9	106.5	36.6
Financial result	€ million	–21.2	–13.8	–19.8	–13.3	–23.3	–16.2	–18.4	–29.2	–20.7	–24.1
EBT	€ million	174.7	219.7	267.3	258.1	244.5	204.7	184.6	147.7	85.8	12.5
Income taxes	€ million	–44.9	–56.2	–67.6	–70.3	–78.0	–54.4	–43.7	–36.3	–21.6	–5.4
Net income	€ million	129.8	163.5	199.6	187.8	166.6	150.3	140.9	111.4	64.3	7.1
Profit/loss attributable to Dürr AG shareholders	€ million	124.1	157.1	192.6	181.9	161.6	149.8	140.1	107.2	61.9	6.3
STOCK											
Earnings per share	€	1.79	2.27	2.78	2.63	2.34	2.17	2.03	1.55	0.90	0.10
Dividend per share	€	0.80[2]	1.00	1.10	1.05	0.93	0.83	0.73	0.57	0.30	0.08
Book value per share (Dec. 31)	€	14.89	14.12	12.80	11.70	10.07	8.89	7.29	6.13	5.19	4.53
Operating cash flow per share	€	2.48	2.34	1.73	3.29	2.50	4.21	4.76	1.70	1.85	0.80
Closing price (Dec. 31)	€	30.38	30.53	53.28	38.18	36.80	36.63	32.41	16.88	8.50	5.97
Number of shares (weighted average)	thousand	69,202	69,202	69,202	69,202	69,202	69,202	69,202	69,202	69,202	69,202
Market capitalization (Dec. 31)	€ million	2,102	2,113	3,687	2,642	2,547	2,535	2,243	1,168	588	413
INCOME STATEMENT											
Gross margin	%	21.4	22.1	23.1	24.0	22.0	23.0	20.2	18.2	17.2	18.8
EBITDA margin	%	7.9	8.4	9.9	10.1	9.2	10.2	9.6	8.6	6.6	4.3
EBIT margin	%	5.0	6.0	7.7	7.6	7.1	8.6	8.4	7.4	5.5	2.9
EBT margin	%	4.5	5.7	7.2	7.2	6.5	8.0	7.7	6.2	4.5	1.0
Interest coverage		7.3	11.5	13.4	13.7	10.7	12.6	10.7	6.0	5.0	1.5
Tax rate	%	25.7	25.6	25.3	27.2	31.9	26.6	23.7	24.6	25.1	43.3
CASH FLOW											
Operating cash flow	€ million	171.9	162.3	119.8	227.4	173.0	291.3	329.1	117.6	127.9	55.4
Free cash flow	€ million	44.9	78.4	14.3	129.9	62.8	221.1	261.9	65.9	91.8	22.9
Capital expenditure (property, plant & equipment and intangible assets)	€ million	102.6	74.4	88.0	81.9	102.3	54.9	51.2	32.5	23.4	16.6
Change in net financial status	€ million	–24.9	–144.0	17.6	47.1	–38.4	–112.7	183.8	44.9	28.2	20.6
BALANCE SHEET											
Non-current assets (Dec. 31)	€ million	1,322.4	1,244.3	1,110.1	1,125.3	1,182.0	1,124.2	590.9	551.9	529.0	462.3
Current assets (Dec. 31)	€ million	2,560.0	2,370.1	2,401.4	2,223.2	1,804.6	1,851.9	1,400.9	1,255.8	1,132.0	754.1
of which cash and cash equivalents (Dec. 31)	€ million	662.0	655.0	659.9	724.2	435.6	522.0	458.5	349.3	298.6	252.3

		2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Equity (with non-controlling interests) (Dec. 31)	€ million	1,043.4	992.2	900.5	831.0	714.4	725.8	511.4	432.1	364.3	319.4
Non-current liabilities (Dec. 31)	€ million	1,056.4	786.1	787.3	843.3	585.0	643.1	394.8	402.6	401.9	328.2
of which pension obligations (Dec. 31)	€ million	59.0	50.1	49.8	51.8	49.7	53.7	49.8	53.5	57.8	55.9
Current liabilities (Dec. 31)	€ million	1,782.6	1,836.2	1,823.8	1,674.2	1,687.2	1,607.3	1,085.7	973.0	894.8	568.8
Financial liabilities (Dec. 31)	€ million	923.1	623.3	622.6	654.5	350.9	426.5	271.1	286.1	286.2	232.3
Total assets (Dec. 31)	€ million	3,882.3	3,614.4	3,511.6	3,348.5	2,986.7	2,976.1	1,991.8	1,807.7	1,661.0	1,216.5
Net financial status (Dec. 31)	€ million	–99.3[3]	32.3	176.3	176.5	129.4	167.8	280.5	96.7	51.8	23.6
Net financial debt / EBITDA		–0.3[3]	–[3]	–[3]	–[3]	–[3]	–[3]	–[3]	–[3]	–[3]	–[3]
Gearing (Dec. 31)	%	8.7	–3.4	–24.3	–27.0	–22.1	–30.1	–121.5	–28.8	–16.6	–8.0
Net working capital (Dec. 31)	€ million	502.7	441.4	373.7	194.4	236.8	87.6	–33.1	98.6	32.6	27.3
Days working capital	days	46.1	41.1	36.2	27.2	22.6	12.2	–4.9	14.8	6.1	7.8
Days sales outstanding	days	53.8	56.1	51.7	47.3	51.9	67.8	47.6	51.9	61.5	52.5
Inventory turnover	days	46.7	49.8	44.4	40.4	37.0	51.0	22.1	21.7	23.3	21.1
Equity assets ratio (Dec. 31)	%	78.9	79.7	81.1	73.8	60.4	64.6	86.5	78.3	68.9	69.1
Degree of asset depreciation (Dec. 31)	%	41.4	38.5	36.1	34.3	32.1	30.7	43.9	48.4	48.8	56.9
Depreciation expense ratio	%	6.1	6.4	6.5	6.7	6.4	4.2	4.3	4.2	3.3	4.1
Asset coverage (Dec. 31)	%	158.8	142.9	152.0	148.8	109.9	121.8	153.3	151.2	144.8	140.1
Asset intensity (Dec. 31)	%	34.1	34.4	31.6	33.6	39.6	37.8	29.7	30.5	31.8	38.0
Current assets to total assets (Dec. 31)	%	65.9	65.6	68.4	66.4	60.4	62.2	70.3	69.5	68.2	62.0
Cash ratio (Dec. 31)	%	37.1	35.7	36.2	43.3	26.4	32.6	42.4	35.9	33.4	44.4
Quick ratio (Dec. 31)	%	69.1	66.5	64.8	89.8	80.8	85.7	104.5	107.3	103.3	113.3
Equity ratio (Dec. 31)	%	26.9	27.4	25.6	24.8	23.9	24.4	25.7	23.9	21.9	26.3
Return on equity	%	12.4	16.5	22.2	22.6	23.3	20.7	27.6	25.8	17.6	2.2
Capital employed (CE) (Dec. 31)	€ million	1,160.6	971.9	738.9	670.6	590.6	571.5	266.4	373.0	350.8	339.7
ROCE	%	16.9	24.0	38.6	41.1	45.3	38.7	76.2	47.4	30.4	10.8
Weighted average cost of capital (WACC)	%	8.42	9.00	7.88	7.20	6.98	5.78	6.69	6.58	7.64	8.10
Economic value added (EVA)	€ million	39.4	76.0	142.7	142.5	146.2	121.6	124.3	99.3	47.7	–1.9
EMPLOYEES / R&D											
Employees (Dec. 31)		16,493	16,312	14,974	15,235	14,850	14,151	8,142	7,652	6,823	5,915
Cost per employee (year average)	€	–69,055	–67,188	–68,725	–67,100	–67,000	–64,800	–65,200	–64,900	–62,700	–59,300
Sales per employee (year average)	€	238,201	248,176	250,772	237,000	260,000	262,900	301,900	327,100	299,200	218,300
R&D ratio	%	2.8	3.1	3.1	3.0	2.6	2.2	1.8	1.6	1.5	2.0
R&D employees (Dec. 31)		789	782	713	695	667	619	248	199	180	162
R&D expenditure	€ million	–110.8	–121.0	–116.7	–105.9	–97.1	–55.4	–43.0	–37.2	–29.5	–25.8
R&D cost capitalized	€ million	19.0	14.5	9.6	12.4	11.5	5.5	3.4	3.1	2.7	3.6
Amortization of R&D cost capitalized	€ million	–9.1	–9.9	–12.7	–13.1	–10.4	–4.3	–3.9	–6.1	–4.0	–3.3

All figures according to IFRS
[1] Please note the information on page 55 concerning the figures and comparability with prior years.
[2] Dividend to be proposed at the annual general meeting.
[3] Up until 2018 Dürr had a positive net cash balance. In connection with the negative net financial status as of December 31, 2019, it should be noted that it was necessary to recognize leasing liabilities as financial liabilities in accordance with IFRS 16 (Leases), which was applied for the first time in 2019. This had a negative impact of € 101.2 million on the net financial status.

GLOSSARY

Technology and products

A

Adaptive manufacturing
In adaptive manufacturing, the production processes adapt autonomously to new tasks and are self-optimizing. This relies on the machines being digitally connected and their data evaluated.

Application technology
General term for all products related to the application of paint and high-viscosity materials, e. g. painting robots, paint atomizers, and color change systems.

B

Balancing technology
Rotating components such as wheels and turbines must be tested for imbalances. Any imbalance is then removed since it would otherwise cause vibrations or oscillations.

D

Digital service
Digital services use operating data to optimize production operations and increase system availability. One example of this is predictive maintenance. In this, an app provides early notification when maintenance work is due for a system or when a component has to be replaced.

Dip-coating
Process for applying the first prime coat that protects against corrosion. To coat the interior of the body as well, it is immersed. The coating is applied with the aid of an electric field.

Drying oven
Tunnel-like systems for curing freshly applied coats of paint.

E

End of line
Area in final vehicle assembly where the assembled cars are tested and prepared for shipping.

Engineering
Development and design of machinery and plants. At Dürr, engineering often involves developing technical solutions that are geared to customers' specific production goals.

F

Filling systems
Equipment designed for filling vehicles with the necessary operating media (e. g. brake fluid, refrigerant) in the course of their final assembly. Filling systems are also employed for charging refrigerators, air conditioners and heat pumps with refrigerant.

G

Glueing technology
Manufacturing process, in which parts such as the sheet-metal components of a car are joined together by means of adhesives.

H

High-speed rotating atomizer
Atomizers ensure a uniform distribution of the spray jet in paint application processes. High rotation atomizers rely on a bell-shaped disk revolving at up to 70,000 r.p.m. Due to this design, the paint fed to the center of the disk is accelerated and separated into fine threads which dissolve into minuscule droplets as they are propelled off the disk.

I

IIoT / Industrial Internet of Things
The term Industrial Internet of Things refers to the use of the Internet of Things in industrial production. The Internet of Things is the digital connection of, and communication between, smart machines and appliances via the internet.

IIoT platform
Higher-level software system that collects and evaluates big data, i.e. large volumes of production data. To that end, the machines from one or more production systems are fitted with sensors. The sensors capture the operating data (e.g. material consumption, cycle time) and transmit it to the IIoT platform. Data evaluation on the IIoT platform enables plant operators to gain a better understanding of their production processes and identify potential for optimization.

Industry 4.0
Industry 4.0 refers to the digitalization and networking of industrial production. It is aimed at creating a 'Smart Factory' in which production and logistics systems largely organize themselves.

L

Light vehicles
Cars and light trucks.

Lightweight design
Lightweight design refers to the practice of building cars with weight minimization in mind. The vehicle's fuel consumption and CO_2 emissions can thus be reduced. Low-weight materials such as magnesium, titanium or synthetic fiber composites are becoming increasingly widespread to reduce vehicle weight.

O

Overspray
Excess paint that does not land on the surface being sprayed.

S

Sealing
Process for sealing welding seams created when car body parts are joined. Sealing also includes the application of an undercoating that protects against rock impact.

T

Test systems
End of line systems test the functions of fully assembled vehicles, e. g. headlights and ABS.

Thermal oxidation
Thermal oxidation is a process for exhaust-air purification. The polluted waste air is burned in a combustion chamber.

Financial

A

Asset coverage
A ratio that indicates the extent to which shareholders' equity covers non-current assets.

$$\frac{\text{equity}}{\text{non-current assets}} \times 100\ (\%)$$

Asset intensity
A ratio that indicates the relative weight of non-current assets in total assets. High asset intensity means high fixed costs and high levels of capital tied up.

$$\frac{\text{non-current assets}}{\text{total assets}} \times 100\ (\%)$$

C

Capital employed
This is the capital used within the enterprise that is not subject to interest payable to external creditors. It is calculated by deducting liabilities from total non-current and current assets. However, all interest-bearing items are excluded.

D

Days sales outstanding
This ratio indicates the average length of time in days that capital is tied up in receivables.

$$\frac{\text{receivables} \times 360}{\text{sales revenues}}$$

The same method can be used to calculate the average length of time that capital is tied up in inventories and in net working capital.

E

Equity assets ratio
A ratio that indicates the extent to which shareholders' equity and non-current liabilities cover non-current assets.

$$\frac{\text{equity + non-current liabilities}}{\text{non-current assets}} \times 100\ (\%)$$

F

Free cash flow
Free cash flow is the cash flow from operating activities remaining after deducting capital expenditures and net interest paid and received, and represents the amount of cash that is freely available to pay a dividend and to pay off debt.

G

Gearing
This is the ratio of net financial debt to shareholders' equity and net financial debt. The higher the relative weight of net financial debt, the higher the reliance on external lenders. However, a high gearing is not necessarily negative if the interest paid does not reduce profits excessively.

I

Interest coverage
An interest coverage ratio of <1 indicates that the company is not able to meet its interest payments from operating earnings.

$$\frac{\text{earnings before tax + net interest expense}}{\text{net interest expense}}$$

L

Liquidity ratios: cash ratio and quick ratio
These two liquidity ratios show the degree to which current liabilities are covered by cash and cash equivalents (and other current assets). They serve to measure a company's solvency.

$$\frac{\text{cash and cash equivalents}}{\text{current liabilities}} \times 100\ (\%)$$

$$\frac{\text{cash and cash equivalents + short-term trade receivables}}{\text{current liabilities}} \times 100\ (\%)$$

N

Net financial status
This represents the balance of the financial liabilities reported in the balance sheet after deducting liquid funds. If a company's liquid funds exceed its financial liabilities, it is de facto debt free.

$$\text{financial liabilities} - \text{liquid funds}$$

Net Working Capital (NWC)
This is a measure of the net funding required to finance current assets. Negative NWC is beneficial since it implies that sales are prefinanced by suppliers and customers. For the Dürr Group, the prepayments received from customers are an important factor affecting NWC.

$$\text{inventories} + \text{trade receivables} - \text{trade payables}$$

R

Return on Capital Employed (ROCE)
This measures the rate of return on the capital tied up in a company's operating assets (for instance in machinery and equipment, inventories, accounts receivable) and is the ratio of earnings before interest and taxes (EBIT) to capital employed.

$$\frac{\text{EBIT}}{\text{capital employed}} \times 100\ (\%)$$

Return on Equity (ROE)
This is the rate of return earned on shareholders' equity. It should exceed the rate of return on a comparable investment.

$$\frac{\text{earnings after taxes}}{\text{shareholders' equity}} \times 100\ (\%)$$

Return on Investment (ROI)
This ratio serves to measure how efficiently a company employs the total resources at its disposal.

$$\frac{\text{earnings after taxes + interest expense}}{\text{total assets}} \times 100\ (\%)$$

FINANCIAL CALENDAR

March 20, 2020
Publication annual report 2019

May 8, 2020
Annual general meeting, Bietigheim-Bissingen

Postponed due to coronavirus spread

May 14, 2020
Interim statement for the first quarter of 2020

August 6, 2020
Interim financial report for the first half of 2020

November 5, 2020
Interim statement for the first nine months of 2020

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The English translation of our 2019 annual report is based on the German version. The German version is authoritative.

Forward-looking statements
This annual report includes forward-looking statements about future developments. As is the case for any business activity conducted in a global environment, such forward-looking statements are always subject to uncertainty. Our information is based on the conviction and assumptions of the Board of Management of Dürr AG, as developed from the information currently available. However, the following factors may affect the success of our strategic and operating measures: geopolitical risks, changes in general economic conditions (especially a prolonged recession), exchange rate fluctuations and changes in interest rates, new products launched by competitors, and a lack of customer acceptance for new Dürr products or services, including growing competitive pressure. Should any of these factors or other imponderable circumstances arise, or should the assumptions underlying the forward-looking statements prove incorrect, actual results may differ from those projected. Dürr AG undertakes no obligation to provide continuous updates of forward-looking statements and information. Such statements and information are based upon the circumstances as of the date of their publication.

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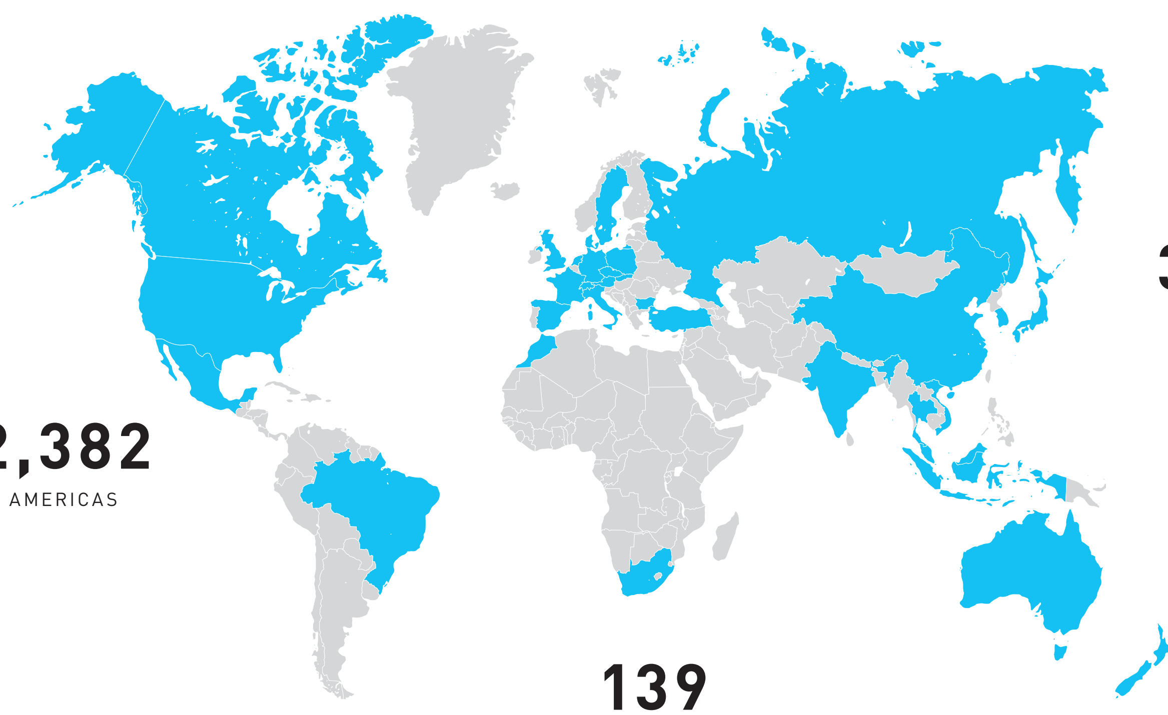

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